FY 2008

JUSTIFICATION FOR APPROPRIATIONS AND PERFORMANCE PLANS

DEPARTMENT OF THE TREASURY

THE DEPARTMENT OF THE TREASURY
1789

Executive Summary

FY 2008 President's Budget by Function
(Dollars in Thousands)

Appropriation	FY 2006 Enacted	FY 2007 President's Budget	FY 2007 CR-rate	FY 2008 President's Budget	FY 2008 $ Change over CR-rate	FY 2008 % Change over CR-rate
Management & Financial	$597,759	$601,946	$565,975	$635,770	$69,795	12.3%
Departmental Offices Salaries and Expenses	194,626	223,874	192,171	250,141	57,970	30.2%*
Treas Building & Annex Repair & Restoration	9,900	0	0	0	0	0.0%
Dept-wide Systems & Capital Invest. Program	24,168	34,032	24,046	18,710	(5,336)	(22.2%)
Air Transportation Stabilization Program**	2,723	0	0	0	0	0.0%
Office of Inspector General	16,830	17,352	17,022	18,450	1,428	8.4%
Treasury IG for Tax Administration	131,953	136,469	131,953	140,553	8,600	6.5%
Community Development Financial Institutions Fund	54,450	7,821	40,000	28,557	(11,443)	(28.6%)
Financial Crimes Enforcement Network	72,894	89,794	70,568	85,844	15,276	21.6%
Alcohol & Tobacco Tax and Trade Bureau	90,215	92,604	90,215	93,515	3,300	3.7%
Fiscal Service Operations	$412,035	$414,443	$411,908	$418,062	$6,154	1.5%
Financial Management Service	233,881	233,654	233,292	235,191	1,899	0.8%
Bureau of the Public Debt***	178,154	180,789	178,616	182,871	4,255	2.4%
Tax Administration	$10,573,706	$10,591,837	$10,438,364	$11,095,499	$657,135	6.3%
IRS Taxpayer Services	2,142,042	2,079,151	2,059,151	2,103,089	43,938	2.1%
IRS Enforcement	4,708,441	4,797,126	4,708,405	4,925,498	217,093	4.6%
IRS Operations Support	3,461,205	3,488,404	3,459,152	3,769,587	310,435	9.0%
IRS Business Systems Modernization	242,010	212,310	196,810	282,090	85,280	43.3%
IRS Health Insurance Tax Credit Administration	20,008	14,846	14,846	15,235	389	2.6%
Total, Treasury Appropriations Committee	$11,583,500	$11,608,226	$11,416,247	$12,149,331	$733,084	6.4%
Treasury International Programs	$1,374,385	$1,535,467	$1,109,898	$1,731,050	$621,152	56.0%
International Financial Institutions	1,277,235	1,328,968	1,066,198	1,498,950	432,752	40.6%
Technical Assistance	32,800	23,700	23,700	24,800	1,100	4.6%
Debt Restructuring	64,350	182,799	20,000	207,300	187,300	936.5%
Total	**$12,957,885**	**$13,143,693**	**$12,526,145**	**$13,880,381**	**$1,354,236**	**10.8%**

* FY 2008 request is a 11.7 percent increase over the FY 2007 President's Budget.
** The FY 2008 budget proposes cancellation of the remaining balances from ATSB, currently estimated at $3.6M
*** Does not include estimated user fee offset

Overview

The U.S. Department of Treasury's budget priorities reflect the Department's dedication to promoting economic growth and opportunity, strengthening national security and exercising fiscal discipline while steadily improving the Department's operations to ensure it remains a world-class organization.

The FY 2008 President's Budget identifies the resources required to support Treasury's role as the steward of U.S. economic and financial systems, and as an influential participant in the international economy. The FY 2008 Budget emphasizes initiatives that directly support its five strategic goals:

- Promote Prosperous U.S. and World Economies
- Promote Stable U.S. and World Economies
- Preserve the Integrity of Financial Systems
- Manage the U.S. Government's Finances Effectively
- Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

While promoting financial and economic growth at home and abroad, Treasury performs a critical and far-reaching role in national security. The Department battles national security threats by coordinating financial intelligence, targeting and sanctioning supporters of terrorism and proliferators of weapons of mass destruction (WMD), improving the safeguards of our financial systems, and promoting international relationships to combat the financial underpinnings of terrorist and other criminal networks.

Managing these complex tasks requires expanded capabilities in Treasury's Departmental Offices, which, in addition to providing policy direction, management oversight, and administrative support for Treasury's 13 bureaus, makes direct and unique contributions to national security through the Office of Terrorism and Financial Intelligence and the Office of International Affairs. Adequate funding for this leadership role is critical to Treasury's ability to protect

FY 2008 President's Budget by Strategic Goal

(Dollars in Thousands)

Treasury Goal/Objective	Promote Prosperous US/World Economies (E1)		Promote Stable US/World Economies (E2)		Preserve the Integrity of Financial Systems (F3)		Manage US Gov Finances Effectively (F4)		Management Excellence & Accountability (M5)		Total	
	Direct $	Reimb. $	Direct $	Reimb. $	Direct $	Reimb. $	Direct $	Reimb. $	Direct $	Reimb. $	Direct $	Reimb. $
Management & Financial	$91,235	$3,172	$79,020	$4,001	$178,344	$6,655	$70,674	$3,857	$216,497	$7,856	$635,770	$25,541
Departmental Offices Salaries and Expenses	62,678	3,172	33,198	3,168	92,500	5,114	22,981	2,990	38,784	5,356	250,141	19,800
Dept-wide Systems & Capital Invest. Program									18,710		18,710	0
Office of Inspector General									18,450	1,300	18,450	1,300
Treasury IG for Tax Administration									140,553	1,200	140,553	1,200
Community Development Financial Institutions Fund	28,557										28,557	0
Financial Crimes Enforcement Network					85,844	1,541					85,844	1,541
Alcohol & Tobacco Tax and Trade Bureau			45,822	833			47,693	867			93,515	1,700
Fiscal Service Operations	$0	$0	$0	$0	$0	$0	$418,062	$230,911	$0	$0	$418,062	$230,911
Financial Management Service							235,191	215,179			235,191	215,179
Bureau of the Public Debt							182,871	15,732			182,871	15,732
Tax Administration	$0	$0	$0	$0	$267,970	$13,012	$10,827,529	$120,486	$0	$0	$11,095,499	$133,498
IRS Taxpayer Service							2,103,089	27,414			2,103,089	27,414
IRS Enforcement					205,126	13,012	4,720,372	36,341			4,925,498	49,353
IRS Operations Support					62,844		3,706,743	56,731			3,769,587	56,731
Business Systems Modernization							282,090				282,090	0
Health Insurance Tax Credit Administration							15,235				15,235	0
Total, Treasury Appropriations Committee	$91,235	$3,172	$79,020	$4,001	$446,314	$19,667	$11,316,265	$355,254	$216,497	$7,856	$12,149,331	$389,950
Treasury International Programs	1,731,050										1,731,050	0
Total, Appropriated Level	$1,822,285	$3,172	$79,020	$4,001	$446,314	$19,667	$11,316,265	$355,254	$216,497	$7,856	$13,880,381	$389,950
Non Appropriated Bureaus	$0	$132,031	$0	$0	$0	$3,313,117	$0	$0	$0	$797,312	$0	$4,242,460
Treasury Franchise Fund										797,312	0	797,312
Bureau of Engraving and Printing						602,000					0	602,000
U.S. Mint						1,899,035					0	1,899,035
Office of the Comptroller of the Currency		108,200				597,600					0	705,800
Office of Thrift Supervision		23,831				214,482					0	238,313
Subtotal, Direct $	$1,822,285		$79,020		$446,314		$11,316,265		$216,497		$13,880,381	
Subtotal, Reimbursable $		$135,203		$4,001		$3,332,784		$355,254		$805,168		$4,632,410
Total, Treasury Level		**$1,957,488**		**$83,021**		**$3,779,098**		**$11,671,519**		**$1,021,665**		**$18,512,791**

the American people. This Budget request reflects the adjustments and funding increases required to meet Treasury's mission in this area.

FY 2008 Budget Request

The President's FY 2008 Budget request of $12.1 billion for the Department of the Treasury focuses resources on key programs necessary to promote economic growth and effectively fight the war on terror. The request is $736 million above the FY 2007 Continuing Resolution rate (CR-rate), a 6.4 percent increase. The FY 2008 Budget increase reflects Treasury's ability to bring a demonstrable return on investment that no other federal agency can provide. By collecting the revenue due to the federal government and working to reduce illicit threats to the financial system, Treasury solidifies the financial integrity of the United States. While the majority of the Department's Budget is funded through the Department of the Treasury Appropriations Act, $1.5 billion for the Department's international programs is funded through the State, Foreign Operations, and Related Programs Appropriations Act.

Promoting Economic Growth, Security and Opportunity

The Secretary of the Treasury is the President's leading policy advisor on a broad range of domestic and international economic issues. Treasury's Departmental Offices, including the Offices of International Affairs, Tax Policy, Economic Policy, and Domestic Finance, support the Secretary in this role through the provision of technical analysis, economic forecasting, and policy guidance on issues ranging from federal financing to responding to international financial crises. The Department supports policies that stimulate U.S. economic growth, strengthen and modernize entitlement programs, and minimize regulatory burdens while ensuring the safety and soundness of financial institutions.

The FY 2008 Budget request funds Treasury's efforts to promote domestic and international economic growth through financial diplomacy. Treasury stimulates economic growth and job creation by working to open trade and investment, encouraging growth in developing countries, and promoting responsible policies regarding international debt, finance, and economics. Treasury supports trade liberalization and budget discipline through its role in negotiating and implementing international agreements pertaining to export subsidies. These agreements open markets, level the playing field for U.S. exporters, and provide effective subsidy reductions that save the U.S. taxpayer millions annually. Since 1991, cumulative budget savings from these arrangements are estimated at over $10 billion. The growth of these activities makes it necessary to enhance policy coordination and resources through the addition of regional experts. This initiative is for additional staff to support key policy dialogues across the globe.

Treasury also remains committed to protecting the homeland from international investments that may threaten our national security. The Committee on Foreign Investment in the United States (CFIUS) is responsible for investigating the merger or acquisition of U.S. companies by foreign persons for national security, and Treasury's Office of International Affairs manages this function on the Secretary's behalf. The growth and economic importance of foreign investment in the United States has increased exponentially the number of cases reviewed by CFIUS. The President's FY 2008 Budget request provides additional resources to support Treasury in its role as Chair of CFIUS, including administering the interagency CFIUS process.

The FY 2008 request also includes $28.6 million for the Community Development Financial Institutions Fund (CDFI), $11.4 million below the FY 2007 CR-rate. CDFI's mission is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States. The Budget does not request funding for the Bank Enterprise Award.

The FY 2008 President's Budget request for Treasury's International Assistance Programs supports key objectives of the President's agenda, such as the G-8 Multilateral Debt Relief Initiative, measuring results, improving debt sustainability, increasing grants, improving transparency and fighting corruption.

Strengthening National Security

The sponsorship of terrorism and potential acquisition of weapons of mass destruction (WMD) by rogue regimes and non-state entities represents a grave threat to U.S. national security and the security of all free and open societies.

Terrorists, WMD proliferators and other non-state threats require vast support networks through which money and material flow. The Treasury Department draws on financial and other all-source intelligence and utilizes its unique regulatory and law enforcement authorities to combat national security threats and safeguard the financial system.

The Office of Terrorism and Financial Intelligence (TFI) provides financial intelligence analysis; develops and implements systems to combat money laundering and terrorist financing; administers the Bank Secrecy Act; and administers and enforces the U.S. Government's economic sanctions programs.

Treasury exercises a full range of intelligence, regulatory, policy, and enforcement tools in tracking and disrupting terrorists' support networks, proliferators of weapons of mass destruction, rogue regimes, and international narco-traffickers, both as a vital source of intelligence and as a means of degrading the terrorists' ability to function. Treasury's actions include:

- Freezing the assets of terrorists, proliferators, drug kingpins, and other criminals; and shutting down the channels through which they raise and move money.
- Cutting off corrupt foreign jurisdictions and financial institutions from the U.S. financial system.
- Developing and enforcing regulations to reduce terrorist financing and money laundering.
- Tracing and repatriating assets looted by corrupt foreign officials.
- Promoting a meaningful exchange of information with the private financial sector to help detect and address threats to the financial system.

The FY 2008 President's Budget will enable Treasury to enhance these capabilities. The President's Budget requests funding for investments to further the Department's national security mission in three critical areas: expanding the Department's capacity to identify potential national security threats and to enforce U.S. policies to counter those threats; enhancing the information technology and physical infrastructure of TFI and its component bureaus and offices to improve data security, access, and quality; and further integrating TFI into the broader Intelligence Community. This request includes:

- $5.3 million to respond to emerging national security threats, provide strategic policy coordination in regions key to the fight against terrorist financing, and to enhance implementation of sanctions against state sponsors of terrorism and WMD proliferation.
- $12.6 million for infrastructure and information technology projects to enhance data access, security, and quality, including construction of a Sensitive, Compartmented Information Facility (SCIF) and investments to stabilize and enhance the Department's classified information systems.
- $1 million for initiatives to further Treasury's integration into the broader Intelligence Community.

The Financial Crimes Enforcement Network (FinCEN), a bureau within Treasury's Office of Terrorism and Financial Intelligence, is responsible for administering the Bank Secrecy Act (BSA). The FY 2008 Budget request provides funding to upgrade BSA E-Filing; strengthen recovery capability for mission-critical information technology systems and emergency operation capabilities; and improve information technology planning and oversight.

Managing U.S. Government Finances

The Treasury Department manages the nation's finances by collecting money due the United States, making its payments, managing its borrowing, investing when appropriate, and performing central accounting functions. Key priorities in managing the government's finances effectively include maximizing voluntary compliance with tax laws and regulations, continually improving financial management processes, and financing the government at the lowest possible cost over time. The FY 2008 Budget request provides the funding necessary to properly administer these functions.

Collecting the Taxes

Collecting taxes in a fair and consistent manner is a core mission of the Treasury Department. Treasury's priorities in tax administration are enforcing the nation's tax laws fairly and efficiently while balancing service and education to promote voluntary compliance and reduce taxpayer burden. In September 2006, Treasury published a comprehensive plan to improve tax compliance. The FY 2008 Budget funds implementation of this plan with new investments in enforcement, taxpayer service and technology. It includes $11,095 million for the IRS, which is an increase of $657 million (6.3 percent) above the FY 2007 CR-rate. As in FY 2006 and FY 2007, the Administration proposes to fund the portion of the IRS budget increase attributable to improved tax enforcement ($440 million above the CR-rate) through a program integrity cap adjustment to help increase revenue. Highlights include:

- $291 million for new enforcement initiatives and $149 million for inflationary cost increases. This is a $440 million increase above the FY 2007 CR-rate. The IRS Enforcement Program is funded in the Enforcement and Operations Support appropriations. IRS will enhance coverage of high-risk compliance areas, as well as address the tax gap associated with small business and self-employed taxpayers. Enforcement will focus on critical reporting, filing, and payment compliance programs, and highlight abusive tax avoidance transactions and high income individual examinations involving pass-through entities (e.g. partnerships, trusts). The IRS will continue to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. It will expand compliance research to help target its programs more effectively.

- $56 million for new taxpayer service initiatives and $75 million for inflationary costs. This is a $131 million increase above the FY 2007 CR-rate. The IRS Taxpayer Service Program is funded in the Service and Operations Support appropriations. The IRS will continue efforts to increase and improve services offered to taxpayers through efforts such as adding an estimated wait time message for taxpayers on hold for telephone service. The IRS will also increase self-service applications, continue to ensure web navigation is user-friendly, and improve the quality and accuracy of its telephone responses. The IRS will expand its research and evaluate information regarding taxpayer service needs, priorities, and preferences in order to improve delivery services.

- $60 million for critical IT infrastructure upgrades (included in the enforcement and taxpayer service totals above). IRS will continue to invest in technology, process improvements, and training to achieve consistent quality service with reduced costs.

- $282 million for the IRS' Business Systems Modernization program to give IRS employees the tools they need to continue to administer and improve both service and enforcement programs.

Treasury also regulates the manufacture and sale of alcohol, tobacco, firearms, and ammunition, and collects excise taxes on the sale of these products. The Alcohol and Tobacco Tax and Trade Bureau collected $14.8 billion in excise taxes, interest, and other revenues.

Ensuring Efficient Fiscal Service Operations

The FY 2008 Budget request provides the funds necessary for Treasury to meet its responsibilities as the federal government's financial manager.

Treasury's management of the federal government's finances includes making payments, collecting revenue, and preparing public financial statements through the Financial Management Service. Treasury oversees a daily cash flow in excess of $50 billion and disburses 85 percent of all federal payments. The Department is working to improve its payments and collections processes by moving toward an all-electronic Treasury. In FY 2006, Treasury issued 742 million electronic payments including income tax refunds, Social Security benefits, and veterans' benefits. Treasury is also encouraging Social Security and Supplemental Security Income recipients to switch to direct deposit through the Go Direct campaign. Direct Deposit represents a cost savings to the taxpayer of 75 cents per transaction.

Treasury manages more than $7.9 trillion of public debt through its Bureau of Public Debt. Public debt includes marketable securities, savings bonds, and other instruments held by state and local governments, federal agencies, foreign governments, corporations, and individuals. To improve debt management and offer better customer service, Treasury offers Treasury Direct, an electronic, web-based system that electronically issues securities to retail customers and enables investors to manage their accounts on-line.

Managing Treasury Effectively

Treasury is committed to using the resources provided by taxpayers in the most efficient manner possible. The Department will drive improved results through decision-making that considers performance and cost. The Treasury Department strives to serve its stakeholders in the most effective way while working to leverage resources across the Department and across the government.

Funding requested in Treasury's Departmental Offices and Department-wide Systems and Capital Investments Program (DSCIP) seeks to build an efficient information technology infrastructure, ensuring that Treasury remains a world-class organization that meets the President's standard of a citizen-centered, results-oriented government.

The DSCIP account funds technology investments to modernize business processes throughout Treasury, helping the Department improve efficiency. The President's 2008 Budget requests $18.71 million for ongoing modernization and critical information technology infrastructure projects, and to invest in other new technologies that will improve efficiency and service to the American people. The Budget request includes:

- $6 million implement a pilot Enterprise Content Management (ECM) system, which will address the critical and urgent business need of the Office of Foreign Asset Control (OFAC) and the Financial Crimes Enforcement Network. The pilot ECM system will align with government-wide initiatives, promote common standards across the Treasury Department, and position the Treasury for a Department-wide ECM system.
- $2 million for the continued operation and maintenance of the Treasury Secure Data Network.
- $4 million to improve Treasury's FISMA performance and strengthen the Department's overall security posture; and completing required milestones as part of Treasury's Presidential E-Government Implementation Plan.

The Budget request also includes funding for Treasury's Inspectors General. The Office of the Inspector General and the Treasury Inspector General for Tax Administration play an important oversight role in the overall management of the Department and the fair administration of the nation's tax laws.

Strengthening Financial Institutions

One of the principal objectives of the Treasury Department is to enable commerce. The Department is responsible for the safety and soundness of national banks and federally-chartered savings associations. The Treasury Department also produces the coins and currency needed for commerce, and guards against counterfeiting and other misuse of our money.

Treasury, through the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS), maintains the integrity of the financial system of the United States by chartering, regulating, and supervising national banks and savings associations. In FY 2006, OCC and OTS oversaw financial assets held by these financial institutions totaling $8.1 trillion.

The U.S. Mint (Mint) and the Bureau of Engraving and Printing (BEP) are responsible for producing the nation's coins and currency. In FY 2006, the Mint and BEP produced 16.1 billion coins and 8.2 billion paper currency notes, respectively. The Mint issued five new quarters from the 50 State Quarters program and BEP introduced the new $10 currency note into circulation. Also, due to recently improved operating results and profits, the Mint returned $750 million to the Treasury General Fund in FY 2006.

Funding for the OCC, OTS, Mint, and BEP is not included in the Department's annual budget requests, because they have non-appropriated funding sources. OCC's operations are funded primarily by semi-annual assessments levied on national banks. Revenue from licensing, other fees, and investments in U.S. Treasury securities provides the remaining revenue. OTS's operations are funded from assessments on thrifts and savings and loan holding companies; examination, application, and security filing fees; interest on investments in U.S. government obligations; and rent and other sources. The Mint's operations are financed by proceeds from the sales of circulating coins to the Federal Reserve Bank System and numismatic items to the public. BEP operations are financed primarily by the printing of currency for the Federal Reserve Bank System. Other BEP revenues are derived from the printing of securities for the Public Debt and commissions, certificates, invitations for various Government agencies; and space rental fees.

President's Management Agenda

Initiative	Status		Q1 FY 2007	
	FY 2005	FY 2006	Status	Progress
Human Capital	Y	G	G	G
Competitive Sourcing	G	G	G	Y
Financial Performance	R	R	R	G
E-Government	R	Y	Y	R
Budget-Performance Integration	Y	Y	Y	G
Improper Payments	R	R	R	Y

Green for Success · Yellow for Mixed Results · Red for Unsatisfactory

President's Management Agenda (PMA)

The Department of the Treasury works to manage the Department effectively through the principles of the President's Management Agenda (PMA). The Department of the Treasury is responsible for six initiatives identified by the PMA, five standard initiatives that are government-wide and one (Improper Payments) that is specific to the Department.

The President holds each agency accountable for its performance in carrying out the PMA, and performance results are demonstrated through quarterly scorecards issued by OMB.

Human Capital: In FY 2006, the Treasury Department's Human Capital initiative was successful by continuing to align its workforce with its human capital goals and objectives. Consistent with its human capital vision, the Department used strategic workforce planning and flexible tools to recruit, retain, and reward employees, fostering a diverse and high-performing workforce.

In FY 2006, the Department's human capital activities focused on results-oriented performance, leadership succession planning, and accountability. The Office of Personnel Management approved the Treasury Department's program for succession planning and accountability, a condition for remaining successful in the PMA Human Capital initiative. This program ensures that future management acquires appropriate skills to enable them to lead the Department in an ever-changing environment.

FY 2006 human capital successes included:

- Achieving a goal of 100 percent of supervisors', managers', and executives' performance plans that contain elements directly linked to the Department's mission;
- Training over 1,300 current and future managers in leadership competencies; and
- Strengthening the accountability system through Department-wide policy which emphasizes compliance with federal laws and regulations, and merit system principles.

Competitive Sourcing: Through Competitive Sourcing, the Treasury Department utilizes public-private competition to effectively deliver services at the lowest possible cost to the American taxpayer. Competitive Sourcing allows the Department to look internally and externally for the most efficient ways to achieve its mission.

In FY 2006, the Department of the Treasury remained successful in the Competitive Sourcing initiative by:

- Migrating and conducting the Federal Activities Inventory Reform (FAIR) Act in HR Connect, the Department's on-line human capital system;
- Proposing a plan to include all Treasury efforts (Lines of Business, Strategic Sourcing, etc.) to close competitiveness gaps;
- Improving its demand analysis system for conducting potential studies; and
- Stressing coordination of competitive sourcing activities Department-wide.

Improved Financial Performance: The Treasury Department continued to work toward full compliance with the Federal Managers Financial Improvement Act (FMFIA) and improved financial management processes to produce accurate and timely information that supports operating, budget, and policy decisions.

In FY 2006, the Department of the Treasury accounted for public funds accurately and in a timely manner through a successful three day closing process at the end of each month. The Department's Financial Performance team met its reporting deadlines and was provided a clean annual audit. Treasury will continue to make progress in implementing Custodial Detail Database revenue accounting system enhancements.

In addition, the Treasury Department continued emphasis on reducing material weaknesses during the year resulting in a reduction from seven to six material weaknesses.

Expanded E-government: Expanding electronic government products and services Department-wide improves internal efficiency and effectiveness, and enhances service to the public. In FY 2006, the Treasury Department continued to improve its enterprise architecture, information technology (IT) capital planning processes, and cyber security practices Department-wide. The Department worked to manage projects to meet cost, schedule, and performance goals; to certify and accredit Treasury systems to protect information from unauthorized access and theft; and fully participated in Presidential E-Government Initiatives.

During FY 2006, accomplishments included:

- Improving Treasury-wide Capital Planning and Investment Control policies and processes, including executive certification of quarterly project performance reporting and
- Applying standard definitions for systems under the Federal Information Security Management Act (FISMA) and establishing a new system inventory to improve future management and reporting;
- Integrating Treasury Enterprise Architecture (EA) and IT Capital Planning processes.

Budget and Performance Integration: In FY 2006, the Treasury Department embarked on revising its Strategic Plan. This plan clearly defines the strategic priorities and articulates outcome-oriented goals and objectives. The Department's senior leadership sponsored the effort and served as champions for the teams developing outcomes, strategies, and measures. Treasury will continue to develop the Budget Formulation and Execution Module (BFEM) to produce the Congressional Justification and Budget in Brief.

The Treasury Department tested its mission, goals, and strategies against a set of future possibilities to ensure their robustness. The Department identified ten value chains (groups of programs with a common purpose), recognizing that outcomes connect the Treasury Department's programs across different programs and organizations. The new Treasury Strategic Plan will add a vision statement and a set of core values, both of which serve to integrate and draw the Department toward a compelling picture of its future. Finally, the Strategic Plan will establish an integrated management system that links budget and cost to outcomes, enabling the Department to measure the value it produces for the American people.

Eliminating Improper Payments: The Department continuously works with the Office of Management and Budget (OMB) to develop improved error measurement methodology for the Internal Revenue

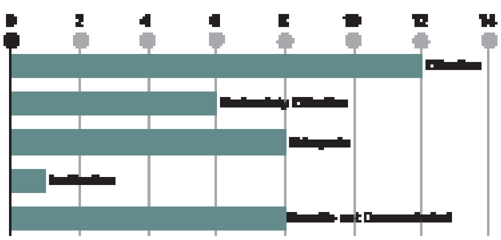
Service (IRS) Earned Income Tax Credit (EITC) program. EITC, due to erroneous payments, is the only program in the Treasury Department considered a high risk for fraud, waste and abuse. Treasury has committed to providing a corrective action plan to OMB, which includes aggressive reduction targets for EITC's erroneous payments that will produce effective results.

Program Rating and Assessment Tool (PART) Summary

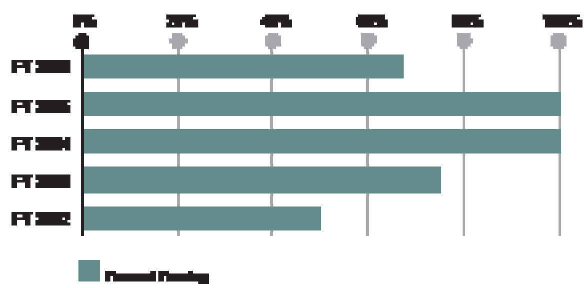
Program evaluation is a core management tool used by Treasury to allocate resources and promote efficiency and effectiveness. In addition to regular independent program evaluations conducted by Treasury bureaus, Treasury also works with OMB to evaluate 20 percent of its programs each year through the PART process. All programs that undergo a PART evaluation receive weighted scores in four categories: program purpose and design, strategic planning, program management, and program results and accountability.

The PART process gives the Treasury Department a framework for assessing performance in its major programs. Through the use of in-depth performance questions, the PART allows leadership to evaluate how well a program is meeting its intended objectives, how effectively and efficiently it is managed, the extent to which the program supports the Department's overarching strategic goals and how well the program achieves results.

PART Scoring History



Percentage Treasury Programs Passing PART Evaluations (adequate or better score)



Programs Evaluated for the FY 2007 Budget Cycle

Program	Bureau	Rating
FinCen BSA Collection & Dissemination	FinCen	Moderately Effective
FMS Payments	FMS	Effective
IRS Exam	IRS	Moderately Effective
IRS Criminal Investigations	IRS	Moderately Effective
Submission Processing - Re-do	IRS	Moderately Effective
Mint Protection	Mint	Effective
TTB Collect the Revenue	TTB	Effective

Programs Evaluated for the FY 2008 Budget Cycle

Program	Bureau	Rating
Protection	BEP	Effective
BSA Administration	FinCen	Results Not Demonstrated
BSA Analysis	FinCen	Adequate
Government Wide Accounting	FMS	Moderately Effective
HITCA	IRS	Results Not Demonstrated
IRS Retirement Savings Regulatory	IRS	Adequate

Fiscal Year Comparison of Full-Time Equivalent (FTE) Staffing

(Direct and Reimbursable)

Appropriation	FY 2006 Actual			FY 2007 Estimated			FY 2008 President's Budget		
	Direct	Reimb.	Total	Direct	Reimb.	Total	Direct	Reimb.	Total
Departmental Offices Salaries and Expenses	900	97	997	1,058	90	1,148	1,136	90	1,226
98145.452	3	0	3	0	0	0	0	0	0
Air Transportation Stabilization Program	2	0	2	0	0	0	0	0	0
Office of Inspector General	116	4	120	115	2	117	115	0	115
Treasury IG for Tax Administration	835	3	838	817	3	820	835	3	838
Community Development Financial Institutions Fund	48	0	48	63	0	63	63	0	63
Financial Crimes Enforcement Network	296	1	297	334	1	335	356	1	357
Alcohol & Tobacco Tax and Trade Bureau	524	10	534	544	15	559	544	15	559
Financial Management Service	1,604	373	1,977	1,761	370	2,131	1,692	428	2,120
Bureau of the Public Debt	1,299	69	1,368	1,390	18	1,408	1,390	21	1,411
Internal Revenue Service	91,717	1,129	92,846	91,722	682	92,404	92,118	696	92,814
Subtotal, Treasury Appropriated Level	97,344	1,686	99,030	97,804	1,181	98,985	98,249	1,254	99,503
Working Capital Fund	0	200	200	0	233	233	0	233	233
Treasury Franchise Fund	0	645	645	0	827	827	0	909	909
Bureau of Engraving and Printing	0	2,190	2,190	0	2,300	2,300	0	2,250	2,250
U.S. Mint	0	1,927	1,927	0	1,975	1,975	0	1,975	1,975
Office of the Comptroller of the Currency	0	2,812	2,812	0	2,977	2,977	0	3,041	3,041
Office of Thrift Supervision	0	918	918	0	1,046	1,046	0	1,046	1,046
Terrorism Insurance Program	10	0	10	10	0	10	8	0	8
Sallie Mae Assessments	2	0	2	0	0	0	0	0	0
Total	**97,356**	**10,378**	**107,734**	**97,814**	**10,539**	**108,353**	**98,257**	**10,708**	**108,965**

Summary of FY 2008 Increases and Decreases

(Dollars in Thousands)

Appropriations	DO	DSCIP	OIG	TIGTA	CDFI	FINCEN	TTB	FMS	BPD	IRS	Total
FY 2007 President's Budget	$223,874	$34,032	$17,352	$136,469	$7,821	$89,794	$92,604	$233,654	$180,789	$10,591,837	$11,608,226
CR-rate Adjustment	(31,703)	(9,986)	(330)	(4,516)	32,179	(19,226)	(2,389)	(362)	(2,173)	(153,473)	(191,979)
FY 2007 CR-rate	$192,171	$24,046	$17,022	$131,953	$40,000	$70,568	$90,215	$233,292	$178,616	$10,438,364	$11,416,247
Non-Pay Inflation Adjustments	2,342	0	95	672	77	1,335	931	2,079	1,666	66,893	76,090
Pay Annualization Adjustments	669	0	71	579	24	203	287	778	590	40,484	43,685
Pay Inflation Adjustments	4,129	0	380	3,623	149	1,239	1,678	4,829	3,456	232,630	252,113
Maintaining Current Levels	$7,140	$0	$546	$4,874	$250	$2,777	$2,896	$7,686	$5,712	$340,007	$371,888
Technical Adjustments Due to CR	29,319	0	882	3,726	0	9,266	404	(2,043)	336	27,573	69,463
Non-Recurring Costs	(2,360)	(18,946)	0	0	0	0	0	(1,224)	0	0	(22,530)
Initiative Annualizations	7,877	0	0	0	0	740	0	0	0	0	8,617
Transfers	5,100	(5,100)	0	0	0	0	0	0	0	0	0
Productivity and Efficiency Savings	0	0	0	0	0	0	0	0	0	(119,981)	(119,981)
Adjustments to FY 2007 CR-rate	$39,936	($24,046)	$882	$3,726	$0	$10,006	$404	($3,267)	$336	($92,408)	($64,431)
FY 2008 Base	$239,247	$0	$18,450	$140,553	$40,250	$83,351	$93,515	$237,711	$184,664	$10,685,963	$11,723,704
Program Decreases	0	0	0	0	(13,191)	0	(441)	(12,013)	(2,793)	(6,479)	(34,917)
Program Reinvestments	0	0	0	0	0	0	441	9,493	1,000	6,479	17,413
Program Increases	10,894	18,710	0	0	1,498	2,493	0	0	0	409,536	443,131
FY 2008 President's Budget	$250,141	$18,710	$18,450	$140,553	$28,557	$85,844	$93,515	$235,191	$182,871	$11,095,499	$12,149,331
Offsetting Fees	0	0	0	0	0	0	0	0	(10,000)	0	(10,000)
FY 2008 President's Budget less Offsetting Fees	$250,141	$18,710	$18,450	$140,553	$28,557	$85,844	$93,515	$235,191	$172,871	$11,095,499	$12,139,331

Departmental Offices - S & E

Mission Statement

To promote the conditions for prosperity and stability in the United States and to encourage prosperity and stability in the rest of the world.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
Salaries and Expenses	Enacted	President's Budget	CR-rate	Request	$ from CR-rate	% from CR-rate
Executive Direction	$16,329	$17,501	$16,325	$19,815	$3,490	21.38%
Economic Policies and Programs	31,691	41,947	31,581	45,450	13,869	43.91%
Financial Policies and Programs	26,308	25,336	26,254	28,869	2,615	9.96%
Terrorism and Financial Intelligence	39,540	45,401	39,263	56,224	16,961	43.20%
Treasury-wide Management and Programs	16,674	20,372	16,556	20,810	4,254	25.70%
Administration Programs	63,094	73,316	62,191	78,972	16,781	26.98%
Currency Manipulation	990	0	0	0	0	0.00%
Total Appropriated Resources	**$194,626**	**$223,874**	**$192,171**	**$250,141**	**$57,970**	**30.17%**

FY 2008 Priorities

The Fiscal Year (FY) 2008 President's Budget request supports the Departmental Offices leading role in accomplishing key Administration goals:

- ***Promoting Economic Growth and Security*** - Increasing economic growth and stability at home and internationally are key priorities for the U.S. government and the Treasury Department.

- ***Strengthening National Security*** - Fighting and winning the global war on terror continues to be the Administration's top priority.

- ***Maintaining a World-class Treasury*** - Using the President's Management Agenda to continually improve the management of Treasury and its program delivery to the American taxpayer.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The mission of the Departmental Offices (DO) mirrors the mission of the Department of the Treasury: To promote the conditions for prosperity and stability in the United States and to encourage prosperity and stability in the rest of the world.

Departmental Offices, as the headquarters bureau for the Department of the Treasury, provides leadership in such critical areas as economic and financial policy, financial crimes, and general management. DO is responsible for Treasury policy direction and formulation and supports Treasury's role in leading the country and the world to more prosperous and stable economies through improving financial and economic systems, promoting a safe and secure America, and collecting the revenue due to the government.

The FY 2008 Budget request supports DO's leading role in accomplishing key Administration goals:

- ***Promoting Economic Growth and Security*** - Increasing economic growth and stability at home and abroad are key priorities for the U.S. Government and this Department. Treasury will continue to work with international financial institutions and through high-level multilateral forums, such as the G7 and G8, to develop and implement policies that increase productivity, reduce poverty, and prevent financial crises around the world.

- ***Strengthening National Security*** - Fighting and winning the global war on terror continues to be the Administration's top priority. To further this mission in FY 2008, the Treasury Department will expand its capacity to identify potential national security threats; enforce U.S. policies to counter those threats; and will invest in enhancements to its information technology and physical infrastructure to improve data security, access and quality.

- ***Maintaining a World-class Treasury*** – In FY 2008, DO will work to modernize business processes and improve overall efficiency and effectiveness throughout the Treasury Department. Oversight and strengthening of management programs including human resources, acquisition/procurement, training, as well as environmental health and safety, ensure that the Treasury Department remains a world-class organization.

1B – Program History and Future Outlook

Treasury's Departmental Offices has transformed to accomplish missions far beyond the scope of traditional headquarters responsibilities. Departmental Offices now plays a direct role in fighting the war on terror and in promoting the President's economic policy agenda domestically and abroad.

Promoting Economic Growth and Security.
The Department of the Treasury is a lead federal agency for providing economic guidance and support. Treasury's Departmental Offices, including the Offices of International Affairs, Tax Policy, Economic Policy, and Domestic Finance, support the Secretary in this role through the provision of technical analysis, economic forecasting, and policy guidance on issues ranging from changes in tax policy to responding to international financial crises. The Treasury Department also manages the nation's finances by collecting tax revenues due the United States, making its payments, managing its borrowing, investing when appropriate, and performing central accounting functions; all essential for ensuring the integrity of the American financial system.

The Department works with foreign governments, financial institutions and international organizations to promote free and fair trade practices, target development assistance, identify global financial trends, and expand prosperity in the United States and around the world. The Treasury Department plays an important role in the global economy, monitoring over 160 economies to ensure stability and transparency in the global marketplace.

During FY 2006, the Department of the Treasury continued to promote greater exchange rate flexibility, a more balanced economy, and the modernization of China's financial system. In addition to holding bilateral and multilateral discussions with the Chinese leadership, the Department established a permanent, full-time Financial Attaché office in Beijing to significantly bolster its engagement with China. The Department also established a financial regulator working group with the Chinese to discuss key regulatory issues and held the first two meetings of this group.

The Department has also been able to secure agreements in the Organization for Economic Cooperation and Development (OECD) that have reduced subsidies in export credits and tied aid flows valued at over $70 billion annually. These agreements open markets, level the playing field for U.S. exporters, and save the U.S. taxpayer about $800 million annually. Cumulative budget savings from these agreements are estimated at over $11 billion since 1991.

The Department of the Treasury develops and implements economic policies to stimulate economic growth and job creation here in the United States. Treasury will continue to serve the President's economic priorities, including leading efforts to ensure that taxes are collected when due in a fair and efficient manner through oversight of IRS efforts to address the tax gap. DO offices directly support Presidential efforts to reform the tax code, pension and Social Security programs, and entitlement programs.

In FY 2006, the Office of Tax Policy successfully assisted in efforts to elevate awareness of the Administration's position on further expansion of reduced tax rates on capital gains and dividends. Tactics included public dissemination of factual information regarding tax relief, development of a report on "The Economic Impacts of Cutting Dividend and Capital Gains Taxes in 2003," and facilitating a Treasury-sponsored roundtable discussion on the benefits of capital gains and dividends tax cuts.

The Department also provided significant and timely analysis of many health and Medicare reform proposals, agendas, and commissions. A primary focus of the health care work was to study the causes and consequences of high health care spending, which is critical to stimulating economic growth and job creation over the long-term.

Fully funding the President's FY 2008 Budget request will allow the Treasury Department to continue to study, recommend, and support Administration policy initiatives to strengthen the U.S. economy, create more jobs for Americans, and enhance citizens' economic security. The Department will actively work to improve the U.S. pension system, reform Social Security, and improve the federal income tax system by providing timely, usable, and comprehensive analyses that advance the policy process.

The Department of the Treasury is committed to the critical task of fortifying economic relations with foreign countries and financial institutions, working towards creating a platform for global growth and security. The FY 2008 Budget will allow Treasury to continue to devote resources to expand its financial attaché program, begun in 2006. Treasury attachés serve as the U.S. Treasury's representative in key overseas locations and engage in economic diplomacy on behalf of the U.S. Government. This budget request also will allow Treasury to add regional experts to enhance policy coordination on international matters and to support key policy dialogues with priority countries like China.

Treasury is also dedicated to protecting the homeland from international investments that may lead to national security concerns. The Committee on Foreign Investment in the United States (CFIUS) was delegated the Presidential function of investigating the merger or acquisition of U.S. companies by foreign persons for national security implications. The Secretary of Treasury is the chair of CFIUS, and Treasury's Office of International Affairs manages this function on the Secretary's behalf. The growth and economic importance of foreign investment in the United States has increased exponentially the number of cases reviewed by CFIUS. The FY 2008 Budget request provides additional resources to support Treasury in its role as Chair of CFIUS, including administering the interagency CFIUS process.

Strengthening National Security.
The Treasury Department's Office of Terrorism and Financial Intelligence (TFI) leads the U.S. Government's multi-faceted effort to keep the world's financial systems free and open to legitimate users, while excluding those who wish to use these systems for illegal purposes. TFI's activities in this arena focus on stopping the flow of funds and support to terrorist groups, drug traffickers and other criminals; identifying, disrupting and dismantling their support networks; and leveraging the power of the U.S. financial market to isolate state sponsors of terrorism and weapons of mass destruction (WMD) proliferation.

Since it was established in 2004, TFI has achieved significant success in identifying and disrupting the financial support networks of terrorists and other national security threats, and, in recognition of these successes, is increasingly tasked by the National Security

Council and other intelligence and national security bodies with helping to address the most pressing national security issues.

In FY 2006, TFI pursued designations of entities engaged in the proliferation of WMD, continued its efforts to expose terrorist networks, and built on its success of dismantling networks associated with drug cartels. Notable targets have included Iranian and Chinese companies that supplied Iran's military and Iranian proliferators with missile-related and dual-use components; multiple entities, including a Swiss company, that acted as a technology broker for North Korean military goods with weapons-related applications; two overseas branches of the International Islamic Relief Organization, who were bankrolling the al Qaida network in Southeast Asia; individuals and entities providing financial support to the Libyan Islamic Fighting Group, an al Qaida affiliate; and four top leaders of the al Qaida linked to the Southeast Asian Terrorist Organization, "Jemmah Islaiyah." In countering narcotics trafficking, TFI successfully targeted the North Valle drug cartel in four separate actions, which resulted in the designation of 22 individuals and 29 companies, ultimately leading to the exposure and incarceration of two notorious Cali cartel leaders.

The Treasury Department leads the U.S. delegation to the Financial Action Task Force (FATF), the international standard setting body charged with safeguarding the global financial system against money-laundering and terrorist financing. The results of TFI's leadership through that body include impeding access to funds and the financial system by terrorist groups and limiting the ability of organized criminals and other illicit groups to abuse the international financial system.

TFI has also collaborated on a number of reports, including the U.S. Government's first-ever Money Laundering Threat Assessment report and a revision of its Anti-Terrorist Financing Guidelines: Best Practices for U.S.-Based Charities. TFI also worked closely with law enforcement, bank regulators, and other appropriate parties to identify evolving trends in drug proceeds money-laundering, and then communicate these to the U.S. financial industry.

Fully funding the President's FY 2008 Budget request for TFI activities will allow it to continue to improve its capabilities in performing Treasury's National Security mission. Department-wide investments in physical and information technology infrastructure, including construction of a Sensitive, Compartmented Information Facility (SCIF) and investments to enhance and improve the Department's classified information systems, will improve data access, security and quality. The FY 2008 Budget request will also allow TFI to make further investments in personnel to enhance its capacity to respond to emerging national security threats, provide strategic policy coordination in regions key to the fight against terrorist financing, enhance implementation of sanctions against state sponsors of terrorism and WMD proliferation, and to increase TFI's integration into the broader intelligence community.

Maintaining a World-class Treasury.
The Departmental Offices continue to improve the management and operations of the Treasury Department, meeting the President's standard of a results-oriented, citizen-centered government.

Treasury has implemented workforce management initiatives such as Senior Executive Service pay-for-performance, as well as the training and mentoring of over 1,300 current and future managers. Treasury has also been able to expand electronic government products and services, improve internal efficiency and effectiveness, and enhance services to other governmental agencies and the public.

Treasury will continue to work towards identifying and improving its management challenges. Policy guidance is being strengthened to reflect the Department's evolving mission, and stronger oversight and accountability mechanisms are being instituted for the management of information technology investments.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Appropriation: Salaries and Expenses	FTE	Amount
FY 2006 Appropriation (P.L. 109-115)	**1,004**	**$196,592**
Rescission (P.L. 109-148)	0	$1,966
FY 2006 Enacted	**1,004**	**$194,626**
FY 2007 President's Budget	**1,058**	**$223,874**
CR-rate Adjustment		(31,703)
FY 2007 CR-rate	**1,058**	**$192,171**
Changes to Base:		
Technical Adjustment to FY 2007 Base due to CR:		
FY 2007 Annualizations		2,511
FY 2007 Initiatives		19,477
FY 2007 MCLs		2,131
FY 2007 Transfers In		5,200
Base Realignment:		
OIA - Security Personnel	5	
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		2,342
Pay Annualization		669
Pay Inflation Adjustment		4,129
Initiative Annualization:		
IA - Annualization of FY 2007 Initiative	8	2,580
OFAC - Annualization of FY 2007 Initiatives	12	2,429
OGC - Annualization of FY 2007 Initiatives	6	1,034
OIA - Annualization of FY 2007 Initiative	6	1,261
TP - Annualization of FY 2007 Initiative	3	573
Non-Recurring Costs:		
Non-recur SCIF		(1,000)
Non-recur of Declassification Project		(676)
Non-recur of IA		(684)
Transfers In:		
DF - Critical Infrastructure Protection Transfer from DSCIP	10	2,100
OIA - TFIN Transfer from DSCIP		3,000
Total FY 2008 Base	**1,108**	**$239,247**
Program Increases:		
ED - Enhanced International Economic Policy Coordination	3	618
IA - CFIUS	4	940
OFAC - Economic Sanctions against State Terrorism	2	1,392
OFAC - Sanctions against WMD Proliferation	2	889
OIA - Emerging National Security Threats	10	1,973
OIA - Intelligence Community Integration	1	219
OIA - Intelligence Support	1	215
OIA - Overseas Travel		148
OIA - SCIF		3,000
OIA - Special Security Program	1	477
TFFC - Disrupt and Dismantle Financial Networks	2	638
TFFC - Disrupt and Dismantle Rogue Regimes	2	385
Subtotal FY 2008 Program Changes	**28**	**10,894**
Total FY 2008 Request	**1,136**	**$250,141**

2A – Budget Increases and Decreases Description

Adjustments ....-$31,703,000 / +0 FTE

CR-rate Adjustment -$31,703,000 / +0 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

Technical Adjustment to FY 2007 Base due to CR ....+$29,319,000 / +0 FTE
FY 2007 Annualizations +$2,511,000 / +0 FTE Funding is requested for completing the full-year cost and FTE realization from initiatives enacted for FY 2006, which support the Office of Terrorism and Financial Intelligence (TFI).

FY 2007 Initiatives +$19,477,000 / +0 FTE This request provides resources to expand Treasury's overseas presence to provide relevant intelligence and expert analysis to support the formulation of policy on international economics, trade, finance, and combating terrorist financing; and to administer and enforce economic sanctions against terrorist networks. This request also provides resources to: develop policies and implement strategies to safeguard the United States and international financial systems from national security threats; manage the public debt; represent the United States on international monetary, trade, and investment issues; recommend and implement United States domestic and international economic and tax policy.

FY 2007 MCLs +$2,131,000 / +0 FTE Funds are requested for: the FY 2007 cost of the January 2006 pay increase; the January 2007 pay raise and benefits; non-labor related items such as contracts, travel, supplies, equipment, and General Services Administration (GSA) rent adjustments; and Department of State overseas Capital Security Cost Sharing.

FY 2007 Transfers In +$5,200,000 / +0 FTE Transfer in of $1,000,000 from Treasury Building and Annex Repair and Restoration to re-establish a Repair and Improvements (R&I) account. A recurring baseline for major repairs and improvements is needed for the Main Treasury (Historic Landmark) and Annex (Historic Register) infrastructure. Prior to the existence of the TBARR account, DO had a no-year account for this purpose. Additionally, a transfer in of $4,200,000 and 0 FTE to cover the cost of the U.S. Secret Service security detail provided to the Secretary of the Treasury.

Base Realignment ....+$0 / +5 FTE
OIA - Security Personnel +$0 / +5 FTE Transfer of security personnel from WCF Secure Communications to Office of Intelligence and Analysis (OIA).

Maintaining Current Levels (MCLs) ....+$7,140,000 / +0 FTE
Non-Pay Inflation Adjustment +$2,342,000 / +0 FTE Funds are requested for non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments.

Pay Annualization +$669,000 / +0 FTE Funds are requested for the FY 2008 cost of the January 2007 pay increase.

Pay Inflation Adjustment +$4,129,000 / +0 FTE Funds are requested for the proposed January 2008 pay raise.

Initiative Annualization ....+$7,877,000 / +35 FTE
IA - Annualization of FY 2007 Initiative +$2,580,000 / +8 FTE In FY 2007, additional resources were requested to expand the Treasury attaché program in countries such as Iraq, China and Afghanistan. Treasury attachés work in tandem with the Office of

International Affairs (IA) and the Office of Terrorism and Financial Intelligence (TFI) to build relationships with foreign officials and work with local U.S. industry and agency representatives to advance U.S. interests. They also provide much-needed intelligence and expertise to U.S. officials in Washington formulating policy on international economics, trade, finance and terrorist finance. Funding is requested for the full FY 2008 cost and FTE realization from this FY 2007 initiative.

OFAC - Annualization of FY 2007 Initiatives +$2,429,000 / +12 FTE Designated Global Terrorists and their support networks continuously seek new ways of evading U.S. and international sanctions by changing the names and locations of support organizations and financing methods. This creates an additional challenge for the Office of Foreign Assets Control (OFAC) in its responsibility to administer and enforce economic sanctions. Additional positions were requested in FY 2007 for OFAC to monitor and update existing designations to capture these evasions and track the development of new support structures and funding sources. Additionally, in FY 2007 positions were requested to implement and administer the new 2006 WMD Executive Order. These resources would be deployed to identify, target, designate and implement sanctions against the financiers and facilitators of WMD proliferation. Funding is requested for the full FY 2008 cost and FTE realization from these FY 2007 initiatives.

OGC - Annualization of FY 2007 Initiatives +$1,034,000 / +6 FTE The FY 2007 President's Budget provides funding for three FTEs to finalize the staffing needs of the recently created Office of the Assistant General Counsel for Enforcement and Intelligence (AGC E&I) and three FTEs for OFAC Chief Counsel's Office to meet Treasury's need for essential legal services in support of the Department's most critical anti-terrorism missions. The AGC E& I attorneys provide legal counsel for the Department's essential and growing terrorist financing, money laundering, WMD proliferation, narco-trafficking and economic sanctions programs, and a wide range of intelligence and information-sharing initiatives that are critical to the success of those programs. OFAC's Chief Counsel's Office supports an "operational" client, and its responsibilities include drafting Executive Orders and regulations, and working closely with OFAC and the Justice Department on litigation matters. Funding is requested for the full FY 2008 cost and FTE realization ($1,034 / +6 FTE) from the FY 2007 initiatives.

OIA - Annualization of FY 2007 Initiative +$1,261,000 / +6 FTE Additional analyst positions were requested in FY 2007 to effectively address transnational terrorist and illicit finance issues; such as terrorist finance, decentralization and proliferation of terrorist groups, counter-proliferation and critical infrastructure protection. These resources will provide the ability to engage in analyst exchanges with other national security and intelligence community agencies in accordance with the Intelligence Reform and Terrorism Prevention Act of 2005. Funding is requested for the full FY 2008 cost and FTE realization from this FY 2007 initiative.

TP - Annualization of FY 2007 Initiative +$573,000 / +3 FTE Dynamic analysis of tax policy proposals (analysis incorporating changes in taxpayer behavior), including their macroeconomic effects, enhance the information provided to decision-makers regarding the effects of their tax policy determinations. The FY 2007 proposed addition of a Dynamic Analysis Division (including a division director and economists) to the Office of Tax Policy facilitates the production of such dynamic analyses relating to proposed Federal tax legislation. Funding is requested for the full FY 2008 cost and FTE realization from this FY 2007 initiative.

Non-Recurring Costs ....-$2,360,000 / +0 FTE
Non-recur SCIF -$1,000,000 / +0 FTE FY 2008 savings achieved from non-recurring costs: -$1,000,000 associated with the establishment of a Sensitive Compartmented Information Facility (SCIF) in FY 2007.

Non-recur of Declassification Project -$676,000 / +0 FTE FY 2008 savings achieved from non-recurring costs: $-676,000 for project expenses for declassification of records.

Non-recur of IA -$684,000 / +0 FTE FY 2008 savings achieved from non-recurring costs: -$684,000 for one-time expense related to transfer of new staff to overseas posts in FY 2007.

Transfers In ....+$5,100,000 / +10 FTE
DF - Critical Infrastructure Protection Transfer from DSCIP +$2,100,000 / +10 FTE
Homeland Security Presidential Directive 7 (HSPD-7) designates Treasury as the lead agency for the Banking and Finance sector. The Office of Critical Infrastructure Protection discharges this obligation for the Department, and works to identify, prioritize, and determine the interdependencies of critical assets in order to provide an appropriate level of protection. This initiative, which is also one of the Department's President's Management Agenda milestones, will assist in Treasury's efforts to ensure the resilience of the financial services sector in the event of threats to its physical integrity or viability. This request represents the transfer of Critical Infrastructure Protection salaries from the Department-wide Systems and Capital Investment Program to Domestic Finance, and recognizes that important milestones have been achieved and that permanent staffing will be required to continuously implement these resilience efforts.

OIA - TFIN Transfer from DSCIP +$3,000,000 / +0 FTE The Treasury Foreign Intelligence Network (TFIN) system supports the Department of the Treasury's capabilities in providing and analyzing meaningful intelligence for senior Treasury Department staff, as well as for other agencies within the Intelligence Community. The data from the TFIN system is utilized by the Secretary of the Treasury, the Deputy Secretary of the Treasury, the Under Secretary for TFI, the Under Secretary for International Affairs, OIA, OFAC, the Financial Crimes Enforcement Network (FinCEN) and other components. The development phase of the TFIN stabilization and modernization project will be completed by the end of FY 2007, requiring funds for user support and ongoing operations and maintenance of the system.

Program Increases ....+$10,894,000 / +28 FTE
ED - Enhanced International Economic Policy Coordination +$618,000 / +3 FTE The Department of the Treasury is committed to the critical task of fortifying economic relations with foreign countries and financial institutions, working towards creating a platform for global growth and security. To this end, it is necessary to enhance policy coordination and resources through the addition of regional experts. This initiative is for additional staff to support key policy dialogues with countries like China.

IA - CFIUS +$940,000 / +4 FTE The Committee on Foreign Investment in the United States (CFIUS) is responsible for investigating the merger or acquisition of U.S. companies by foreign persons for national security implications. This function is mandated under the Exxon-Florio Legislation amendment to the Defense Production Act, and is managed by Treasury's Office of International Affairs on the Secretary's behalf. The significance of this work has grown exponentially with the growth of foreign investment into the United States and the sharp increase in transactions filed with CFIUS. Requested resources will be used to recruit investment flow analysts and other specialists. This function is necessary to provide adequate support for, and measure progress toward, achieving the International Affairs objective of ensuring national security and increasing economic growth.

OFAC - Economic Sanctions against State Terrorism +$1,392,000 / +2 FTE The Office of Foreign Assets Control (OFAC) is committed to combating terrorist networks and state sponsors of terrorism. New Executive Orders with respect to Sudan and Syria were issued in 2006 and the Administration is extensively engaged with respect to Iran. Each new Executive Order and/or OFAC designation of terrorists and their financial networks brings with it increasing demands on OFAC's enforcement, licensing, compliance and administrative support components. Additional resources in these areas are requested to match the increased tempo of new Executive Orders and Treasury designations.

OFAC - Sanctions against WMD Proliferation +$889,000 / +3 FTE Building on resources requested in FY 2007 to fund the start-up of the sanctions program against WMD proliferation, the FY 2008 President's Budget requests additional resources to effectively implement and administer Executive Order 13382. The WMD sanctions program is a Presidential national security priority, and these resources will be used to strengthen OFAC's ability to track, identify, and designate financiers and other supporters of WMD proliferation. Publicizing the designations, and assigning resources to work with the U.S. public and with government agencies will greatly assist the Treasury Department in effectively isolating financiers and facilitators of WMD proliferation from the U.S. and international commercial communities. The request will also provide OFAC with additional resources to expand its enforcement capacity in support of investigation and blocking activities, which are critical to the enforcement of sanctions.

OIA - Emerging National Security Threats +$1,973,000 / +10 FTE Eleven intelligence analysts (including three open-source analysts) and five production officers are requested to support the efforts of the Office of Intelligence Analysis (OIA) in addressing the most pressing and emerging national security issues; including transnational terrorist and illicit finance issues, as well as engage in analyst exchanges with other national security and intelligence community agencies. This request will also allow OIA to establish a permanent intelligence production structure, an essential component to the timely and accurate production of intelligence information.

OIA - Intelligence Community Integration +$219,000 / +1 FTE Integrating Treasury further into the Intelligence Community (IC) remains one of OIA's top priorities. This is consistent with the information sharing and coordination requirements outlined in the Intelligence Reform and Terrorism Prevention Act of 2004, as well as in Executive Orders 13356 and 13388. Improvements in this arena will increase Treasury's access to critical intelligence, and expand its ability to coordinate on terrorist-financing and WMD proliferation matters with the IC, law enforcement communities, and foreign partners. OIA's participation as a full fledged IC member is closely aligned with the Director of National Intelligence's (DNI) mission objective to improve the integration of the IC. This initiative will allow OIA to hire two additional personnel to engage in analytic exchanges/detail assignments with the National Counterterrorism Center and the Central Intelligence Agency (CIA) – two of Treasury's key intelligence partners.

OIA - Intelligence Support +$215,000 / +1 FTE The Office of Intelligence Support (OIS) is tasked with providing intelligence on a full range of political, economic, and security matters to the Secretary, Deputy Secretary and other senior Treasury leadership. The information provided by OIS is critical for the Treasury Department's senior leaders' participation in the National Security Council policymaking process. For OIS to succeed in these efforts, it is essential that the office be fully integrated into the intelligence community. The funding requested will enable OIS integration consistent with the information sharing and coordination requirements of the Intelligence Reform and Terrorism Prevention Act and Executive Orders 13356 and 13388. The additional personnel will provide briefing support and facilitate OIA's increased role in the review process for transactions filed with the Committee on Foreign Investment in the United States (CFIUS). Finally, the request provides additional watch officers to fully staff the Department's 24/7 intelligence operations center.

OIA - Overseas Travel +$148,000 / +0 FTE This initiative would enable OIA intelligence analysts to engage in intelligence/analytic exchanges in key countries, improving Treasury's access to information on priority terrorist financing targets. The OIA analysts would travel to countries where terrorist financing remains a serious problem; where the host governments have not taken sufficiently aggressive action in response to this threat. Intelligence analysts need to build lasting institutional relationships with key counterterrorism intelligence/analytic authorities in these governments, which could result in greater cooperation and more aggressive action by the host countries. Improving the host countries' understanding of Treasury's unique authorities to combat terrorism, including Executive Order 13224 and Section 311 of the USA PATRIOT Act, would greatly benefit the U.S. Government's terrorist financing efforts. This type of travel is valuable both for employee skill development, and in improving their understanding of the regions and countries that they cover.

<u>OIA - SCIF +$3,000,000 / +0 FTE</u> This initiative is a request for additional secure space to accommodate the new hires in OIA and OFAC's terrorism and WMD proliferation programs. The highly classified work of these expanding units can only be accomplished in specially constructed secure areas, known as Sensitive Compartmented Information Facilities (SCIF). Adequate security infrastructure is critical to protecting the intelligence and national security functions of the Department. OIA's increasing reliance on highly classified intelligence information necessitates additional space requirements, as there is currently a lack of SCIF space in the Treasury building.

<u>OIA - Special Security Program +$477,000 / +1 FTE</u> Safeguarding the sensitive information provided to the Treasury Department by the National Security Counsel (NSC) and the IC, as outlined in Director of Central Intelligence Directives 6/1 – 6/10, Executive Orders 12333, 12958, and 32CFR2004, is a critical responsibility of OIA. Accidental or unauthorized disclosure of this information could do exceptionally grave damage to national security. The expansion of TFI and its components has placed increased demands on the small staff of the office responsible for special security programs. In addition, with OIA's increased integration into the IC, OIA is now a participant in the IC reciprocity programs, which are required by the DNI of IC members. The expansion of OIA has also resulted in the need for more Sensitive Compartmented Information Facilities to do this highly classified work, which has also significantly increased the responsibilities of the Office of Special Security Programs. This initiative will allow OIA to hire two security specialists to cover these various issues.

<u>TFFC - Disrupt and Dismantle Financial Networks +$638,000 / +3 FTE</u> This request would provide the Office of Terrorist Financing and Financial Crimes (TFFC) with increased resources to devote specific policy advisors to critical regions in the Western Hemisphere, Africa and the Middle East-South Asia nexus. These regions present specific terrorist financing and financial crimes problems, including money laundering tied to narcotics and arms trafficking, and financial flows to terrorist organizations. The Middle East is of particular concern, as a number countries continue to provide a base for terrorist fundraisers and financial supporters, particularly to South Asia-based terrorist groups. Additional policy advisors dedicated to these areas will allow the Treasury Department to bring together the U.S. Government tools available to law enforcement and national security agencies in the fight against terrorist financing and financial crime. The requested policy advisors would allow TFFC to meet multiple strategic objectives, including disrupting terrorist financial and support networks and building the capacity of foreign governments to combat terrorist financing.

<u>TFFC - Disrupt and Dismantle Rogue Regimes +$385,000 / +2 FTE</u> This initiative would fund additional policy advisors to cover North Korea, Afghanistan, Pakistan, India, and Central Asia on pressing financial issues. This funding will allow the Treasury Department to fully leverage tactical successes to develop ongoing strategic approaches to bring additional financial pressures. This initiative is consistent and in support of Executive Orders 13338 and 13382 and Section 311 of the U.S. PATRIOT Act.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: DO Salaries & Expenses	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	FY 2007 Proposed Operating Level	FY 2008 Requested Level
FTE	1,004	1,058	-	1,004	1,058	1,136
Object Classification:						
11.1 Full-Time Permanent Positions	$91,905	$100,850	($13,293)	$87,557	$100,850	$112,378
11.1 Other than Full-Time Permanent Positions	2,781	2,781	(538)	2,243	2,781	2,781
11.5 Other Personnel Compensation	197	197	76	273	197	197
11.8 Special Personal Services Payments	0	0	0	0	0	0
11.9 Personnel Compensation (Total)	$94,883	$103,828	($13,755)	$90,073	$103,828	$115,356
12.0 Personnel Benefits	19,117	21,548	1,132	22,680	21,548	23,843
13.0 Benefits to Former Personnel	0	0	0	0	0	0
21.0 Travel	3,000	6,296	(2,723)	3,573	6,296	6,789
22.0 Transportation of Things	0	0	0	0	0	0
23.1 Rental Payments to GSA	4,000	4,602	(649)	3,953	4,602	5,239
23.2 Rent Payments to Others	0	0	0	0	0	0
23.3 Communications, Utilities, & Misc.	7,967	7,967	5,189	13,156	7,967	7,967
24.0 Printing and Reproduction	2,715	2,715	(121)	2,594	2,715	2,715
25.1 Advisory & Assistance Services	28,014	41,852	(11,175)	30,677	41,859	52,837
25.2 Other Services	9,724	9,724	(386)	9,338	9,724	9,724
25.3 Purchase of Goods/Serv. from Govt. Accts.	18,847	18,847	(8,357)	10,490	18,840	18,840
25.4 Operation & Maintenance of Facilities	900	900	76	976	900	900
25.5 Research & Development Contracts	0	0	0	0	0	0
25.6 Medical Care	0	0	0	0	0	0
25.7 Operation & Maintenance of Equipment	1,000	1,000	405	1,405	1,000	1,000
25.8 Subsistence & Support of Persons	0	0	0	0	0	0
26.0 Supplies and Materials	3,711	3,801	(894)	2,907	3,801	3,857
31.0 Equipment	748	794	(445)	349	794	1,073
32.0 Lands and Structures	0	0	0	0	0	0
33.0 Investments & Loans	0	0	0	0	0	0
41.0 Grants, Subsidies	0	0	0	0	0	0
42.0 Insurance Claims & Indemn.	0	0	0	0	0	0
43.0 Interest and Dividends	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0
Total Budget Authority	$194,626	$223,874	($31,703)	$192,171	$223,874	$250,141
Budget Activities:						
Executive Direction Programs	$16,329	$17,501	($1,176)	$16,325	$17,501	$19,815
Economic Policies and Programs	31,691	41,947	(10,366)	31,581	41,947	45,450
Financial Policies and Programs	26,308	25,336	918	26,255	25,336	28,869
Terrorism and Financial Intelligence	39,540	45,401	(6,138)	39,264	45,401	56,224
Treasury-Wide Mgmt. Policies and Programs	16,674	20,372	(3,816)	16,556	20,372	20,810
Administration Programs	63,094	73,316	(11,125)	62,191	73,316	78,972
Currency Manipulation	990	0	0	0	0	0
Total Budget Authority	$194,626	$223,874	($31,703)	$192,171	$223,874	$250,141

2B – Appropriation Language

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY DEPARTMENTAL OFFICES Federal Funds **SALARIES AND EXPENSES:**	
For necessary expenses of the Departmental Offices including operation and maintenance of the Treasury Building and Annex; hire of passenger motor vehicles; maintenance, repairs, and improvements of, and purchase of commercial insurance policies for, real properties leased or owned overseas, when necessary for the performance of official business, $250,141,000: Provided, That of the amount appropriated under this heading, not to exceed $3,000,000, to remain available until September 30, 2009, for information technology modernization requirements; not to exceed $200,000 for official reception and representation expenses; and not to exceed $258,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Secretary of the Treasury and to be accounted for solely on his certificate: Provided further, That of the amount appropriated under this heading, $5,114,000 to remain available until September 30, 2009, is for the Treasury-wide Financial Statement Audit and Internal Control Program, of which such amounts as may be necessary may be transferred between accounts of the Department's offices and bureaus to conduct audits: Provided further, That this transfer authority shall be in addition to any other provided in this Act: Provided further, That of the amount appropriated under this heading, $3,000,000 to remain available until September 30, 2009 is for secure space requirements: Provided further, That of the amount appropriated under this heading, $2,300,000, to remain available until September 30, 2009, is for salary and benefits for hiring of personnel whose work will require completion of a security clearance investigation in order to perform highly classified work to further the activities of the Office of Terrorism and Financial Intelligence: Provided further, That of the amount appropriated under this heading, $2,100,000, to	The language has been amended to remove the allocation of appropriated funds by budget activity. The amended language provides flexibility to the Secretary of the Treasury to meet critical requirements in a timely manner. This methodology is in line with submissions from prior years, and will make DO's reprogramming requirements the same as all other Treasury bureaus. The language requests that representation funds be increased by $50,000 to reflect Treasury's greater overseas presence and increased international responsibilities. This language requests that $3M of the DO S&E request for construction of a SCIF be identified as multi-year. Given the scope of the project and project plans for similar

remain available until September 30, 2010, is to develop and implement programs within the Office of Critical Infrastructure Protection and Compliance Policy, including entering into cooperative agreements. *(Department of the Treasury Appropriations Act, 2008.)*	construction projects, multi-year funding will be necessary. This requests includes a set aside of $2.3M for the hiring of personnel who require a security clearance. Given the highly specialized background and expertise required to fill these positions, as well as the extended time required to perform background investigations, multi-year funds are necessary.

2C – Legislative Proposals

Expand the Secretary of the Treasury's authority to invest excess cash on behalf of the government. The FY 2008 Budget proposes legislation to give the Secretary of the Treasury the ability to manage the government's short-term excess operating cash more efficiently. Under the current authority, which is codified at 31 U.S.C. 323, the Government is authorized to invest its short-term excess cash in obligations of the United States Government and depositary institutions, principally, banks, savings and loan associations and credit unions. This initiative would enable the Secretary of the Treasury to broaden investment options and improve earnings on investments while not increasing the risk of those investments. This initiative is expected to increase interest earnings on the Treasury's investment of short-term excess cash by approximately $10 million annually. Such earnings would be deposited in the general fund of the Treasury.

Additional Assistant Secretary for International Affairs. In FY 2007, the Administration will seek legislation to establish a second assistant secretary for International Affairs, funded with existing budgetary resources. One assistant secretary would focus on the Treasury Department's development and regional policy responsibilities while the other would be focused on matters of international capital and trade flows.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 Request		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Executive Direction Programs	113	$16,329	90	$16,309	119	$17,501	$113	$16,325	129	$19,815	14.16%	21.38%
Economic Policies and Programs	222	31,691	169	31,570	232	41,947	222	31,581	244	45,450	9.68%	43.92%
Financial Policies and Programs	182	26,308	130	26,258	184	25,336	182	26,255	197	28,869	8.24%	9.96%
Terrorism and Financial Intelligence	233	39,540	180	39,340	264	45,401	233	39,264	308	56,224	31.97%	43.20%
Treasury-wide Mgmt. Policies and Programs	94	16,674	69	16,664	99	20,372	94	16,556	99	20,810	5.32%	25.70%
Administration Programs	160	63,094	126	62,924	160	73,316	160	62,191	160	78,972	0.00%	26.98%
Currency Manipulation	0	990	0	990	0	0	0	0	0	0	0.00%	0.00%
Subtotal New Appropriated Resources	1,004	194,626	764	194,055	1,058	223,874	1,004	192,171	1,136	250,141	13.15%	30.17%
Other Resources:												
Offsetting Collections - Reimbursable	86	$19,800	83	$17,845	90	$19,800	$86	$17,845	90	$19,800	4.65%	10.96%
Subtotal Other Resources	86	$19,800	83	$17,845	90	$19,800	86	$17,845	90	$19,800	4.65%	10.96%
Total Resources Available for Obligation	1,090	$214,426	847	$211,900	1,148	$243,674	1,090	$210,016	1,226	$269,941	12.48%	28.53%

3A – Executive Direction *($19,815,440 from direct appropriations and $590,000 from reimbursable programs):* The Executive Direction program area provides direction and policy formulation to the Department and DO, and interacts with Congress and the public on Departmental policy matters. Components of Executive Direction include: the Office of the Secretary, Deputy Secretary, Chief of Staff, Executive Secretary, Office of General Counsel, Legislative Affairs, Public Affairs, and Treasurer. No specific performance goals/measures are presented for this budget activity as the work of the offices within this budget activity is captured within the other budget activities.

3.2.1 – Executive Direction Budget and Performance Plan

Dollars in Thousands

Executive Direction Budget Activity	**Includes Strategic Objectives E1A, E1B, E1C, E2A, E2B, F3A, F3B, F3C, F4A, F4B, F4D, and M5B**				
Resource Level	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 President's Budget**	**FY 2008 Request**
Financial Resources					
Appropriated Resources	$17,067	$14,430	$16,329	$17,501	$19,815
Other Resources	414	469	590	590	590
Total Operating Level	**$17,481**	**$14,899**	**$16,919**	**$18,091**	**$20,405**
Human Resources					
Appropriated FTE	106	112	113	119	129
Other FTE	5	3	3	3	3
Total FTE (direct and reimbursable)	**111**	**115**	**116**	**122**	**132**

3B – Economic Policies and Programs *($45,450,170 from direct appropriations and $3,839,000 from reimbursable programs):* The Treasury Department plays both a policy and an operational role in promoting prosperous U.S. and world economies, raising standards of living, and protecting global economic and financial systems through the formulation and execution of United States economic and financial policies that promote growth. The Treasury Department supports U.S. economic growth by developing and implementing policies for domestic economic development, tax programs, banking and financial institutions, and other fiscal matters.

The Office of International Affairs and the Office of Economic Policy monitor domestic and international economic conditions, and collect and analyze financial data, including foreign credits and credit guarantees. The Treasury Department works to establish open trade and investment policies that benefit American workers and encourage growth in developing countries, while also promoting responsible policies regarding international debt and finance. The Treasury Department monitors the economies of more than 160 countries worldwide to ensure stability and transparency in the global marketplace, and works with more than twenty international financial institutions and organizations to target development assistance.

The Secretary of Treasury is the chair of CFIUS –an interagency committee that investigates the merger or acquisition of U.S. companies by foreign persons for national security implications. Treasury's Office of International Affairs manages this function on the Secretary's behalf. Recent high-profile investments, and the sharp increase in transactions filed with CFIUS, have demonstrated the importance of dedicating adequate resources to this critical function.

Office of International Affairs. The mission of this office is to:

- Raise economic growth in developed and developing countries;
- Improve financial stability and security in emerging and world markets;
- Increase the effectiveness of U.S. assistance to the world's poorest countries;
- Enhance the functioning of international financial institutions; and
- Promote an open and transparent international trade and investment market.

Office of Economic Policy. The mission of this office is to:

- Analyze and report on current and prospective economic developments in the U.S. and world economies, and assist in the determination of appropriate economic policies;
- Produce and publish a corporate bond yield curve as required by the Pension Protection Act of 2006;
- Support the Secretary of the Treasury in his roles as Chairman and Managing Trustee of the Social Security and Medicare Boards of Trustees; and
- Conduct research to assist in the formulation and articulation of public policies and positions of the Treasury Department on a wide range of microeconomic issues. Recent examples include terror risk insurance, health care, pension reform and retirement income security, policy responses to a potential flu pandemic, and policy responses to natural disasters such as Hurricanes Katrina and Rita.

Other Resources: Reimbursements totaling $3.8 million are collected from the U.S. Agency for International Development for Treasury economic and financial technical assistance to foreign governments; and from the Mansfield Center for Pacific Affairs for personnel services rendered on a rotational basis to the Government of Japan's Ministry of Finance. (Note: A portion of these funds are allocated to the Executive Direction and Administrative Programs budget activities to support management and legal services provided to reimbursable programs).

3.2.2 – Economic Policies and Programs Budget and Performance Plan

Dollars in Thousands

Economic Policies and Programs Budget Activity	Includes Strategic Objectives E1A, E1C, E2A, E2B, F3A, F3B, F3C, F4A, F4B, and F4D				
Resource Level	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 President's Budget**	**FY 2008 Request**
Financial Resources					
Appropriated Resources	$31,837	$31,203	$31,691	$41,947	$45,450
Other Resources	2,690	3,050	3,839	3,839	3,839
Total Operating Level	**$34,527**	**$34,253**	**$35,530**	**$45,786**	**$49,289**
Human Resources					
Appropriated FTE	199	218	222	232	244
Other FTE	18	17	17	17	17
Total FTE (direct and reimbursable)	**217**	**235**	**239**	**249**	**260**

Economic Policies and Programs Budget Activity		Includes Strategic Objectives E1A, E1C, E2A, E2B, F3A, F3B, F3C, F4A, F4B, and F4D				
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Improve International Monetary Fund (IMF) effectiveness and quality through periodic review of IMF programs (%)(Oe)	Target		90%	90%	90%	90%
	Actual		78%	100%		
	Met		No	Yes		
Level of MDB grant financing and satisfactory results measurements (African Development Bank/AFDF Grants) (in millions) (Oe)	Target	294	216	870	870	870
	Actual	65	46	700		
	Met	No	No	No		
Level of MDB grant financing and satisfactory results measurements (Grants as a % of AFDF FY Commitment) (Oe)	Target	21%	19.5%	35%	28.5%	35%
	Actual	39.2%	21.8%	30.5%		
	Met	Yes	Yes	No		
Level of MDB grant financing and satisfactory results measurements (Grants as a % of IDA FY Commitment) (Oe)	Target	22%	19.6%	30.4%	30%	19.6%
	Actual	18.8%	21.4%	25%		
	Met	No	Yes	No		
Level of MDB grant financing and satisfactory results measurements (World Bank/IDA Grants) [in millions] (Oe)	Target	1,602	1,728	3,555	2,025	2,025
	Actual	1,681	1,925	2,025		
	Met	Yes	Yes	No		
Number of new Free Trade Agreement (FTA) negotiations and Bilateral Investment Treaty (BIT) negotiations underway or completed (Oe)	Target		5	9	7	7
	Actual		7	12		
	Met		Yes	Yes		
Percentage of grant and loan proposals containing satisfactory frameworks for results measurement (%) (Oe)	Target		Baseline	90%	90%	90%
	Actual		78%	88%		
	Met		Yes	No		
U.S. unemployment rate (%) (Oe)	Target	5.6%	5.3%	5.2%	5.1%	4.8%
	Actual	5.4%	5.1%	4.6%		
	Met	Yes	Yes	Yes		
US Real Gross Domestic Product (GDP) growth rate (%) (Oe)	Target	3.5%	3.6%	3.4%	3.3%	3.2%
	Actual	4.5%	3.6%	3%		
	Met	Yes	Yes	No		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: One of Treasury's important economic performance goals is to address global imbalances and assure sustainable global growth. One way Treasury accomplishes this goal is by encouraging large economies with fixed or rigid exchange rate regimes to adopt flexible exchange rates. Treasury engaged in and supported economic dialogue with countries, including China, and provided technical advice and assistance so these countries will be able to transition from fixed to flexible regimes. In

FY 2004, Treasury met its target of three regimes becoming more flexible. In FY 2007 and FY 2008 Treasury will continue to work with China and other governments. China is now taking concrete steps to establish the financial infrastructure to implement flexible exchange rates. Treasury is actively assisting China in its efforts to achieve the desired outcome of a flexible China currency.

Another important economic goal for Treasury is to work with foreign governments to open financial services markets to U.S. providers. This goal is accomplished by increasing the number of new Free Trade Agreement (FTA) negotiations and Bilateral Investment Treaty (BIT) negotiations. Treasury seeks strong commitments from U.S. trading partners in these negotiations to ensure those markets are available to the U.S. on a fair and open basis. Once implemented, these agreements serve as a core element of U.S. trading partner's economic infrastructure and help enhance international economic and financial stability. In FY 2006, Treasury negotiated 12 such agreements, which surpassed its target of nine. For FY 2008, Treasury plans to negotiate seven more agreements.

3C – Financial Policies and Programs *($28,868,940 from direct appropriations and $4,665,000 from reimbursable programs):* The Treasury Department has both a policy and an operational role in promoting prosperous U.S. and world economies, raising standards of living, and protecting domestic and international economic and financial systems. As the principal economic advisor to the Secretary on domestic issues, the offices within the Financial Policies and Programs area provide the economic and financial policy expertise of the Department.

One of the principal objectives of the Financial Policies and Programs area is to enable commerce. The Office of Domestic Finance is responsible for advising and assisting in areas of domestic finance, banking, fiscal policy and operations, and the development of policies and guidance in areas of financial institutions, Federal debt finance, financial regulation and capital markets. The Treasury Department supports U.S. economic growth by developing and implementing policies for domestic economic development, tax programs, banking and financial institutions, and other fiscal matters. The Office of Tax Policy, in addition to providing the Secretary with expert tax analysis, serves as the official representative to a number of international organizations, which contribute to the search for common approaches to addressing current and important tax problems for which international consensus can be very valuable.

Office of Tax Policy. Responsibilities of the Office of Tax Policy include:

- Advising the Secretary, Assistant Secretary of Tax Policy and other Treasury officials on the formulation of the Administration's domestic and international taxation policy, including preparing the Administration's testimony on such legislation;
- Coordinating with Congressional staffs and other agencies on matters related to U.S. domestic and international tax policy, including the documentation of the legislative history of tax legislation and drafting of new legislation;

- Establishing policy criteria derived from rulings and regulations, and guiding preparation of these requirements with the Internal Revenue Service to implement and administer the Internal Revenue Code; and
- Representing the United States in various international organizations, such as the Organization for Economic Cooperation and Development and the G-7.

Office of Domestic Finance. Responsibilities of the Office of Domestic Finance include:

- Assisting in the formulation of policy related to financial institutions, government-sponsored enterprises, critical infrastructure protection, Federal debt management, state and local finance, financial market oversight as well as compliance policy and financial education;
- Establishing policy aimed at deterring U.S. currency counterfeiters;
- Developing systems for the collection, disbursement, management and security of public monies in the United States and abroad, and related government-wide accounting and reporting for those funds; and
- Creating the conditions necessary for the financial sector to be resilient in the event of unforeseeable future events.

Other Resources: Reimbursements totaling $4.7 million are collected from the Council of Economic Advisors and the Board of Governors of the Federal Reserve for personnel services rendered. (Note: A portion of these funds are allocated to the Executive Direction and Administrative Programs budget activities to support management and legal services provided to reimbursable programs).

3.2.3 – Financial Policies and Programs Budget and Performance Plan

Dollars in Thousands

Financial Policies and Programs Budget Activity	Includes Strategic Objectives E1A, E1C, E2A, E2B, F3A, F3B, F3C, F4A, F4B, and F4D				
Resource Level	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 President's Budget**	**FY 2008 Request**
Financial Resources					
Appropriated Resources	$23,265	$25,231	$26,308	$25,336	$28,869
Other Resources	3,269	3,706	4,665	4,665	4,665
Total Operating Level	**$26,534**	**$28,937**	**$30,973**	**$30,001**	**$33,534**
Human Resources					
Appropriated FTE	163	177	182	184	197
Other FTE	25	26	22	27	27
Total FTE (direct and reimbursable)	**188**	**203**	**204**	**211**	**224**

Financial Policies and Programs Budget Activity	Includes Strategic Objectives E1A, E1C, E2A, E2B, F3A, F3B, F3C, F4A, F4B, and F4D					
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Audit opinion received on government-wide financial statements (Oe)	Target	Met	Met	Met	Met	Met
	Actual	Met	Met	Met		
	Met	Yes	Yes	Yes		
Release Federal Government-wide financial statements on time (Oe)	Target	Met	Met	Met	Met	Met
	Actual	Met	Met	Met		
	Met	Yes	Yes	Yes		
Variance between estimated and actual receipts (annual forecast) (%) (Oe)	Target	5%	5%	5%	5%	5%
	Actual	3.8%	5%	3.9%		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: In FY 2006, the Treasury Department's Office of Domestic Finance released the federal government-wide financial statements on time. The Treasury Department has met this performance target since FY 2004, and expects to continue to meet its targets in FY 2008. The prompt release of this statement is important because it represents the culmination of the recent government-wide campaign to accelerate the issuance of financial reporting. Treasury also manages the government's cash position to ensure that funds are available on a daily basis to cover federal payments and to maximize investment earnings and minimize borrowing costs.

To optimize cash management, the Treasury Department measures the difference between actual and projected receipts. In FY 2006, Treasury continued to improve in forecasting receipts, outlays, debt and overall cash, and met its targeted variance level of five percent. In FY 2007 and FY 2008, the Treasury Department plans to continue efforts to improve its forecasting abilities in order to provide government savings.

3D – Terrorism and Financial Intelligence *($56,224,450 from direct appropriations and $3,242,000 from reimbursable programs):* The Department of the Treasury's regulatory, law enforcement and intelligence authorities provide powerful tools for the United States to apply pressure against threats to national security when diplomatic outreach may be unproductive and traditional military action may be ineffective or inappropriate. Terrorism and Financial Intelligence (TFI) leverages these authorities to neutralize threats and to safeguard the security of the U.S. and international financial system by excluding those who would use these systems for illegal purposes or to harm U.S. national security interests. The Treasury Department does this while keeping financial systems free and open to legitimate users.

> *Office of Foreign Assets Control (OFAC).* The mission of this office is to administer and enforce economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries and/or foreign regimes, terrorists, international narcotics traffickers, war criminals and their support structures, and those engaged in activities related to the proliferation of weapons of mass destruction.

Office of Intelligence and Analysis (OIA). OIA's mission is to support the formulation of policy and execution of Treasury authorities by: 1) producing expert intelligence analysis on financial and other support networks for terrorist groups, proliferators, and other key national security threats and; 2) providing timely, accurate, and focused intelligence on the full range of economic, political, and security issues.

Office of Terrorist Financing and Financial Crimes (TFFC). TFFC is the policy and outreach apparatus for the Department on terrorist financing, money laundering, financial crime, and sanctions issues. The mission of TFFC is to develop and implement strategies, policies and initiatives to identify and address vulnerabilities in the U.S. and international financial system and to disrupt and dismantle terrorist and WMD proliferation financial networks. TFFC also formulates and promotes policies domestically and internationally to combat terrorist financing and financial crime.

Other Resources: Reimbursements totaling $3.2 million are collected from the Executive Office of Asset Forfeiture and the U.S. Department of Defense. (Note: A portion of these funds are allocated to the Executive Direction and Administrative Programs budget activities to support management and legal services provided to reimbursable programs).

3.2.4 – Terrorism and Financial Intelligence Budget and Performance Plan

Dollars in Thousands

Terrorism and Financial Intelligence Budget Activity	Includes Strategic Objectives F3A, F3B, F3C, and F4B				
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$23,997	$34,796	$39,540	$45,401	$56,224
Other Resources	2,271	2,575	3,242	3,242	3,242
Total Operating Level	**$26,268**	**$37,371**	**$42,782**	**$48,643**	**$59,466**
Human Resources					
Appropriated FTE	159	205	233	264	308
Other FTE	17	15	17	14	14
Total FTE (direct and reimbursable)	**176**	**220**	**250**	**278**	**322**

Terrorism and Financial Intelligence Budget Activity		Includes Strategic Objectives F3A, F3B, F3C, and F4B				
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Customer satisfaction with Office of Intelligence Analysis (OIA) analysis in terms of its accuracy, timeliness, and relevance (Oe)	Target			Baseline		
	Actual			0		
	Met			Yes		
Increase the number of outreach engagements with the charitable and international financial communities (Ot)	Target		Baseline	105	70	120
	Actual		95	45		
	Met		Yes	No		
Number of countries that are assessed for compliance with the Financial Action Task Force (FATF) 40+9 recommendations (Ot)	Target		Baseline	45	12	12
	Actual		49	5		
	Met		Yes	No		
Number of open civil penalty cases that are resolved within the Statute of Limitations period (Ot)	Target		Baseline	85	85	85
	Actual		85	85		
	Met		Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: When the Office of Terrorism and Financial Intelligence (TFI) was established in 2004, the Treasury Department reallocated resources from other programs to support its start-up. While each program that made up TFI had its own performance management system, TFI did not have a system which supported the Department's entire National Security mission. In FY 2005, TFI worked to align its performance goals, objectives and measures with Treasury's Strategic Plan. TFI's focus on performance management led to significant changes in its suite of performance measures - several established performance measures were discontinued and several new measures were developed or are under development.

Although the Treasury Department is making progress in combating the financing of terrorists and other national security threats, quantifying these results is challenging. Given the clandestine nature of the activities of terrorists and proliferators of weapons of mass destruction, it is impossible to estimate what portion of the money intended for their support was blocked, and the Department has relied on proxy indicators to estimate the effectiveness of its actions; more refined measures to assess performance will be implemented in the future.

Combating money laundering and denying terrorists access to the global financial system is an integral element in the U.S. strategy for winning the war on terror. Through diplomatic efforts and the provision of technical assistance to foreign governments and the international financial community, the Treasury Department encourages implementation of anti-money laundering/counter terrorist financing standards designed to deny terrorists access to a country's financial systems. Without implementation of these standards worldwide, terrorists will enter the international financial system at the point of least resistance, and preventative national efforts will be rendered less effective. These standards are an important element in the financial war on terror. One way the Department tracks its effort in this important area is through the measure "Number of Countries" that are "assessed for compliance with the Financial Action Task Force (FATF) 40+9 Recommendations." In FY 2006, 5 countries were assessed for compliance with these international standards. This is much below the target. However, classified assessments are no longer being included, resulting in the reduction of reported recommendations. As a result, the baseline for this performance measure has been changed.

The Treasury Department tracks its engagements with U.S. and international governments and private institutions through the measure "Increase the number of outreach engagements with charitable and financial communities." In FY 2006, the Department worked with 45 entities to ensure their financial systems are safeguarded from money laundering. In FY 2008, the Treasury Department plans to work with 120 entities.

In addition to its efforts to prevent money laundering and terrorist financing through diplomatic means, the Department administers and enforces economic sanctions against individuals, organizations and regimes which pose a threat to U.S. national security. In FY 2006, the Department established baselines for a new efficiency measure relating to the processing of license and interpretive guidance requests, and a workload measure relating to the resolution of civil penalty cases.

The Treasury Department also plays an important role in collecting, analyzing and, when appropriate, disseminating intelligence about how terrorists and other criminal networks operate. A composite measure of the impact of the Department's intelligence and analytical activities is under development.

3E – Treasury-wide Management and Programs *($20,809,970 from direct appropriations and $4,681,000 from reimbursable programs):* Treasury-wide Management's (TWM) primary responsibility within the Department of Treasury is to create the conditions which allow for Administration priorities and goals to be achieved in the most efficient and effective manner. Treasury-wide Management provides strategic plans and policy direction in the fields of: human resources; emergency management, including Treasury employee evacuation and Continuity of Operations; information technology security; and financial administration, including the formulation and management of the Treasury budget. The development of these integrated plans help to align policy and operations in order to produce maximum value for the American people.

TWM is also responsible for the development, implementation and oversight of the Federal Information Security Management Act of 2002 (FISMA). FISMA was created to provide a broad framework for ensuring the effectiveness of controls around information security in support of Federal operations. FISMA aims to effectively reduce information security risks, including coordination of information security efforts throughout the civilian, national security, and law enforcement communities. Given the critical mission supported by the Department, this issue is especially essential to Treasury and DO. TWM will act on behalf of Treasury in developing and coordinating the Department's response to this mandate. Resources will be devoted to this task in FY 2008.

Other Resources: Reimbursements totaling $4.9 million are collected from the Internal Revenue Service Oversight Board, Department of Homeland Security, D.C. Pensions, and other Treasury bureaus for services rendered. (Note: A portion of these funds are allocated to the Executive Direction and Administrative Programs budget activities to support management and legal services provided to reimbursable programs).

3.2.5 – Treasury-wide Management and Programs Budget and Performance Plan

Dollars in Thousands

Treasury-wide Management and Programs Budget Activity				Includes Strategic Objective M5B	
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$17,564	$16,245	$16,675	$20,372	$20,810
Other Resources	3,283	3,722	4,681	4,681	4,681
Total Operating Level	**$20,847**	**$19,967**	**$21,356**	**$25,053**	**$25,491**
Human Resources					
Appropriated FTE	84	96	94	99	99
Other FTE	6	12	7	14	14
Total FTE (direct and reimbursable)	**90**	**108**	**101**	**113**	**113**

Treasury-wide Management and Programs Budget Activity					Includes Strategic Objective M5B	
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Complete investigations of EEO complaints within 180 days (%) (Oe)	Target	40%	50%	50%	50%	50%
	Actual	31%	36%	20%		
	Met	No	No	No		
Injury and illness rate Treasurywide-including DO (Oe)	Target	3.12	3	2.8	2.6	2.4
	Actual	3.94	2.8	1		
	Met	No	Yes	Yes		
Management cost per Treasury employee ($) (E)	Target		Baseline	$40.27	$38.21	$40.96
	Actual		$39.33	$40.59		
	Met		Yes	No		
Number of open material weaknesses (Oe)	Target	6	4	2	1	1
	Actual	8	7	1		
	Met	No	No	Yes		
Percent of complainants informally contacting EEO (for the purposes of seeking counseling or filing a complaint) who participate in the ADR process (%) (Oe)	Target		25%	25%	30%	30%
	Actual		25%	25%		
	Met		Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: DO, through TWM, is committed to building a world-class organization through accountability, with a clear and understood strategic direction. The focus of the past year has been on measurable ways to monitor progress toward key goals related to building a world class organization both in Departmental Offices and Treasury-wide.

TWM has placed heavy emphasis on creating an environment that is fair and equitable, and monitors Treasury-wide progress through a number of performance metrics. In FY 2006, the average number of EEO complaint closures completed within 180 days was 20 percent. This is well below the target goal of 50%. A management review was conducted to identify problem areas at the Treasury Complaint Center (which processes all complaints for all bureaus), and a need for different leadership in this area was identified. A new Director for the Complaint Center position began in November of 2006, and will assist the Department in meeting its goal in FY 2007 and FY 2008.

The Department of Treasury measures bureau performance plans for supervisors, management and SES members that contain elements linking to the bureau mission. This measure ensures that the policies and priorities set for DO by TWM and the

Administration are evident in the actions and tasks executed by management throughout the organization. For FY 2006, Treasury reached 100 percent of this goal.

In FY 2004, the Department of Labor recognized Treasury for reducing the total injury and lost time injury rates by more than 10 percent each, well below the recommended three percent for all federal agencies. In 2006, Treasury continued its aggressive occupational safety and health program and had a 1.8 percent reduction.

The Department works to attract and retain the best talent while rewarding employees for their individual performance. Building a stronger management infrastructure through Department-wide management training and by linking organization accomplishments to individual performance is a key step. The Department's leadership strives to create an environment that offers purposeful, challenging work in a constructive performance culture. TWM has laid a foundation that is focused on results-oriented performance, leadership succession planning and accountability to not only maintain the present skills base and diversity in the Department's workforce, but to also meet future human resource needs. The Department-wide succession plan ensures that future management acquires appropriate skills to enable them to lead the Department in an ever-changing environment.

3F – Administration Programs *($78,972,030 from direct appropriations and $2,783,000 from reimbursable programs):* Administration Programs provides operational support and shared services to all offices within DO. Activities include accounting, budget, human resources, information technology, procurement, facilities support, and travel services.   Approximately one-third of the budget activity relates to information technology support (desktop computers, printers, faxes, copiers, helpdesk support, etc.). Another one-third consists of shared services: GSA rent, utilities, telecommunications, printing and graphics, public transit subsidy, workers compensation, and financial system support. By centralizing shared services, economies of scale and workload efficiencies are achieved. The final third consists of employee salaries, routine building maintenance, custodial services, library services, etc. No specific performance goals/measures are presented for this budget activity, as the work of the offices within this budget activity is captured within the other budget activities.

3.2.6 – Administration Programs Budget and Performance Plan

Dollars in Thousands

Administration Programs Budget Activity	Includes Strategic Objectives E1A, E1C, E2A, E2B, F3A, F3B, F3C, F4A, F4B, F4D, M5A, and M5B				
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$61,340	$56,506	$63,094	$73,316	$78,972
Other Resources	1,948	2,209	2,783	2,783	2,783
Total Operating Level	**$63,288**	**$58,715**	**$65,877**	**$76,099**	**$81,755**
Human Resources					
Appropriated FTE	163	152	160	160	160
Other FTE	16	15	18	15	15
Total FTE (direct and reimbursable)	**179**	**167**	**178**	**175**	**175**

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents

Direct FTE		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		858	1,004	1,058
Increases:				
Reason #1:	Initiatives to promote national security	146	54	68
Reason #2:	Initiatives to promote global economic growth and financial security			10
Subtotal, Increases		146	54	78
Decreases:				
Subtotal, Decreases		0	0	0
Year-end Actual/Estimated FTEs		1,004	1,058	1,136
Net Change from prior year SOY to budget year EOY				132

4A – Human Capital Strategy Description

By providing sound advice and guidance regarding hiring, retention, rewarding, employee/labor relations, performance evaluation, training and employee development, the DO's Office of Human Resources (OHR) helps to ensure that management has the HR tools it needs to manage its human capital effectively and in support of the organization's overall and human capital strategic goals.

Specific accomplishments for fiscal year 2006 include the following:

HC Strategic Goal 1: Organizational Effectiveness – *Align human capital plans, strategies, and systems to achieve organizational effectiveness and mission accomplishment.*

- In 2005, DO undertook a major initiative to move transactional HR processing to the Bureau of the Public Debt (BPD), consolidate recruitment and staffing functions at BPD, and revamp on-site HR services to focus on areas aligned with Treasury's Human Capital Strategic Plan. To ensure the quality and delivery of HR services, the on-site Office of Human Resources (OHR) focused on evaluating the effectiveness of services provided. Prior to entering into a continued agreement with BPD for fiscal year 2006, OHR worked with BPD to memorialize and implement service level standards (SLS) for key HR functions. These SLS are now a part of the continuing memorandum of understanding between the two entities. At the end of each quarter, OHR conducts a review of how well BPD met those SLS during the preceding quarter. During the third quarter of this fiscal year, managers/supervisors were surveyed to find out how well they perceived BPD was doing in supporting their HR management needs. In looking at the accuracy of services provided, the OHR conducted an audit of a sample of staffing/hiring actions done by BPD to determine compliance with Federal hiring rules and regulations.

- DO's OHR staff conducted an exhaustive review of the organization's current performance management system. A "get-well plan" was derived from this review that focuses on communication and education and includes briefings for senior leaders and training for managers/supervisors, senior advisors and administrative support staff involved in performance management. The objectives of the briefings/training are: alignment of performance expectations with organizational goals; accountability for results; credible measures; and meaningful distinctions in performance. Moving forward, HR staff will continually evaluate the effectiveness of DO's performance management system.

- The OHR also added another tier to its leadership/executive training program. The New Supervisory Readiness Training Program was implemented this fiscal year and is targeted to DO supervisors with three years or less of Federal supervisory experience. The goal of the program is to equip new supervisors for the myriad of personnel, ethical, and budgetary challenges they will face, thus providing them essential management tools early in their supervisory careers. Components of this 40-hour training include Merit Principles and Prohibited Personnel Practices, Talent and Position Management, EEO, Ethics, Performance Management, Adverse Actions, the Budget and Acquisition Process, Emergency Preparedness, Personnel Security, Records Management and Workplace Safety.

- In 2006, DO continued its efforts to build leadership bench strength through the Leadership Training Program (LTP – targeted to high-performing GS-15s and newly appointed senior executives). The LTP is 12-18 months in duration and encompasses residential stays, formal classroom training, presentations/briefings, rotational/stretch assignments, coaching/mentoring, and book discussions. The organization also competitively selected five employees to participate in the Internal Revenue Service's Executive Readiness Program.

HC Strategic Goal 2: Recruitment and Diversity – *Recruit and hire a highly skilled and diverse workforce aligned with business goals.*

- In support of the Office of Intelligence and Analysis (OIA), OHR worked with OIA leadership, in partnership with the DNI Chief Human Capital Officer, to pursue and obtain Office of Personnel Management approval for direct-hire authority for certain intelligence and intelligence-related positions. A unique and relatively new organization directly involved with the war on terror, the OIA had encountered significant challenges in quickly filling analyst positions with the best-qualified individuals. Use of the direct-hire authority provides the organization a competitive edge in that it substantially streamlines the Federal hiring process.

- As always, DO advocates the use of a variety of excepted appointments to ensure that new talent is hired as quickly as possible, e.g., Presidential Management Fellows; Student Career Experience Program; Departmental Office-specific fellowship programs; and other authorities. DO actively supports initiatives aimed at increasing the diversity of its workforce, including providing internships to students under the Hispanic National Internship Program and the Washington Internships for Native American students (WINS).

- DO also continues to advocate the use of a variety of pay and workplace scheduling flexibilities, where appropriate, e.g., recruitment bonuses, superior qualifications appointments and alternative work schedules.

HC Strategic Goal 3: Employee Retention and Satisfaction – *Retain a high performing workforce while maintaining an environment conducive to a high level of employee satisfaction.*

- With an increased emphasis on retirement and other benefits on the part of DO employees, the OHR staff began conducting “Benefits Brown Bag” sessions during the third quarter. These one-hour sessions are scheduled each month to discuss benefits topics of interest to employees. The goal of each session is to provide basic facts about benefits programs that help employees make better choices/decisions regarding their benefits. Sessions fill quickly and the response has been overwhelmingly positive.

- Based on the number of DO employees eligible to retire within the next five years, OHR contracted with an outside vendor to provide three retirement seminars during this fiscal year – two for CSRS employees and one for FERS.

HC Strategic Goal 4: Information Technology – *Enhance workforce capabilities to support the use of current, new and evolving technologies.*

- There are a number of automated tools available to DO managers, supervisors and employees that provide a wealth of personnel/payroll data. To market the effectiveness of these tools, OHR has added a component on HR-related technology to the New Employee Orientation Program. Making employees aware of these valuable tools early in their DO careers will empower them to keep abreast of the HR matters that impact them or their organizations (in the case of managers/supervisors) directly, and is expected to decrease the number of personnel/payroll inquiries received by the on-site staff and BPD.

- Recognizing the importance human resources data can play in managing an organization, the aforementioned New Supervisory Readiness Training Program includes a detailed segment on the Manager Self Service component of HR Connect, the agency's enterprise human resources management system.

As in the previous fiscal year, DO faces a number of human capital challenges in FY 2007:

- Increasing competition from private sector and other government agencies for mission-critical positions such as intelligence analysts, economists and information technology specialists.

  Strategies for Addressing Challenge:

  - Increased education about and support of a variety of hiring/retention flexibilities and incentives, such as direct hire (where request to OPM is appropriate), superior qualifications appointments, recruitment bonuses, student loan repayment, retention allowances and alternative work arrangements/schedules.

- Loss of institutional knowledge through retirement waves, particularly for the managers and senior executives.

  Strategies for Addressing Challenge:

  - Increased emphasis on determining leadership bench strength and supporting leadership/executive development programs that help to identify and prepare cadres of future leaders, and gaining approval to hire at a level needed to continue to meet mission objectives.
  - Work with DO policy offices to identify succession issues and develop appropriate strategies, emphasizing an overall need to conduct workforce planning to transition and maintain technical knowledge.

- Instilling and developing a performance management culture that is results-oriented.

    Strategy for Addressing Challenge:

    - Increased education around aligning commitments to organizational goals and developing measurable, results-based standards/commitments.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments (in $ Millions) Major IT Investments	Budget Activity/Funding Source	FY 2005 Operating Plan	FY 2005 Obligations	FY 2006 Operating Plan	% Change from FY05 Actuals to FY06	FY 2007 Enacted	% Change from FY06 to FY07	FY 2008 Request	% Change from FY07 to FY08
Financial Analysis & Reporting System (FARS) Applications -Major	Treasury-wide Management	$0.000	0.000	0.000	N/A	3.099	N/A	3.190	2.9%
DC Pension System to Administer Retirement (STAR)	DC Federal Pension/Judicial Retirement Funds	12.800	12.800	4.998	-61.0%	9.732	94.7%	1.870	-80.8%
Treasury Foreign Intelligence Network (TFIN)	Terrorism and Financial Intelligence	2.325	2.325	13.306	N/A	21.200	59.3%	3.000	-85.8%
Subtotal, Major IT Investments		$15.1	$15.1	18.304	21.0%	34.031	85.9%	8.060	-76.3%
Non-Major IT Investments		$2.0	$2.0	4.937	145.7%	8.057	63.2%	6.440	-100.0%
Infrastructure Investments		$134.2	$134.2	167.328	24.7%	168.030	0.4%	179.617	-100.0%
Enterprise Architecture		$1.2	$1.2	1.397	14.8%	2.160	54.6%	2.120	-100.0%
Total IT Investments		$152.5	$152.5	191.966	25.8%	212.278	10.6%	196.237	-7.6%

4B – Information Technology Strategy

The Office of the Chief Information Officer (OCIO) Telecommunications Management organization supports the IT infrastructure and operations of critical offices including the Office of the Secretary, the Assistant Secretary for Management, DO policy offices, and the newly formed Office of Terrorism and Financial Intelligence. This includes the management of technical staff, program and project managers, and budgetary and administrative staff, as well as overseeing the development, implementation, and operation of DO IT systems. In order to effectively support and plan for current and future DO customer requirements, OCIO is focused on the following areas:

Modernize the DO IT Infrastructure: Modernization of the DO IT infrastructure will provide enhanced functionality, performance, and security, which will allow offices to achieve their missions more effectively. Specific projects will include enhanced disaster recovery capabilities, consolidation of remote access solutions, and software and hardware upgrades, and overall optimization of the DO IT network, which will be developed in accordance with the Infrastructure Line of Business.

Improve IT Governance and Project Management: OCIO is committed to ensuring that information and IT resources are managed efficiently and effectively. In support of DO IT governance and project management, the OCIO Telecommunications Management team has reestablished a Customer Service Board (CSB) to address DO customer issues with service delivery, determine requirements and detailed planning for new projects, and provide overall senior management engagement and oversight.

4.3 – PART Evaluation Table

PART Name:	African Development Fund
Year PARTed:	FY 2005
Rating:	Effective

OMB Major Findings/Recommendations

1. The African Development Fund is starting to improve its performance measurement and use of performance-based funding allocations. In the latest donor negotiation, the Fund and donors agreed to implement better results measurement for key development goals, such as education, and reconfirmed the allocation of funding towards better-performing countries, but more remains to be done.
2. In the negotiations, the Fund and donors agreed to reforms to improve the ability of the poorest countries to handle their debts. In particular, they agreed that grants to assist the poorest countries will be expanded based on countries' debt vulnerability. Grants are expected to rise to more than one-third of the Fund's assistance.
3. Accountability and transparency require additional improvements. The Bank Group has established a new anti-corruption and fraud unit and improved internal financial controls. The Bank Group is also expanding public access to its documents but more remains to be done.

Bureau Actions Planned or Underway

1. Working with Congress to secure $136 million annually for the period 2006 to 2008 to fund the US commitment to the latest African Development Fund replenishment.
2. Monitoring the Fund's effectiveness in achieving its development objectives, including its progress in measuring and meeting development objectives across-the-board.
3. Working with Fund and other donors to improve the ability of developing countries to handle their debt, including providing grants to the most debt-vulnerable countries using the Fund.

PART Name:	Tropical Forest Conservation Act
Year PARTed:	FY 2004
Rating:	RND

OMB Major Findings/Recommendations

1. The program has been unable to measure its impact on increasing tropical forest conservation. It does not have performance measures that would enable a meaningful evaluation of program effectiveness.
2. The Administration has developed a tool to help manage and measure the success of existing and pending agreements. This evaluation sheet will measure the success of country boards and oversight committees in developing a strategic plan that specifies key objectives, conservation and funding priorities, target dates in meeting those objectives, and key efficiency measures.
3. The Administration is now collecting evaluation sheet data, and actual performance data will be reported in 2006. A re-evaluation may be performed as early as 2007.

Bureau Actions Planned or Underway

1. Using information presented in evaluation sheets for existing programs to develop recommendations for improved program management, and to justify future funding requests. .
2. Working with the boards, oversight committees, and program partners to include the evaluation sheet tool or other appropriate evaluations in all new agreements.

PART Name:	Asian Development Fund
Year PARTed:	FY 2005
Rating:	RND

OMB Major Findings/Recommendations

1. The Fund recently agreed to improve its performance measurement and performance-based allocations. In the latest donor negotiations, the AsDF-9 replenishment, the Fund and donors adopted several important reforms to improve performance and to implement results measurement, including launching the Managing for Results action plan. These reforms remain to be implemented and expanded in the future.
2. AsDF-9 agreed to reforms to improve the ability of the poorest countries to handle their debts. In particular, it established a new program to give 30 percent of funding in the form of grants to these countries. These reforms remain to be implemented.
3. Transparency and accountability in the Bank Group are improving. AsDF-9 requires more transparency through improved information disclosure and communication policies. The Bank Group's anti-corruption and auditing procedures require improvements.

Bureau Actions Planned or Underway

1. Working with Congress to secure $115 million annually for the period 2006 to 2009 to fund the U.S. commitment to the latest Asian Development Fund replenishment (AsDF-9).
2. Monitoring the Fund's improvements and implementation of measures to show its effectiveness in achieving development goals, including its progress in meeting development objectives across-the-board.
3. Working with the Fund and other donors to improve the ability of developing countries to handle their debt, including increasing the amount of grants for the most debt-vulnerable Asian countries.

PART Name:	Bank Enterprise Award
Year PARTed:	FY 2002
Rating:	RND

OMB Major Findings/Recommendations

1. This program is unable to measure results because it can not determine how awardees would behave in the absence of the program.

Bureau Actions Planned or Underway

1. Working with Congress to consolidate this program into a more efficient and effective federal program within the Department of Commerce and the Department of Housing and Urban Development.

PART Name:	Economic and Trade Sanctions Program - OFAC
Year PARTed:	FY 2008
Rating:	RND

OMB Major Findings/Recommendations

1. OFAC needs to develop long-term performance goals with specific timeframes and measures.
2. OFAC needs to develop annual performance goals and align them with the long-term performance goals.

Bureau Actions Planned or Underway

1. Developed long-term and short-term performance goals with specific timeframes and measures, including:

Long Term

The percentage of civil penalty cases that are resolved within the Statute of Limitations Period.

Target: (Baseline)

Short Term

The percentage of license and interpretive submissions turned around in 60 days.

Target: (Baseline)

The number of outreach engagements with government and the private sector promoting compliance with OFAC regulations.

Target: 60/year

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

4C - FY 2007 Supplemental Request

FY 2007 Supplemental Request

Appropriation Language
For an additional amount for Salaries and Expenses, $2,538,000.

Supplemental Request Description
The FY 2008 President’s Budget includes a FY 2007 supplemental Budget request of $2,538,000, to be used for funding the Iraq Threat Finance Cell and Treasury's Deputy Attaché in Baghdad. Treasury and the Department of Defense (DOD) are co-chairing the Iraq Threat Finance Cell in support of the Global War on Terrorism. The unit will work to enhance the collection, analysis and dissemination of financial intelligence to combat financiers, facilitators, and financial networks supporting the Iraqi insurgency. This funding is critical in supporting and strengthening U.S., Iraqi and Coalition efforts to disrupt and eliminate financial and other material support to the insurgency.

The Deputy Attaché for Baghdad will perform a variety of activities, including: engaging regularly with senior officials in the Iraqi Ministry of Finance and Central Bank; advising and assisting the U.S. Ambassador on economic and financial matters; briefing U.S. Government agencies on the developments on the ground; tracking down data and economic updates requested by the U.S. Government; and coordinating and monitoring Treasury Technical Assistance policy in fiscal and financial areas. Treasury has only one Attaché in Iraq, and funding for the Deputy Attaché is essential to providing critical support to the Administration's fiscal, monetary, and financial sector reform efforts.

Department-wide Systems and Capital Investments Program

Mission Statement

The Department-wide Systems and Capital Investments Program (DSCIP) is authorized to be used by or on behalf of Treasury bureaus, at the Secretary's discretion, to modernize business processes and increase efficiency through technology investments.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
DSCIP	Enacted	President's Budget	CR-rate	Request	$ from CR-rate	% from CR-rate
Department-wide Systems and Capital Investments Program	$24,168	$34,032	$24,046	$18,710	($5,336)	-22.19%
Total Appropriated Resources	$24,168	$34,032	$24,046	$18,710	($5,336)	-22.19%

FY 2008 Priorities

- Developing a pilot Enterprise Content Management (ECM) system for multiple Treasury bureaus that will align with related government-wide initiatives and leverage commonalities in requirements among Treasury Department components.

- Upgrading and stabilizing the Treasury Secure Data Network (TSDN), a classified system that is critical to Treasury's expanding financial intelligence mission.

- Continuing to modernize the Departmental Offices (DO) information technology infrastructure to enhance functionality, performance, and security for DO customers.

- Improving Treasury's Federal Information Security Management Act (FISMA) performance and strengthening the Department's overall security posture.

- Leveraging the President's Management Agenda including the E-Government initiatives, across the Department.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The President's 2008 Budget request for the DSCIP account is $18,710,000 in direct appropriations. This account is authorized to be used by or on behalf of Treasury Department bureaus, at the Secretary's discretion, to modernize business processes and increase efficiency through technology investments. Continuing investments include ECM, TSDN, Disaster Recovery (DR) capacity, Cyber Security, and E-Government initiatives. First time funding was requested in 2007 to plan for the development of an Enterprise Content Management system, while funding is requested in 2008 for the development of a pilot ECM system.

1B – Program History and Future Outlook

The Treasury Department has made significant progress in key initiatives for the DSCIP program. Highlights of these accomplishments include:

Treasury Foreign Intelligence Network (TFIN): The TFIN was stabilized in FY 2006 and the development of the enhanced analytical capability has begun. A major milestone was reached on Dec 22, 2006 with the Initial Operating Capability of the Analytic Support System Environment for Treasury (ASSET) analytical toolset. In addition, significant upgrades to infrastructure and communications in preparation for additional development work are on schedule and on budget.

Critical Infrastructure Protection (CIP): Homeland Security Presidential Directive 7 (HSPD-7) requires that federal agencies identify, prioritize, and determine the interdependencies of critical assets in order to provide an appropriate level of cyber and physical asset protection. The Department of the Treasury completed the Project Matrix Refresh effort, an assessment and evaluation of the Treasury Department's critical cyber and physical assets and key resources.

E-Government Initiatives: The Department of the Treasury funds 12 of the 25 E-Government initiatives and six of the nine E-Government Lines of Business. The Treasury Department worked diligently with the Managing Partners of the Presidential E-Government initiatives and completed all required Memoranda of Understanding with other federal agencies by March 30, 2006. By facilitating discussions between Departmental E-Government representatives and the federal Managing Partners, Treasury-wide coordination has improved and transition activities have begun to identify and eliminate duplicative systems. The Treasury Department has also taken a significant leadership role within the Budget Formulation and Execution Line of Business by making the Budget Formulation and Execution Manager toolset available on a multi-agency basis.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Appropriation: Department-wide Systems & Capital Investment Program	FTE	Amount
FY 2006 Appropriation (P.L. 109-115)	**0**	**$24,412**
Rescission (P.L. 109-148)	0	($244)
FY 2006 Enacted	**0**	**$24,168**
FY 2007 President's Budget	**0**	**$34,032**
CR-rate Adjustment		(9,986)
FY 2007 CR-rate	**0**	**$24,046**
Changes to Base:		
Non-Recurring Costs:		
DSCIP Base		(18,946)
Transfers Out:		
CIP Transfer to Departmental Offices S&E		(2,100)
TFIN - Operations and Maintenance		(3,000)
Total FY 2008 Base	**0**	**$0**
Program Increases:		
Cyber Security - CIP		400
Cyber Security - Information Security		1,844
E-Government Enterprise Architecture		300
E-Government Initiatives		2,166
Enterprise Content Management		6,000
Integrated Wireless Network		2,000
Treasury Back-up Disaster Recovery		4,000
Treasury Secure Data Network		2,000
Subtotal FY 2008 Program Changes	**0**	**18,710**
Total FY 2008 Request	**0**	**$18,710**

2A – Budget Increases and Decreases Description

Adjustments ....-$9,986,000 / +0 FTE
CR-rate Adjustment -$9,986,000 / +0 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

Non-Recurring Costs ....-$18,946,000 / +0 FTE
DSCIP Base -$18,946,000 / +0 FTE DSCIP is a non-recurring, zero-based budget.

Transfers Out ....-$5,100,000 / +0 FTE
CIP Transfer to Departmental Offices S&E -$2,100,000 / +0 FTE Homeland Security Presidential Directive 7 (HSPD-7) requires that federal agencies identify, prioritize and determine the interdependencies of critical assets in order to provide an appropriate level of protection. Project Matrix Refresh is an assessment and evaluation of the Treasury Department's critical cyber and physical assets and key resources. This initiative, which is also one of the Department of the Treasury's milestones under the President's Management Agenda, will assist in the Treasury Department's emergency preparedness efforts and disaster recovery planning. Since the project has been fully developed and is in steady state, this request represents the transfer of CIP from DSCIP to Economic Policy.

TFIN - Operations and Maintenance -$3,000,000 / +0 FTE Treasury Foreign Intelligence Network (TFIN) system supports the Department of the Treasury's capabilities in providing and analyzing meaningful intelligence to senior Treasury Department staff, as well as to other agencies within the intelligence community. TFIN is the sole source of Top Secret intelligence for the Treasury Department, and the data from the system is utilized by the Secretary of the Treasury, the Deputy Secretary of the Treasury, and the Office of Terrorism and Financial Intelligence (TFI).

Program Increases ....+$18,710,000 / +0 FTE
Enterprise Content Management +$6,000,000 / +0 FTE This funding will enable the Department of the Treasury to implement a pilot enterprise-wide Enterprise Content Management (ECM) solution for the Department, initially meeting the business requirements of the Office of Foreign Assets Control (OFAC) and the Financial Crimes Enforcement Network (FinCEN). The Department of Treasury processes a massive volume of files and data, much of which is subject to statutory/regulatory handling requirements, and subsequently has an urgent need for an enterprise-wide approach to an ECM system to minimize duplication of effort and infrastructure investments to address workflow, document and case management, and reporting issues. The enterprise-wide approach, under the oversight of the Treasury Department's Chief Information Officer, will ensure that all Department-wide ECM efforts map to consistent standards, are aligned with related government-wide initiatives, such as the Case Management Line of Business, and leverage commonalities in requirements among Treasury Department components, thereby achieving economies of scale and efficiencies in information sharing.

Treasury Secure Data Network +$2,000,000 / +0 FTE The Treasury Secure Data Network (TSDN) is the computer and network infrastructure that enables the communication and distribution of classified (Secret level) information to over 400 Departmental offices and bureau users. TSDN also provides Treasury Department users with access to the Secret Internet Protocol Router Network (SIPRNET) and the Department of Defense classified communications network. This access is vital to ensuring that International Affairs, Senior Policy Officials such as Executive Secretary, the Secretary and the Deputy Secretary, Terrorism and Financial Intelligence (TFI) and its components (Office of Foreign Assets Control and Office of Intelligence and Analysis), as well as the Financial Crimes Enforcement Network, can communicate effectively with colleagues in the law enforcement, Defense, and State Department communities. Treasury's expanding role in financial intelligence has significantly increased the demand for TSDN seats and services; however, TSDN remains an out-of-date and unstable system. This funding will allow for the stabilization and enhancement of the system to meet the growing user demand.

Treasury Back-up Disaster Recovery +$4,000,000 / +0 FTE The disaster recovery site for Departmental Offices (DO) does not provide the capability to run many mission-critical applications. Continuity of Operations Plan (COOP) exercises have demonstrated that the current capability of the disaster recovery site does not meet the disaster scenario requirements of offices such as the Office of the Secretary, Office of Terrorism and

Financial Intelligence (TFI), and the Office of Domestic Finance. Funding is required to provide server infrastructure and storage area network (SAN) upgrades and services to facilitate disaster recovery business solutions for DO. These upgrades will enable DO to meet critical requirements in the event of a disaster.

Cyber Security - CIP +$400,000 / +0 FTE In accordance with HSPD-7, this initiative supports the direct protection of designated Treasury Critical Infrastructure/ Key Resources (CI/KR) against terrorist activity. The official Treasury list of designated CI/KR was signed by the Assistant Secretary for Management in January 2006. Increased risks to these systems and networks are attributable to the enormous growth in interoperability and connectivity, and have been designated by the Office of Management and Budget (OMB) to be protected in accordance with National Institute of Standards and Technology (NIST) guidance (FIPS-199 High). These assets require the highest level of protection in order to provide for meeting the most critical functions of the U.S. Treasury Department and in providing the highest level of confidence to the general public and Congress for the U.S. Government's commitment to the banking and finance sector. This initiative is essential if the Treasury Department and its bureaus are to respond effectively to the potentially debilitating impact of an attack on its critical infrastructures from both cyber and physical threats. The Department of the Treasury's technology portfolio of approximately $3 billion in Information Technology investments must be adequately protected and risks must be managed.

Cyber Security - Information Security +$1,844,000 / +0 FTE The Cyber Security Program performs a critical function in protecting the integrity and adequacy of the defense of Treasury Department systems and information. FY 2008 funding is requested to improve the Department of the Treasury's information security programs, thereby improving the security of Treasury systems as well as increase compliance with the FISMA and related federal information security policies and guidance. These efforts will also address the information security challenge identified by the Inspector General (IG). In last year's FISMA report, the IG stated, "[t]he Department faces serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards and guidelines." The IG continued, "the Department has significant deficiencies in information security that constitutes substantial non-compliance with the FISMA requirements." The initiatives that will be supported for this proposal include identifying, tracking, and addressing cyber security weaknesses; operating the Treasury Computer Security Incident Response Capability to meet Department of Homeland Security, OMB, and FISMA requirements; tracking and validating program and system level cyber security plans of action and milestones; developing enhanced security policy for Departmental systems; and conducting the Treasury Department's annual FISMA review.

E-Government Enterprise Architecture +$300,000 / +0 FTE This funding is for the continued development of the Treasury Enterprise Repository (ER), a critical component of Enterprise Architecture (EA) information used for modeling the influx of new Capital Information Technology (IT) investments and the retirement of legacy IT investments. The EA repository will provide Treasury Department users the capability to store, retrieve, and display relevant business and information technology (IT) related data in a myriad of views to address IT Technology investment needs of the Treasury Department and its supporting bureaus. These views allow users to dynamically assess the planned introduction of new IT investments, and to ascertain how to restructure business processes and systems to increase organizational efficiency and effectiveness. The ER allows Treasury-wide EA information for each of the sub-architecture levels to be captured and analyzed centrally. Each Treasury Department bureau is configured to interface with the EA tool, which allows immediate access to current information across the Department of the Treasury.

E-Government Initiatives +$2,166,000 / +0 FTE This funding provides for the development and implementation of needs assessments, functional requirements, and implementation of applicable E-Government initiatives. The Office of the Chief Information Officer (OCIO) provides program management oversight and departmental coordination for each of the initiatives assuring compliance by all bureaus. If not funded, the Treasury Department will be at risk of not meeting the goals of the E-Government component of the PMA. This funding will enable the Treasury Department to continue to meet the implementation milestones in the OMB-approved E-Government Implementation Plan, positively impacting the Department of the Treasury's ability to achieve a "Green" rating for the expanding E-Government initiatives of the PMA.

Integrated Wireless Network +$2,000,000 / +0 FTE This investment will enable the Treasury Department to participate in the Integrated Wireless Network (IWN) as well as continue to upgrade existing land-mobile-radio equipment. The new equipment acquired would be based on the Project-25 suite of standards for public safety communications, which supports law enforcement, first responders, and homeland security requirements with integrated communication services (voice, data, and multimedia) in a wireless environment. The Department of the Treasury relies on these systems to accomplish its mission, which includes agent safety, investigations, surveillance, and facility protection and security. Funding will make it possible for the Treasury Department to meet the National Telecommunications and Information Administration (NTIA) narrow banding mandate, NIST security standards for Advanced Encryption Standards, and the Association of Public Safety Communications Officials Project 25 standards for public safety digital radio.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: DSCIP	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram mings	FY 2007 Proposed Operating Level	FY 2008 Requested Level
FTE	-			-		-	-
Object Classification:							
11.1 Full-Time Permanent Positions....................	$0	$0		$0		$0	$0
11.1 Other than Full-Time Permanent Positions....	0	0		0		0	0
11.5 Other Personnel Compensation....................	0	0		0		0	0
11.8 Special Personal Services Payments...........	0	0		0		0	0
11.9 Personnel Compensation (Total)..............	$0	$0	$0	$0	$0	$0	$0
12.0 Personnel Benefits.......................................	0	0		0		0	0
13.0 Benefits to Former Personnel.......................	0	0		0		0	0
21.0 Travel...	57	81	(24)	57	24	81	40
22.0 Transportation of Things..............................	0	0		0		0	0
23.1 Rental Payments to GSA..............................	219	467	(137)	330	137	467	200
23.2 Rent Payments to Others.............................	0	0		0		0	0
23.3 Communications, Utilities, & Misc.................	122	0		0		0	0
24.0 Printing and Reproduction............................	0	0		0		0	0
25.1 Advisory & Assistance Services...................	10,576	2,769	(812)	1,957	812	2,769	1,000
25.2 Other Services...	9,802	24,567	(7,208)	17,359	7,208	24,567	14,000
25.3 Purchase of Goods/Serv. from Govt. Accts..	2,092	3,738	(1,097)	2,641	1,097	3,738	1,970
25.4 Operation & Maintenance of Facilities..........	0	0		0		0	0
25.5 Research & Development Contracts............	0	0		0		0	0
25.6 Medical Care..	0	0		0		0	0
25.7 Operation & Maintenance of Equipment........	0	787	(231)	556	231	787	500
25.8 Subsistence & Support of Persons...............	0	0		0		0	0
26.0 Supplies and Materials.................................	210	292	(86)	206	86	292	200
31.0 Equipment..	1,090	1,331	(391)	940	391	1,331	800
32.0 Lands and Structures..................................	0	0		0		0	0
33.0 Investments & Loans....................................	0	0		0		0	0
41.0 Grants, Subsidies...	0	0		0		0	0
42.0 Insurance Claims & Indemn.........................	0	0		0		0	0
43.0 Interest and Dividends……………………….	0	0		0		0	0
44.0 Refunds..	0	0		0		0	0
Total Budget Authority………………………………	$24,168	$34,032	($9,986)	$24,046	$9,986	$34,032	$18,710
Budget Activities:							
Department-wide Systems & Capital Investment….	$24,168	$34,032	($9,986)	$24,046	$9,986	$34,032	$18,710
Total Budget Authority………………………………	$24,168	$34,032	($9,986)	$24,046	$9,986	$34,032	$18,710

2B – Appropriation Language

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY DEPARTMENT-WIDE SYSTEMS AND CAPITAL INVESTMENT PROGRAM Federal Funds **GENERAL AND SPECIAL FUNDS:** *For development and acquisition of automatic data processing equipment, software, and services for the Department of the Treasury, $18,710,000, to remain available until September 30, 2010: Provided, that these funds shall be transferred to accounts and in amounts as necessary to satisfy the requirements of the Department's offices, bureaus, and other organizations: Provided further, That this transfer authority shall be in addition to any other transfer authority provided in this Act: Provided further, That none of the funds appropriated shall be used to support or supplement ''Internal Revenue Service, Information Systems'' or ''Internal Revenue Service, Business Systems Modernization''.*	No legislative changes requested.

2C – Legislative Proposals

DSCIP does not have any pending legislative proposals.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 Request		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Department-wide Systems & Capital Investment Program		$24,168		$24,168		$34,032		$24,046		$18,710	0.00%	-22.19%
Subtotal New Appropriated Resources	0	$24,168	0	$24,168	0	$34,032	0	$24,046	0	$18,710	0.00%	-22.19%
Other Resources:												
Subtotal Other Resources	0	$0	0	$0	0	$0	0	$0	0	$0	0.00%	0.00%
Total Resources Available for Obligation	0	$24,168	0	$24,168	0	$34,032	0	$24,046	0	$18,710	0.00%	-22.19%

3A – Department-wide Systems and Capital Investments Program *($18,710,000 from direct appropriations):* DSCIP is authorized to be used by or on behalf of Treasury Department bureaus, at the Secretary's discretion, to modernize business processes and increase efficiency through technology investments. Highlights of some of the efficiencies and benefits from these investments include:

Enterprise Content Management: Developing a Department-wide ECM system is a critical component to improving the work processes and productivity of the Department. The initiative will establish a pilot ECM project that aligns with Government-wide initiatives, promotes common standards across the Treasury Department, and positions the Department of the Treasury for an enterprise-wide system.

Cyber Security Assurance: Ensuring the Department of the Treasury is able to protect its critical infrastructure/key resources from attack, to address cyber security weaknesses, and to provide a Department-wide capability for real time assessment of security posture and alerts to threats that will promote mission assurance.

Disaster Recovery Capabilities: This upgrade is critical to ensure the stability of essential operations of the Department of the Treasury in the event of an emergency. The upgrade will enable the ability of the Treasury Department's information technology infrastructure to recover in the event of a disaster or major service failure.

Implementation of E-Government Initiatives: The President's Management Agenda (PMA) and E-Government initiatives drive the Treasury Department to identify opportunities to leverage existing systems and services in order to reduce costs and duplication within the Department of the Treasury and across government. The Treasury Department continues to review and monitor projects targeted for migration and eventual shut-down.

3.2.1 – Department-wide Systems and Capital Investments Program Budget and Performance Plan

Dollars in Thousands

Department-wide Systems and Capital Investments Program Budget Activity					Includes Strategic Objective M5B
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$36,185	$32,002	$24,168	$34,032	$18,710
Other Resources	0	0	0	0	0
Total Operating Level	**$36,185**	**$32,002**	**$24,168**	**$34,032**	**$18,710**
Human Resources					
Appropriated FTE	0	0	0	0	0
Other FTE	0	0	0	0	0
Total FTE (direct and reimbursable)	**0**	**0**	**0**	**0**	**0**

The purpose of DSCIP funds is to modernize business processes and increase efficiencies through IT investment. All of the DSCIP efforts provide tangible benefits in their specific areas to produce an improved overall IT environment for the Department of the Treasury. The following section describes what the Treasury Department expects to accomplish with the requested DSCIP funding and the specific benefits each program will provide at the completion of FY 2008.

Enterprise Content Management Funding for the Enterprise Content Management (ECM) program will be used to implement a pilot enterprise-wide ECM project for the Department of the Treasury. The pilot ECM project will address the critical and urgent business needs of the Office of Foreign Asset Control (OFAC) and the Financial Crimes Enforcement Network (FinCEN), both of which are struggling under an increasingly burdensome paper-based system of operations. This approach to ECM will minimize duplication of effort and infrastructure investments by capitalizing on Department and government-wide efforts. By the end of FY 2008, the Treasury Department will have significantly improved the workflow processes for both OFAC and FinCEN, as well as positioned the Department for a full transition to a Department-wide ECM solution.

Cyber Security – CIP Cyber Security – Critical Infrastructure Protection funds will be used to update the Treasury Department's Critical Infrastructure / Key Resources (CI/KR) list and to further protect CI/KR systems against possible terrorist attack. CIP will meet the Treasury Computer Security Incident Response Center (TCSIRC) reporting requirements for DHS.

Cyber Security – Information Security Through this program, the Treasury Department will have greater protection against network intrusions, which can result in significant disruptions and delays in its business activities. Funding in this area will also support reviews of selected bureau security programs.

E-Government Enterprise Architecture Enterprise Architecture (EA) provides the Treasury Department visibility to its lower level information technology systems. This will allow for the collection of system architecture information into a central database, which will be used to identify areas for improved systems efficiency and effectiveness.

E-Government Initiatives The Treasury Department funds 12 of the 25 E-Government initiatives and six of the nine E-Government Lines of Business, which includes funding from the DSCIP account. More information on the benefits of each E-Government initiative can be found in the E-Government chapter of this Budget request. Overall, funding for the E-Government initiative will allow the Treasury Department to execute all required memoranda of understanding with Presidential E-Government Managing Partners.

Integrated Wireless Network The Integrated Wireless Network effort will result in the purchase and technical refresh of equipment needed to support law enforcement personnel. By the end of FY 2008, the Treasury Department will have a greater ability to ensure the safety of law enforcement officers and improve its investigative, surveillance, and physical security capabilities.

Treasury Back-up Disaster Recovery Back-up Disaster Recovery activities will allow the Treasury Department to conduct server structure and storage area network upgrades that will better protect data that is critical to senior level administration and Treasury Department officials in the event of an emergency.

Treasury Secure Data Network Funding for the continued improvement of the Treasury Secure Data Network (TSDN) operating system and hardware components will assure continued functionality throughout FY 2008. As a consequence, the Treasury Department will continue to have reliable access to the SIPRNET and the Department of Defense classified communications network, which will ensure ongoing communications with officials in law enforcement as well as the Departments of Defense and State.

Section 4 – Supporting Materials

4B – Information Technology Strategy

DSCIP supports a broad range of IT programs and initiatives which are critical to improving the Treasury Department's IT security capabilities, protecting its critical infrastructure, maturing the Department of the Treasury's enterprise architecture (EA), and achieving enterprise-wide benefits through E-Government and other Department-wide initiatives. These program areas are aligned with and support OCIO and Departmental IT strategic goals and objectives. In particular, these efforts play an important role in helping the Treasury Department improve its performance on PMA requirements for expanding E-Government. While the Department of the Treasury initially was designated as "Red" for its E-Government PMA status, the Treasury Department has made significant progress over the past two years and achieved an upgrade to "Yellow" status in FY 2006.

The Treasury Department's work to improve its E-Government PMA status continues to be a top priority. Improving the Department of the Treasury's PMA performance requires a concerted effort across the Treasury Department to strengthen multiple program areas such as EA, Capital Planning, and Cyber Security. These initiatives support the Treasury Department's focus on business and technical modernization, strengthening its IT security posture, ensuring a resilient IT environment, and migrating to common solutions as appropriate. Performance and success for these initiatives is measured by the Treasury Department's E-Government PMA score, as well as the Department's EA maturity score from OMB, status against Federal Information Security Management Act metrics, compliance with OMB direction and guidance regarding consolidating and leveraging existing capabilities and investments, and meeting project-specific cost, schedule, and performance goals.

Office of Inspector General

Mission Statement

To (1) conduct and supervise audits and investigations of Treasury programs and operations; (2) provide leadership and coordination and recommend policies for activities designed to (a) promote economy, efficiency, and effectiveness in the administration of Treasury programs and operations, and (b) prevent and detect fraud, waste, and abuse in Treasury programs and operations; and (3) keep the Secretary and the Congress fully and currently informed about problems, abuses, and deficiencies in Treasury programs and operations.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
		President's			$ from	% from
Salaries and Expenses	Enacted	Budget	CR-rate	Request	CR-rate	CR-rate
Audit	$11,549	$11,908	$11,682	$12,661	$979	8.38%
Investigations	5,281	5,444	5,340	5,789	449	8.41%
Total Appropriated Resources	**$16,830**	**$17,352**	**$17,022**	**$18,450**	**$1,428**	**8.39%**

FY 2008 Priorities

- Complete 56 audits,
- Complete 100 percent of OIG statutory mandated audits on time, and
- Refer 105 fraud, waste or abuse investigative cases for criminal prosecution, civil litigation or administrative action.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Office of Inspector General (OIG) provides independent oversight of the Department of Treasury and eight bureaus. The OIG has two primary offices, the Office of Audit (OA) and the Office of Investigations (OI).

The OIG's requested funding will be used to provide critical audit and investigative services, ensuring the effectiveness and integrity of Treasury's programs and operations. We will continue, as our first audit priority, to address mandated requirements related to financial statements, information security, Treasury procurements on behalf of the Department of Defense, and as necessary, failed financial institutions resulting in material losses (more than $25 million) to the deposit insurance funds. While there are a number of critical areas where the OIG will also provide audit oversight, highlights of three of the Department's most serious management challenges and where we plan to focus our work include:

Programs to Combat Terrorist Financing and Money Laundering -- Treasury faces unique challenges in carrying out its responsibilities under the Bank Secrecy Act (BSA) and USA Patriot Act to prevent and detect money laundering and terrorist financing. To effectively prevent and detect financial crimes and terrorist financing it is necessary to have: (1) strong control environments at financial institutions that ensure that business is conducted with reputable parties, and large currency transactions and suspicious activities are properly and timely reported to Treasury, (2) strong federal and state regulatory agencies that examine and enforce BSA and USA Patriot Act requirements at financial institutions, and (3) strong analytical capacity to identify and refer to law enforcement leads provided through reports filed by financial institutions. While FinCEN is the Treasury bureau responsible for administering BSA, it relies on other Treasury and non-Treasury agencies to enforce compliance with the Act's requirements. The Office of Foreign Assets Control (OFAC), the Treasury office responsible for administering U.S. foreign sanction programs, also relies on other Treasury and non-Treasury agencies to ensure compliance with OFAC requirements. Past audits and Congressional hearings have surfaced serious regulatory gaps in the detection of and/or timely enforcement action against financial institutions for BSA and related violations. This management challenge will continue to be a major focus of our audit program.

Efforts to Ensure the Security of Treasury 's Information Systems -- The Department faces serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards, and guidelines. In its fiscal year 2006 Federal Information Security Management Act (FISMA) independent evaluation, the OIG continued to report significant deficiencies in the Department's information security programs and practices, constituting substantial non-compliance with the FISMA requirements. Although the Department recently established a reliable systems inventory (a significant problem in the past) improvements are still needed in the areas of:

certification and accreditation, security awareness, training employees with significant security responsibilities, tracking corrective actions, identifying and documenting system interfaces, security self-assessments, configuration management, and incident response. During 2006, OMB required agencies to perform specific actions to protect certain personally identifiable information. The OIG reported that the Department faces significant challenges to meet these requirements.

Treasury's Management of Capital Investments -- Treasury needs to better manage large acquisitions of systems and other capital investments. OIG reported significant cost escalations in the Department's HR Connect system and the Treasury and Annex Repair and Restoration (TBARR) project. OIG also reported that the Department's Treasury Communication Enterprise (TCE) system, estimated to cost $1 billion, was poorly planned, executed, and documented. Among other things, the transition to TCE was delayed due in part to a successful protest of the bid award, and the Department changing course on how it addressed the bid protest decision. More recently, after nearly 2 years in development and $15 million spent, FinCEN terminated its contract for the storage and retrieval component of BSA Direct after significant concerns were raised about schedule delays and project management.

Investigative priorities for FY 2008 are:

- Investigating complaints of alleged criminal and serious misconduct,
- Investigating allegations of fraud and other crimes involving Treasury contracts, grants, guarantees (fictitious instruments), and federal funds,
- Investigating instances of misdirected and stolen payments usually accompanied by identity theft enterprises,
- Investigating a variety of financial programs (OTS, OCC, & TTB), like those where fraud and other crimes are involved in the issuance of licenses or benefits provided to citizens,
- Performing oversight or quality assurance reviews of the Treasury's police operations at BEP and the U.S., and
- Proactive efforts in detecting, investigating, and deterring electronic crimes and other threats to the Department's physical and cyber critical infrastructure.

Resources required to support OIG operations for FY 2008 are $18,450,000 from direct appropriations, and $1,300,000 from reimbursable agreements for contract audits of other Treasury bureaus.

1B – Program History and Future Outlook

In FY 2005, the OIG completed 54 audits and evaluations, and opened 168 new cases and referred 85 investigations for criminal prosecution, civil litigation, or corrective administrative action. OIG audits identified potential monetary benefits (cost savings and/or funds put to better use) totaling nearly $52 million, and our investigative efforts led to more than $6 million collected in fines, restitution, recoveries and settlements paid to the government or aggrieved parties.

In FY 2006, OIG efforts resulted in 57 audits completed, 488 complaints reviewed for potential investigation or inquiry, 129 new cases opened, 144 investigations referred, potential monetary benefits of $35 million identified, and nearly $600 thousand collected in fines, restitution, recoveries, and settlements.

In FY 2007, the Office of Audit expects to perform or supervise contractors to meet mandated audit requirements and focus its self-initiated audit resources to address the major management and performance challenges identified by the Inspector General. Those challenges are (1) Corporate Management, (2) Management of Capital Investments, (3) Information Security, (4) Linking Resources to Results and (5) Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement. In FY 2007, the Office of Investigations plans to continue investigating all reports of fraud, waste and abuse, and other criminal activity. FY 2007 resources will enable OI to maintain the improvements made to aggressively investigate, close, and refer cases in a timely manner. OI will also continue to conduct a limited number of proactive integrity projects such as the fraudulent improper payments project initiated in FY 2006.

The requested FY 2008 resource level will allow OIG to maintain performance at a level consistent with FY 2006 and FY 2007. OIG has continued to direct a significant portion of its limited resources to auditing Treasury programs that combat terrorist financing and money laundering, including a number of important audits at FinCEN, OFAC, OCC, and OTS.

OIG expects to complete 56 audits and evaluations and refer 105 investigations in FY 2008, however OIG continues to lack sufficient resources to comprehensively audit the Department's programs and operations.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Appropriation: OIG Salaries & Expenses	FTE	Amount
FY 2006 Appropriation (P.L. 109-115)	**115**	**$17,000**
Rescission (P.L. 109-148)	0	($170)
FY 2006 Enacted	115	**$16,830**
FY 2007 President's Budget	**115**	**$17,352**
CR-rate Adjustment		(330)
FY 2007 CR-rate	**115**	**$17,022**
Changes to Base:		
Technical Adjustment to FY 2007 Base due to CR:		
Base Adjustment		882
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		95
Pay Annualization		71
Pay Inflation Adjustment		380
Total FY 2008 Base	**115**	**$18,450**
Total FY 2008 Request	**115**	**$18,450**

2A – Budget Increases and Decreases Description

Adjustments ....-$330,000 / +0 FTE

CR-rate Adjustment -$330,000 / +0 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

Technical Adjustment to FY 2007 Base due to CR ....+$882,000 / +0 FTE

Base Adjustment +$882,000 / +0 FTE Technical adjustment to FY 2007 Base due to CR.

Maintaining Current Levels (MCLs) ....+$546,000 / +0 FTE

Non-Pay Inflation Adjustment +$95,000 / +0 FTE Funds are requested for non-labor inflation and cost increases, such as contracts, travel, supplies, equipment, and GSA rent.

Pay Annualization +$71,000 / +0 FTE Funds are requested for the FY 2008 cost of the January 2007 pay increase.

Pay Inflation Adjustment +$380,000 / +0 FTE Pay adjustment for January 2008 pay increase and related increased benefit costs.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: OIG Salaries & Expenses	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogrammings	FY 2007 Proposed Operating Level	FY 2008 Requested Level
FTE	115	115		115		115	115
Object Classification:							
11.1 Full-Time Permanent Positions....................	$9,904	$10,655	($150)	$10,505		$10,505	$10,765
11.1 Other than Full-Time Permanent Positions....	245	45		45		45	60
11.5 Other Personnel Compensation....................	600	90		90		90	500
11.8 Special Personal Services Payments...........	0	0		0		0	0
11.9 Personnel Compensation (Total)...............	$10,749	$10,790	($150)	$10,640	$0	$10,640	$11,325
12.0 Personnel Benefits.......................................	2,070	2,443	(50)	2,393		2,393	2,775
13.0 Benefits to Former Personnel.......................	0	0		0		0	0
21.0 Travel...	600	440		440		440	475
22.0 Transportation of Things..............................	0	0		0		0	0
23.1 Rental Payments to GSA.............................	1,652	1,410	(130)	1,280		1,280	1,326
23.2 Rent Payments to Others.............................	0	0		0		0	0
23.3 Communications, Utilities, & Misc................	404	350		350		350	439
24.0 Printing and Reproduction............................	0	10		10		10	15
25.1 Advisory & Assistance Services...................	0	0		0		0	0
25.2 Other Services...	100	285		285		285	385
25.3 Purchase of Goods/Serv. from Govt. Accts..	550	900		900		900	975
25.4 Operation & Maintenance of Facilities..........	100	202		202		202	0
25.5 Research & Development Contracts............	0	0		0		0	0
25.6 Medical Care..	0	32		32		32	40
25.7 Operation & Maintenance of Equipment........	67	200		200		200	225
25.8 Subsistence & Support of Persons...............	0	0		0		0	0
26.0 Supplies and Materials.................................	135	90		90		90	150
31.0 Equipment..	403	200		200		200	320
32.0 Lands and Structures...................................	0	0		0		0	0
33.0 Investments & Loans....................................	0	0		0		0	0
41.0 Grants, Subsidies...	0	0		0		0	0
42.0 Insurance Claims & Indemn.........................	0	0		0		0	0
43.0 Interest and Dividends……………………..	0	0		0		0	0
44.0 Refunds..	0	0		0		0	0
Total Budget Authority………………………………	$16,830	$17,352	($330)	$17,022	$0	$17,022	$18,450
Budget Activities:							
Audit	$11,549	$11,908	($226)	$11,682		$11,682	$12,661
Investigations	5,281	5,444	(104)	$5,340		5,340	5,789
Total Budget Authority………………………………	$16,830	$17,352	($330)	$17,022	$0	$17,022	$18,450

2B – Appropriation Language

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY OFFICE OF INSPECTOR GENERAL Federal Funds **SALARIES AND EXPENSES:** *For necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, as amended, $18,450,000, of which not to exceed $2,000,000 for official travel expenses, including hire of passenger motor vehicles; of which not to exceed $100,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General of the Treasury; and of which not to exceed $2,500 shall be available for official reception and representation expenses.*	

2C – Legislative Proposals

The OIG has no legislative proposals for FY 2008.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 Presidents Budget		FY 2007 CR-Rate		FY 2008 Request		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Audit	74	$11,549	75	$11,549	74	$11,908	74	$11,681	74	$12,661	0.0%	8.39%
Investigations	41	5,281	41	5,281	41	5,444	41	5,341	41	5,789	0.0%	8.39%
Subtotal New Appropriated Resources	115	$16,830	116	$16,830	115	$17,352	115	$17,022	115	$18,450	0.00%	8.39%
Other Resources:												
Offsetting Collections - Reimbursable (Note 1)	5	$2,342	4	$2,342	5	$2,342	2	$1,300	0	$1,300	-100.0%	0.00%
Subtotal Other Resources	5	$2,342	4	$2,342	5	$2,342	2	$1,300	0	$1,300	-100.00%	0.00%
Total Resources Available for Obligation	120	$19,172	120	$19,172	120	$19,694	117	$18,322	115	$19,750	-1.71%	7.79%

Note 1 - Reimbursable funding for IGATI operations and for other bureau contract audit support. FY 2008 reduction reflects IGATI's move to a consolidated IG institute.

3A – Audit *($12,661,000 from direct appropriations and $1,300,000 from reimbursable programs):* The Office of Audit conducts audits of eight Treasury bureaus and all non-IRS Treasury offices; produces more than 50 reports annually; and provides firsthand, unbiased perspectives and recommendations for improving the economy, efficiency, and effectiveness of Treasury programs and operations. The Office of Audit often identifies significant cost savings to the government, principally through self-initiated audits.

The Office of Audit also responds to requests by Treasury officials and the Congress for specific work. While statute requires certain audits be conducted every year, the number of additional congressionally-required audits and requests has increased in recent years.

3.2.1 – Audit Budget and Performance Plan

Dollars in Thousands

Audit Budget Activity				Includes Strategic Objective M5A	
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$9,434	$11,299	$11,549	$11,908	$12,661
Other Resources	1,272	2,342	2,342	2,342	1,300
Total Operating Level	**$10,706**	**$13,641**	**$13,891**	**$14,250**	**$13,961**
Human Resources					
Appropriated FTE	72	74	74	74	74
Other FTE	7	6	5	5	0
Total FTE (direct and reimbursable)	**79**	**80**	**79**	**79**	**74**

Audit Budget Activity					Includes Strategic Objective M5A	
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Number of completed audits and evaluations (Ot)	Target	48	53	56	56	56
	Actual	49	54	57		
	Met	Yes	Yes	Yes		
Percent of statutory audits completed by the required date (%) (E)	Target	100%	100%	100%	100%	100%
	Actual	100%	100%	100%		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: In FY 2005, the OIG completed 54 audits and evaluations, completed all statutory audits by the required dates and identified potential monetary benefits (cost savings and/or funds put to better use) totaling nearly $52 million. In FY 2006, OIG efforts resulted in 57 audits completed, all statutory audits completed on time and $35 million in potential monetary benefits identified.

In FY 2007, the Office of Audit will continue to perform or supervise contractors in meeting mandated audit requirements. The Office of Audit will focus its limited self-initiated audit resources to address the major management and performance challenges identified by the Inspector General. Those challenges are (1) Corporate Management, (2) Management of Capital Investments, (3) Information Security, (4) Linking Resources to Results and (5) Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement.

Similarly for FY 2008, the Office of Audit will continue, as its first audit priority, to address mandated requirements related to financial statements, information security, and as necessary, failed financial institutions resulting in material losses (more than $25 million) to the deposit insurance funds. While there are a number of critical areas where the OIG will also provide audit oversight, our focus will be on the Department's serious management challenges related to programs to combat terrorist financing and money laundering, the security of Treasury's information systems, and Treasury's management of capital investments.

3B – Investigations *($5,789,000 from direct appropriations):* The Office of Investigations prevents, detects and investigates complaints of fraud, waste and abuse at eight Treasury bureaus and all non-IRS Treasury offices. This includes the detection and prevention or deterrence of employee misconduct and fraud, or related financial crimes within or directed against Treasury. The Office of Investigations refers its cases to the Department of Justice and state or local prosecutors for criminal prosecution or civil litigation, or to agency officials for corrective administrative action.

3.2.2 – Investigations Budget and Performance Plan

Dollars in Thousands

Investigations Budget Activity					**Includes Strategic Objective M5A**
Resource Level	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 President's Budget**	**FY 2008 Request**
Financial Resources					
Appropriated Resources	$3,489	$5,069	$5,281	$5,444	$5,789
Other Resources	0	0	0	0	0
Total Operating Level	**$3,489**	**$5,069**	**$5,281**	**$5,444**	**$5,789**
Human Resources					
Appropriated FTE	27	41	41	41	41
Other FTE	0	0	0	0	0
Total FTE (direct and reimbursable)	**27**	**41**	**41**	**41**	**41**

Investigations Budget Activity						**Includes Strategic Objective M5A**
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Number of investigations referred for criminal prosecution, civil litigation or corrective administrative action. (Oe)	Target		72	85	105	105
	Actual		85	144		
	Met		Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: In FY 2005, the OIG opened 168 new cases and referred 85 investigations for criminal prosecution, civil litigation, or corrective administrative action, and OIG investigative efforts led to more than $6 million collected in fines, restitution, recoveries and settlements paid to the government or aggrieved parties collected.

In FY 2006, the OIG reviewed 488 complaints for potential investigation or inquiry, opened 129 new investigations, and referred 149 investigations, leading to nearly $600 thousand in fines, restitution, recoveries, and settlements.

In FY 2007, the Office of Investigations (OI) plans to continue investigating all reports of fraud, waste and abuse and other criminal activity. FY 2007 resources will enable the Office of Investigations to maintain the improvements made in an effort to aggressively investigate, close, and refer cases in a timely manner.

Given the current investigative resource level, the Office of Investigations continues to prioritize its workload by directing investigators to work on the most significant cases first. This, coupled with the realignment of OI in 2006, to include increasing supervision, should better position the OIG to reduce most delays associated with processing our criminal and serious employee misconduct investigations.

In FY 2008 the Office of Investigations will continue investigating all reports of fraud, waste and abuse, and other criminal activity, and will maintain current efforts to aggressively investigate, close and refer cases for criminal prosecution, civil litigation or administrative action in a timely manner.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents

Direct FTE		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		109	116	115
Increases:				
Reason #1:	Normal Accession	13	9	10
Subtotal, Increases		13	9	10
Decreases:				
Reason #1:	Normal Attrition	-6	*-10*	*-10*
Subtotal, Decreases		-6	-10	-10
Year-end Actual/Estimated FTEs		116	115	115
Net Change from prior year SOY to budget year EOY				-1

4A – Human Capital Strategy Description

The OIG identified two mission critical occupations that closely align to its two budget activities, audit and investigations, and has integrated workforce plans for these specialized professionals (auditors, criminal investigators) with strategic and annual plan goals and objectives.

The OIG has had exceptional recruitment success using automated tools to re-establish and then maintain its human capital pipeline for the past four years, with OIG job announcements attracting up to 1,000 applicants, and selections made and positions offered within 30-days, on average.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments (in $ Millions) Major IT Investments	Budget Activity/Funding Source	Identify the Program that the System is Aligned to	FY 2005 Operating Plan	Obligations	FY 2006 Operating Plan	% Change from FY05 Actuals to FY06	FY 2007 President's Budget	% Change from FY06 to FY07	FY 2008 Request	% Change from FY07 to FY08
Subtotal, Major IT Investments			$0.0	$0.0	$0.0	0.0%	$0.0	0.0%	-	0.0%
Non-Major IT Investments			$0.4	$0.5	$0.3	-38.8%	$0.4	30.0%	0.4	2.6%
NONE - OIG STEADY STATE OPERATING COSTS										
Infrastructure Investments			$0.0	$0.0	$0.0	0.0%	$0.0	0.0%	-	0.0%
Enterprise Architecture			$0.0	$0.0	$0.0	0.0%	$0.0	0.0%	-	0.0%
Total IT Investments			$0.4	$0.5	$0.3	-38.8%	$0.4	30.0%	0.4	2.6%

1/ FY 2006 Obligations of FY 2006 Enacted amounts

4B – Information Technology Strategy

IT funding has been critical in enabling OIG to make significant progress in providing technology refreshment that allows our auditors, investigators, and support personnel to use hardware and software actively maintained by the manufacturers. IT funding also strengthens OIG's entity-wide IT security program, with equipment designed for anti-virus detection/protection, anti-spam detection, anti-spy detection, intrusion detection/prevention, monitoring and patch management, and disaster recovery. This ensures that the OIG IT infrastructure operates in a secure manner and that the information collected during audits and investigations of the Department's operations and resources are not susceptible to computer attacks and terrorist activities. Maintaining the OIG IT infrastructure and its IT security program at an acceptable level requires on-going upgrades of tools and technologies.

IT funding has also enhanced OIG's ability to perform computer forensics during investigations and computer vulnerability scanning during audits of the Department's IT operations and resources. Maintaining these capabilities requires on-going upgrades of tools and technologies.

4.3 – PART Evaluation Table

The OIG is not, nor is it scheduled to be, PARTed.

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

Treasury Inspector General for Tax Administration

Mission Statement
To provide audit and investigative services that promote economy, efficiency, and integrity in the administration of the internal revenue laws.

Program Summary by Appropriations Account
Dollars in Thousands

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
Salaries and Expenses	Enacted	President's Budget	CR-rate	Request	$from CR-rate	% from CR-rate
Audit	$49,761	$51,521	$49,686	$52,959	$3,273	6.59%
Investigations	82,192	84,948	82,267	87,594	5,327	6.48%
Total Appropriated Resources	**$131,953**	**$136,469**	**$131,953**	**$140,553**	**$8,600**	**6.52%**

FY 2008 Priorities
- Adapting to the Internal Revenue Service’s (IRS) continuously evolving operations and mitigating intensified risks associated with modernization, outsourcing, and enforcement efforts.
- Responding to threats and attacks against IRS personnel, property, and sensitive information.
- Improving the integrity of IRS operations by detecting and deterring fraud, waste, abuse or misconduct by IRS employees.
- Conducting comprehensive audits that include recommendations for cutting costs and enhancing IRS’ service to taxpayers.
- Informing Congress and the Secretary of the Treasury of problems and progress made to resolve them.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Inspector General for Tax Administration (TIGTA) was created to provide independent oversight of the Internal Revenue Service (IRS). TIGTA's investigations and audits protect and promote the fair administration of the American tax system. Its responsibilities include ensuring that the IRS is accountable for more than $2 trillion in tax revenue received each year. TIGTA's investigations: protect the IRS against breaches of integrity by IRS employees, contractors, and other tax professionals; provide for employee and infrastructure security; and protect the IRS from external attempts to threaten or corrupt the administration of the tax laws. TIGTA conducts 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. TIGTA's audit recommendations aim to improve IRS systems and operations, while maintaining fair and equitable treatment of taxpayers.

TIGTA's investigative and audit priorities include:

- Adapting to the IRS' continuously evolving operations and mitigating intensified risks associated with modernization, outsourcing, and enforcement efforts;
- Responding to threats and attacks from individuals, anti-government groups, and terrorism against IRS personnel, property, and sensitive information;
- Improving the integrity of IRS operations by detecting and deterring fraud, waste, abuse, or misconduct by IRS employees;
- Identifying inefficiencies and high-risk weaknesses in tax administration through comprehensive audits that ensure the protection of taxpayer rights, generate cost savings, protect tax revenue, and enhance IRS' services to taxpayers; and
- Advising Congress and the Secretary of the Treasury of high-risk problems and progress made to resolve them.

The total resources required to support TIGTA activities for FY 2008 are $141,753,000 including $140,553,000 from direct appropriations and $1,200,000 from offsetting collections and reimbursable agreements.

1B – Program History and Future Outlook

TIGTA's investigations and audits are integral to the efficient and equitable application of the nation's tax laws and thereby ensure that this critical source of federal revenue is prudently and fairly administered and secure from internal and external threats. Oversight activities are explicitly designed to identify high-risk systemic inefficiencies in

IRS operations and investigate exploited weaknesses in tax administration. Previously a longstanding enforcement office within the IRS, TIGTA was established as an independent office in January 1999 in accordance with the *Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98)*. It was mandated to provide independent audit and investigative services necessary to improve the quality and credibility of IRS oversight.

In FY 2006, TIGTA's accomplishments included:

Advising Congress: TIGTA issued 171 audit reports, and also provided 40 testimonies, briefings, and responses to Congress and its professional staff regarding investigative and audit activities. Through this direct communication, TIGTA aims to address the interest of congressional committees on critical issues and eliminate unsubstantiated concerns that may needlessly impede IRS operations. Accordingly, TIGTA recently established an Inspection and Evaluation Group to provide additional flexibilities to address evolving topics and address significant issues that require a quick turnaround. This group provides rapid responses to requests from Congress and other stakeholders for reviews and guidance regarding tax administration programs and activities.

Hurricanes Katrina and Rita Review: TIGTA participated in the Inspectors General's coordinated oversight of the federal government's multi-billion dollar hurricane relief effort. TIGTA initiated reviews intended to assess IRS preparation for processing tax returns of impacted taxpayers, ensure an adequate approval process for new tax-exempt disaster relief organizations, protect taxpayer data and evaluate business resumption plans. TIGTA's investigations targeted areas susceptible to abuse or misuse of relief mechanisms and exploitation of victims. TIGTA's involvement not only verified that tax relief was appropriately applied to victims in most cases, but also ensured that weaknesses in the IRS' disaster recovery and execution operations were identified and resolved for future years.

Implementing New Statutory Requirement Regarding Taxpayer Assistance Services: In May of 2005, the IRS announced plans to close 68 Taxpayer Assistance Centers (TACs) in order to generate an estimated $45 million to $55 million in cost savings. Congressional concerns resulted in new legislation prohibiting the IRS from using FY 2006 appropriated funds to reduce any taxpayer service function or program until TIGTA assessed the impact on taxpayer service and compliance. TIGTA adjusted priorities to meet this unfunded congressional mandate in a timely and effective manner. This review ensured that taxpayer services were not inappropriately reduced in vital areas.

Overall Audit Outcomes: As of September 30, 2006, a total of 171 audit reports were issued, identifying approximately $1.8 billion in potential costs savings and protected revenue.

Overall Investigative Outcomes: As of September 30, 2006, 3,412 investigations were closed and achieved 79 percent positive results (e.g., referrals for criminal and civil prosecution and administrative adjudications), including 1,485 cases of employee misconduct referred to the IRS for administrative action and 268 cases accepted for prosecution.

TIGTA has achieved its performance and quality expectations in part by implementing several efficiency and cost-cutting initiatives. Specifically, TIGTA has:

- Implemented and expanded telecommuting and hoteling[1] programs that have enhanced employee productivity and reduced TIGTA's rent costs;
- Closed offices and reduced managerial and support staff positions;
- Outsourced certain personnel, finance, and accounting services to the Bureau of Public Debt's (BPD) Administrative Resource Center; and,
- Maximized efficient use of resources by ensuring that TIGTA emphasizes core mission-related work.

FY 2008 Priorities:

Ensuring the Privacy and Security of Taxpayer Information: Millions of taxpayers entrust the IRS with sensitive financial and personal data, which is processed and stored by IRS computer systems. This trust is the cornerstone of the nation's voluntary tax compliance system. The risk of confidential data being compromised has intensified over the last few years. The Department of Commerce estimates that more than 50 million identities were compromised in 2005. TIGTA plays a vital role in ensuring the privacy and security of taxpayer information from internal and external threats.

The *Taxpayer Browsing Protection Act of 1997*[2] designates willful unauthorized access or inspection of any taxpayer records a criminal offense. An integral part of TIGTA's employee integrity program involves investigation of unauthorized access (UNAX) of confidential taxpayer records by IRS employees, other federal employees, contractors, and state government employees. From FY 2001 to FY 2006, TIGTA has initiated 2,878 UNAX investigations, resulting in 1,375 adverse personnel actions taken by the IRS, and 86 criminal prosecutions, for UNAX violations.

The IRS is also a prime target for attacks on its computer systems by anti-government groups, international and domestic terrorists, and disgruntled employees. In addition to identity theft concerns, computer attacks can cause revenue loss and impede productivity by disrupting computer operations. In compliance with the *Federal Information Security Management Act (FISMA)*[3], TIGTA conducts an annual evaluation of the IRS information security program and practices. During the FY 2005 evaluation, TIGTA

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[1] Hoteling is a flexible work arrangement whereby an employee already participating in the telecommuting program on a full or expanded basis (generally over 30 hours per week) does not have a permanently assigned personal workspace but may reserve office space on an as-needed basis.
[2] *Pub. L. No. 105-35, 111 Stat. 1103.*
[3] *FISMA* is part of the *E Government Act of 2002, Pub. L. No. 107-347, Title III, Section 301, 2002*.

found that the IRS was paying insufficient attention to the security of all sensitive systems and contractor activities. TIGTA noted deficiencies in continuous monitoring, tracking corrective actions, training employees with key security responsibilities, and contractor oversight. An additional TIGTA review exposed inconsistent maintenance of security settings that could be exploited either to take control of the computer or render it unusable.

Private Debt Collection: The IRS' delinquent tax debt collection effort will utilize Private Collection Agencies (PCAs). Overseeing PCAs is a top priority for TIGTA in the coming fiscal years. TIGTA's previous experience with detecting lockbox thefts and insufficient contractor oversight provide an investigative foundation for minimizing the incidence of similar violations in this area. TIGTA has coordinated with the IRS throughout the initial phase of implementation by addressing concerns regarding security and protection of taxpayer rights and privacy, and developing integrity and fraud awareness training for contract employees. The IRS placed 11,564 delinquent tax accounts with a value of $65 million with three approved PCAs in September 2006, and will place an additional 107,000 accounts with a value of approximately $656 million in 2007. Full implementation, involving 10 to 12 contractors, is scheduled to begin in January 2008.

TIGTA reviews will assess program controls and cost effectiveness, and evaluate whether the IRS achieves its revenue projections. Additional investigative responsibilities to deter fraudulent behavior will include conducting remittance and integrity tests, providing integrity awareness briefings to contract employees, and investigating contract irregularities. TIGTA's involvement will validate that the IRS effectively exercises its new authority to use PCAs, while ensuring that taxpayers' due process and privacy rights are protected.

Procurement: Contract expenditures constitute approximately 20 percent of the IRS annual budget. TIGTA has identified erroneous and improper payments as one of the top management challenges the IRS faces. Currently, TIGTA coordinates with the Defense Contract Audit Agency to perform some contract audits and conducts several independent reviews of contractor invoicing to ensure that the IRS is properly and accurately paying for goods and services in accordance with contract terms and conditions. TIGTA also conducts reactive and proactive investigations to identify and deter criminal activity on the part of contractors. From FY 2002 through FY 2006, TIGTA initiated 86 contract fraud investigations, resulting in five prosecutions and the recovery of more than $20 million. TIGTA will continue to review a percentage of the amounts paid by IRS to private contractors.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Appropriation: TIGTA, Salaries & Expenses	FTE	Amount
FY 2006 Appropriation (P.L. 109-115)	**856**	**$133,286**
Rescission (P.L. 109-148)	(6)	(1,333)
FY 2006 Enacted	**850**	**$131,953**
FY 2007 President's Budget	**850**	**$136,469**
CR-rate Adjustment	(33)	(4,516)
FY 2007 CR-rate	**817**	**$131,953**
Changes to Base:		
Technical Adjustment to FY 2007 Base due to CR:		
Base Adjustment	18	3,726
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		672
Pay Annualization		579
Pay Inflation Adjustment		3,623
Total FY 2008 Base	**835**	**$140,553**
Total FY 2008 Request	**835**	**$140,553**

2A – Budget Increases and Decreases Description

Adjustments ....-$4,516,000 / -33 FTE

CR-rate Adjustment -$4,516,000 / -33 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

Technical Adjustment to FY 2007 Base due to CR ....+$3,726,000 / +18 FTE

Base Adjustment +$3,726,000 / +18 FTE Technical adjustment to FY 2007 Base due to CR.

Maintaining Current Levels (MCLs) ....+$4,874,000 / +0 FTE

Non-Pay Inflation Adjustment +$672,000 / +0 FTE Funds are requested for non-labor inflation and cost increases, such as contracts, travel, supplies, equipment, and GSA rent.

Pay Annualization +$579,000 / +0 FTE Annualization of January 2007 pay increase to provide full year funding for that pay increase during FY 2008.

Pay Inflation Adjustment +$3,623,000 / +0 FTE Pay adjustment for January 2008 pay increase and related increased benefit costs.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: TIGTA Salaries & Expenses	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Level	FY 2008 Requested Level
FTE	850	850	(33)	817	-	817	835
Object Classification:							
11.1 Full-Time Permanent Positions........................	$72,245	$74,363	($3,411)	$70,952		$70,952	$75,921
11.1 Other than Full-Time Permanent Positions......	524	555		555		555	576
11.5 Other Personnel Compensation.......................	8,590	8,809		8,809		8,809	9,398
11.8 Special Personal Services Payments.............	0	0				0	0
11.9 Personnel Compensation (Total).....................	81,359	83,727	($3,411)	80,316		80,316	85,895
12.0 Personnel Benefits..	23,645	24,708	($1,105)	23,603		23,603	25,226
13.0 Benefits to Former Personnel..........................	0	0				0	0
21.0 Travel...	4,249	4,446		4,446		4,446	4,552
22.0 Transportation of Things.................................	13	24		24		24	24
23.1 Rental Payments to GSA................................	9,437	7,983		7,983		7,983	8,024
23.2 Rent Payments to Others...............................	246	275		275		275	282
23.3 Communications, Utilities, & Misc....................	2,167	1,960		1,960		1,960	2,158
24.0 Printing and Reproduction..............................	9	8		8		8	8
25.1 Advisory & Assistance Services......................	1,105	1,125		1,125		1,125	1,152
25.2 Other Services..	862	899		899		899	921
25.3 Purchase of Goods/Serv. from Govt. Accts....	3,158	5,668		5,668		5,668	6,530
25.4 Operation & Maintenance of Facilities............	219	398		398		398	407
25.5 Research & Development Contracts...............	0	0		0		0	0
25.6 Medical Care..	0	0		0		0	0
25.7 Operation & Maintenance of Equipment..........	1,201	1,223		1,223		1,223	1,252
25.8 Subsistence & Support of Persons.................	0	0		0		0	0
26.0 Supplies and Materials...................................	1,157	1,143		1,143		1,143	1,170
31.0 Equipment..	3,025	2,685		2,685		2,685	2,750
42.0 Insurance Claims & Indemn............................	50	146		146		146	150
91.0 Confidential Expenditures...............................	51	51		51		51	52
Total Budget Authority……………………………	$131,953	$136,469	($4,516)	$131,953	$0	$131,953	$140,553
Budget Activities:							
Audit…………………………………………………	$49,761	$51,521	($1,835)	$49,686		$49,686	$52,959
Investigations……………………………………………	82,192	84,948	($2,681)	82,267		82,267	87,594
Total Budget Authority……………………………	$131,953	$136,469	($4,516)	$131,953	$0	$131,953	$140,553

2B – Appropriation Language

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION Federal Funds **SALARIES AND EXPENSES:** *For necessary expenses of the Treasury Inspector General for Tax Administration in carrying out the Inspector General Act of 1978, as amended, including purchase (not to exceed 150 for replacement only for police-type use) and hire of passenger motor vehicles (31U.S.C. 1343(b)); services authorized by 5 U.S.C. 3109, at such rates as may be determined by the Inspector General for Tax Administration; $140,533,000, of which not to exceed $6,000,000 for official travel expenses; of which not to exceed $500,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General for Tax Administration; and of which not to exceed $1,500 shall be available for official reception and representation expenses.*	

2C – Legislative Proposals

TIGTA has no legislative proposals for FY 2008.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations[1]		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 Request		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Audit	355	$49,761	346	$48,608	355	$51,521	341	$49,686	349	$52,959	2.35%	6.59%
Investigations	495	82,192	489	82,994	495	$84,948	476	$82,267	486	87,594	2.10%	6.48%
Subtotal New Appropriated Resources	850	$131,953	835	$131,602	850	$136,469	817	$131,953	835	$140,553	2.20%	6.52%
Other Resources:												
Offsetting Collections - Reimbursable	3	$1,200	3	$1,625	3	$1,200	3	$1,200	3	$1,200	0.00%	0.00%
Subtotal Other Resources	3	$1,200	3	$1,625	3	$1,200	3	$1,200	3	$1,200	0.00%	0.00%
Total Resources Available for Obligation	853	$133,153	838	$133,227	853	$137,669	820	$133,153	838	$141,753	2.20%	6.46%

1/ FY 2006 Obligations of FY 2006 Enacted amounts

3A – Audit *($52,959,000 from direct appropriations and $725,000 from reimbursable programs):* The Office of Audit's (OA) mission is to provide comprehensive coverage and oversight of all aspects of the IRS' daily operations. Audits not only focus on the economy and efficiency of IRS functions but also ensure that taxpayers' rights are protected and the taxpaying public is adequately served. Overall, as of September 30, 2006, audit reports produced potential financial accomplishments of $1.8 billion, and potentially impacted approximately 1.8 million taxpayer accounts in areas such as taxpayer burden, rights, and entitlements.

OA develops an annual audit plan that communicates oversight priorities to Congress, the Department of the Treasury, and the IRS. Emphasis is placed on mandatory coverage imposed by *RRA 98* and other statutory authorities, as well as issues impacting computer security, taxpayer rights and privacy, and financial-related audits. OA's work focuses on IRS' major management challenges, IRS' progress in achieving its strategic goals, eliminating IRS' systemic weaknesses, and IRS' response to the President's Management Agenda initiatives. By focusing on these critical areas, OA ensures that TIGTA audits identify and recommend improvements in IRS programs, including:

Tax Compliance: In February 2006, the IRS estimated the gross tax gap, defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay, to be $345 billion for Tax Year 2001. TIGTA evaluated the reliability of the IRS-developed tax gap figures and concluded that the IRS lacked sufficient information to completely and accurately assess the tax gap and voluntary compliance rate. A reliable estimate of the overall tax gap and its components is critical to tax administration and tax policy decision makers. Continued TIGTA oversight of tax gap issues, including data reliability, enforcement laws, and taxpayer assistance, is necessary to ensure that the IRS enhances voluntary compliance by balancing taxpayer services and enforcement without jeopardizing taxpayer rights.

An OA review of the IRS penalty-setting process for information returns related to foreign operations and transactions revealed deficiencies in the assessment of late-filing penalties. The audit identified missed opportunities for promoting better compliance with filing requirements by not assessing late-filing penalties more frequently. OA estimated that the IRS could generate approximately $60.3 million per year, or $301 million over five years, in additional revenue by using automation to close the gap between penalties assessed and the number of penalties that should be assessed when forms are filed late. OA recommended that the IRS convene a study group to develop a business case to decide whether or not to pursue automating the penalty-setting process. IRS management agreed with these recommendations and indicated that initial steps to assess automation will be implemented.

Quality of Taxpayer Services: The IRS has experienced a steady growth in electronic filing (e-filing) of income tax returns over the past several years. However, OA has expressed concern regarding the significant slowing of the growth of returns e-filed in 2006. A slower growth rate extends the time period needed to achieve the goal of 80 percent e-filed returns and delays the associated cost savings. A significant contributing factor was a 22 percent decline from the previous year in the number of taxpayers utilizing IRS free online filing options, under the Free File Program. OA raised concerns regarding the quality and accessibility of free e-filing services offered by the IRS.

The Subcommittee on Oversight of the House Committee on Ways and Means requested that OA review recent amendments made to the IRS' Free File Alliance Agreement in order to evaluate the differences from the previous agreement and to assess the impact on electronic filing and taxpayer services. OA's review showed that the amended agreement substantially reduced the number of taxpayers eligible to use the program and that the Free File services are often inaccessible, time-consuming, and difficult to use for eligible taxpayers. OA's recommendations will help to ensure that the free filing options provided by the IRS contribute to a higher growth rate of e-filing.

Minimizing Erroneous and Improper Payments: An OA review identified specific reforms to improve IRS processes designed to detect and deter multiple uses of taxpayer identification numbers. When a taxpayer identification number is utilized multiple times during a tax year, it creates the opportunity for taxpayers to receive tax benefits to which they are not entitled. The audit found that the IRS could improve its processes by capitalizing on existing paper return processes; expanding current programs to educate taxpayers and tax preparers on correct use of identification numbers; and enhancing the reliability of the Duplicate Taxpayer Identification Number Use database. OA estimated that the IRS could protect over $153 million in tax revenue over a five-year period by leading a collaborative effort to identify a workable solution to these multiple use cases. IRS management agreed with the recommendations and is taking corrective action.

OA faces the challenge of addressing increasing requests from Congress and other IRS stakeholders in a timely and efficient manner. In FY 2006, OA reallocated resources in order to perform congressionally requested audits and comply with new statutory provisions. The importance of TIGTA's mission and the effectiveness of its oversight are demonstrated by the increased number of requests for audits TIGTA receives. TIGTA expects the trend of increased congressional interest and requests for action to continue into future years.

Other Resources: TIGTA receives $725,000 in offsetting collections and reimbursements to support activity related to Defense Contract Audit Agency (DCAA) audits conducted on behalf of the IRS and other activity conducted on behalf of the Department of the Treasury.

3.2.1 – Audit Budget and Performance Plan

Dollars in Thousands

Audit Budget Activity				**Includes Strategic Objective M5A**	
Resource Level	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 President's Budget**	**FY 2008 Request**
Financial Resources					
Appropriated Resources	$48,387	$48,392	$49,761	$51,521	$52,959
Other Resources	50	1,092	725	725	725
Total Operating Level	**$48,437**	**$49,484**	**$50,486**	**$52,246**	**$53,684**
Human Resources					
Appropriated FTE	369	357	355	355	349
Other FTE	0	0	0	0	0
Total FTE (direct and reimbursable)	**369**	**357**	**355**	**355**	**349**

Audit Budget Activity					**Includes Strategic Objective M5A**	
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Percentage of Audit Products Delivered When Promised to Stakeholders	Target				Baseline	TBD
	Actual					
	Met					
Percentage of Recommendations Made That Have Been Implemented	Target				Baseline	TBD
	Actual					
	Met					

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: TIGTA is proposing two new measures. The first one determines whether TIGTA audit products are timely. The likelihood that TIGTA products will be used is enhanced if they are delivered when needed to support Congressional and Internal Revenue Service (IRS) decision making.

The Office of Audit makes recommendations designed to improve administration of the Federal tax system. For there to be a resulting financial or non-financial benefit, the Internal Revenue Service (IRS) must implement these recommendations. The second measure assesses TIGTA’s effect on improving the IRS’ accountability, operations, and services. TIGTA tracks the percentage of recommendations that were made four years ago which have been implemented, rather than tracking the recommendations when they are made initially, because the IRS needs time to act on recommendations.

3B – Investigations *($87,594,000 from direct appropriations and $475,000 from reimbursable programs):* TIGTA's mission is more extensive than other IGs in that it has the statutory responsibility to protect the integrity of tax administration and the ability of the IRS to collect revenue for the federal government. To accomplish this, TIGTA's Office of Investigations (OI) investigates allegations of criminal violations and administrative misconduct by IRS employees, protects the IRS against external attempts to corrupt tax administration, and ensures IRS employee safety and IRS data and infrastructure security.

Employee Integrity: The IRS' ability to deliver taxpayer service, enforce tax laws effectively, and collect the proper amount of taxes can be undermined by employee misconduct. TIGTA's investigations of employee misconduct allegations include those involving extortion, theft, taxpayer abuses, false statements, financial fraud, and unauthorized access (UNAX) of confidential taxpayer records by IRS employees.

External Attempts to Corrupt Tax Administration: External attempts to corrupt tax administration impede the IRS' ability to collect revenue. TIGTA's investigations in this area include bribes offered by taxpayers to compromise IRS employees, the use of fraudulent IRS documentation to commit crimes, taxpayer abuse by tax practitioners, impersonation of IRS employees, and the corruption of IRS programs through procurement fraud.

Particularly important to TIGTA are phishing scams that falsely depict e-mails from the IRS.[4] Such schemes attempt to retrieve a user's Social Security Number and banking information by replicating an official IRS seal and/or requesting information required for depositing tax refunds. Since November 2005, TIGTA and the IRS have received 17,921 (as of December 31, 2006) complaints or inquiries regarding these internet schemes, identifying approximately 203 separate ones that were traced to 28 different countries. Oversight in this area is necessary to ensure that misuse of the IRS name, impersonation of an IRS employee, and identity theft incidents are resolved properly.

Employee and Infrastructure Security: In 1998, The President of the United States designated IRS operations as a critical infrastructure.[5] TIGTA meets the challenge of maintaining IRS employee and infrastructure security by investigating incidents of sabotage and threats or assaults made against IRS employees, facilities, and infrastructure. Potential threats to tax administration are identified through TIGTA's Criminal Intelligence Program, which utilizes law enforcement and intelligence resources to proactively detect suspected individuals and groups.

Congressional concern regarding the magnitude of uncollected revenue has prompted the IRS to intensify enforcement activities. If effective, heightened enforcement is likely to cause a rise in external threats to IRS employees and infrastructure. Both TIGTA's proactive and reactive investigative initiatives are critical in mitigating such future risks. OI currently participates on the FBI Joint Terrorism Task Forces (JTTF) and conducts

[4] Phishing involves sending e-mails to users falsely claiming to be established, legitimate enterprises in order to solicit private information for the purpose of identity theft and other crimes.
[5] *Presidential Decision Directive NSC-63.*

criminal intelligence gathering to uncover and track external threats to tax administration from individuals, anti-government groups, and terrorists. In FY 2006, OI initiated 275 investigations of assaults and/or threats made against IRS employees and 26 investigations of assaults and/or threats made against IRS facilities.

Investigative work in these three core areas is imperative for protecting the integrity of tax administration. The results of this work help ensure that the public has confidence in its dealings with the IRS, and thereby promote voluntary compliance with federal tax laws.

Other Resources: TIGTA receives $475,000 in offsetting collections and reimbursements to support activity conducted on behalf of the Department of the Treasury.

3.2.2 – Investigations Budget and Performance Plan

Dollars in Thousands

Investigations Budget Activity			Includes Strategic Objective M5A		
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$78,932	$79,701	$82,192	$84,948	$87,594
Other Resources	3,023	1,784	475	475	475
Total Operating Level	**$81,955**	**$81,485**	**$82,667**	**$85,423**	**$88,069**
Human Resources					
Appropriated FTE	516	495	495	495	486
Other FTE	15	9	3	3	3
Total FTE (direct and reimbursable)	**531**	**504**	**498**	**498**	**489**

Investigations Budget Activity				Includes Strategic Objective M5A		
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Percentage of positive results from investigative activities (%) (Oe)	Target	Baseline	67%	70%	73%	73%
	Actual	64%	82%	79%		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: Examples of the types of cases in the positive results category include discovery of: bribes offered by taxpayers to compromise IRS employees; manipulation of IRS systems and programs through the use of bogus liens and IRS financial reporting instruments; impersonation of IRS officials; and, unauthorized access to confidential taxpayer information by IRS employees. As of September 30, 2006, actual performance has exceeded expectations (actual performance was 79 percent, while the target was 70 percent). These results are indicative of TIGTA's continuous focus on quality results.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents

Direct FTE		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		855	835	817
Increases:				
Reason #1:	Technical adjustment to FY 2007 base due to CR			18
Subtotal, Increases		0	0	18
Decreases:				
Reason #1:	Partial hiring freeze	-20		
Reason #2:	CR-rate Adjustment		-18	
Subtotal, Decreases		-20	-18	0
Year-end Actual/Estimated FTEs		835	817	835
Net Change from prior year SOY to budget year EOY				0

4A – Human Capital Strategy Description

TIGTA's human capital strategy is aligned with the goals, vision, and priorities of the agency as a whole. One of the major strategic goals of the bureau is to "be an organization that values its people." The objective associated with this goal is to "ensure a high-quality, diverse, and motivated workforce with the knowledge, skills, and abilities needed to produce quality products in an efficient and effective manner." Also, TIGTA has revamped its performance management program for all employees (including managers) to differentiate levels of performance, to incorporate TIGTA's strategic goals and objectives, and to hold employees accountable for performance.

TIGTA's Human Capital group strategically lays out a multi-year approach for addressing its critical human capital issues. This approach supports TIGTA's mission by empowering TIGTA's management to fulfill the agency's legislative mandates and business goals, and by providing technical expertise, resource management, and strategic solutions regarding human capital policy, Bureau of Public Debt (BPD) contract oversight, performance management, personnel security, personnel development, and work/life issues.

TIGTA must deal with some critical staffing challenges (both now and in the future), in terms of having the right number of people with the right skills to accomplish its mission. Because of the increasingly modernized and computerized IRS operating systems and environment, the most critical gaps TIGTA faces are the 0511 Auditor and 1811 Criminal Investigator occupations. These gaps are the result of a combination of: (1) the current employee population lacking specific, needed skills to audit and/or investigate highly complicated computerized systems and/or operating environments; and (2) TIGTA's limited past successes in recruiting specifically for the 0511 Auditor (with specialized computer skills) occupation in the Washington, DC area, where most of this type of work is located.

Per HR Connect data, as of December 18, 2006, 35 percent of TIGTA's current staff is retirement eligible through FY 2010, which threatens TIGTA's ability to effectively fulfill its core mission.

To address the skills gap specifically in the 0511 Auditor occupation, TIGTA classified and recruited 2210 Information Technology Specialists with experience in auditing computerized operating environments. This proved somewhat successful, as TIGTA was able to hire a small group of employees under this occupational series. In addition, TIGTA expanded the post of duty locations for employees needed in this occupational series to include cities outside the Washington, DC, area.

The TIGTA workforce is not being supplemented by on-site contractors. However, the majority of TIGTA's human resources, accounting, travel, and acquisitions workload has been outsourced to BPD's Administrative Resource Center.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments (in $ Millions)			FY 2005		FY 2006	% Change from FY05 Actuals to FY06	FY 2007	% Change from FY06 to FY07	FY 2008	% Change from FY07 to FY08
Major IT Investments	Budget Activity/Funding Source	Identify the Program that the System is Aligned to	Operating Plan	Obligations	Operating Plan		President's Budget		Request	
									-	
Subtotal, Major IT Investments			$0.0	$0.0	$0.0		$0.0		$0.0	
Performance and Results Information System (PARIS)	TIGTA: Investigations Activity				$1.0		$1.0		$1.0	
PARIS Property Module (PPM)	TIGTA: Investigations Activity				0.5		0.5		0.5	
Non-Major IT Investments			$0.0	$0.0	$1.5		$1.5		$1.5	0.0%
TIGTA Office Automation	TIGTA: Audit and Investigations Activities		$2.5	$2.5	$2.5		$2.5		$8.1	
TIGTA Telecommunications	TIGTA: Audit and Investigations Activities		1.3	1.3	1.3		1.3		3.1	
TIGTA Infrasturcture	TIGTA: Audit and Investigations Activities		0.4	0.4	0.4		0.4		1.0	
TIGTA Security	TIGTA: Audit and Investigations Activities		0.3	0.3	0.3		0.3		0.8	
Subtotal, Infrastructure Investments			$4.4	$4.4	$4.4	0.0%	$4.4	0.0%	$13.0 2/	192.5%
Enterprise Architecture			$0.3	$0.3	$0.3	0.0%	$0.3	0.0%	$0.3	0.0%
Total IT Investments			$4.7	$4.7	$6.2	32.1%	$6.2	0.0%	$14.7	138.0%

1/ FY 2006 Obligations of FY 2006 Enacted amounts

2/ The $8.6 million increase in Infrastructure from FY 2007 to FY 2008 is due to the inclusion of TIGTA labor costs which were previously not reflected

4B – Information Technology Strategy

The Office of Information Technology (OIT) provides cost effective information technology products and services on behalf of TIGTA. All OIT activities are focused on providing effective and secure access to data sources that are critical to the successful completion of the TIGTA mission. OIT personnel routinely work with investigators and auditors, providing integrated support and/or data analysis services to foster the independence of TIGTA oversight and the integrity of its investigative and audit findings.

Office Automation: OIT provides traditional office automation services for all TIGTA employees. This includes provisioning of personal computers, productivity software, electronic mail, and other local area network services, such as network storage for effective data backup and recovery. OIT office automation is based on a standardized tool suite for internal TIGTA business operations. This tool suite is augmented to provide specialized software tools that permit investigators and auditors to access and analyze data residing on a wide variety of IRS and other governmental information systems. OIT monitors these tools to ensure availability and to determine when technology maintenance and refreshment activities are needed for effective protection of TIGTA-accessed data.

Telecommunications: OIT supports a wide area network (WAN) with access points throughout the United States and Puerto Rico, in direct support of a geographically distributed investigative and audit workforce. The WAN provides adequate bandwidth for internal and external data transmissions while providing secure access to other governmental computer networks and entities. For example, the WAN provides a secure interconnection between TIGTA and IRS that is used for electronic data exchange as well as for cost effective access to IRS information systems. The WAN also enables secure, remote access from alternative work locations. Alternative locations include the approximate 625 localities in which IRS conducts business without a local TIGTA presence. It also includes worksites that have been approved under the TIGTA telework program. TIGTA also operates a Land Mobile Radio (LMR) system that permits investigators to safely conduct field operations with reliable wireless communication devices.

Infrastructure: OIT operates information systems at various offices. In accordance with the OIT Strategic Plan and continuing cost containment measures, OIT is consolidating information technology services, where feasible, into data center facilities. The consolidation effort is designed to increase information system and resource utilization, eliminate unneeded redundancies, and improve ability to support core investigative and audit activities. As part of a TIGTA data center, extensive data analysis services are provided by OIT in direct support of investigative and audit activities. For example, these services permit TIGTA to meet its responsibilities under the *Taxpayer Browsing Protection Act of 1997*. In addition to consolidation of TIGTA's IT Infrastructure operations TIGTA has provided information on its Data Centers, Telecom (Voice Networks), Data Networks, Desktop/Seat Management and Help Desk through the

Department to the Infrastructure Optimization Initiative LoB and will evaluate Centers of Excellence as alternatives to providing its own infrastructure

Enterprise Architecture and Security: TIGTA operates several programs to comply with various legislative mandates and to improve the reliability, availability, and effectiveness of its information technology. For example, the enterprise architecture initiative responds to the *Clinger-Cohen Act* to align business practices with technology needs. It will provide for better decision making ability on information technology investment and related resource allocation. The security program focuses on securing data accessed by TIGTA through compliance with specific provisions of the *E-Government Act of 2002* and the *Federal Information Security Management Act (FISMA).* This program spans systems certification and accreditation, incident response, and continuity of operations. Currently, all TIGTA FISMA systems are certified and accredited. OIT also coordinates with the IRS on areas of mutual concern, especially as it pertains to continued TIGTA access to IRS information systems as the IRS strengthens its own security posture in response to TIGTA, and other, audit findings.

Non-Major Investments: OIT maintains two internal management information systems that have recently been reclassified as non-major investments under Capital Planning and Investment Control (CPIC) guidelines. The Performance and Results Information System (PARIS) supports investigative compliance with the *Government Performance and Results Act (GPRA).* The system facilitates GPRA compliance by collecting data needed to measure performance of investigative activities, specifically as it pertains to complaint management and investigating cases. The PARIS Property Module (PPM) is a custodial accounting system used to support the bureau's Personal Property Management Program. PPM is used to track capitalized and expensed assets used in support of investigative and audit activities and to track assets seized during law enforcement actions.

TIGTA's Information Technology Strategy can be found in its Information Resource Management Plan. TIGTA will be working with the Department shortly to articulate IT investment performance measures that are thoroughly developed, quantifiable, and appropriate.

TIGTA is in the process of implementing an IT Program Management Office (PMO). The PMO's mission is two-fold. The first is to provide overall responsibility for planning, directing, and coordinating activities pertaining to the review of technology and business unit projects on an enterprise level. The second is to increase project management competence and foster sustained success of projects carried out by OIT.

In conducting this mission the PMO will develop and maintain an IT investment portfolio that captures specific project and investment management data elements necessary to evaluate IT projects or acquisitions across the stages of their life cycle.

Status Report – the PMO will facilitate the status reporting and milestone information for the TIGTA Investment Review Board (IRB) to monitor all capital investments under development to ensure that cost, schedule, and performance targets are being met. In the event that the PMO reports that a project is facing cost overruns, major schedule delays, or performance shortfalls, the IRB will determine the need to cancel the project and redirect freed resources to other priorities. The IRB must coordinate the canceling of projects and redistribution of funds for those projects that the Treasury Investment Review Board (TIRB) has approved.

4.3 – PART Evaluation Table

Not applicable for TIGTA.

For a complete list of PART results visit the following website: http://www.whitehouse.gov/omb/expectmore/all.html

Community Development Financial Institutions Fund

Mission Statement
To expand the capacity of financial institutions to provide credit, capital and financial services to underserved populations and communities in the United States.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
		President's			$ from	% from
Program Account	Enacted	Budget	CR-rate	Request	CR-rate	CR-rate
Community Development Financial Institutions Program	$30,969	$0	$23,007	$24,437	$1,430	6.22%
New Markets Tax Credit Program	4,254	4,314	3,802	4,120	318	8.36%
Bank Enterprise Award	13,417	0	9,591	0	(9,591)	-100.00%
Native Initiatives	5,810	0	3,600	0	(3,600)	-100.00%
Portfolio Management	0	3,507	0	0	0	0.00%
Total Appropriated Resources	**$54,450**	**$7,821**	**$40,000**	**$28,557**	**($11,443)**	**-28.61%**

FY 2008 Priorities

- Provide allocations of tax credits under the New Markets Tax Credit Program,
- Provide grants, loans and equity investments under the CDFI Program, and
- Manage the Fund’s existing portfolio of awards.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The mission of the Community Development Financial Institution Fund (the Fund) is to expand the capacity of financial institutions to provide credit, capital and financial services to underserved populations and communities in the United States.

The Fund has three priorities:

1. Issue Allocations of Tax Credits Under the New Markets Tax Credit (NMTC) Program – The NMTC Program attracts private sector capital into low-income communities through Community Development Entities (CDEs). CDEs raise funds by providing tax credits to private investors in exchange for equity investments, which are then invested in low-income communities. CDEs apply for allocations of NMTCs through annual, competitive allocation rounds.

2. Make Grants Under the Community Development Financial Institutions (CDFI) Program – The CDFI Program provides financial assistance grants, technical assistance grants, and training to carry out the Fund's mission of expanding the capacity of financial institutions to provide credit, capital and financial services to underserved populations and communities in the United States.

3. Manage the Existing Portfolio of Awards – Certain activities pertaining to the existing portfolio of grant awards are required. These activities consist of finalizing the terms of assistance agreements with recent awardees, making disbursements under awards not fully disbursed as of the end of FY 2007, and monitoring awardee compliance with the terms of their three-year award assistance agreements. This later step includes reviewing annual reports provided by awardees to ensure that their performance meets the goals as stipulated in the assistance agreements and that unmet performance is explained.

1B – Program History and Future Outlook

The CDFI Fund administers direct funding programs in support of Community Development Financial Institutions (CDFIs) and also administers the New Markets Tax Credit (NMTC) Program.

In FY 2006, the Fund processed $208 million of grant applications which resulted in awards totaling approximately $43 million through the Fund's direct funding programs. The Fund also processed $28.3 billion of applications to the New Markets Tax Credit program, for which 63 allocations totaling $4.1 billion were made. These awards and allocations were processed in a seamless and timely manner using the Fund's electronic award processing system.

As required under the Presidential Management Agenda (PMA) initiatives, during FY 2006 the Fund took in 278 applications for its three grant programs through the consolidated Grants.gov intake system. The Fund also began preparing its migration plan to the PMA Grants Management Line of Business (GMLoB) initiative and has selected the Department of Health and Human Services, Administration for Children and Families as its partner for this effort.

In FY 2006, the Fund reported 22,329 jobs created or retained by CDFI awardees and NMTC allocatees. In addition, the Fund's financial assistance awards leveraged an additional $1.4 billion dollars, which equates to a leverage factor of $27:$1 (every $1 of the Fund's financial assistance awards resulted in an additional $27 raised and leveraged by awardees).

A significant accomplishment during FY 2005 was the full implementation of a web-based system that allows for the collection of data from Fund awardees – the Community Investment Impact System (CIIS). Data collected through FY 2006 provided the specific location and characteristics of each loan in an awardee's portfolio and allows the Fund to measure impact at the census tract level and compare awardees' lending behavior to that of traditional financial institutions. This management information system is important because CIIS enables the Fund to measure its performance against its targets and demonstrate how and where the Fund's dollars are used. This impact performance management system is unique within the community development industry.

The awarding of tax credit allocations under the NMTC Program was due to expire at the end of calendar year 2007. However, the 109th Congress passed legislation (P.L. 109-432) in its final hours which included an extension of the New Markets Tax Credit Program through December 31, 2008, with an additional credit volume supporting $3.5 billion in investor capital.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Appropriation: Community Development Financial Institutions Fund	FTE	Amount
FY 2006 Appropriation (P.L. 109-115)	**68**	**$55,000**
Rescission (P.L. 109-148)	0	(550)
FY 2006 Enacted	**0**	**$54,450**
FY 2007 President's Budget	**35**	**$7,821**
CR-rate Adjustment	28	32,179
FY 2007 CR-rate	**63**	**$40,000**
Changes to Base:		
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		77
Pay Annualization		24
Pay Inflation Adjustment		149
Total FY 2008 Base	**63**	**$40,250**
Program Decreases:		
Bank Enterprise Award Program	(7)	(9,591)
Native Initiatives	(6)	(3,600)
Program Increases:		
Community Development Financial Institutions Prog.	11	1,309
New Markets Tax Credit Program	2	189
Subtotal FY 2008 Program Changes	**0**	**(11,693)**
Total FY 2008 Request	**63**	**$28,557**

2A – Budget Increases and Decreases Description

Adjustments ....+$32,179,000 / +28 FTE

CR-rate Adjustment +$32,179,000 / +28 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

Maintaining Current Levels (MCLs) ....+$250,000 / +0 FTE

Non-Pay Inflation Adjustment +$77,000 / +0 FTE Funds are requested for the non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments.

Pay Annualization +$24,000 / +0 FTE Funds are requested for the FY 2008 cost of the January 2007 pay increase.

Pay Inflation Adjustment +$149,000 / +0 FTE Funds are requested for the proposed January 2008 pay raise.

Program Decreases ....-$13,191,000 / -13 FTE

Bank Enterprise Award Program -$9,591,000 / -7 FTE The Fund is not requesting resources for the Bank Enterprise Award (BEA) Program in FY 2008.

Native Initiatives -$3,600,000 / -6 FTE No separate authorization exists for Native Initiatives so no separate set aside is being requested in FY 2008.

Program Increases ....+$1,498,000 / +13 FTE
Community Development Financial Institutions Prog. +$1,309,000 / +11 FTE The Fund is seeking an increased level of funding for this program. Because no separate authorization exists for Native Initiatives, no separate funding is being requested in FY 2008 for Native Initiatives and the related 6 FTEs used to administer Native Initiatives will instead be used to administer the CDFI Program.

In addition, due to no funding being requested for the BEA Program in FY 2008, five of the seven FTEs utilized by the BEA Program will be moved to the CDFI Program.

New Markets Tax Credit Program +$189,000 / +2 FTE Due to no funding being requested for the BEA Program in FY 2008, 2 (of the 7) FTEs utilized by the BEA Program will be moved to the NMTC Program.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Community Development Financial Institutions Fund	FY 2006 Enacted	FY 2007 President's Budget	CR-Rate Adjustment	FY 2007 CR-Rate	Proposed Reprogrammings	FY 2007 Proposed Operating Level	FY 2008 Requested Level
FTE	68	35	28	63		63	63
Object Classification:							
11.1 Full-Time Permanent Positions.........................	$5,349	$3,681	$1,513	$5,194		$5,194	$5,267
11.1 Other than Full-Time Permanent Positions.......	0	0	0	0		0	0
11.5 Other Personnel Compensation........................	0	0	0	0		0	0
11.8 Special Personal Services Payments................	0	0	0	0		0	0
11.9 Personnel Compensation (Total)...................	$5,349	$3,681	$1,513	$5,194		$5,194	$5,267
12.0 Personnel Benefits...	1,372	942	414	1,356		1,356	1,373
13.0 Benefits to Former Personnel...........................	0	0	0	0		0	0
21.0 Travel..	103	70	42	112		112	112
22.0 Transportation of Things...................................	20	20	0	20		20	20
23.1 Rental Payments to GSA..................................	1,118	898	517	1,415		1,415	1,428
23.2 Rent Payments to Others.................................	48	15	79	94		94	94
23.3 Communications, Utilities, & Misc.....................	262	172	0	172		172	180
23.5 Telecommunications (includes WCF)………..	0	0	131	131		131	137
24.0 Printing and Reproduction................................	10	10	10	20		20	20
25.1 Advisory & Assistance Services........................	3,722	1,566	1,563	3,129		3,129	2,511
25.2 Other Services..	393	169	169	338		338	271
25.3 Purchase of Goods/Serv. from Govt. Accts……	1,093	206	443	649		649	598
25.4 Operation & Maintenance of Facilities..............	0	0	0	0		0	0
25.5 Research & Development Contracts.................	0	0	0	0		0	0
25.6 Medical Care..	0	0	0	0		0	0
25.7 Operation & Maintenance of Equipment...........	0	0	0	0		0	0
25.8 Subsistence & Support of Persons...................	0	0	0	0		0	0
26.0 Supplies and Materials.....................................	47	18	77	95		95	94
31.0 Equipment..	75	54	21	75		75	75
32.0 Lands and Structures.......................................	0	0	0	0		0	0
33.0 Investments & Loans..	1,802	0	870	870		870	740
41.0 Grants, Subsidies...	39,036	0	26,330	26,330		26,330	15,637
42.0 Insurance Claims & Indemn.............................	0	0	0	0		0	0
43.0 Interest and Dividends………………………….	0	0	0	0		0	0
44.0 Refunds..	0	0	0	0		0	0
Total Budget Authority………………………………….	$54,450	$7,821	$32,179	$40,000	$0	$40,000	$28,557
Budget Activities:							
Community Development Financial Institutions Program	$30,969	$0	$23,007	$23,007		$23,007	$24,437
New Markets Tax Credit Program	4,254	4,314	(512)	3,802		3,802	4,120
Bank Enterprise Awards Program	13,417	0	9,591	9,591		9,591	0
Native Initiatives	5,810	0	3,600	3,600		3,600	0
Portfolio Management	0	3,507	(3,507)	0		0	0
Total Budget Authority………………………………….	$54,450	$7,821	$32,179	$40,000	$0	$40,000	$28,557

2B – Appropriation Language

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND PROGRAM ACCOUNT *To carry out the Community Development Banking and Financial Institutions Act of 1994 (Public Law 103–325), including services authorized by 5 U.S.C. 3109, but at rates for individuals not to exceed the per diem rate equivalent to the rate for ES–3, $28,557,000, to remain available until September 30, 2009, of which up to $12,200,000 may be used for administrative expenses, including administration of the New Markets Tax Credit, up to $2,500,000 may be used for the cost of direct loans, and up to $250,000 may be used for administrative expenses to carry out the direct loan program: Provided, That the cost of direct loans, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974, as amended: Provided further, That these funds are available to subsidize gross obligations for the principal amount of direct loans not to exceed $5,000,000.*	Eliminates unauthorized set aside for Native Initiatives.

2C – Legislative Proposals

The CDFI Fund has no legislative proposals for FY 2008.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-Rate		FY 2008 Request		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Community Development Financial Institutions Program	33	$30,969	23	$30,268	0	$0	31	$23,007	42	$24,437	35.48%	6.22%
New Markets Tax Credit Program	19	$4,254	15	$3,936	19	$4,314	19	$3,802	21	$4,120	10.53%	8.36%
Bank Enterprise Awards Program	6	$13,417	5	$13,286	0	$0	7	$9,591	0	$0	-100.00%	-100.00%
Native Initiatives	10	$5,810	5	$5,416	0	$0	6	$3,600	0	$0	-100.00%	-100.00%
Portfolio Management	0	$0	0	$0	16	$3,507	0	$0	0	$0	0.00%	0.00%
Subtotal New Appropriated Resources	68	$54,450	48	$52,906	35	$7,821	63	$40,000	63	$28,557	0.00%	-28.61%
Other Resources:												
Unobligated Balances	0	$4,033	0	$3,602	0	$0	0	$2,046	0	$500	0.00%	-75.56%
Offsetting Collections	0	$732	0	$682	0	$0	0	$1,000	0	$1,000	0.00%	0.00%
Recoveries	0	$1,481	0	$1,431	0	$0	0	$2,000	0	$1,000	0.00%	-50.00%
Subtotal Other Resources	0	$6,246	0	$5,715	0	$0	0	$5,046	0	$2,500	0.00%	-50.46%
Total Resources Available for Obligation	68	$60,696	48	$58,621	35	$7,821	63	$45,046	63	$31,057	0.00%	-31.05%

3A – Community Development Financial Institutions Program *($24,437,000 from direct appropriations):* The CDFI Program enables the Fund to carry out its mission of expanding the capacity of financial institutions to provide credit, capital and financial services to underserved populations and communities in the United States. The CDFI Program also addresses Treasury's strategic objective to increase economic growth and create jobs. The program is comprised of three components: Financial Assistance, Technical Assistance, and Training.

- Financial Assistance awards are only provided to entities that have been certified by the Fund as meeting the statutory criteria to be a CDFI. Because of the wide range of institution types that can be certified as CDFIs, the financial assistance application process contains a degree of complexity not shared by other Fund award programs. Each applicant must describe and demonstrate its financial health, management capacity, and ability, based on historic and future projected activity, to deliver a product or service that will increase access to capital, credit and quality financial services in underserved communities. For every $1 in financial assistance awards, awardees are able to raise an additional $27, so the approximately $12.4 million in FY 2008 FA awards should result in an additional $335 million raised and deployed into low income communities.
- Technical Assistance grants serve to secure a sound foundation for developing CDFIs and can be used for training, technology and other one-time costs generally related to start-up or major growth phases of a CDFI.
- Training programs are designed to support identified areas of skills improvement for CDFIs and other members of the financial service industry. The program supports Treasury's objective to increase economic growth and create jobs by providing needed education and support for skills development to enable relevant parties to deliver or utilize financial services.

Other Resources: Other resources of funds in FY 2008 total $2,500,000 which are available for use by the CDFI Program, as follows (amounts in thousands):

	Amount Available
Unobligated Balances	
Consists of amounts appropriated for FY 2007 not obligated by the end of that fiscal year. The Fund's appropriations are available for use over a two-year period	$ 500
Offsetting Collections	
Consists of investment income as well as the proceeds from the redemption of investments, available for new awards	$ 1,000
Recoveries	
Consists of awards obligated during FY 2007 which were subsequently deobligated, and so are available for obligation in FY 2008.	$ 1,000
	$ 2,500

The Fund's Financial Assistance Awards Pay for Themselves

Financial assistance (FA) awards in the form of grants, loans and equity investments are used by awardees to invest in businesses and real estate in economically distressed areas. These investments create jobs and increase the amount of residential housing and commercial real estate.

These jobs created, along with the increase in residential housing and commercial real estate, result in an increase in tax revenue (consisting of Federal, state and local income taxes, and social security taxes), reduce the amount of state unemployment benefits paid out, and increase the amount of local property taxes.

The Fund calculates that FA awards disbursed by the Fund during FY 2004 of approximately $68 million will create approximately 10,600 jobs, finance almost 34,000 residential housing units, and will finance $245 million of commercial real estate. **The resulting annual increase in Federal, state and local taxes and benefits will be approximately $84 million**, as follows:

- **Federal tax benefits**: an additional **$12.9 million**, consisting of Federal income and social security taxes;

- **State benefits**: an additional **$21.9 million** consisting of state income taxes and a reduction in the amount of unemployment benefits paid out; and

- **Local tax benefits**: an additional **$49.6 million** in residential and commercial real estate taxes collected.

Based on the above, Fund FA awards pay for themselves in five years with just the increase in Federal tax revenue alone. When state and local benefits are factored in, Fund awards pay for themselves in a single year

3.2.1 – Community Development Financial Institutions Program Budget and Performance Plan

Dollars in Thousands

Community Development Financial Institutions Program Budget Activity	Includes Strategic Objective E1A				
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$41,160	$31,560	$30,969	$0	$24,437
Other Resources	0	0	0	0	0
Total Operating Level	**$41,160**	**$31,560**	**$30,969**	**$0**	**$24,437**
Human Resources					
Appropriated FTE	41	33	33	0	42
Other FTE	0	0	0	0	0
Total FTE (direct and reimbursable)	**41**	**33**	**33**	**0**	**42**

Community Development Financial Institutions Program Budget Activity		Includes Strategic Objective E1A				
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Administrative costs per Financial Assistance (FA) application processed (E)	Target Actual Met		Baseline $5,130 Yes	$5,130 $8,710 No	$6,920	$5,130
Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance. (in millions) (Oe)	Target Actual Met	$669 $1,300 Yes	$500 $1,800 Yes	$1,100 $1,400 Yes	$861	$643
Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI Program Awardees and New Markets Tax Credit (NMTC) Allocatees (Oe)	Target Actual Met	5,852 9,212 Yes	26,995 23,656 No	29,158 22,329 No	34,009	37,000

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

FY 2007 Performance Targets are based on the FY 2007 CR-rate

Description of Performance:

In fiscal year 2006, the Fund made $24 million in FA awards to CDFIs that primarily serve rural and urban low-income communities.

In FY 2006, the Fund reported that it significantly exceeded the $1.1 billion private leverage goal for FA funds by leveraging $1.4 billion in private and non-CDFI Fund dollars. The Fund also exceeded the reported FY 2004 and FY 2005 private leverage goals. Furthermore, awardees have reported greater project leverage by partnering with other entities to finance projects. Overall, the leverage ratio has increased from $20:$1 to $27:$1 from fiscal year 2004 to fiscal year 2006.

FY 2005 was the second year in a row that the Fund greatly exceeded the established target of leveraging its award dollars. As a result, in November 2005, the Fund adjusted the outyear targets which are now based on these higher actual leverage ratios to ensure that the targets are challenging, yet realistic.

The table above shows performance information pertaining to the number of jobs created or retained for all budget activities. The breakdown of this information by budget activity is as follows:

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Target					
CDFI	5,852	5,417	7,132	5,990	5,615
NMTC	Baseline	21,288	22,026	28,019	31,385
BEA*	-	250	-	-	-
Total Target	**5,852**	**26,955**	**29,158**	**34,009**	**37,000**
Actual					
CDFI	7,179	12,335	13,777	NA	NA
NMTC	905	11,321	8,552	NA	NA
BEA*	1,128	NA	NA	NA	NA
Total Actual	**9,212**	**23,656**	**22,329**	**NA**	**NA**

*The BEA Program was a component of the target number in FY 2005.
The performance measure was rewritten and BEA is no longer included.

The Fund did not achieve the goal of 29,158 full-time equivalent (FTE) jobs expected for FY 2006. The shortfall is driven by an overestimate of the number of jobs that the NMTC program would create or maintain per year. The Fund developed the FY 2006 NMTC FTE jobs target based on data from the allocatees' FY 2003 performance. The Fund encountered two difficulties when working with the FY 2003 data set. First, the data set is small representing only eight organizations and 28 transactions. Second, the data set represents the initial year of the NMTC activity, so the transactions may not be "typical" moving forward. The Fund is currently reviewing allocatees' FY 2005 actual performance data. Once these data are final, the Fund plans to use them and the FY 2004 actual performance data to revise future year performance targets.

3B – New Markets Tax Credit Program *($4,120,000 from direct appropriations):* The NMTC Program spurs investment of private capital into a range of privately managed investment vehicles called Community Development Entities (CDEs). CDEs apply for allocations of NMTCs through annual, competitive allocation rounds. CDEs receiving an allocation of tax credits provide tax credits to private sector investors in exchange for equity investments in the CDEs. The CDEs then use the proceeds from these equity investments to make loans and equity investments in New Markets businesses located in and serving economically distressed communities. The investors in the CDEs receive a credit against Federal income taxes for making the qualified equity investments, which must in turn be used to invest in low-income communities. The credit provided to investors totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. A total of $19.5 billion in investor capital will be raised under the NMTC Program. Four funding rounds have been completed corresponding to tax credit allocations supporting $12.1 billion in private sector capital, with the final round to occur in FY 2008. The final allocation round will provide tax credit allocations supporting $3.5 billion in investor capital.

The Gulf Opportunity Zone legislation, passed in December of 2005 to reach areas harmed by Hurricane Katrina, authorized the Fund to provide an allocation of tax credits supporting an additional $1 billion of investor capital to qualified applicants in Alabama, Mississippi and Louisiana. The Fund allocated tax credits supporting $600 million of this amount in addition to the $3.5 billion it awarded in the fourth round in 2005. The Fund will allocate tax credits supporting the remaining $400 million when it makes the 2007 allocation of $3.5 billion.

The FY 2008 budget request will fund the costs required to administer the NMTC program (because it is a tax credit program, there is no required program funding such as under the Fund's grant programs).

3.2.2 – New Markets Tax Credit Program Budget and Performance Plan

Dollars in Thousands

New Markets Tax Credit Program Budget Activity					Includes Strategic Objective E1A
Resource Level	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 President's Budget**	**FY 2008 Request**
Financial Resources					
Appropriated Resources	$4,700	$6,494	$4,254	$4,314	$4,120
Other Resources	0	0	0	0	0
Total Operating Level	**$4,700**	**$6,494**	**$4,254**	**$4,314**	**$4,120**
Human Resources					
Appropriated FTE	19	19	19	19	21
Other FTE	0	0	0	0	0
Total FTE (direct and reimbursable)	**19**	**19**	**19**	**19**	**21**

New Markets Tax Credit Program Budget Activity						Includes Strategic Objective E1A
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Administrative costs per number of New Markets Tax Credit (NMTC) applications processed ($) (E)	Target Actual Met		Baseline $5,390 Yes	$5,390 $4,360 Yes	$4,875	$5,390
Amount of investments in low-income communities that Community Development Entitites (CDEs) have made with capital raised through their New Markets Tax Credit (NMTC) tax credit allocations ($ in billions)(Oe)	Target Actual Met	Baseline $0.1 Yes	$1.4 $1.1 No	$1.6 $2 Yes	$2.1	$2.5

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

FY 2007 Performance Targets are based on the FY 2007 CR-rate

Description of Performance:
In fiscal year 2006, the Fund made $4.1 billion in tax credit allocations, providing recipients the potential ability to raise this amount of capital to invest in low-income communities. The Fund works closely with the IRS to implement this program.

In FY 2006, CDEs exceeded the anticipated $1.6 billion in Qualified Low Income Community Investments (QLICIs), by closing $2.0 billion in QLICIs. Given the newness of the NMTC Program, the Fund is just beginning to get a realistic picture of how quickly the NMTC dollars will flow. The Fund will continue to analyze the increasing rate that allocatees raise equity and make qualified investments, and use this analysis to set appropriate targets going forward.

Currently performance pertaining to the number of jobs created or maintained, as it pertains to the NMTC Program, is included in the measure found under the CDFI Program budget activity on page 10.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents

Direct FTE		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		50	48	63
Increases:				
Reason #1:	Backfilling of prior-year and current-year vacant positions.	4	20	10
Subtotal, Increases		4	20	10
Decreases:				
Reason #1:	Normal Attrition.	-6	-5	-6
Reason #2:	Net reduction due to reduction in program funding.			-4
Subtotal, Decreases		-6	-5	-10
Year-end Actual/Estimated FTEs		48	63	63
Net Change from prior year SOY to budget year EOY				15

4A – Human Capital Strategy Description

The FY 2007 CR-Rate provides resources for the Bank Enterprise Award (BEA) program, Native Initiatives, and the CDFI program. This $40 million budget will also fund the administrative costs for operating the New Markets Tax Credit Program.

A total of 7 FTEs administer the BEA Program of which 4 FTEs pertain to specific individuals and 3 FTEs pertain to BEA-related tasks performed by several people. All BEA-related skills are transferable to other Fund activities. Without the need to administer the BEA Program in FY 2008, the Fund will transfer the 7 BEA FTEs to other Fund activities, and not hire any new positions in FY 2008. The Human Capital Challenge for FY 2008 is to manage the number of FTEs and the related skill sets in FY 2007 to minimize the need for any FTE changes in FY 2008 and thereafter in the event of program funding changes.

In addition, the FY 2008 budget request does not include the separate set aside for Native Initiatives. The related FTEs used to administer the Native Initiatives program will instead be used to administer the CDFI Program.

4.2 – Summary of IT Resources Table

Dollars in Millions

Major IT Investments /1	Budget Activity/Funding Source	Identify the Program that the System is Aligned to	FY 2005 Operating Plan	FY 2005 Obligations	FY 2006 Operating Plan	% Change from FY05 Actuals to FY06	FY 2007 President's Budget	% Change from FY06 to FY07	FY 2008 Request	% Change from FY07 to FY08
None										
Subtotal, Major IT Investments			$0.0	$0.0	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%
Non-Major IT Investments										
Community Investment Impact System (CIIS)	Community Development Financial Institutions and New Markets Tax Credit Programs	Community Development Financial Institutions and New Markets Tax Credit Programs	0.65	1.00	0.67	-33.0%	0.00	-100.0%	0.45	100.0%
Subtotal, Non-Major IT Investments			$0.65	$1.00	$0.67	-33.0%	$0.00	-100.0%	$0.45	100.0%
Infrastructure Investments										
CDFI Infrastructure (Telecommunications)	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	0.20	0.20	0.20	0.0%	0.15	-25.0%	0.23	53.3%
CDFI Infrastructure (Office Automation)	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	2.26	2.46	2.69	9.3%	0.75	-72.3%	1.18	58.4%
CDFI Infrastructure (IT Security)	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	0.24	0.11	0.36	227.3%	0.00	-100.0%	0.36	100.0%
CDFI Infrastructure (Infrastructure)	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	0.32	0.08	0.19	137.5%	0.10	-47.4%	0.12	20.0%
Subtotal, Infrastructure Investments			$3.02	$2.85	$3.44	20.7%	$1.00	-71.1%	$1.89	89.9%
Enterprise Architecture										
None										
Subtotal, Enterprise Architecture			$0.00	$0.00	$0.00	0.0%	$0.00	0.0%	$0.00	0.0%
Total IT Investments			$3.67	$3.85	$4.11	6.8%	$1.00	-75.8%	$2.34	135.2%

/1 These investments do *not* meet the criteria for OMB's Exhibit 300

4B – Information Technology Strategy

The CDFI Fund does not have any Major IT investments (using Department of the Treasury guidelines for defining Major IT investments), and, as such, is not required to submit an OMB 300. The CDFI Fund does, however, have a formal IT review and planning process which is overseen by the Technology Investment Board Executive Committee (TIBEC), which consists of three senior agency officials and is advised by the Chief Information Officer. The goal of this committee is to ensure that the CDFI Fund's IT investments are tied to the organization's strategic plan, support the agency's mission and remain strictly within the approved budget. The TIBEC also ensures that the agency's IT strategic goals conform with required legislation and Treasury and Presidential goals, such as the Federal Information Security Management Act (FISMA), Grants.gov and the Grants Management Line of Business.

4.3 – PART Evaluation Table

PART Name:	Bank Enterprise Award (BEA) Program
Year PARTed:	FY 2002
Rating:	Results Not Demonstrated/Measures Adequate

OMB Major Findings/Recommendations

1. While there is some evidence that BEA awardees use awards to reinvest in community development initiatives, program results are hard to measure because it cannot be determined how awardees would behave in the absence of the program.
2. As the award is for past performance, there are no prospective performance requirements on how awardees spend award funds. This prevents the Fund from ensuring that program awardees commit to the long-term goals of the program.
3. Conduct an independent evaluation of the program.
4. Measure progress in meeting long-term outcome goals and annual performance goals.
5. Make statutory changes to the authorizing legislation that would clearly distinguish this program from the mandates of the Community Reinvestment Act and would insure that award funds are spent on community development activities.

Bureau Actions Planned or Underway

1. The Fund determined that it could more effectively achieve its strategic objectives if the BEA Program regulations and NOFA were revised to target awards:

   To CDFIs with a greater need for the incentive provided by the BEA Program award, and

   To "personal wealth" and "community asset" building activities.

   The BEA Program revised interim rule and subsequent NOFAs contain several revisions to ensure that the program:

   Better targets awards to community development activities in distressed areas, and

   Achieves greater operational efficiencies for applicants and the Fund.
2. The Fund had been planning to conduct an evaluation of the BEA Program in FY 2006 but discontinued that planning when it was believed that the Program would cease to exist in FY 2006.
3. The Fund had been planning to conduct an evaluation of the BEA Program in FY 2006 but discontinued that planning when it was believed that the Program would cease to exist in FY 2006. Congress ultimately appropriated funding for the BEA Program in FY 2006. As part of its FY 2006 appropriation, Congress requested that GAO perform a review of the BEA Program, which was recently completed. The GAO issued its report in July 2006.
4. The Fund began measuring progress toward meeting long-term and annual goals in FY 2003 and has measured progress annually since then.
5. The Fund considered amending the BEA statute to allow it to make awards based on prospective commitments to engage in innovative investment activities but determined that it was not politically feasible.

PART Name:	CDFI Fund: Finance and Technical Assistance
Year PARTed:	FY 2004
Rating:	Adequate

OMB Major Findings/Recommendations

1. The CDFI Program is not unique because several states administer similar programs and CDFIs can use private sector equity investment to accomplish activities they otherwise would accomplish with CDFI Fund awards.
2. Set a target and timeframe for the second long-term measure.
3. Establish a baseline for the efficiency measure, set a target, and measure progress in achieving this target.
4. Make disaggregated program performance data available to the public.
5. Conduct an independent evaluation of the program.

Bureau Actions Planned or Underway

1. The Fund is not taking any action related to the duplication/redundancy finding because:
    a. Fewer than 10 states administer CDFI programs and none of these state programs fully meets the capital needs of the CDFIs in its state. Furthermore, CDFIs in 40 states do not have access to any state CDFI program.
    b. There are too few private sector equity investments available to meet CDFIs' needs for capital.
2. The Fund has built the IT system needed to set a target for the second long-term measure.
3. The Fund conducted the analysis needed, set the baseline for the efficiency measure and began measuring progress in FY 2006.
4. The Fund made disaggregated data available to the public in January 2005 and will continue to do so annually.
5. A contract to evaluate the program was awarded in FY 2005 and is currently underway.

PART Name:	New Markets Tax Credit (NMTC)
Year PARTed:	FY 2004
Rating:	Adequate

OMB Major Findings/Recommendations

1. The program is not unique because other federal, state and local tax credit programs are available and because numerous programs at HUD (CDBG) and Commerce (EDA) augment the NMTC Program goal of improving low-income communities.
2. Set targets for the annual performance measures and measure performance in achieving them.
3. Establish a baseline for the efficiency measure, set a target, and measure progress in achieving this target.
4. Conduct an independent evaluation of the program.

Bureau Actions Planned or Underway

1. The Fund is not taking any action on the duplicative/redundancy finding because, in the Fund's opinion, the other available programs complement rather than duplicate the NMTC Program.
2. NMTC Program allocatees submitted data in June 2005 that the Fund needed in order to set performance measure targets. The Fund set targets and began measuring its achievements in FY 2005.
3. The Fund conducted the analysis needed, set the baseline for the efficiency measure and began measuring progress in FY 2006.
4. In FY 2005 the Fund issued an RFP for an independent evaluation of the program and the multi-year evaluation began in the last quarter of FY 2006.

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

Financial Crimes Enforcement Network

Mission Statement

To safeguard the nation's financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
Salaries and Expenses	Enacted	President's Budget	CR-rate	Request	$ from CR-rate	% from CR-rate
BSA Administration and Analysis	$64,458	$81,143	$62,132	$76,889	$14,757	23.75%
Regulatory Support Programs	8,436	8,651	8,436	8,955	519	6.15%
Total Appropriated Resources	**$72,894**	**$89,794**	**$70,568**	**$85,844**	**$15,276**	**21.65%**

FY 2008 Priorities

- Improve project management practices throughout the organization for information technology and non-information technology planning; and

- Strengthen recovery capability for mission-critical information technology systems and emergency operation capabilities in the event of a sustained outage or other emergency.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Financial Crimes Enforcement Network (FinCEN), a bureau within Treasury's Office of Terrorism and Financial Intelligence, is responsible for administering the Bank Secrecy Act (BSA). The BSA requires financial instituions to file reports on certain types of financial activity and to establish appropriate internal controls to guard against money laundering, terrorist financing, and other types of illicit finance. FinCEN fulfills its responsibility as BSA administrator by supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; building global cooperation with counterpart financial intelligence units; and networking people, ideas, and information.

FinCEN's administration of the BSA has helped create transparency in the financial system, thus strengthening the nation's defenses against criminals that launder illicit proceeds in the United States. FinCEN's use of powerful tools, such as the BSA and the USA PATRIOT Act, help accomplish its mission of protecting the financial system from abuse.

Finally, FinCEN's vision is to become an adaptive, responsive organization through efficient and effective collaboration with applicable individuals, entities, and agencies.

FinCEN's priorities are linked to the following strategic goals:

- Protecting the financial system through effective administration of the BSA;
- Combating terrorism, money laundering, and other financial crime through analysis of BSA data and other relevant information;
- Intensifying international anti-money laundering collaboration through the global network of financial intelligence units; and
- Facilitating regulatory compliance, data management, and information sharing through E-Government.

1B – Program History and Future Outlook

To fulfill its mission, goals and priorities, FinCEN: (1) issues, interprets, and enforces compliance with regulations implementing the BSA, including provisions of Title III of the USA PATRIOT Act; (2) supports and oversees compliance examination functions delegated to other federal regulators; (3) manages the collection, processing, storage, and dissemination of BSA data; (4) maintains a government-wide access service to the BSA data and networks users with overlapping interests; (5) in coordination with Treasury's Office of Intelligence and Analysis, conducts analysis in support of policy makers, law enforcement, regulatory and intelligence agencies, and the financial industry; and (6) coordinates with and collaborates on anti-terrorism and anti-money laundering initiatives with domestic law enforcement and intelligence agencies, and with the foreign financial intelligence unit counterparts.

FinCEN works closely with federal and certain state regulatory agencies that examine financial institutions for BSA compliance to ensure consistency across regulated industries in the examination for compliance and with the application of BSA requirements. Through these efforts and direct outreach, FinCEN also assists regulated financial institutions in establishing risk-based anti-money laundering programs with appropriate policies, procedures, and internal controls, maintaining certain records, and filing reports on certain types of financial activity, as required under the BSA. As appropriate, FinCEN investigates alleged violations, and issues letters of caution or warning. When required, FinCEN imposes civil money penalties for egregious BSA violations.

FinCEN supports law enforcement agencies, intelligence agencies, and foreign Financial Intelligence Units (FIU) investigating financial crimes by providing specialized and unique analysis of the BSA data along with data from law enforcement, intelligence, and commercial sources. FinCEN's analyses support regulatory and policy decisions, and are used to develop threat assessments, industry reports, and technical guides describing financial transaction mechanisms. The analysis links data collected under the BSA with other data to provide support for regulatory and policy decisions, to support law enforcement agencies investigating financial crimes, and to support intelligence agencies. FinCEN proactively identifies individuals and networks with suspicious financial activity and refers that information to appropriate law enforcement agencies.

In the global arena, FinCEN supports international initiatives to educate other jurisdictions about the BSA regulatory regime and to establish international anti-money laundering regulatory standards and norms. The bureau also seeks to expand and organize the exchange of financial information; improve the expertise and capabilities of personnel in money laundering and terrorist financing areas; and foster better and more secure communication among FIUs through technology.

As administrator of the BSA, FinCEN must ensure the effective collection, management, and dissemination of the highly sensitive confidential information collected under the Act. FinCEN provides direct access to BSA data to authorized law enforcement, regulatory, and intelligence agencies. FinCEN will continue to integrate and modernize the various components of the BSA data collection and sharing systems. These efforts include upgrading the BSA E-Filing system to provide a more robust collection function, improving the quality of BSA data by preventing the omission of critical information, validating the information collected, and upgrading the BSA analytical tools used by FinCEN analysts.

FinCEN's regulatory efforts focus on meeting the expectations of both the regulated communities and those who examine for BSA compliance, and better protecting the financial system through effective administration of the BSA. Specific FY 2006 accomplishments in the regulatory area were:

- Enhanced outreach to regulated industries through increased written and oral guidance concerning BSA requirements;

- Issued a final rule requiring financial institutions to implement appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls regarding correspondent accounts established or maintained for certain foreign financial institutions and appropriate, specific due diligence policies, procedures, and controls and, where necessary, enhanced scrutiny regarding private banking accounts established or maintained for non-U.S. persons, in accordance with Section 312 of the USA PATRIOT Act;
- Issued a final rule requiring mutual funds and certain insurance companies to report suspicious activity;
- Proposed a rule imposing special measures against foreign financial institutions determined to be of primary money laundering concern, in accordance with Section 311 of the USA PATRIOT Act;
- Signed additional information sharing agreements for the exchange of BSA examination information with state banking and credit union authorities; and
- Issued major enforcement actions for egregious BSA violations.

FinCEN will expand regulatory efforts in FY 2007/FY 2008 to include:

- Implementing regulatory amendments and other modifications relating to money services businesses, subsequent to a review of the existing regulatory framework and current issues;
- Continuing to draft an anti-money laundering program rule for loan and finance companies;
- Finalizing anti-money laundering program rules for investment advisers, commodity trading advisors, commodity pool operators, and unregistered investment companies;
- Continuing a review of the company service provider/corporate agent industry to determine the appropriateness of issuing guidance/advisories and/or an anti-money laundering program requirement for that industry;
- Increasing coordination with other agencies to identify and educate unregistered and/or unlicensed money services businesses;
- Increasing efforts to provide regulatory partners with analytical products and information to identify institutions with potential compliance problems, thereby enhancing consistency across examinations;
- Continuing to issue major enforcement actions, as necessary, for systemic non-compliance with BSA requirements, including joint or concurrent actions with federal and state regulatory agencies; and
- Issuing one or more notices of proposed rulemaking to further define stored value and to require certain participants to register, file suspicious activity reports and establish customer programs.

FinCEN's analytic efforts focus on assisting federal and state regulatory authorities in identifying vulnerabilities within the financial sector and the law enforcement community in detecting, deterring and investigating terrorism funding, money laundering and financial crime. Specific FY 2006 accomplishments in the analysis area were:

- Enhanced support to law enforcement agencies by increasing advanced, specialized or unique analysis of BSA information and other records, and by providing training in advanced analytical tools to law enforcement agencies in support of terrorism and money laundering investigations;

- Published analytical products covering patterns and trends in financial crimes that serve as a basis for policy decisions and strategic action to reduce the threat of financial crime. Also published a technical industry reference guide for law enforcement officials;
- Completed collaborative analytic efforts with other organizations, including foreign financial intelligence units;
- Published two editions of FinCEN's *SAR Activity Review-By the Numbers*, a compilation of numerical data gathered from Suspicious Activity Reports (SARs) filed since 1996 and used by financial institutions, law enforcement, regulators and other readers;
- Completed assessment of potential money laundering vulnerabilities associated with limited liability companies;
- Continued to support candidate FIUs in the Middle East, Asia and Africa for admission to the Egmont Group, conducted on-site assessments of potential new members, and provided technical assistance to a number of key countries with emerging FIUs;
- Supported Treasury initiatives by identifying jurisdictions or institutions as candidates for imposition of special measures under section 311 of the USA PATRIOT Act; and
- Participated in the Financial Action Task Force (FATF) and the global network of FATF-style regional bodies. This included coordinating development of a FATF multilateral database of money laundering and terrorist financing cases, for use in researching financial crime trends and indicators.

FinCEN will continue to develop and enhance its analytical and technical capabilities in FY 2007/2008, especially in the area of advanced or unique BSA analysis. These efforts include:

- Improving the pro-active evaluation, analysis and referral of potential terrorism-related Suspicious Activity Reports (SAR) to the law enforcement and intelligence communities;
- Improving capabilities and methodologies for geographic and industry threat assessments and for financial analysis;
- Producing an annual threat/targeting assessment of the Southwest Border;
- Developing better customer access to FinCEN's strategic products through its secure and public web sites;
- Increasing the number of analyst exchanges with partner FIUs;
- Increasing outreach to U.S. law enforcement and regulatory agencies to educate them on the benefits provided by the global network of FIUs in terms of investigative and intelligence resources and information sharing;
- Improving the expertise and capabilities of personnel in money laundering and terrorist financing areas; and
- Fostering more secure communication among FIUs through the application of technology.

FinCEN's BSA data collection and sharing efforts focus on improving its overall information infrastructure and enhancing its IT management capabilities. Specific FY 2006 accomplishments related to the collection and sharing of BSA data were:

- Executed memoranda of understanding with 34 law enforcement and intelligence agencies for access to the BSA Data;
- Modernized the Secure Outreach access system, 314(a) system, and 90 percent of the Egmont Secure Web System upgrade;
- Increased the percentage of BSA reports filed electronically by 19 percent by providing outreach and technical assistance to the largest filers;
- Established a monitoring program to improve the quality of SAR data, by identifying the critical fields that are most often left blank; and
- Conducted a feasibility study regarding a cross-border wire transfer system, as mandated by the Intelligence Reform and Terrorism Prevention Act of 2004.

FinCEN will accelerate data collection and sharing efforts in FY 2007/FY2008 to include:

- Creating an action plan to improve data management and analysis as a follow-on to the BSA Direct retrieval and sharing component project assessment;
- Upgrading various technology components to meet the expanded user population, increasing electronic filing alternatives, and enhancing the ability to integrate additional text/data mining tools;
- Conducting a cost-benefit analysis with the financial services industry and law enforcement to determine the benefits and costs to all parties affected by the potential regulatory requirement of the cross-border electronic funds system, and, if a final decision is made by Treasury to proceed, beginning development of the technological systems required to receive, securely store, analyze and disseminate these data;
- Establish and maintain a disaster recovery capability for critical systems to minimize or eliminate system downtime in the event of the loss of access or system use at FinCEN's primary location; and
- Enhance project management capability and oversight of information technology projects by expanding Capital Investment Planning, Enterprise Architecture, Configuration Management and Change Management controls.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Appropriation: Appropriation Name	FTE	Amount
FY 2006 Appropriation (P.L. 109-115)	**330**	**$73,630**
Rescission (P.L. 109-148)	0	$(736)
FY 2006 Enacted	**330**	**$72,894**
FY 2007 President's Budget	**352**	**$89,794**
CR-rate Adjustment	(18)	(19,226)
FY 2007 CR-rate	**334**	**$70,568**
Changes to Base:		
Technical Adjustment to FY 2007 Base due to CR:		
Annualization of the FY 2006 Initiatives	18	2,498
FY 2007 Initiatives		3,373
FY 2007 MCL		3,395
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		1,335
Pay Annualization		203
Pay Inflation Adjustment		1,239
Initiative Annualization:		
Annualization of FY 2007 Initiative: BSA E-Filing		740
Total FY 2008 Base	**352**	**$83,351**
Program Increases:		
Disaster Recovery Capability		743
Enhance Project Management Capability	4	1,750
Subtotal FY 2008 Program Changes	**4**	**2,493**
Total FY 2008 Request	**356**	**$85,844**

2A – Budget Increases and Decreases Description

Adjustments ....-$19,226,000 / -18 FTE

CR-rate Adjustment -$19,226,000 / -18 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

Technical Adjustment to FY 2007 Base due to CR ....+$9,266,000 / +18 FTE

Annualization of the FY 2006 Initiatives +$2,498,000 / +18 FTE This provides additional funding to annualize the staffing initiative approved in FY 2006. The increased staff enables the bureau to better assess and respond to the challenges posed by terrorist financiers and operatives, money launderers, and other perpetrators of financial crime against domestic and global financial systems.

FY 2007 Initiatives +$3,373,000 / +0 FTE Restores requested funding for FY 2007 increases for BSA E-Filing ($873,000) and the Cross-Border Wire Transfer ($2,500,000). The BSA E-Filing funds will enable FinCEN to implement enhancements to improve operations of the Bank Secrecy Act (BSA) collection processes, including reference number assignment, error notification or other correspondence, and improved editing of certain types of filing errors. The requested Cross-Border Wire Transfer System funds will enable FinCEN to begin the design and, if the Secretary gives final approval, the initial development of the technological systems required to receive, securely store, analyze, and disseminate reports of cross-border electronic funds transfers. This is in accordance with the Intelligence Reform Act of 2004, Section 6302.

FY 2007 MCL +$3,395,000 / +0 FTE This provides restoration of funding required for the FY 2007 costs of the FY 2006 pay increase of $229,000; the proposed January 2007 pay raise and other labor related benefits of $635,000; non-labor related items such as contracts, travel, supplies, equipments, and GSA rent adjustments of $1,065,000, and deferred replacement of information technology equipment and other planned contracts of $1,466,000.

Maintaining Current Levels (MCLs) ....+$2,777,000 / +0 FTE
Non-Pay Inflation Adjustment +$1,335,000 / +0 FTE Funds are requested for non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments.

Pay Annualization +$203,000 / +0 FTE Funds are requested for the FY 2008 cost of the January 2007 pay increase.

Pay Inflation Adjustment +$1,239,000 / +0 FTE Funds are requested for the proposed January 2008 pay raise.

Initiative Annualization ....+$740,000 / +0 FTE
Annualization of FY 2007 Initiative: BSA E-Filing +$740,000 / +0 FTE This provides additional funding to annualize the remaining required modernization and service level increases that were included in the FY 2007 Budget Request. The BSA E-Filing program has experienced continued success in increasing the number of filers and electronic filings. To meet the future 90 percent E-filing target, FinCEN must increase funding to support the expected user population. For example, with every 10 percent increase in E-filing volumes, additional support staff is required. In addition, most filers require a test on the filing system prior to beginning live input, requiring additional contractor assistance. To improve the system, FinCEN will continue to expand options for single form filers, including the new pdf format option began in FY 2007. Finally, overall improvements are in the system network (which also goes with the implementation of IPV6) in terms of adding capacity, networking equipment upgrades, and backup capabilities.

Program Increases ....+$2,493,000 / +4 FTE
Disaster Recovery Capability +$743,000 / +0 FTE Funds are requested to provide ongoing site maintenance, telecommunications and system hosting for the critical information technology system disaster recovery site established in FY 2006/2007 through redirection of one-time prior year funding. By establishing this capability for critical system redundancy, FinCEN has reduced the system recovery time from six months to four hours and significantly reduced the risk of losing access to critical systems. The maintenance of the disaster recovery capability will allow FinCEN, in the event of a sustained outage or other emergency, to continue critical systems that access the BSA data through the Secure Outreach portal, provide 314a information sharing capability with financial institutions, allow Financial Intelligence Units to reply to requests for information, or continue to receiving new BSA reports through the BSA E-Filing system.

Enhance Project Management Capability +$1,750,000 / +4 FTE The 2008 President’s Budget request includes additional resources to meet OMB, Treasury and GAO recognized requirements to improve FinCEN’s project management capability. A recent review of FinCEN’s programs has identified a need to strengthen project management practices throughout the organization, including both information technology and non-information technology projects. A portion of this initiative will fund IT program and support activities including capital planning, enterprise architecture, information security, and contractor technical assistance. FinCEN has traditionally performed many of these activities as a collateral duty with limited assistance from the Federal Funded Research and Development Centers (FFRDC) and private contractors. Another portion of this initiative will fund project management oversight to ensure successful planning and execution for all of FinCEN's project management efforts.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: FMS Salaries & Expenses	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogramming	FY 2007 Proposed Operating Level	FY 2008 Requested Level
FTE	330	352	(18)	334		334	338
Object Classification:							
11.1 Full-Time Permanent Positions....................................	$27,310	$29,345	($1,434)	$27,911		$27,911	$30,790
11.1 Other than Full-Time Permanent Positions.............	284	284		284		284	284
11.5 Other Personnel Compensation..................................	526	526		526		526	526
11.8 Special Personal Services Payments....................	0	0		-		-	-
11.9 Personnel Compensation (Total)............................	28,120	30,155	(1,434)	28,721		28,721	31,600
12.0 Personnel Benefits..	7,156	7,789	(397)	7,392		7,392	8,433
13.0 Benefits to Former Personnel...	0	0		-		-	-
21.0 Travel..	1,332	1,561	(681)	880		880	1,490
22.0 Transportation of Things..	0	0		-		-	
23.1 Rental Payments to GSA...	4,800	4,968		4,968		4,968	5,117
23.2 Rent Payments to Others..	43	55		55		55	55
23.3 Communications, Utilities, & Misc...	1,070	995		995		995	1,273
24.0 Printing and Reproduction...	250	250		250		250	400
25.1 Advisory & Assistance Services...	522	750	(47)	703		703	1,815
25.2 Other Services..	9,279	19,642	(11,548)	8,094		8,094	11,758
25.3 Purchase of Goods/Serv. from Govt. Accts……	9,454	9,892	(623)	9,269		9,269	12,706
25.4 Operation & Maintenance of Facilities..................	960	960	(60)	900		900	960
25.5 Research & Development Contracts...............................	0	0		-		-	-
25.6 Medical Care...	120	128	(8)	120		120	145
25.7 Operation & Maintenance of Equipment.....................	6,008	6,150	(387)	5,763		5,763	4,990
25.8 Subsistence & Support of Persons...................................	0	0		-		-	-
26.0 Supplies and Materials...	369	395	(20)	375		375	409
31.0 Equipment...	3,411	6,104	(4,021)	2,083		2,083	4,693
32.0 Lands and Structures..	0	0		-		-	-
33.0 Investments & Loans...	0	0		-		-	-
41.0 Grants, Subsidies..	0	0		-		-	-
42.0 Insurance Claims & Indemn..	0	0		-		-	-
43.0 Interest and Dividends………………………………………………	0	0		-		-	-
44.0 Refunds..	0	0		-		-	-
Total Budget Authority…………………………………………	$72,894	$89,794	($19,226)	$70,568	$0	$70,568	$85,844
							-
Budget Activities:							
BSA Administration and Analysis…………………………….	$64,458	$81,143	(19,011)	62,132		62,132	76,889
Regulatory Programs…………………………….	8,436	8,651	(215)	8,436		8,436	8,955
Total Budget Authority…………………………………………	$72,894	$89,794	($19,226)	$70,568	$0	$70,568	$85,844

2B – Appropriation Language

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY FINANCIAL CRIMES ENFORCEMENT NETWORK Federal Funds **SALARIES AND EXPENSES:** *For necessary expenses of the Financial Crimes Enforcement Network, including hire of passenger motor vehicles; travel and training expenses of non-Federal and foreign government personnel to attend meetings and training concerned with domestic and foreign financial intelligence activities, law enforcement, and financial regulation; not to exceed $14,000 for official reception and representation expenses; and for assistance to Federal law enforcement agencies, with or without reimbursement, $85,844,000 of which not to exceed $16,340,000 shall remain available until September 30, 2010; and of which $8,955,000 shall remain available until September 30, 2009: Provided, that funds appropriated in this account may be used to procure personal services contracts.*	

2C – Legislative Proposals

FinCEN has no legislative proposals for FY 2008.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-Rate		FY 2008 Request		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
BSA Administration and Analysis	330	$64,458	330	$64,458	352	$81,143	334	$62,132	356	$76,889	6.59%	23.75%
Regulatory Support Programs	0	8,436		8,436	0	$8,651	0	$8,436	0	8,955		6.15%
Subtotal New Appropriated Resources	330	$72,894	330	$72,894	352	$89,794	334	$70,568	356	$85,844	6.59%	21.65%
Other Resources:												
Recoveries												
Offsetting collections - reimbursables	1	$4,473	1	$4,473	1	$1,541	1	$1,541	1	$1,541		0.00%
Available 50% Carry-over		260		260		0		0		0		
Available multi-year/no-year funds		7,028		7,028		9,353		9,353		7,028		-24.86%
Transfers In/Out												
Subtotal Other Resources	1	$11,761	1	$11,761	1	$10,894	1	$10,894	1	$8,569		
Total Resources Available for Obligation	331	$84,655	331	$84,655	353	$100,688	335	$81,462	357	$94,413	6.57%	15.90%

3A – BSA Administration and Analysis *($76,889,000 from direct appropriations and $1,541,000 from reimbursable programs):* This activity comprises FinCEN's efforts to administer the Bank Secrecy Act (BSA), such as promulgating regulations, providing outreach and guidance to the regulated industries, initiating regulatory enforcement actions, providing oversight of the compliance with the Bank Secrecy Act, and, with the Internal Revenue Service, managing the information filed by the regulated industries. Internationally, FinCEN promotes the development of anti-money laundering regimes through training and technical assistance. This activity also incorporates efforts to support large-scale, complex law enforcement investigations involving terrorist financing, money laundering, and other financial crimes. It also includes facilitating the exchange of investigative information with foreign jurisdictions, and identifying foreign and domestic money laundering and terrorist financing trends, patterns, and techniques; and liaison with and support of intelligence initiatives within the intelligence community and within Treasury.

In the regulatory area, FinCEN will be able to achieve the following FY 2008 quantifiable results and accomplishments with the requested funds:

- Process enforcement matters within the target of one year;
- Create performance targets designed to show progress based on a survey of Regulatory Resource Center customers rating guidance received as understandable;
- Continue to work toward developing measures of the impact of program activities on preventing the misuse of the financial system by those engaged in illicit activities; and
- Increase the number of information sharing agreements with federal and state regulatory agencies to 52.

In the analytical and global areas, FinCEN will be able to achieve the following FY 2008 quantifiable results and accomplishments with the requested funds:

- Increase the percentage of customers finding FinCEN's analytic reports highly valuable to 79 percent;

- Evaluate the feasibility of a better assessment of the law enforcement impact of FinCEN's products;
- Increase participation in conferences and seminars to provide enhanced technical assistance and training to financial intelligence units and foreign delegations; and
- Connect 98 percent of the countries admitted to Egmont to the Egmont Secure Web within one year of admission.

FinCEN will achieve the following FY 2008 quantifiable results and accomplishments for collecting and sharing BSA data with the requested funds:

- Increase e-filing towards the long-term target of 90 percent;
- Reduce the cost per BSA form E-filed to $0.15;
- Increase the number of top filers who file reports electronically towards the long-term goal of 650; and
- Increase the number of users accessing BSA data towards the long-term goal 10,000.

3.2.1 – BSA Administration and Analysis Budget and Performance Plan

Dollars in Thousands

BSA Administration and Analysis Budget Activity				Includes Strategic Objective F3A	
Resource Level	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 President's Budget**	**FY 2008 Request**
Financial Resources					
Appropriated Resources	$49,127	$63,635	$64,458	$81,143	$76,889
Other Resources	3,341	1,541	4,473	1,541	1,541
Total Operating Level	**$52,468**	**$65,176**	**$68,931**	**$82,684**	**$78,430**
Human Resources					
Appropriated FTE	277	309	330	352	356
Other FTE	1	1	1	1	1
Total FTE (direct and reimbursable)	**278**	**310**	**331**	**353**	**357**

BSA Administration and Analysis Budget Activity					Includes Strategic Objective F3A	
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Average time to process enforcement matters (in Years) (E)	Target	1.2	1.1	1	1	1
	Actual	1	1.3	1		
	Met	Yes	No	Yes		
Number of federal and state regulatory agencies with which FinCEN has concluded memoranda of understanding information sharing agreements (Ot)	Target		Baseline	45	50	52
	Actual		41	48		
	Met		Yes	Yes		
Percentage of BSA compliance examinations conducted on depository institutions that indicate a systemic compliance failure with their BSA program. (Ot)	Target		Baseline	Baseline	Baseline*	TBD
	Actual		7.90%	8%		
	Met					
Percentage of customers finding FinCEN's analytic reports highly valuable (Oe)	Target			Baseline	78%	79%
	Actual			77%		
	Met			Yes		
Percentage of Regulatory Resource Center customers rating the guidance received as understandable (Oe)	Target			Baseline	90%	90%
	Actual			94%		
	Met			Yes		
Percentage of customers satisfied with the BSA Direct E-Filing component (Oe)	Target			Baseline	90%	90%
	Actual			92%		
	Met			Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

*FinCEN requires three years of data to establish a baseline for this performance measure to ensure that at least one examination is included for all financial institutions covered by BSA regulations.

Description of Performance.

FinCEN conducted a baseline survey of the Regulatory Resource Center customers rating the regulatory guidance received as understandable and established an FY 2006 baseline of 94 percent. Providing understandable guidance to financial institutions is critical to establishing programs that comply with the BSA.

In FY 2007, FinCEN will continue to work toward developing improved outcome measures to address the impact of program activities on preventing the misuse of the financial system by those engaged in illicit activities. As part of the 2006 Program Assessment Rating Tool (PART) process, FinCEN established a measure for the percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule, with a baseline to be established in FY 2007. FinCEN will work toward effectively interpreting and utilizing the measure in its efforts to monitor, understand, and improve aspects of Bank Secrecy Act compliance. In addition, FinCEN will explore the feasibility of developing useful measures for other industries, such as money services businesses.

FinCEN works closely with its regulatory partners to take enforcement action against institutions that systemically and egregiously violate the provisions of the BSA, including through imposition of civil money penalties in appropriate matters. Timely enforcement action communicates urgency to financial institutions, and is paramount to deterring non-compliance. In FY 2006, FinCEN met its target measure of 1.0 years average time to process cases. The year-to-date actual result of 1.0 years reflects effective use of resources.

FinCEN supports law enforcement and its regulatory industry partners by facilitating information sharing and providing analyses of BSA data. In FY 2006, a survey of FinCEN's customers found that 69 percent rated FinCEN's analytic products as valuable, which did not meet FinCEN's 75 percent target. FinCEN's original target of 75 percent respondents rating their analytic product as valuable was established in FY 2005, and was based on one year of data. FinCEN has revised this measure as a result of the FY 2006 PART process to more accurately target its disparate audiences as well as its different products. The reformulated measure more closely ties to how BSA data is used by law enforcement, regulators and international partners to identify, stop, and prevent abuse of the financial system.

In FY 2006 FinCEN had surpassed its target of 30 days by transmitting information to Financial Institution Hotline Tip SARs within 19 days. This measure tracks the median time taken from date of receipt of Financial Institution Hotline tip SAR to transmittal of the report to law enforcement or the intelligence community.

FinCEN conducted a baseline survey of the users of the BSA Direct E-Filing system to determine the overall satisfaction level and to identify where improvements are needed. The FY 2006 results indicate that 92 percent of respondents are satisfied with the BSA Direct E-Filing system.

3B – Regulatory Support Programs *($8,955,000 from direct appropriations):* This activity supports implementation, strengthening and clarification of the anti-money laundering program, recordkeeping, and reporting requirements of the BSA for financial institutions subject to those requirements. FinCEN will also continue efforts with the Internal Revenue Service, especially related to the money services business industry, to ensure compliance, respond to public inquiries, distribute forms and publications, and support collection and maintenance of the BSA data. These resources support Internal Revenue Service BSA compliance activities for non-banking financial institutions, especially related to the money services business industry.

3.2.2 – Regulatory Support Programs Budget and Performance Plan

Dollars in Thousands

Regulatory Support Programs Budget Activity					Includes Strategic Objective F3A
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$8,104	$8,287	$8,436	$8,651	$8,955
Other Resources	0	0	0	0	0
Total Operating Level	**$8,104**	**$8,287**	**$8,436**	**$8,651**	**$8,955**
Human Resources					
Appropriated FTE	0	0	0	0	0
Other FTE	0	0	0	0	0
Total FTE (direct and reimbursable)	**0**	**0**	**0**	**0**	**0**

Description of Performance.
We will be able to achieve the following FY 2008 quantifiable results and accomplishments related to money services businesses with the requested funds:

- Support the collection and processing activities at Internal Revenue Service.
- Track the number of Money Service Businesses (MSBs) registered. The current level is 32,081 and the goal is to maintain at least that level.
- Continue efforts to identify potentially unregistered MSBs by performing the following: analyzing SAR information on a monthly basis for indications of possible unregistered MSBs; coordinating with law enforcement and state regulatory agencies on appropriate outreach; and continuing efforts to educate MSBs regarding requirements for registration by publishing guidance and participating in industry forums and events.
- Continue to investigate methods for measuring the extent of BSA compliance among MSBs.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents

Direct FTE		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		277	296	352
Increases:				
Reason #1:	Normal Accession	15	15	15
Reason #2:	New Staffing Initiatives	13	18	4
Reason #3:	Prior Year High Accessions	20	38	
Subtotal, Increases:		48	71	19
Decreases:				
Reason #1:	Normal Attrition	-15	-15	-15
Reason #2:	Extra High Attrition	-14		
Subtotal, Decreases:		-29	-15	-15
	Targets	310	352	
Year-end Actual/Estimated FTEs		296	352	356
Net Change from prior year SOY to budget year EOY				60

4A – Human Capital Strategy Description

The Financial Crimes Enforcement Network created a strategic human capital objective to attract, develop and retain a high-performing diverse workforce. The key areas of the strategic human capital objective and related accomplishments are listed below.

Strategic Alignment: Each of the four strategic objectives in FinCEN's FY 2006-2008 Strategic Plan include areas that require more employees and/or employees with enhanced skills. Additionally, the Strategic Plan has a management objective to attract, develop and retain a high-performing diverse workforce.

Workforce Planning & Deployment: FinCEN estimates that 21 percent of the current workforce will be eligible for retirement between now and FY 2010. In terms of competitive sourcing, FinCEN submitted its FY 2006 FAIR Act Inventory to the Department in April 2006, and continues to rely upon the private sector to perform its commercial activities, especially in the information technology environment.

Leadership and Knowledge Management: FinCEN leaders and managers effectively manage people and sustain a learning environment that drives continuous improvement in performance. In FY 2006, FinCEN implemented an aggressive training strategy for its managers. By the end of the fiscal year, it is anticipated that all managers will have completed external training in executive leadership competencies. In addition, all managers were trained in how to handle conduct and performance problems. FinCEN's leadership actively encourages employees to take advantage of the increased training opportunities available.

Results-Oriented Performance Culture: In order to create a results-oriented, high performing workforce, FinCEN abolished the pass/fail performance system in FY 2005 and established a new 5-tier performance management system. The new performance system requires each employee to establish an individual development plan and three individual commitments linked directly to the strategic plan. The new performance system allows managers to differentiate performance levels among employees and hold employees accountable for meeting specified performance goals and targets.

Subsequently, FinCEN implemented the Awards and Recognition Program, including the Director's Awards and Recognition Program. In May 2005, the Director's Awards Program acknowledged 11 employees of whom 18 percent were minorities and 45 percent female. Following the first year on a multi-tier performance management program, 68 percent of the workforce was rated above the fully successful level and were appropriately recognized, while .02 percent were rated below fully successful and appropriate remedial actions were taken.

Diversity: FinCEN completed several efforts to ensure a diverse workforce is maintained. Major efforts are listed below:

- Held an annual Diversity Day Conference consisting of six workshops on various topics. Approximately 70 percent of the workforce attended the conference;
- Continued participation in the Treasury Diversity Council and its support group;
- Established and maintained a Diversity Advisory Committee;
- Established a mandatory Equal Employment Opportunity (EEO)/Diversity element addressing EEO principles, workplace conflict, supporting EEO plans and diversity hiring requirements in all supervisory performance plans; and
- Created an EEO/Diversity Manager and Employee of the Year award to recognize individuals who made outstanding contributions to building and maintaining a diverse, high-quality workforce.

Talent: FinCEN established a new training office charged with developing defined paths for career progression, mentoring and coaching programs to identify and grow talent, and enhancing the skills of existing employees. In terms of mission critical occupation, FinCEN has targeted Intelligence Research Specialists and Information Technology Specialists for enhanced skills training to meet identified skills gaps. In FY 2006 specialized training was provided on improving job performance in these occupations.

Additionally, FinCEN took advantage of many hiring authorities and flexibilities within the last year. For example, in FY 2006, 16 students were hired under the Student Temporary Employment Program (STEP); 10 in FY 2005, and 8 in FY 2004. Two students have been hired under the Student Career Employment Program (SCEP). FinCEN utilized both the Veterans Employment Opportunity Act (VEOA) and the Veteran Rehabilitation Act (VRA) by making two appointments on each authority over the past three years, and within the last two years made four appointments utilizing the Outstanding Scholar Program.

Accountability: In the 3rd quarter FY 2006 Quarterly Hiring Timeline Report, FinCEN averaged 42 days, which is under the 45 day hiring timeframe. Additionally, in the Performance Appraisal Assessment Tool, FinCEN quoted Federal Human Capital Survey results indicating that 81% of FinCEN employees know how their work relates to the agency's goals and priorities and 76% feel that they are held accountable for achieving results. FinCEN was also able to clearly show distinctions of and consequences in levels of performance FinCEN just completed a workforce analysis of retirement eligibility of its Mission Critical Occupations for both 2011 and 2016 and recently did a FinCEN employee survey to follow up on some issues from the last Federal Human Capital Survey.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments (in $ Millions) Note: All years includes FTE Costs and reimbursable		FY 2005		FY 2006		FY 2007		FY 2008	
Major IT Investments	**Budget Activity**	**Operating Plan**	**Obligations**	**Operating Plan**	% Change from FY05 Obligations to FY06	**President's Budget**	% Change from FY06 to FY07	**Request**	% Change from FY07 to FY08*
BSA Direct Components									
Secure Outreach	BSA Administration and Analysis	1.9	1.9	1.9	0.0%	2.3	21.1%	2.1	-8.7%
BSA E-Filing	BSA Administration and Analysis	1.7	1.7	1.8	5.9%	3.2	77.8%	4.2	31.3%
BSA Retrival and Sharing	BSA Administration and Analysis	7.9	7.9	4.3	-45.6%				
Crossborder Wire Transfer System	BSA Administration and Analysis					10.0	N/A	2.5	-75.0%
Total Major IT Investments		**11.5**	**11.5**	**8.0**	**-30.4%**	**15.5**	**93.8%**	**8.8**	**-43.2%**
Total Non-Major IT Investments		**4.8**	**4.8**	**4.8**	**0.0%**	**8.9**	**85.4%**	**8.2**	**-7.9%**
Total Infrastructure Investments		**8.2**	**8.2**	**10.9**	**32.9%**	**9.0**	**-17.4%**	**10.9**	**21.1%**
Enterprise Architecture		**0.1**	**0.1**	**0.3**	**200.0%**	**0.2**	**-33.3%**	**0.4**	**100.0%**
Total IT Investments		**24.6**	**24.6**	**24.0**	**-2.4%**	**33.6**	**40.0%**	**28.3**	**-15.8%**

* The BSA E-Filing FY 2008 Request includes the FY 2007 President's Budget program funds plus the annualization of approved FY 2006 FTE increase, which was counted in IT Infrastructure in the FY 2007 President's Budget.

4B – Information Technology Strategy

FinCEN's Information Technology (IT) Strategic Plan is intended to provide insights into the bureau's vision of how best to leverage the rapidly evolving technology environment to satisfy its critical business goals; comply with federal mandates and guidance; and ensure FinCEN's place in the Department of the Treasury as an excellent manager of information assets. The mission of FinCEN's IT management and staff is to effectively and efficiently apply proven, commercially available products and explore new technologies in support of the organization's efforts to safeguard the financial system from the abuse of financial crime.

The goals of the FinCEN IT Strategic Plan are to: support regulatory compliance and promote electronic interchange information; facilitate analysis of collected data; facilitate the electronic dissemination of information; align the IT infrastructure with operational needs; and develop a model information resources management program. FinCEN currently has performance metrics for each major IT goal and identifies these in the IT Strategic Plan.

Performance measure highlights for each IT strategic goal are listed below:

- Goal 1: increase the number of BSA reports filed electronically, increase the number of users finding information accessed to be useful and easy to find, and decrease the timeframe required for financial institutions to begin using FinCEN systems and technologies;
- Goal 2: reduce the time needed to search the BSA data by integrating multiple data systems into one single BSA data repository;
- Goal 3: reduce the time for users to obtain authorized access to the BSA data, increase the number of BSA users and ensure that all qualifying Egmont members have access to the Egmont Secure Web;
- Goal 4: reduce the average down time for system and network maintenance; and
- Management Goal 5: expand the number of staff certified in best project management practices and increase the percentage of IT staff who report understanding of roles in the IT organization.

Projects are also continually reviewed to ensure continued modernization, especially for security purposes, or to provide cost savings.

4.3 – PART Evaluation Table

PART Name:	Bank Secrecy Act Data Collection, Retrieval and Sharing
Year PARTed:	FY 2005
Rating:	Moderately Effective

OMB Major Findings/Recommendations

1. The program has long-term performance measures that focus on the program's purpose and strategic goals, but more work is needed to measure data quality.

2. Federal managers are held accountable for cost, schedule and performance results. However, some activities are managed by another entity and are outside the scope of the performance measures.

3. The program can show improved efficiencies and cost effectiveness for collecting and sharing data. The program has been able to show substantial increases in the number of users directly accessing data, the share of filings submitted electronically,

Bureau Actions Planned or Underway

1. Surveying users to determine if they are receiving needed information in a timely manner, if the information is helpful, and if there are any problems with the information and format. This survey will be conducted in stages. A survey on BSA e–filers is the first component; FY 2006 baseline survey results show that 92 percent of the customers were satisfied with E-filing. For this component, future targets will be to maintain a score of at least 90 percent. In FY 2007, in addition to a survey for e-filing, FinCEN will begin surveying the WebCBRS and Secure Outreach users.

2. Creating targets to measure the number of top 650 filers who file reports electronically. FinCEN has created the targets and implemented the performance measure.

3. Creating a performance measure to measure the quality of information provided on Suspicious Activity Reports, possibly by measuring the number of completed fields that are critical to law enforcement. FinCEN plans to measure the critical field omission rate of E-filed SARS; FY 2005 baseline was a rate of 18%. FinCEN is working on establishing FY 2006 actuals. Targets will be decided once FinCEN has at least two years of data points. FinCEN expects to have future targets for this measure by the second quarter of FY 2007.

PART Name:	Bank Secrecy Act (BSA) Analysis
Year PARTed:	FY 2006
Rating:	Adequate

OMB Major Findings/Recommendations

1. The Financial Crimes Enforcement Network (FinCEN) currently administers a survey to its customers to evaluate the impact and usefulness of its analytic reports. The response rate for 2006 was significantly increased for financial institutions and foreign intelligence units (FIUs), but more work is needed to increase the response rate for domestic law enforcement customers.

2. FinCEN currently administers a survey to its customers to evaluate the impact and usefulness of its analytic reports, but more work is needed to develop a method for better assessing the law enforcement impact of FinCEN's analytic products.

3. FinCEN has developed plans to expand the percentage of advanced analytical products that it produces, but significant effort will be required to achieve its long-term target of 75 percent in FY 2008. FinCEN has increased the percentage of advanced analytic products from 1.6 percent in FY 2004 to 30 percent in FY 2006.

Bureau Actions Planned or Underway

1. Developing a plan to improve the survey response rate from domestic law enforcement.

2. Evaluating the feasibility of better assessing law enforcement impact of FinCEN's products.

3. Developing measures of the impact of FinCEN's efforts to strengthen anti-terrorist financing and anti-money laundering programs worldwide.

PART Name:	Bank Secrecy Act (BSA) Administration
Year PARTed:	FY 2006
Rating:	Results Not Demonstrated

OMB Major Findings/Recommendations

1. Questions have been raised concerning compliance and burden issues relating to the regulations FinCEN issues, and more time is needed to examine the costs and benefits of the reporting requirements.

2. Although FinCEN has made progress in executing memoranda of understanding agreements (MOUs) governing the exchange of information with federal and state regulatory agencies, additional time is needed to ensure BSA compliance in more vulnerable industries, particularly the money services business industry.

3. The program has annual performance measures that focus on the implementation of the Bank Secrecy Act, such as the number of MOUs that have been entered into, but more work is needed to measure the impact of program activities on preventing the misuse of the financial system by those engaged in illicit activities.

Bureau Actions Planned or Underway

1. Expanding outreach efforts to certain targeted industries to augment their understanding of the value of BSA data.

2. Developing a long-range plan to expand compliance oversight and reporting by state regulators for newly covered industries.

3. Developing measures of the impact of program activities on preventing the misuse of the financial system by those engaged in illicit activities.

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

Alcohol and Tobacco Tax and Trade Bureau

Mission Statement

To collect alcohol, tobacco, firearms and ammunition excise taxes, to ensure that alcohol beverages are labeled, advertised, and marketed in accordance with the law, and to administer the laws and regulations in a manner that protects the revenue, protects the consumer, and promotes voluntary compliance.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
Salaries and Expenses	Enacted	President's Budget	CR-rate	Request	$ from CR-rate	% from CR-rate
Collect the Revenue	$49,618	$45,376	$46,010	$47,693	$1,683	3.66%
Protect the Public	40,597	47,228	44,205	45,822	1,617	3.66%
Total Appropriated Resources	**$90,215**	**$92,604**	**$90,215**	**$93,515**	**$3,300**	**3.66%**

The activity pattern for FY 2007 should be reversed, in that Collect the Revenue should be $47,228 (51%) and Protect the Public $45,376 (49%).

FY 2008 Priorities

- Collect roughly $15 billion in excise taxes;
- Process more than 6,700 original permit applications that allow for the commencement of new alcohol and tobacco businesses and 26,000 amended permits to accommodate changes to existing businesses;
- Process over 125,000 applications for certificates of label approval that allow industry members to introduce new alcohol beverage products into the marketplace;
- Collect excise taxes for the governments of Puerto Rico and the Virgin Islands under the "cover-over" imposed on rum and distilled spirits;
- Process approximately 3,000 claims filed by manufacturers of non-beverage alcohol products resulting in drawback of $300 to $400 million;
- Collect 98 percent of the federal excise tax receipts electronically;
- Complete approximately 80 to 100 audits of large taxpayers who pay approximately $3 billion in annual federal excise taxes; and
- Conduct over 700 field investigations of alcohol and tobacco industry members including permit application investigations, responding to consumer complaints, investigating Federal Alcohol Administration Act (FAA) trade practice violations, and conducting alcohol beverage product integrity verifications.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Alcohol and Tobacco Tax and Trade Bureau (TTB) serves as the nation's primary federal authority in the regulation of the alcohol and tobacco industries. TTB is responsible for the administration and enforcement of two major areas of federal law, namely: those sections of the Internal Revenue Code associated with the collection of excise taxes on alcohol, tobacco, firearms and ammunition; and the Federal Alcohol Administration Act, which provides for the regulation of those engaged in the alcohol beverage industry and the protection of consumers of alcohol beverages.

In Fiscal Year (FY) 2008, TTB will continue to focus efforts on helping industry members comply with alcohol and tobacco laws and regulations, thus ensuring that all the appropriate excise taxes are collected and that consumers are provided with alcohol beverages that meet all federal production, labeling, advertising and marketing standards.

TTB's priorities are directly linked to the following key strategic objectives:

- ***Collect all the Revenue that is rightfully due***:
  - Through partnership with industry, states, and other federal agencies, develop alternative methods of promoting voluntary tax compliance;
  - Ensure correct payment of taxes through audit of "major" and "at-risk" taxpayers;
  - Account accurately for the revenue assessed and collected;
  - Reduce the taxpayer paperwork burden associated with collection of the revenue by creating alternative electronic filing methods;
  - Ensure consistent tax administration; and
  - Prevent tax evasion and identify other criminal conduct in the regulated industries, including diversion and smuggling of taxable commodities.
- ***Protect the Public through education, inspection, and investigation***:
  - Ensure the integrity of the products, people, and companies in the marketplace;
  - Enforce compliance with federal laws related to the issuance of permits to industry members and the production, labeling, advertising, and marketing of alcohol products;
  - Utilize electronic government to reduce taxpayer burden and improve service with online filing for permit applications and formula submissions, business activity reports, claims, applications, COLAs, and other forms;
  - Perform appropriate testing, laboratory analyses, and review documents of regulated commodities to ensure product safety and integrity;
  - Review and act on labels and formulas for domestic and imported beverage alcohol products and maintain public access to approved COLAs;
  - Respond to industry and consumer complaints. Investigate product contamination and adulteration incidents or allegations; and
  - Investigate violations of trade practices, labeling, and advertising in the beverage alcohol industry.

The total resources required to support TTB activities for FY 2008 are $95,215,000, including $93,515,000 from direct appropriations and $1,700,000 from reimbursable fees.

1B – Program History and Future Outlook

Program History - TTB has two primary activities that focus on collecting all the revenue rightfully due and providing the public with products that meet industry standards set by federal law.

Collect the Revenue - TTB is charged with collecting alcohol, tobacco, firearms, and ammunition excise taxes. These products generate nearly $15 billion in tax revenue annually, making TTB the third largest tax collection agency in the federal government.

The excise taxes collected by TTB come from approximately 7,500 businesses, and the taxes are imposed and collected at the producer and importers level of operations. Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of paper and tubes for tobacco products, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. About 200 of the largest taxpayers account for 98 percent of the annual excise tax collected. In FY 2006, the majority of taxes collected were from tobacco (50 percent) and alcohol (48 percent), with the remainder from firearms and ammunition (2 percent).

Strategies used to collect all the revenue rightfully due include identifying any gaps in tax payment, any illegal entities, or individuals operating outside the excise tax system, developing a balanced field approach of audits and investigations that targets non-compliant industry members, and establishing an identifiable presence within the industry that encourages voluntary compliance. Alcohol and tobacco taxes collected by TTB are remitted to the Department of the Treasury General Fund. Firearms and ammunition excise taxes are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

The investments in this activity resulted in the following performance highlights and accomplishments during FY 2006:

- TTB collected $14.8 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries from 7,500 excise taxpayers holding permits.
- TTB expanded the e-filing program to allow all excise taxpayers to file and pay taxes and file monthly operational reports electronically through the Pay.Gov system. TTB has registered over 1,600 taxpayers to use Pay.Gov. In FY 2006, 98 percent of TTB's tax receipts were collected electronically.
- Voluntary compliance – 76 percent of taxpayers filed payments on or before the scheduled due date.
- TTB continued its multi-year effort to audit the largest taxpayers who are responsible for 98 percent of the annual $14.8 billion federal excise tax collections. The cumulative audit results include an additional $4.4 million in collections identifying $8.1 million in tax, penalties, and interest potentially due as result of audit work completed in FY 2006.
- TTB processed $359 million in cover-over payments to Puerto Rico and $6 million to the Virgin Islands. Federal excise taxes collected on rum produced in Puerto Rico and the Virgin Islands and subsequently imported into the United

States are “covered-over” (or paid into) the treasuries of Puerto Rico and the Virgin Islands.

- TTB processed $338 million in drawback claims. Under current law, persons who use non-beverage alcohol in the manufacture of medicines, food products, flavors, extracts, or perfume and other non-potable products may be eligible to claim drawback of excise taxes paid on distilled spirits used in their products. The TTB laboratory analyzes and approves a product formula before a company can manufacture a product and file a claim.
- TTB laboratories analyzed 2,259 beverage alcohol samples for product integrity, pre-import analysis, and 5010-tax credit determination. TTB also analyzed 312 tobacco product samples for tax classification. TTB laboratories review formulations or analyze alcohol and tobacco products to ensure compliance with TTB tax and classification regulations.

Protect the Public - TTB works to ensure the integrity of the alcohol and tobacco industries and of beverage alcohol products found in the marketplace, and regulates roughly 40,000 alcohol and tobacco businesses. Under this activity, TTB enforces federal laws related to the issuance of permits to industry members and the production, labeling, advertising, and marketing of alcohol products. TTB conducts these activities through investigations, application reviews, laboratory testing, and educational programs. TTB works with industry, foreign and state governments, and other interested parties to make it easier to comply with regulatory requirements and to maintain the appropriate level of oversight to ensure public safety. Education, partnerships, and open communication are paramount strategies in facilitating compliance with regulatory requirements.

The investments in this budget activity resulted in the following performance highlights and accomplishments during FY 2006:

- TTB processed 114,000 Certificate of Label Approval (COLAs) applications, 37 percent of which were filed electronically through COLAs Online. By FY 2008, TTB anticipates over 48 percent of all COLAs will be e-filed. The Federal Alcohol Administration Act requires importers and bottlers of alcoholic beverages to obtain a COLA prior to introduction of the product into commerce.
- TTB issued 5,400 original and 21,000 amended permits. TTB issues original and amended permits to persons who are engaged in the alcohol and tobacco industries. Illicit activity in these industries has the potential to be highly lucrative so it is crucial that organized crime and terrorists are kept out of these industries. TTB conducted 473 field investigations on the most high-risk applications to ensure objectives of the Anti-Terrorism Act of 2001 were met.
- TTB participated in negotiations between the United States and Mexico regarding cross-border trade in tequila, which resulted in an agreement that was signed on January 17, 2006. This agreement protects approximately $560 million per year of tequila imports in terms of gross revenues to major members of the distilled spirits industry.
- TTB played a significant role in negotiating an agreement between the U.S. and the European Community regarding trade in wine, which was signed on March

10, 2006. This agreement covers wine-making practices and labeling, and will facilitate bilateral trade in wine valued at $2.8 billion annually. The U.S. wine export figures for trade with the European Community in FY 2005 was $323 million. Exports of U.S. wine for 2006 have already surpassed 2005 figures in terms of value, at $405 million for the Jan-Oct 2006 timeframe. Similarly, 2006 bilateral trade totals are expected to exceed those of 2005 as both U.S. exports and EU imports are up (43 percent and 14.6 percent, respectively).

- TTB's international trade work also involved assistance in the labeling agreement with the World Wine Trade Group (WWTG). WWTG members include the U.S., Argentina, Australia, Canada, Chile, and New Zealand. The labeling agreement, which was initialed on September 20, 2006 and is scheduled to be signed in January 2007, will facilitate the export trade in wine from the U.S. to WWTG countries. The value of the 2005 U.S. wine export trade to WWTG countries (the latest data available) is as follows:
    - Canada - $128 million
    - Argentina - $.551 million
    - New Zealand - $.369 million
    - Australia - $4 million
    - Chile - $.183 million
- TTB conducted 832 field application investigations of industry members regarding consumer complaints, trade practice violations, and product and labeling integrity verifications.

Specific Challenges in FY 2008 – The alcohol beverage industry in the U.S. is over a $150 billion industry which pays over $7 billion in excise taxes each year. Economic forecasts predict continued modest growth in the alcohol industry. Total taxes collected on alcoholic beverages rose less than one percent for the period ended September 30, 2006, to $7.1 billion from $7 billion in the year prior. TTB envisions that in the next few years the increase in new alcohol businesses will be most prominent in the number of new alcohol fuel plants (ethanol), wineries, craft breweries, and craft distilleries.

TTB collected $7.3 billion in taxes on tobacco products in FY 2006, approximately equal to collections in FY 2005. US Customs and Border Protection's collection of taxes on imported tobacco products declined, from $429 million in FY 2005 to $352 million in FY 2006. While part of this decline represents a decrease in consumption of roughly 0.7 percent, this decline is also attributable to a proliferation of the sale of illegal or smuggled cigarettes. There has also been a slight decline in the number of permitted tobacco importers in operation, from 685 tobacco importers in 2005 to 644 tobacco importers in 2006. However, TTB has recently identified over 150 companies and individuals that have been importing tobacco products without permits.   Other trends identified include the decrease in the internet sales of cigarettes, but an increase in the online sales of pipe tobacco, roll your own tobacco, cigars and little cigars in the past year. There is also an increase in the use and sale of water pipe tobacco, or shisha tobacco that is either imported from the Middle East or domestically manufactured. This type of tobacco is taxable as pipe tobacco. Recent investigations and audits have also reflected potential criminal violations within TTB permitted industry members operations. Some examples of these are: criminal recordkeeping violations and reimportation of previously exported tobacco products.

TTB continually strives to make improvements to its processes, systems, and availability of information in order to enhance its ability to service TTB's industry members. In terms of revenue collection in FY 2008, TTB plans to conduct 80 to 100 excise tax audits, and to promote voluntary compliance in the payment of federal excise taxes by maintaining a strong field presence. The audits are accomplished using a staff of approximately 80 professional auditors located throughout the United States. In April 2006, the Tax Audit Division (TAD) developed a Strategic Audit Plan for its fiscal years 2007 through 2009, and will go forward with focusing TTB's resources on taxpayers paying more than 90 percent of the tax, as well as on taxpayers who meet other indicators (risk model rankings, referrals, and targeted risk areas).

TTB expects continued growth in the number of beverage alcohol samples analyzed by TTB laboratories. In addition, TTB anticipates a significantly larger increase in tobacco samples submitted to the laboratories because of the new standards of identity for classifying cigarettes and little cigars. In FY 2008, the TTB labs will work towards developing methods to support tax collection activities in the tobacco program.

Effective January 1, 2006, taxpayers under this category may pay their taxes and submit their returns on a quarterly basis, as provided under the Internal Revenue Code. The statutory provision authorizing the filing of quarterly rather than semi-monthly returns for certain qualified taxpayers has not resulted in a robust quarterly filing program because the statutorily prescribed bonding requirements create a financial disincentive for taxpayers to avail themselves of the quarterly filing option. In particular, in the case of brewers and distillers, the statutory bonding requirement is tied to the tax liability in a given return period. Since the use of a quarterly filing would trigger a higher tax liability for that period, the bonding requirement increases, causing additional bonding costs to the taxpayer that are not counterbalanced by the savings recognized by the extended return period.

Preparing for the Future in FY 2008 - Succession planning is high on the list of TTB strategic priorities, especially regarding TTB's investigative forces. TTB expects to lose 40 percent of its workforce between 2006 and 2010 due to retirements and other attrition. To mitigate these losses, TTB continues to use the personnel interventions identified in the Pay Demonstration project to enable the Bureau to improve its capacity to recruit, develop, and retain high-caliber employees. TTB uses tailored approaches designed, developed, and implemented specifically for the Bureau's continuing and evolving needs in order to meet mission requirements and remain competitive for highly skilled talent.

Continuation of the Pay Demonstration authority is a key component in TTB's ability to close skill gaps in mission critical occupations. In FY 2006, TTB contracted for a study to provide an independent evaluation of this program, and the results will be examined in 2007. The FY 2008 budget seeks authority be granted for continuation of this program by one year.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Appropriation: TTB Salaries and Expenses	FTE	Amount
FY 2006 Appropriation (P.L. 109-115)	544	**$91,126**
Rescission (P.L. 109-148)	0	($911)
FY 2006 Enacted	**544**	**$90,215**
FY 2007 President's Budget	**544**	**$92,604**
CR-rate Adjustment		(2,389)
FY 2007 CR-rate	**544**	**$90,215**
Changes to Base:		
Technical Adjustment to FY 2007 Base due to CR:		
Non-Pay Inflation Adjustment		404
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		931
Pay Annualization		287
Pay Inflation Adjustment		1,678
Total FY 2008 Base	**544**	**$93,515**
Program Decreases:		
Field Operations / National Revenue Center		(441)
Program Reinvestment:		
Field Operations / Tobacco Enforcement Division		441
Subtotal FY 2008 Program Changes	**0**	**0**
Total FY 2008 Request	**544**	**$93,515**

2A – Budget Increases and Decreases Description

Adjustments ....-$2,389,000 / +0 FTE

CR-rate Adjustment -$2,389,000 / +0 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

Technical Adjustment to FY 2007 Base due to CR ....+$404,000 / +0 FTE

Non-Pay Inflation Adjustment +$404,000 / +0 FTE Technical adjustment to FY 2007 base due to CR.

Maintaining Current Levels (MCLs) ....+$2,896,000 / +0 FTE

Non-Pay Inflation Adjustment +$931,000 / +0 FTE Funds are requested for non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments.

Pay Annualization +$287,000 / +0 FTE Funds are requested for the FY 2008 cost of the January 2007 pay increase.

Pay Inflation Adjustment +$1,678,000 / +0 FTE Funds are requested for the proposed January 2008 pay raise.

Program Decreases ....-$441,000 / +0 FTE

Field Operations / National Revenue Center -$441,000 / +0 FTE TTB realigned its staff resources from the National Revenue Center to create the Tobacco Enforcement Division.

Program Reinvestment ....+$441,000 / +0 FTE
Field Operations / Tobacco Enforcement Division +$441,000 / +0 FTE TTB realigned its staff resources to create the Tobacco Enforcement Division to monitor domestic tobacco trade and act as the bureau's tobacco coordinator. This action will improve identification of potential targets for investigation, and TTB will be able to ensure that only qualified applicants enter the tobacco trade, ensure compliance with the tax laws, and to facilitate voluntary compliance.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: TTB Salaries & Expenses	FY 2006 Enacted	FY 2007 President's Budget	Proposed Reprogrammings	CR-rate Adjustment	FY 2007 CR-Rate	FY 2007 Proposed Operating Level	FY 2008 Requested Level
FTE	544	544	-	-	544	544	544
Object Classification:							
11.1 Full-Time Permanent Positions........................	$40,865	$40,693	$0	$1,608	$42,301	$42,301	$43,640
11.1 Other than Full-Time Permanent Positions......	0	0	$0	0	$0	$0	0
11.5 Other Personnel Compensation.......................	0	718	$0	(20)	$698	$698	778
11.8 Special Personal Services Payments.............	0	0	$0	0	$0	$0	0
11.9 Personnel Compensation (Total)..................	$40,865	$41,411	$0	$1,588	$42,999	$42,999	$44,418
12.0 Personnel Benefits...	10,541	10,868	$0	111	$10,979	$10,979	11,525
13.0 Benefits to Former Personnel.........................	0	0	$0	0	$0	$0	0
21.0 Travel..	3,282	4,410	$0	(1,145)	$3,265	$3,265	3,363
22.0 Transportation of Things.................................	136	104	$0	(6)	$98	$98	101
23.1 Rental Payments to GSA.................................	4,775	4,725	$0	218	$4,943	$4,943	4,981
23.2 Rent Payments to Others................................	314	0	$0	0	$0	$0	0
23.3 Communications, Utilities, & Misc....................	5,043	4,806	$0	(19)	$4,787	$4,787	4,931
24.0 Printing and Reproduction..............................	408	0	$0	367	$367	$367	378
25.1 Advisory & Assistance Services.......................	0	0	$0	0	$0	$0	0
25.2 Other Services..	21,761	23,959	$0	(3,206)	$20,753	$20,753	21,734
25.3 Purchase of Goods/Serv. from Govt. Accts....	0	0	$0	0	$0	$0	0
25.4 Operation & Maintenance of Facilities............	0	0	$0	0	$0	$0	0
25.5 Research & Development Contracts...............	0	0	$0	0	$0	$0	0
25.6 Medical Care..	0	0	$0	0	$0	$0	0
25.7 Operation & Maintenance of Equipment..........	0	0	$0	0	$0	$0	0
25.8 Subsistence & Support of Persons.................	0	0	$0	0	$0	$0	0
26.0 Supplies and Materials...................................	621	682	$0	(32)	$650	$650	670
31.0 Equipment..	2,119	1,639	$0	(265)	$1,374	$1,374	1,415
32.0 Lands and Structures.......................................	350	0	$0	0	$0	$0	0
33.0 Investments & Loans.......................................	0	0	$0	0	$0	$0	0
41.0 Grants, Subsidies...	0	0	$0	0	$0	$0	0
42.0 Insurance Claims & Indemn............................	0	0	$0	0	$0	$0	0
43.0 Interest and Dividends..............................	0	0	$0	0	$0	$0	0
44.0 Refunds..	0	0	$0	0	$0	$0	0
Total Budget Authority......................................	$90,215	$92,604	$0	($2,389)	$90,215	$90,215	$93,515
Budget Activities:							
Protect the Public	$40,597	$47,228	(1,852)	($1,171)	44,205	44,205	$45,822
Collect the Revenue	49,618	45,376	1,852	(1,218)	46,010	46,010	47,693
Total Budget Authority......................................	$90,215	$92,604	$0	($2,389)	$90,215	$90,215	$93,515

2B – Appropriation Language

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY ALCOHOL AND TOBACCO TAX AND TRADE BUREAU Federal Funds **SALARIES AND EXPENSES:** *For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, $93,515,000 of which not to exceed $6,000 for official reception and representation expenses; not to exceed $50,000 for cooperative research and development programs for laboratory services; and provision of laboratory assistance to State and local agencies with or without reimbursement.*	
Treasury General Provisions: *Sec 216. Section 122(g) (1) of Public Law 105-119 as amended (5 U.S.C. 3104 note), is further amended by striking "8 years" and inserting "10 years".*	TTB proposes to continue the Pay Demonstration Program (Pay Demo) by amending the administrative provision language to extend the program one additional year. This project was established to enhance Treasury's ability to effectively recruit and retain highly qualified employees. It seeks to do so by implementing changes in personnel management practices for designated occupations. Pay Demo has been extended every year since it was first established in FY 1999. In FY 2006, TTB contracted for a study to provide an independent evaluation of this program. The results of the study will be examined in 2007.

2C – Legislative Proposals

Extend Pay Demonstration Program one additional year. TTB proposes to continue the Pay Demonstration Program by amending the general provision language to extend the program one additional year.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR Rate		FY 2008 Request		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Salaries & Expenses												
Collect the Revenue	299	49,618	267	45,938	277	45,376	277	$46,010	277	47,693	0.00%	3.66%
Protect the Public	245	40,597	257	44,136	267	47,228	267	44,205	267	45,822	0.00%	3.66%
Subtotal New Appropriated Resources	544	$90,215	524	$90,074	544	$92,604	544	$90,215	544	$93,515	0.00%	3.66%
Other Resources:												
Offsetting Collections - Reimbursable (Puerto Rico)	15	$1,700	10	$1,700	15	$1,700	15	$1,700	15	$1,700	0.00%	0.00%
Subtotal Other Resources	15	$1,700	10	$1,700	15	$1,700	15	$1,700	15	$1,700	0.00%	0.00%
Total Resources Available for Obligation	559	$91,915	534	$91,774	559	$94,304	559	$91,915	559	$95,215	0.00%	3.59%

3A – Collect the Revenue *($47,693,000 from direct appropriations and $867,000 from reimbursable programs):* The Collect the Revenue activity works toward providing the most effective and efficient systems for the collection of tax revenue, eliminating or preventing tax evasion and other criminal conduct, and providing high quality service while imposing the least regulatory burden on taxpayers. TTB will employ a number of strategies to ensure that the revenue that is rightfully due is collected. The Tax Audit Division (TAD) will focus its audit resources on taxpayers paying more than 90 percent of the tax, as well as on taxpayers who meet other risk indicators. The Office of Field Operations will continue to provide industry outreach to facilitate voluntary compliance, investigate allegations or indications of tax fraud, verify destruction of large quantities of taxable commodities, and conduct compliance investigations of non-taxpaying permittees who have substantial potential for tax liability.

Reducing taxpayer burden and improving service remain priorities at TTB. The ultimate goal is to allow permittees and taxpayers to file all payments, returns, and applications online with the National Revenue Center. The FY 2008 budget request enables the continuation of efforts to achieving the performance measures supporting TTB's strategic goal of providing the most effective and efficient system for the collection of all revenue that is rightfully due, eliminating or preventing tax evasion and other criminal conduct, and providing high quality service while imposing the least regulatory burden.

Offsetting Collections – Non Federal Sources (Puerto Rico)………………………..$867,000
The reimbursable funds are to cover the costs associated with the functioning and support of the Puerto Rico office, and are paid from the "cover-over" (return) which is offset from the roughly $359 million in cover over taxes collected in the United States on products originating in Puerto Rico. TTB conducts annual audits / investigations of industry members regarding the collection of revenue, application processing and product integrity. Revenue inspections are used to conduct tax examinations on major producers of alcohol and tobacco.

3.2.1 – Collect the Revenue Budget and Performance Plan

Dollars in Thousands

Collect the Revenue Budget Activity			Includes Strategic Objective F4A		
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$56,801	$45,285	$49,618	$45,376	$47,693
Other Resources	1,700	935	935	867	867
Total Operating Level	**$58,501**	**$46,220**	**$50,553**	**$46,243**	**$48,560**
Human Resources					
Appropriated FTE	363	299	299	277	277
Other FTE	15	8	8	8	8
Total FTE (direct and reimbursable)	**378**	**307**	**307**	**285**	**285**

Collect the Revenue Budget Activity				Includes Strategic Objective F4A		
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Cumulative percentage of excise tax revenue audited over 3 years (%) (Ot)	Target		65%	90%	12%	74%
	Actual		82%	93%		
	Met		Yes	Yes		
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)(%) (Oe)	Target		70%	74%	74%	76%
	Actual		70%	75.95%		
	Met		Yes	Yes		
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of revenue) (%) (Oe)	Target	82	84	86	86	87
	Actual	81.2	86.3	87.2		
	Met	No	Yes	Yes		
Percentage of total tax receipts collected electronically (%) (E)	Target	98%	98%	98%	98%	98%
	Actual	97.3%	98%	98%		
	Met	No	Yes	Yes		
Resources as a percentage of revenue (%) (E)	Target		0.4%	0.34%	0.34%	0.34%
	Actual		0.37%	0.31%		
	Met		Yes	Yes		
Unit cost to process an excise tax return based on new legislation ($) (E)	Target			Baseline	$76	$76
	Actual			$76		
	Met			Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance:

TTB met five of its five performance measures under the Collect the Revenue strategy. A sixth measure was a baseline measure. TTB collected $14.78 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries.

3B – Protect the Public *($45,822,000 from direct appropriations and $833,000 from reimbursable programs):* The Protect the Public activity ensures the integrity of products and industry members in the marketplace, ensures compliance with laws and regulations by regulated industries, and provides information to the public as a means to prevent consumer deception. Under this activity, TTB enforces compliance with federal laws related to the issuance of permits to industry members and the production, labeling, advertising, and marketing of alcohol products. TTB conducts investigations, application reviews, laboratory testing, and educational programs in support of its mission. TTB works with industry, other federal and state governments, and other interested parties to make it easier to comply with regulatory requirements, while maintaining the appropriate level of oversight to ensure public safety. Innovation, partnerships, and open communication are paramount to achieving this strategic goal.

Offsetting Collections – Non Federal Sources (Puerto Rico)………………………..$833,000
The reimbursable funds are to cover the costs associated with the functioning and support of the Puerto Rico office, and are paid from the "cover-over" (return) which is offset from the roughly $359 million in cover over taxes collected in the United States on products originating in Puerto Rico. TTB conducts annual audits / investigations of industry members regarding the collection of revenue, application processing and product integrity. Revenue inspections are used to conduct tax examinations on major producers of alcohol and tobacco.

3.2.2 – Protect the Public Budget and Performance Plan

Dollars in Thousands

Protect the Public Budget Activity				Includes Strategic Objective E2A	
Resource Level	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 President's Budget**	**FY 2008 Request**
Financial Resources					
Appropriated Resources	$22,727	$37,051	$40,597	$47,228	$45,822
Other Resources	0	765	765	833	833
Total Operating Level	**$22,727**	**$37,816**	**$41,362**	**$48,061**	**$46,655**
Human Resources					
Appropriated FTE	181	245	245	267	267
Other FTE	0	7	7	7	7
Total FTE (direct and reimbursable)	**181**	**252**	**252**	**274**	**274**

Protect the Public Budget Activity				Includes Strategic Objective E2A		
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Compliance Level of New Industry Members	Target				Baseline	TBD
	Actual					
	Met					
Percent of electronically filed Certificate of Label Approval applications (%) (E)	Target	7%	16%	27%	47%	48%
	Actual	10%	25%	38%		
	Met	Yes	Yes	Yes		
Percentage of COLA approval applications processed within 9 calendar days of receipt (%) (E) (This measure will become inactive beginning in FY 2008.)	Target	60%	30%	55%	45%	0%
	Actual	23%	50%	44%		
	Met	No	Yes	No		
Percentage of current industry members that were found to have links to criminal or terrorist organizations or were otherwise a prohibited person	Target				Baseline	TBD
	Actual					
	Met					
Percentage of permit application (original and amended) processed by the National Revenue Center within 60 days (%) (E)	Target		67%	80%	80%	82%
	Actual		81%	86%		
	Met		Yes	Yes		
The unit cost to process a Certificate of Label Approval	Target				Baseline	TBD
	Actual					
	Met					

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance:

TTB met two of its three performance measures under the Protect the Public Strategy. The one measure not met is the “Percentage of Certificates of Label Approval applications processed within nine calendar days following receipt.” This measure is difficult to achieve because the Certificate of Label Approval workloads are expected to continue to rise while staff will remain at a constant level. In FY 2008, the “Percentage of COLA approval applications processed within 9 calendar days of receipt” measure will be inactivated and replaced with a new efficiency measure “The unit cost of producing a Certificate of Label Approval.”

TTB proposes to add three new measures under Protect the Public: “The unit cost to process a wine COLA”; “Compliance level of new industry members”; and “Current industry members linked to terrorist organizations.”

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents			
Direct FTE	FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year	514	524	544
Increases:			
Recruitment of Auditors and Investigators	10	20	
Subtotal, Increases	10	20	0
Decreases:			
Subtotal, Decreases	0	0	0
Year-end Actual/Estimated FTEs	524	544	544
	1/		
Net Change from prior year SOY to budget year EOY			0

1/ Reason: TTB was established in January 2003 as a result of the Homeland Security Act of 2002. At the end of FY 2006 TTB had 537 staff on board, an equivalent direct FTE level of 524. TTB is authorized to fill 544 direct FTEs.

4A – Human Capital Strategy Description

By properly managing its human capital needs, TTB supports the Department of the Treasury's strategic goals:

- Increase Citizens' Economic Security, and;
- Manage the U.S. Government's Finances Effectively,

To accomplish and fulfill both TTB's and the Department of the Treasury's strategic plans, TTB has taken several steps in order to not only maintain its current professional workforce but also improve it. TTB has completed its first Human Capital Strategic Plan that is aligned with the Bureau Strategic Plan. The plan documents strategies to improve skill and competency gaps, demographics, workforce management and performance measurement efforts, and succession planning. The model for strategically assessing TTB's skills gap outlook for future years is predicated on assumptions regarding future changes in the workforce, including retirement eligibility rules and rates of attrition. The skills gap forecast will be developed by assessing and modeling the changing nature of TTB's mission critical occupations and the bureau's mission.

The Pay Demonstration program (PAY DEMO) will continue to be used by the bureau to develop and retain high caliber employees. TTB expects to lose 40 percent of its workforce between 2007 and 2010 due to retirements and other attrition. To accommodate these losses from the baseline, TTB continues to use personnel interventions identified in the PAY DEMO project to enable the bureau to improve its capacity to recruit, develop, and retain high-caliber employees. TTB uses tailored approaches designed, developed, and implemented specifically for the bureau's continuing and evolving needs in order to meet mission requirements and remain competitive with private industry and other federal agencies for highly skilled talent. TTB has roughly 120 participants in the PAY DEMO that function in mission critical occupations such as chemists, industry analysts, auditors, and information technology specialists.

HR Highlights

- TTB developed a Federal Employment Opportunity Recruitment Plan (FEORP) for FY 2005 – FY 2008 to promote the employment and advancement of minorities and women within the bureau.

- TTB established its FY 2005 – FY 2008 Disabled Veterans Affirmative Action Plan to promote the hiring and advancement of disabled veterans within the bureau.

- TTB revised its Senior Executive Service performance plans to document the linkage with the bureau's strategic objectives and cascaded to the next lower level of management.

- TTB implemented Career Connector for use in filling supervisory/managerial jobs as a tool to improve the hiring process.

- TTB established a telework program that covers all TTB offices and most employees, and implemented a hoteling program at certain field offices. These initiatives save the bureau valuable dollars that were invested in improved services to stakeholders.

- Beginning in June 2004, TTB outsourced all of its human resource functions to the Bureau of Public Debt (BPD). The human resource services provided by BPD include staffing and recruitment, personnel/payroll actions, employee benefits and retirement, time and attendance, official personnel records, classification, training, employee/labor relations, and performance management. Performance benchmarks and measures have been established to monitor contract performance.

- TTB is in the process of developing succession plans for mission critical occupations and a comprehensive Human Capital Plan. The successful implementation of these two initiatives will contribute to TTB obtaining a green score.

- TTB finalized its human capital strategic plan which is aligned with TTB's mission. TTB documented strategies for improving skill and competency gaps, improving demographics, workforce management and performance measurement efforts, and succession management planning. The plan has been posted to the TTB intra-web and is accessible to all employees.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments (in $ Millions)										
		Identify program that system is aligned to	FY 2005		FY 2006	% Change from FY05 Obligations to FY06	FY 2007 President's Budget	% Change from FY06 to FY07	FY 2008	% Change from FY07 to FY08
Major IT Investments	**Budget Activity**		**Operating Plan**	**Obligations**	**Operating Plan**				**Request**	
Total			**-**	**-**	**-**	**-**	**-**	**0.0%**	**-**	**100.0%**
Non-Major IT Investments										
FET/IRIS	Collect Revenue/Protect Public	All	-	-	1.7	100.0%		-100.0%	-	0.0%
Total			**-**	**-**	**1.7**	**100.0%**	**-**	**-100.0%**	**-**	**0.00%**
Infrastructure Investments										
TTB Infrastructure base	Collect Revenue/Protect Public	All	14.8	14.8	18.0	21.6%	17.2	-4.44%	17.2	0.00%
Salaries & Benefits (5 FTEs)	Collect Revenue/Protect Public	All	0.65	0.65	0.80	23.1%	0.81	1.20%	0.82	1.20%
Total			**15.5**	**15.5**	**18.8**	**21.3%**	**18.0**	**-4.2%**	**18.0**	**0.1%**
Total IT Investments - Prosight Numbers			**15.5**	**15.5**	**20.5**	**32.3%**	**18.0**	**-12.1%**	**18.0**	**0.1%**

4B – Information Technology Strategy

TTB has a modernization blueprint that focuses information technology (IT) investments on important bureau functions and defines how those functions will be measurably improved. All TTB systems and projects have business cases that have been approved by the Department of the Treasury's Office of the Chief Information Officer, and 100 percent of IT systems have certification and accreditation. The bureau will aggressively pursue all e-Gov opportunities that will reduce taxpayer burden for tax filing and increase all regulatory compliance. TTB has established its own investment review board that evaluates and makes preliminary selection decisions by addressing high level questions:

- Does the initiative have value to TTB?
- Is there a balance of benefits against costs and risks?
- Is TTB eliminating duplication and stovepipe projects?

TTB's investment review board ensures compliance with guidance and legislation. A scoring criterion was developed to help ensure that only sound and viable initiatives that support the bureau's mission and strategic goals are included in the portfolio.

4.3 – PART Evaluation Table

Table 4.3

PART Evaluation

PART Name:	Collect the Revenue
Year PARTed:	FY 2004
Rating: Effective	
Score: 93%	

OMB Major Findings/Recommendations

1. Developing baselines for annual performance measures .
2. Improving estimates of how funds are distributed across TTB's two lines of business to ensure that funds are obligated in accordance with planned schedules
3. Developing a baseline to compare the incremental cost and net benefits of regulation.

Bureau Actions Planned or Underway

1. TTB is in the process of completing the baselines for its annual performance measures in FY 2006.
2. TTB currently uses the BPD ARC accounting system, which allows for the allocation and tracking of distribution of the funds. This system had not been in service for a full year's data when the PART study was in process.
3. TTB is in the process of completing a major business reengineering study on its Protect the Publlic Mission. However, the work that has been performed on this study will impact how TTB performs cost benefit studies in the future. The impact should be noticeable in the coming year.

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

Financial Management Service

Mission Statement

To provide central payment services to Federal Program Agencies (FPAs), operate the federal government's collections and deposit systems, provide government-wide accounting and reporting services, and manage the collection of delinquent debt.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
Salaries and Expenses	Enacted	President's Budget	CR-rate	Request	$ from CR-rate	% from CR-rate
Payments	$144,135	$147,358	$147,130	$146,465	($665)	-0.45%
Collections	16,931	17,396	17,367	19,869	2,502	14.41%
Debt Collection	10,162	5,250	5,250	0	(5,250)	-100.00%
Government-wide Accounting and Reporting	62,653	63,650	63,545	68,857	5,312	8.36%
Total Appropriated Resources	**$233,881**	**$233,654**	**$233,292**	**$235,191**	**$1,899**	**0.81%**

FY 2008 Priorities

- Provide federal payments timely and accurately and continue to move toward an all-electronic Treasury for payments.

- Provide timely collection of federal government receipts, at the lowest cost, and continue to move toward an all-electronic Treasury.

- Maximize collection of government delinquent debt by providing efficient and effective centralized debt collection services.

- Issue accurate, accessible, and timely financial reports and improve the compilation process and audit opinion on the *Financial Report of the U.S. Government.*

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Financial Management Service (FMS) plays a key role in supporting the Department of the Treasury's strategic goal of managing the United States Government's finances effectively by operating as the financial manager and principal fiscal agent for the federal government. This role includes managing the nation's finances by collecting money due to the United States, making its payments and performing central accounting functions.

As the government's financial manager, FMS oversees a daily cash flow in excess of $50 billion, disbursing 85 percent of the federal government's payments, including income tax refunds, Social Security benefits, veterans' benefits and other federal payments to individuals and businesses. FMS also administers the world's largest collection system, collecting approximately $2.9 trillion in FY 2006. It also provides cash management guidance to Federal Program Agencies (FPAs), maintains the government's accounting books and compiles and publishes government-wide financial information used to monitor the government's financial status. Finally, it serves as the government's central debt collection agency for delinquent non-tax debt.

The Strategic Goals of FMS are:

- Provide federal payments timely and accurately, and move toward an all-electronic Treasury for payments.

- Provide timely collection of federal government receipts, at the lowest cost, through an all-electronic Treasury.

- Maximize collection of government delinquent debt by providing efficient and effective centralized debt collection services.

- Produce accurate, accessible, and timely government-wide financial information and reports which contribute to improved quality of the nation's financial decision making.

- Facilitate the achievement of a clean audit opinion on the *Financial Report of the U.S. Government* through FMS' internal operations and support to government agencies.

- Establish policies and processes to facilitate the integration of e-commerce technologies into FMS' business programs and infrastructure.

The total resources required to support FMS activities for FY 2008 are $450,370,000 including $235,191,000 from direct appropriations and $215,179,000 from offsetting collections and reimbursable agreements.

1B – Program History and Future Outlook

FMS provides critical services to millions of United States taxpayers and other customers. It embodies Treasury's leadership strategy to create value for the American people, provide responsible and effective stewardship over the government's finances, and focus on quality service results and innovation. History and future outlook by program are as follows:

Payments

The Payments program develops and implements federal payment policy and procedures, issues and distributes payments, promotes the use of electronics in the payment process, and assists agencies in converting payments from paper checks to Electronic Funds Transfer (EFT). This includes controlling and providing financial integrity to the payments process through reconciliation, accounting, and claims activities. In FY 2006, FMS issued over 964 million non-Defense payments worth $1.5 trillion to a wide variety of recipients, such as those who receive Social Security benefits, IRS tax refunds and veteran's benefits. Seventy-seven percent of all payments disbursed were via direct deposit.

Streamlining the payments processes while continually investing in state-of-the-art technology is integral in processing payments accurately, timely, and more safely and securely for the taxpayer. In FY 2008, FMS will continue to expand the use of electronic media to deliver federal payments. This helps provide a safer, more secure and more reliable method of payment for recipients, and decreases the number of paper checks issued, which minimizes costs and inefficiencies associated with the non-electronic delivery of benefits.

Collections

The Collections program collects revenues needed to operate the federal government through the effective management of the government's collections infrastructure. In FY 2006, FMS collected approximately $2.9 trillion through a network of more than 9,000 financial institutions and 79 percent of the dollars FMS collected was done so electronically. Dollar revenue collected in FY 2006 exceeded those collected in FY 2005 by 10 percent. The most important program that supports electronic collections is the Electronic Federal Tax Payment System (EFTPS). EFTPS is a tax payment system that offers all businesses and individuals the convenience of making their federal tax payments electronically 24 hours a day, 7 days a week, instead of using checks. In FY 2006, taxpayers paid $1.9 trillion using EFTPS, up 16 percent from FY 2005, and the number of payments to the government rose 11 percent to 80.4 million.

In FY 2008, FMS will continue to provide electronic collection mechanisms that use the most advanced and secure collection technologies and are flexible enough to accommodate the varying needs and technical sophistication of all taxpayers and FPAs. FMS will direct its EFTPS efforts to financial institutions that process paper tax coupons as well as the tax practitioner community and small businesses to further expand the use of EFTPS. FMS will also assist agencies in converting collections from paper to electronic media by converting checks to electronic payments at the point of receipt and truncating paper remittances and invoices by imaging those documents. Security oversight efforts will increase at financial agent processing facilities and banking institutions as a way to proactively identify security control weaknesses and to detect and deter fraud, waste, theft and unauthorized access associated with the collection of government remittances and protection of sensitive information.

Debt Collection

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

In FY 2006, FMS collected a record $3.34 billion in delinquent debt, including $1.59 billion in past due child support, $1.23 billion in federal non-tax debt, and more than $520 million in federal tax levies and state tax debt offsets. Debt referrals from creditor agencies were at 95 percent of eligible debt at the end of FY 2006. As a result of continued improvements to the program, collections have steadily increased to more than $27.7 billion since the enactment of the DCIA in 1996. In calendar year 2006, IRS referred an additional $47 billion of tax debts for continuous levy, a 25 percent increase from calendar year 2005.

In FY 2008, FMS will continue to focus on incorporating all non-Treasury disbursed salary and vendor payments into FMS' offset program for collecting delinquent debt. By FY 2008, Integrated FedDebt will combine the Cross-Servicing program and the Treasury Offset Program (TOP) into one system. This will reduce redundancies, improve data integrity, and provide direct on-line access to agencies. FMS will also continue to roll out Debt Check, FMS' on-line program used to help agencies bar delinquent debtors from obtaining new loans or loan guarantees.

Government-wide Accounting and Reporting

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. For the third consecutive year, FMS released the *Financial Report of the United States Government* (FR) 75 days after the fiscal year-end. The FR presents a picture of government-wide finances that complements the traditional federal government budget information. It is invaluable when assessing the long-term impact of the government's policy decisions and the timely availability of this additional information is critical to a fully informed budget process. To complement and support the accelerated release of the FR, Treasury continues to release the *Monthly Treasury Statement* (the monthly public source of budgetary results) on the eighth workday of each month. With this release schedule, agency financial managers are better able to verify and use the data in their own reports.

In FY 2008, FMS will continue to revamp government-wide accounting processes to provide more useful and reliable financial information on a regular basis. FMS is building and implementing a system that replaces existing government-wide accounting functions and processes that vastly improves the exchange of financial information among FMS, Federal Program Agencies, OMB and the banking community. This project will improve the reliability, usefulness, and timeliness of the government's financial information, provide agencies and other users with better access to that information, and will eliminate duplicate reporting and reconciliation burdens by agencies, resulting in significant government-wide savings. As part of the system redesign, FMS provides agencies with a web-based account statement resembling a bank statement, which contains summarized Treasury fund account balance activity. Once fully implemented, agencies will have daily direct access through a web-based system to the data supporting the items on the account statement for reconciliation and fund reclassification, rather than having to use multiple systems. Fund balance information will be available to agencies on a near real-time (one-day lag) basis. This will move the government one step closer to achieving its objective of producing financial information on a regular, recurring basis more quickly and reliably.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Appropriation: Salaries and Expenses	FTE	Amount
FY 2006 Appropriation (P.L. 109-115)	**1818**	**$236,243**
Rescission (P.L. 109-148)	0	$(2,362)
FY 2006 Enacted	**1818**	**$233,881**
FY 2007 President's Budget	**1,761**	**$233,654**
CR-rate Adjustment		(362)
FY 2007 CR-rate	**1,761**	**$233,292**
Changes to Base:		
Technical Adjustment to FY 2007 Base due to CR:		
Base Adjustment		(2,043)
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		2,079
Pay Annualization		778
Pay Inflation Adjustment		4,829
Non-Recurring Costs:		
Accounting Architecture		(424)
Workstation Replacement		(800)
Total FY 2008 Base	**1,761**	**$237,711**
Program Decreases:		
Claims Contract Support		(210)
Debt Fee Revenue	(56)	(5,250)
Government Financial Reporting System (GFRS)		(533)
Government-wide Accounting and Reporting		(400)
Payments Capital Investments (PCI)		(920)
Realignment to Enhance Collections/Government-wide Accounting and Reporting	(61)	(4,700)
Program Reinvestment:		
Realignment/Restructuring Study		2,000
Capital Assets Refresh		1,400
Enhancements to Collections/Government-wide Accounting and Reporting	48	3,700
Financial Information Reporting Standardization (FIRST)		2,393
Subtotal FY 2008 Program Changes	**(69)**	**(2,520)**
Total FY 2008 Request	**1,692**	**$235,191**

2A – Budget Increases and Decreases Description

Adjustments ....-$362,000 / +0 FTE

CR-rate Adjustment -$362,000 / +0 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

Technical Adjustment to FY 2007 Base due to CR ....-$2,043,000 / +0 FTE

Base Adjustment -$2,043,000 / +0 FTE Technical adjustment to FY 2007 base due to CR

Maintaining Current Levels (MCLs) ....+$7,686,000 / +0 FTE

Non-Pay Inflation Adjustment +$2,079,000 / +0 FTE Funds are requested for other non-labor related items such as contracts, travel, supplies, equipment and GSA rent.

Pay Annualization +$778,000 / +0 FTE Funds are requested for the FY 2008 cost of the January 2007 pay raise.

Pay Inflation Adjustment +$4,829,000 / +0 FTE Funds are requested for the FY 2008 pay raise.

Non-Recurring Costs ....-$1,224,000 / +0 FTE
Accounting Architecture -$424,000 / +0 FTE Funding has been identified in Government-wide Accounting and Reporting from prior year Accounting Architecture initiatives.

Workstation Replacement -$800,000 / +0 FTE A portion of prior year funds from Workstation Replacement initiatives.

Program Decreases ....-$12,013,000 / -117 FTE
Claims Contract Support -$210,000 / +0 FTE Funding from improvements in the payments claims activity, can be redirected to the Financial Information Reporting Standardization (FIRST) initiative.

Debt Fee Revenue -$5,250,000 / -56 FTE As a result of projected increased debt revenues, FMS is able to redirect the remaining funds allocated to the debt collection activity without adversely impacting the program.

Government Financial Reporting System (GFRS) -$533,000 / +0 FTE Funding identified in GFRS will be redirected to FIRST initiative.

Government-wide Accounting and Reporting -$400,000 / +0 FTE As a result of efficiencies gained through modernization and a decreased requirement for contractor support for legacy applications, program funds in Government-wide Accounting and Reporting can be redirected.

Payments Capital Investments (PCI) -$920,000 / +0 FTE Funding in the PCI project will be redirected.

Realignment to Enhance Collections/Government-wide Accounting and Reporting -$4,700,000 / -61 FTE Due to continued modernization of the Payments function by FMS there has been a major shift from routine transaction processing to highly complex analytical reviews of data and information relating to trend analysis, comparative analysis, error resolution and customer relationship management. Associated dollars and FTE from Payments can be realigned to Collections and Government-wide Accounting and Reporting which will more accurately reflect program requirements.

Program Reinvestment ....+$9,493,000 / +48 FTE
Realignment/Restructuring Study +$2,000,000 / +0 FTE As part of its strategic planning process and to ensure continued success in meeting key mission performance measures, FMS senior leadership identified challenges and proposed to find solutions through a dynamic and continuous review of operations. All aspects of the organization have been scrutinized including successes, funding constraints, management, data operations, work flow processes, personnel, skill sets and peripheral issues such as physical site locations.

Funding is requested to examine the functional distribution of key operations and physical location of employees, capital assets and other property. FMS will relocate and transfer the Hyattsville Regional Operation Center data center functions to the Kansas City Regional Operations Center (KROC). The primary benefit is improved safety of FMS employees, garnered by separating primary data center and platforms from operational activities at the Prince George's Metro Complex to a more secure location. Improved national security, continuity of operations and disaster recovery will be possible by reestablishing critical applications, some which are part of the National Critical Infrastructure. The transfer of functions and capital assets to KROC will allow FMS to avoid significant salary and benefit costs through a reduction in FTE in FY 2010, and reduced contractor and electrical costs.

KROC is a logical and intelligent choice as a primary computer operations center. It currently runs several applications on a production basis while serving as the primary FMS back-up site. FMS examined how it conducts business, including where the work is best done, opportunities to consolidate like functions, and how to perform the work better. This initiative is fully funded with redirects from Debt Fee Revenue.

Capital Assets Refresh +$1,400,000 / +0 FTE FMS needs to "refresh" its capital assets to maintain a healthy and viable enterprise information technology infrastructure. These assets host system applications that support the National Critical Financial Infrastructure and support FMS' mission. Therefore, FMS must ensure that its systems, assets and software are reliable as they are used to issue close to a billion payments a year valued at $1.5 trillion and to collect information to calculate the daily cash position and the cash forecasting needs of the United States Treasury. Properly maintaining the existing information technology infrastructure allows FMS the flexibility to create systems such as the Payment Application Modernization (PAM) and Financial Information Reporting Standardization (FIRST), which will have the ability to provide for government-wide savings. FMS will have efficiencies as fewer but more powerful hardware replaces existing hardware as part of the relocation of the FMS data center to Kansas City Regional Operations Center (KROC). FMS, using the Strategic Asset Management Model, has identified the level at which its assets should be maintained in order to be effective. Funds will be used to upgrade equipment for the FMS data center relocation to KROC. FMS will continuously analyze its current capital assets and non-capital inventory to determine required investment needed to ensure a strong, dependable enterprise infrastructure. FMS' IT capital assets and non-capital inventory will be maintained in excellent condition, providing a reliable and stable enterprise for FMS and its customers. This initiative is fully funded with redirects from Debt Fee Revenue.

Enhancements to Collections/Government-wide Accounting and Reporting +$3,700,000 / +48 FTE FMS' continued modernization of the payments function has resulted in a major shift from routine transaction processing to highly complex analytical reviews of data and information relating to trend analysis, comparative analysis, error resolution and customer relationship management. Associated dollars and FTE from Payments can be realigned to Collections and Government-wide Accounting and Reporting which will more accurately reflect program requirements.

Financial Information Reporting Standardization (FIRST) +$2,393,000 / +0 FTE FIRST integrates budget and financial reports from Federal Program Agencies. It will improve the integrity of information by validating data and balances against FMS' central accounting system. This investment will move FMS closer to achieving its strategic goal of producing accurate, accessible and timely government-wide financial information and reports that contribute to improved quality of the nation's financial decision making. FIRST will accomplish this by:

- Making the United States Standard General Ledger accessible to a wider audience and easier to use through an interactive database on the Internet.

- Combining five current FMS stovepipe accounting data collection systems into one quarterly submission.

- Improving the accuracy, consistency and timeliness of agency reporting by validating the agency data and balances against authoritative balances in FMS' central accounting system.

Consistent reporting is required for central managers to make good decisions and crucial to attaining FMS' strategic goal of facilitating the achievement of a clean audit opinion on the Financial Report of the United States Government (FR).

The government-wide savings expected when the project is fully completed in FY 2011 is conservatively estimated by FMS at $31 million annually. If FMS does not build FIRST, the five current reporting systems will need upgrading to comply with FMS' enterprise architecture, at significant cost without improving functionality.

Funds for FIRST will be redirected from the following: $533,000 from Government Financial Reporting System (GFRS), $1,650,000 from Debt Fee Collection Revenue, and $210,000 from Claims Contract Support.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: FMS Salaries & Expenses	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogrammings	FY 2007 Proposed Operating Level	FY 2008 Requested Level
FTE	1,818	1,818		1,818		1,818	1,692
Object Classification:							
11.1 Full-Time Permanent Positions....................	$117,054	$117,054		$117,054		$117,054	$118,955
11.1 Other than Full-Time Permanent Positions....	1,500	1,500		1,500		1,500	1,500
11.5 Other Personnel Compensation....................	2,500	2,500		2,500		2,500	3,000
11.8 Special Personal Services Payments............	0	0		0		0	0
11.9 Personnel Compensation (Total)...............	121,054	121,054		121,054	$0	$121,054	$123,455
12.0 Personnel Benefits.......................................	25,950	26,000		26,000		26,000	26,200
13.0 Benefits to Former Personnel........................	175	175		175		175	175
21.0 Travel...	1,553	1,553		1,553		1,553	1,603
22.0 Transportation of Things..............................	195	195		195		195	195
23.1 Rental Payments to GSA.............................	14,950	14,900		14,900		14,900	13,500
23.2 Rent Payments to Others.............................	365	365		365		365	365
23.3 Communications, Utilities, & Misc.................	12,658	12,858		12,858		12,858	12,569
24.0 Printing and Reproduction............................	700	700		700		700	500
25.1 Advisory & Assistance Services....................	4,750	4,750		4,750		4,750	4,800
25.2 Other Services...	22,157	22,443	(362)	22,081		22,081	22,081
25.3 Purchase of Goods/Serv. from Govt. Accts..	6,000	6,000		6,000		6,000	7,037
25.4 Operation & Maintenance of Facilities...........	950	1,000		1,000		1,000	1,000
25.5 Research & Development Contracts............	0	0		0		0	0
25.6 Medical Care..	0	0		0		0	0
25.7 Operation & Maintenance of Equipment........	7,500	7,500		7,500		7,500	7,500
25.8 Subsistence & Support of Persons...............	0	0		0		0	0
26.0 Supplies and Materials.................................	4,250	4,250		4,250		4,250	4,300
31.0 Equipment..	10,149	9,386		9,386		9,386	9,386
32.0 Lands and Structures...................................	475	475		475		475	475
33.0 Investments & Loans....................................	0	0		0		0	0
41.0 Grants, Subsidies...	0	0		0		0	0
42.0 Insurance Claims & Indemn.........................	50	50		50		50	50
43.0 Interest and Dividends.............................	0	0		0		0	0
44.0 Refunds..	0	0		0		0	0
Total Budget Authority....................................	$233,881	$233,654	($362)	$233,292	$0	$233,292	$235,191
Budget Activities:							
Payments..	$144,135	$147,358		$147,130		$147,130	$146,465
Collections..	16,931	17,396		17,367		17,367	19,869
Debt Collection..	10,162	5,250		5,250		5,250	0
Government-wide Accounting and Reporting.........	62,653	63,650		63,545		63,545	68,857
Total Budget Authority....................................	$233,881	$233,654	($362)	$233,292	$0	$233,292	$235,191

2B – Appropriation Language

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY FINANCIAL MANAGEMENT SERVICE Federal Funds **Salaries and Expenses** *For necessary expenses of the Financial Management Service, $235,191,000, of which not to exceed $9,220,000 shall remain available until September 30, 2010, for information systems modernization initiatives; and of which not to exceed $2,500 shall be available for official reception and representation expenses.*	

2B – Permanent, Indefinite Appropriations

Federal Reserve Bank Permanent, Indefinite Appropriation

The Federal Reserve Banks (FRBs) act as fiscal agents of the United States when directed by the Secretary of the Treasury in accordance with 12 United States Code (U.S.C.) 391. The FRBs support the fiscal operations and provide banking and financial services on behalf of the Treasury of the United States. The Federal Reserve Reimbursement and Fiscal Responsibility Act of 1997 amended section 3302 (f) of title 31, U.S.C. and provided a permanent and indefinite appropriation of amounts necessary to pay the FRBs for the services they provide as fiscal agents on behalf of the Treasury. Since the FRBs support each FMS program activity, the performance measures listed in the Salaries and Expense section of this budget apply to the work done by the FRBs. FMS estimates that the cost of FRB services for FY 2008 will be approximately $295 million.

Financial Agent Services Permanent, Indefinite Appropriation

Congress has given the Secretary of the Treasury longstanding, broad discretion to deposit money in financial institutions and to obtain banking services by designating financial institutions to act/serve as Financial Agents of the United States Government. The services are in support of such programs as EFTPS, the Lockbox Networks, plastic cards, e-commerce systems, and CA$HLINKII, a deposit reporting and cash concentration system. These and other programs are vital to FMS' Strategic Goals, the government's financial critical infrastructure, and the President's emphasis on expanding E-Government. The services provided by such financial institutions are authorized under numerous statutes including, but not limited to, 12.U.S.C. 90 and 265.

In FY 2004, Treasury received a permanent indefinite appropriation to pay for these services. FMS estimates that the cost of Financial Agent services for FY 2008 will be approximately $426 million. Of this amount, agencies provide approximately $40 million in reimbursements to FMS, which is deposited into the General Fund.

2.3 – Permanent, Indefinite Appropriations Table

Table 2.3
Permanent, Indefinite Appropriations
(Dollars in Thousands)

Permanent, Indefinite Appropriation	FY 2006 Enacted	FY 2007 CR-rate	FY 2008 Request
Federal Reserve Bank	$220,000	$245,000	$295,000
Financial Agent Services	$322,000	$311,000	$426,000

2C – Legislative Proposals

Payment Transaction Integrity - - Allow the federal government to trace and recover federal payments sent electronically to the wrong account. The proposal, which amends 12 U.S.C. 3413, revises an existing exception to the Right to Financial Privacy Act so that improper electronic payments and improperly negotiated Treasury checks can be traced and recovered. This revision will also permit the federal government to verify that the correct party is making electronic payments to or receiving electronic payments from the government.

Estimated collections: $273 million the first year, $3.105 billion over ten years.

Eliminate the Ten-Year Limitations Period on Offset -- This proposal would eliminate the ten-year limitation on the collection of delinquent non-tax federal debts by administrative offset. Delinquent debts could be collected by offset without regard to any statutory, regulatory or administrative limitation on the period within which debts may be collected. The proposed change would allow for the collection by offset of other federal debts consistent with the current law for student loans.

Estimated collections: $11 million the first year, $65 million over ten years.

Assessment of the Transaction Costs for the Referral of Tax Debts from the IRS to the Financial Management Service for Debt Collection Levy -- Under current law, when the Internal Revenue Service (IRS) levies a federal payment to collect a delinquent tax debt under the Federal Payment Levy Program operated by the FMS, the IRS pays a fee out of its annual appropriation to FMS to process the transaction. The budget proposes to instead have the debtor pay the transaction costs in addition to their original debt. This would allow the IRS to fully utilize the levy program, maximize revenue, and shift the cost of enforcement to delinquent tax debtors.

Estimated collections: This proposal is budget neutral over ten years as the increased collections from the public (i.e., the debtors) offsets the increased direct spending for FMS for the administration of the debt collection program.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 Request		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Payments	1,173	$144,135	1,016	$142,979	1,173	$147,358	1,173	$147,130	1,112	$146,465	-5.20%	-0.45%
Collections	113	16,931	136	18,291	113	17,396	113	$17,367	137	19,869	21.24%	14.41%
Debt Collection	113	10,162	47	5,393	113	5,250	56	5,250	0	0	-100.00%	-100.00%
Gov. Accounting and Reporting	419	62,653	405	67,338	419	63,650	419	63,545	443	68,857	5.73%	8.36%
Subtotal New Appropriated Resources	1,818	$233,881	1,604	$234,001	1,818	$233,654	1,761	$233,292	1,692	$235,191	-3.92%	0.81%
Other Resources:												
Recoveries												
Offsetting Collections - Reimbursable	320	$167,770	373	$183,363	320	$196,282	370	$196,282	428	$215,179	15.68%	9.63%
Available multi-year/no-year funds												
Transfers In/Out												
Subtotal Other Resources	320	$167,770	373	$183,363	320	$196,282	370	$196,282	428	$215,179	15.68%	9.63%
Total Resources Available for Obligation	2,138	$401,651	1,977	$417,364	2,138	$429,936	2,131	$429,574	2,120	$450,370	-0.52%	4.84%

3A – Payments *($146,465,000 from direct appropriations and $137,849,000 from reimbursable programs):* The Payments activity issues and distributes payments, develops and implements federal payment policy and procedures, promotes the use of electronics in the payment process, and assists agencies in converting payments from paper checks to Electronic Funds Transfer (EFT). This activity controls and provides financial integrity to the payments process through reconciliation, accounting and claims activities. The claims activity settles claims against the United States resulting from federal government checks which have been forged, lost, stolen or destroyed, and collects monies from those parties liable for fraudulent or otherwise improper negotiation of government checks. It also includes processing claims and reclamations for EFT payments. In FY 2006, FMS issued over 964 million non-Defense payments, with a dollar value of approximately $1.5 trillion and 77 percent of these transactions were issued by EFT, an increase of one percent over FY 2005.

FMS continues to expand and market the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs. This helps decrease the number of paper checks issued and minimize costs associated with postage, the re-issuance of lost, stolen and misplaced checks, and inefficiencies associated with the non-electronic delivery of benefits.

Direct deposit offers payment recipients ease and convenience, and protects against fraud and identity theft. Direct deposit also generates significant cost savings to the government over paper checks. Each payment converted from paper to direct deposit saves the taxpayer about 80 cents per transaction. However, FMS faces challenges in increasing growth in electronic payments. The direct deposit growth rate for federal benefit payments has leveled off from increases in the late 1990s. As the government prepares for the huge increase in retiring baby boomers in the near future, it is critical that FMS reverse this trend. To increase the use of direct deposit for federal benefit payments, FMS began a nationwide campaign called “Go Direct” to encourage current check recipients to switch to direct deposit. The goal for the first year of the campaign was to convert approximately half a million check recipients to direct deposit, and the campaign, in fact, exceeded that goal, savings millions of dollars for the United States Treasury in the years to come. In addition, FMS is implementing a pilot program in FY 2007, which is directed at the un-banked, to disburse benefit payments through debit cards. FMS is also developing plans (entitled Universal Direct Deposit) which will require at some future date all newly enrolled beneficiaries to receive payments electronically unless they do not have a bank account.

In support of its payments function, FMS has also undertaken considerable efforts to modernize its payment systems, incorporating new technologies and the internet. Some programs that will continue to be in focus are:

- *Stored Value Card (SVC)*: This is a smartcard, similar to a credit/debit card, using an encrypted computer chip to process "electronic money" stored on the card. This program is aimed at reducing the float-loss associated with the more than $2 billion in coin and currency in circulation at military bases, ships at sea, and other closed government locations around the world. From 1997 to the end of FY 2006, over 5.5 million Electronic Funds Transfer transactions representing a dollar value in excess of $816 million were processed via the SVC programs.

- *Payments Application Modernization (PAM)*: This is an FMS effort in coordination with the Federal Reserve Bank of Kansas City to modernize the current mainframe-based software applications that are used to disburse approximately one billion federal payments worth over $1.5 trillion annually. PAM involves replacing over 30 COBOL and Assembler applications that have evolved over the last several decades, with a single standardized application. Additionally, new and enhanced functionality will be incorporated to support improvements in the payment process.

- *ASAP.gov (Automated Standard Application for Payments)*: This is a web-based system built by FMS in coordination with the Federal Reserve Bank of Richmond. Through this all electronic grants payment system organizations including states, universities, for-profits, and non-profits receive federal funds from accounts pre-authorized by Federal agencies. ASAP is one of two systems authorized by the Chief Financial Officer’s Council to disburse civilian grant payments on behalf of program agencies. Eighteen federal agencies use ASAP.gov and total FY 2006 disbursements to organizations were $425 billion. FMS expects disbursements through ASAP.gov to increase dramatically with the addition of new agencies.

- *Treasury Check Information System (TCIS)*: This new web-based system was designed by Federal Reserve Bank of Philadelphia using commercial off the shelf software products. In June 2006, TCIS replaced the outdated Check Payment and Reconciliation System. It provides FMS with an electronic office environment for check activities including the reconciliation of more than 220 million check payments and the processing of over 1.5 million claims inquiries per year. Agencies are now able to access on-line both check and Automated Clearinghouse payment information through TCIS, and no longer have to use two systems to obtain this information.

Other Resources:
Offsetting collections and reimbursements totaling $137,849,000 are collected for disbursement of federal agency payments to beneficiaries, including Social Security payments, Railroad Retirement Board payments, tax refunds and the Department of Veterans Affairs benefit payments.

3.2.1 – Payments Budget and Performance Plan

Dollars in Thousands

Payments Budget Activity					Includes Strategic Objective F4C
Resource Level	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 President's Budget**	**FY 2008 Request**
Financial Resources					
Appropriated Resources	$136,534	$141,287	$144,135	$147,358	$146,465
Other Resources	115,188	132,845	127,085	135,031	137,849
Total Operating Level	**$251,722**	**$274,132**	**$271,220**	**$282,389**	**$284,314**
Human Resources					
Appropriated FTE	1,173	1,173	1,173	1,173	1,112
Other FTE	39	39	43	40	41
Total FTE (direct and reimbursable)	**1,212**	**1,212**	**1,216**	**1,213**	**1,153**

Payments Budget Activity						Includes Strategic Objective F4C
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Percentage of Treasury Payments and associated information made electronically (%) (Oe)	Target	75%	76%	78%	78%	79%
	Actual	75%	76%	77%		
	Met	Yes	Yes	No		
Percentage of paper check and Electronic Funds Transfer (EFT) payments made accurately and on time (%) (Oe)	Target	100%	100%	100%	100%	100%
	Actual	100%	100%	100%		
	Met	Yes	Yes	Yes		
Unit cost for Federal Government payments ($) (E)	Target	Baseline	$0.35	$0.35	$0.39	$0.39
	Actual	$0.35	$0.36	$0.37		
	Met	Yes	No	No		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: FMS disburses 85 percent of the federal government's payments to a wide variety of recipients, such as those who receive Social Security

Administration payments, Internal Revenue Service tax refunds, and the Department of Veterans Affairs benefits. In FY 2006, FMS issued over 964 million non-Defense payments, with a dollar value of approximately $1.5 trillion. Seventy seven percent of these transactions are issued by Electronic Funds Transfer, an increase of one percent over FY 2005. Paper checks account for the remainder of disbursements.

3B – Collections *($19,869,000 from direct appropriations):* The Collections activity collects revenues needed to operate the federal government through the management of the federal government's collections infrastructure. FMS collected approximately $2.9 trillion in FY 2006 through a network of more than 9,000 financial institutions. It also manages the collection of federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines and proceeds from leases. FMS establishes and implements collection policies, regulations, standards and procedures for the federal government. The majority of dollar collections are made electronically - 79 percent for FY 2006, a 10 percent increase over 2005.

FMS develops and operates a variety of collection mechanisms and systems to meet program agency needs. It has initiated a comprehensive effort to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. It continues to promote the use of electronics in the collections process and assist agencies in converting collections from paper to electronic media with programs such as:

- *Electronic Federal Tax Payment System (EFTPS)*: This is an accurate, secure and convenient way to pay all federal tax payments, including corporate, excise and employment taxes and 1040 quarterly estimated taxes via the internet or a telephone voice response system. EFTPS processes 95 percent of United States tax dollars and is required for businesses with annual federal tax obligations above $200,000. FMS is also working to communicate the benefits of EFTPS – accuracy, security, simplicity and flexibility – to financial institutions, small businesses and tax practitioners. The goal is to encourage businesses and individuals to pay their federal taxes electronically through EFTPS rather than by using paper Federal Tax Deposit coupons, which number close to 38 million. FMS is also partnering with the state of Illinois in a pilot program between the Illinois Department of Revenue, FMS and the Internal Revenue Service. The program marks the first time business taxpayers can make state withholding tax deposits through EFTPS Online at the same time as their federal payments with a single PIN and password. Illinois is also examining whether making EFTPS available for state taxpayers will improve the efficiency of the state tax collection system. Results of this pilot will be used to help the Treasury Department determine whether to expand this service to other states and to add other state taxes for payment through EFTPS. The first phase of the EFTPS state pilot program officially was launched on January 11, 2007 in Chicago.

- *Pay.gov*: This is a government collection portal that provides a single platform for E-Government services and allows citizens, businesses and federal agencies to conduct business via the internet. Pay.gov provides collections, form submittal, bill presentment, authentication and agency financial reporting services. Since inception, it has processed approximately 14.4 million transactions valued at over $52 billion. Pay.gov responds to the increasing demands of consumers and businesses for electronic alternatives by providing the opportunity to complete forms and applications, make payments, and submit queries on-line 24 hours a day, 7 days a week. Pay.gov, which has been implemented with 95 federal agencies representing 286 cashflows, collected $29.5 billion in FY 2006.

- *Paper Check Conversion Over-the-Counter System (PCC-OTC)*: This program/service converts paper checks into Electronic Funds Transfers (EFT) debits against the check writer's bank account. PCC is being used at over the counter locations for agency deposits. As of October 2006, PCC-OTC processed more than 6.6 million items representing more than $6.3 billion. Beginning in April 2005, the PCC system implemented "Check 21" functionality that allows for the image truncation and image clearing of negotiable instruments that cannot be converted into EFT debits.

- *Electronic Check Processing (ECP)*: This is a service that processes all paper checks received at a financial agent lockbox within the General Lockbox Network. The system has the capacity to either convert a check to an EFT debit transaction or truncate the check into an image document under the auspices of Check 21. It provides a government-wide enterprise solution for imaging checks and remittance forms and a central repository for agencies to access their check transactions via a secure internet site. While similar to the Paper Check Conversion/Over the Counter system, ECP is recognized as a separate service because it requires different technology to process a higher volume of transactions and larger files from financial institutions, relative to the lower volumes processed over-the-counter at federal agencies.

3.2.2 – Collections Budget and Performance Plan

Dollars in Thousands

Collections Budget Activity	Includes Strategic Objectives F4A, F4B, and F4C				
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$16,426	$16,693	$16,931	$17,396	$19,869
Other Resources	15,162	3,500	0	0	0
Total Operating Level	**$31,588**	**$20,193**	**$16,931**	**$17,396**	**$19,869**
Human Resources					
Appropriated FTE	113	113	113	113	137
Other FTE	0	0	0	0	0
Total FTE (direct and reimbursable)	**113**	**113**	**113**	**113**	**137**

Collections Budget Activity		Includes Strategic Objectives F4A, F4B, and F4C				
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Percentage collected electronically of total dollar amount of Federal government receipts (%) (Oe)	Target	81%	82%	83%	80%	81%
	Actual	81%	79%	79%		
	Met	Yes	No	No		
Unit cost to process a Federal revenue collection transaction ($) (E)	Target	Baseline	$1.4	$1.37	$1.33	$1.3
	Actual	$1.4	$1.2	$1.1		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: FMS collected approximately $2.9 trillion in FY 2006 through a network of more than 9,000 financial institutions. It also manages the collection of federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines, and proceeds from leases. FMS establishes and implements collection policies, regulations, standards and procedures for the federal government. FMS develops and operates a variety of collection mechanisms and systems (e.g. Electronic Federal Tax Payment System, lockboxes, Treasury General Accounts, debit/credit cards, and Pay.gov) to meet program agency needs. The majority of the dollar amounts of FMS collections are made electronically; 79 percent for FY 2006. FMS continues to promote the use of technology in the collections process and assists agencies in converting collections from paper to electronic media.

3C – Debt Collection *($77,330,000 from reimbursable programs):* The Debt Collection activity collects delinquent government and child support debt by providing centralized debt collection, oversight and operational services to Federal Program Agencies and states as required by the Debt Collection Improvement Act of 1996 and related legislation. The services include, but are not limited to, collecting delinquent debts through cross-servicing and offsetting federal payments, providing a database for use as a tool for barring delinquent debtors, providing post-judgment collection, advising and educating agencies towards improving debt management, and referrals to the Department of Justice.

FMS collects delinquent debt through two major programs: the Treasury Offset Program (TOP) and cross-servicing. The Treasury Offset Program compares the names and Taxpayer Identifying Numbers (TINs) of debtors with the names and TINs of recipients of federal payments. If there is a match, the federal payment is reduced, or “offset,” to satisfy the overdue debt.

Cross-servicing activities are conducted through FedDebt, a comprehensive system that replaced FMS’ prior cross-servicing system in October 2005. Cross-servicing includes applications for various collection tools such as offset, demand letters to debtors, repayment agreements, administrative wage garnishment, referrals to the Department of Justice, credit bureau reporting, reporting discharged debts to the Internal Revenue Service (IRS), and use of private collection agencies.

In 2005, FMS implemented the initial phase of FedDebt. Future releases will integrate the Treasury Offset Program and cross-servicing into FedDebt, which will provide federal program agencies with batch and on-line capabilities for all users via a single sign-on interface and will employ a common file format for remitting cross-servicing or TOP debts. FedDebt provides increased flexibility; increased automation among a number of processes currently handled manually, and improved system access for federal agency customers and service partners. It allowed FMS to transfer a major portion of its debt collection functions performed in the Washington, D.C. area to the Birmingham center in FY 2006 which has consolidated functions, streamlined operations, and reduced costs. FMS will continue development of FedDebt, making it more user-friendly by replacing the existing TOP program and enhancing applications to provide better service to agencies that refer debts for collection.

FMS is working to incorporate additional payment types into the payment offset and levy programs. This effort is directed primarily at increasing collections of debt, especially tax debt owed by contractors and vendors. In addition, FMS will continue to promote and roll out Debt Check, its on-line database used to assist agencies in barring delinquent debtors from obtaining new loans or loan guarantees.

3.2.3 – Debt Collection Budget and Performance Plan

Dollars in Thousands

Debt Collection Budget Activity					Includes Strategic Objective F4A
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$14,696	$9,855	$10,162	$5,250	$0
Other Resources	31,049	33,675	40,185	61,251	77,330
Total Operating Level	**$45,745**	**$43,530**	**$50,347**	**$66,501**	**$77,330**
Human Resources					
Appropriated FTE	113	113	113	56	0
Other FTE	268	273	273	330	387
Total FTE (direct and reimbursable)	**381**	**386**	**386**	**386**	**387**

Debt Collection Budget Activity						Includes Strategic Objective F4A
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Amount of delinquent debt collected per $1 spent ($) (E)	Target		Baseline	$36.4	$36.5	$36.75
	Actual		$36.23	$39.97		
	Met		No	Yes		
Amount of delinquent debt collected through all available tools (Billions $) (Ot)	Target	$2.9	$3	$3.1	$3.2	$3.25
	Actual	$3	$3.25	$3.34		
	Met	Yes	Yes	Yes		
Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral (%) (Ot)	Target	90%	92%	93%	94%	95%
	Actual	99%	97%	95%		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: In FY 2006, FMS collected a record $3.34 billion in delinquent debt, including $1.59 billion in past due child support, $1.23 billion in federal non-tax debt, and more than $520 million in federal tax levies and state tax debt offsets. Debt referrals from creditor agencies were at 95 percent of eligible debt at the end of FY 2006. As a result of our continued improvements to the program, collections have steadily increased to more than $27.7 billion since the enactment of the Debt Collection Improvement Act in 1996. In calendar year 2006, IRS referred an additional $47 billion of tax debts for continuous levy, a twenty-five percent increase from calendar year 2005 for the same period.

3D – Government-wide Accounting and Reporting *($68,857,000 from direct appropriations):* The Government-wide Accounting and Reporting activity 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. It also works with federal agencies to adopt uniform accounting and reporting standards and systems and provides support, guidance and training to assist Federal Program Agencies (FPAs) in improving their government-wide accounting and reporting responsibilities. FMS gathers and publishes government-wide financial information which is used in establishing fiscal and debt management policies and is also used by the public and private sectors to monitor the government's financial status. These publications include: the Daily Treasury Statement, the Monthly Treasury Statement, the Treasury Bulletin, the Combined Statement of the United States Government, and the *Financial Report of the United States Government* (FR).

FMS is building and implementing a system to improve the exchange of financial information among FMS, FPAs, Office of Management and Budget (OMB) and the banking community. Once completed, this Government-wide Accounting (GWA) Modernization Project will comprehensively replace current government-wide accounting functions and processes that are both internal and external to FMS. It will improve the reliability, usefulness, and timeliness of the government's financial information, provide FPAs and other users with better access to that information, and will eliminate duplicate reporting and reconciliation burdens by agencies. In addition, FPAs will have better tools for reporting financial information and access to daily account statements for monitoring the status of their financial information at the Treasury Department. This initiative will result in significant savings throughout government as agencies will no longer have to prepare month-end reports classifying all of their disbursement and collection transactions or performing reconciliations on statements of differences associated with this month-end reporting.

FMS is taking significant steps in an attempt to address the material weaknesses found in the compilation process of Financial Report (FR) of the United States Government, including:

- Requiring comprehensive accounting data from agencies on a quarterly basis that will allow FMS to better analyze the data for consistency and completeness.

- Providing agencies with authoritative data to reconcile inter-agency transfers and other transactions that agencies report to the central accounting system.

- Using the Chief Financial Officers (CFO) Council, Treasury Reporting Group as a forum to discuss these accounting and reporting issues that affect the FR.

- Working with the CFO Council and OMB to develop more consistent business rules for intra-governmental transactions.

- Encouraging greater auditor participation by requiring agency auditors to more closely scrutinize intra-governmental out-of-balance conditions with other agencies.

The goal of these actions is to remove the compilation process as a barrier to a clean audit opinion for the FR.

3.2.4 – Government-wide Accounting and Reporting Budget and Performance Plan

Dollars in Thousands

Government-wide Accounting and Reporting Budget Activity					Includes Strategic Objective F4D
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$59,554	$61,248	$62,653	$63,650	$68,857
Other Resources	500	500	500	0	0
Total Operating Level	**$60,054**	**$61,748**	**$63,153**	**$63,650**	**$68,857**
Human Resources					
Appropriated FTE	419	419	419	419	443
Other FTE	4	4	4	0	0
Total FTE (direct and reimbursable)	**423**	**423**	**423**	**419**	**443**

Government-wide Accounting and Reporting Budget Activity						Includes Strategic Objective F4D
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Percentage of government-wide accounting reports issued accurately (%) (Oe)	Target	100%	100%	100%	100%	100%
	Actual	100%	100%	100%		
	Met	Yes	Yes	Yes		
Percentage of government-wide accounting reports issued timely (%) (E)	Target	100%	100%	100%	100%	100%
	Actual	100%	100%	100%		
	Met	Yes	Yes	Yes		
Unit Cost to Manage $1 Million Dollars of Cash Flow	Target			Baseline	$10.69	$12.88
	Actual			$8.5		
	Met			Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: FMS issues 100 percent of its Government-wide accounting reports issued accurately and timely. For the third consecutive year, FMS released the *Financial Report of the United States Government* (FR) 75 days after the fiscal year-end. FMS established a new measure, “Unit cost to manage $1 million of cash flow”, which will begin in FY 2007.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents				
Direct FTE		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		1,645	1,604	1,761
Increases:				
Reason #1	Normal Accession	164	65	
Reason #2:	Adjustment from actual to budgeted		188	
Subtotal, Increases		164	253	0
Decreases:				
Reason #1:	Normal Attrition	-116		
Reason #2:	Reduction due to buyout	-40	-39	
Reason #3:	Redirection of FTE to Reimbursable/Debt fund	-49	-57	-56
Reason #4:	Reduction of FTE due to modernization of the payments function			-13
Subtotal, Decreases		-205	-96	-69
Year-end Actual/Estimated FTEs		1,604	1,761	1,692
Net Change from prior year SOY to budget year EOY				88

4A – Human Capital Strategy Description

The Financial Management Service's strategic management of human capital is consistent with its mission, vision and priorities supporting the President's Management Agenda, and Treasury's strategic goal to Manage the United States Government's Finances Effectively.

FMS is on the technology forefront in the performance of its mission. It has taken steps to improve the quality of its professional workforce. A Human Capital Strategic Plan has been developed to identify current structure weaknesses and build upon its strengths. Achieving the following objectives will support and strengthen its work force:

- *Strategic Alignment*: A human capital strategy is aligned with mission, goals, organizational objectives and integrated into its strategic plans, performance plans and budgets.

- *Workforce Planning & Deployment*: FMS is citizen-centered, delayered, mission-focused, and leverages E-Government and competitive sourcing.

- *Leadership & Knowledge Management*: Leaders and managers effectively manage people, ensure continuity of leadership, and sustain a learning environment that drives continuous improvement in performance. Succession strategies result in a diverse leadership talent pool that is continually updated.

- *Results-Oriented Performance Culture*: FMS has a diverse, results-oriented, high performance workforce, a performance management system and awards program that effectively differentiates between high and low performance. It holds employees accountable, links individual/team/unit performance to organizational goals and desired results.

- *Diversity*: Under-representation is addressed, particularly in mission-critical occupations and leadership positions and processes are in place to sustain diversity.

- *Talent*: FMS has significantly reduced mission-critical skills, knowledge and competency gaps. FMS is making significant progress and demonstrates continued improvement in meeting agreed-upon hiring timeline goals, i.e., the 45-day hiring model.

- *Accountability*: Human capital decisions are guided by a data-driven results-oriented planning and accountability system.

Through these objectives FMS has strengthened its human capital position. Proactive identification and filling of vacant positions is a part of recruiting and retaining new talent. Delegated Examination and student intern program authorities are used extensively to attract talent from some of the best colleges and universities.

FMS has action plans to attain and maintain the right number of people with the right skills to accomplish the mission. It continually manages the ongoing challenge of recruiting and retaining highly skilled individuals in critical areas, including Accountants (with strong analytical skills) and IT Specialists. These challenges have increased with heightened competition from the private sector. In addition, there is ongoing position management and assessment of FTE distribution. As vacancies occur, they are reviewed and back-filled or the FTE is redirected as appropriate. This is how FMS counters the possibility of either a surplus or deficiency of staff in certain job occupations.

Through FY 2010, 29 percent of FMS' current employees are eligible for Optional Retirement and 47 percent are eligible for Discontinued Service or Early Retirement. Strategies are in place to close skill-gaps and fill staffing requirements in mission-critical occupations. This includes use of all available pay incentives within budget constraints (e.g., Recruitment and Retention Incentives) and specialized employee development programs: SES Candidate Development, Project Management Certification, Management Preparatory Development, Federal Career Intern Program, Leadership, and Mentoring.

Another strategy to manage staffing needs is use of contractors and/or outsourcing. FMS supplements its workforce with contractors in security, building maintenance, IT support and various finance functions provided by the Bureau of the Public Debt. Financial institutions and Federal Reserve Banks serve as financial and fiscal agents of the Treasury Department in providing banking, payment and other financial services to FMS.

FMS believes that a diverse workforce is vital to achieve its mission. It monitors recruitment and diversity goals to improve areas of under-representation and actively supports programs and initiatives to recruit minority college students. The following programs have been put into place to ensure a diverse workforce:

- SES candidate program was developed to create a diverse pipeline of future senior executives.

- Special emphasis programs were expanded and Equal Employment Opportunity (EEO) and diversity awareness training was instituted.

- Hispanic recruitment was enhanced through the increased use of Hispanic Associations of Colleges and Universities (HACU) interns, which created a pipeline for new Hispanic employees.

- Increased participation in the Washington Internship for Native Students (WINS) program.

- Participation in the Department of Labor's Workforce Recruitment Program for students with disabilities was increased.

- Increased use of the Federal Career Internship Program (FCIP) to facilitate and accelerate general hiring of qualified and talented minority student interns.

FMS has a solid and viable Human Capital Strategy to fulfill its primary mission.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments 1/ (in $ Millions) Major IT Investments	Budget Activity/Funding Source	FY 2005 Operating Plan	FY 2005 Obligations	FY 2006 Operating Plan	% Change from FY05 Actuals to FY06	FY 2007 President's Budget	% Change from FY06 to FY07	FY 2008 Request	% Change from FY07 to FY08
Automated Standard Application for Payment (ASAP)	Payments	$10.6	$10.6	$11.1	4.7%	$12.4	11.6%	$13.6	10.0%
Debt Management Accounting Systems (DMAS)	Debt Management	3.1	3.1	5.2	66.3%	7.5	44.0%	6.3	-15.6%
Electronic Federal Tax Payment System (EFTPS) -- joint Ex. 300 w/IRS	Collections	81.0	81.0	68.8	-15.1%	70.8	3.0%	73.2	3.3%
Financial Information Reporting and Standardization (FIRST) 2/	Governmentwide Accounting	2.9	2.9	7.7	162.4%	6.8	-11.7%	7.3	7.4%
Governmentwide Accounting Modernization (GWA)	Governmentwide Accounting	20.5	20.5	21.4	4.0%	22.0	2.9%	22.6	2.9%
Integrated FedDebt	Debt Management	21.0	21.0	19.9	-5.2%	13.2	-33.5%	13.2	0.0%
Intragovernmental Payments & Collections (IPAC)	Governmentwide Accounting	9.8	9.8	7.2	-26.5%	6.5	-9.8%	5.8	-11.4%
PACER Online	Payments	4.6	4.2	4.5	7.1%	4.6	1.7%	4.7	3.2%
Payment Application Modernization (PAM) 3/	Payments	5.2	5.2	19.7	282.2%	19.3	-1.9%	18.0	-6.8%
Pay.gov	Collections	20.5	20.5	23.0	12.2%	21.3	-7.4%	11.6	-45.5%
Secure Payment System (SPS)	Payments	5.4	5.4	5.7	5.0%	5.8	1.8%	5.9	1.7%
Treasury Check Information System (TCIS)	Payments	6.5	6.5	8.3	27.8%	8.2	-0.7%	6.6	-19.2%
Subtotal, Major IT Investments		$191.1	$190.7	$202.4	6.1%	$198.4	-2.0%	$188.9	-4.8%
CashTrack	Governmentwide Accounting	3.75	3.75	3.4	-9.3%	3.5	2.9%	3.5	0.0%
Shared Accounting Module (SAM) 4/	Governmentwide Accounting	0.7	0.7	2.63	275.7%	3.362	27.8%	3.502	4.2%
Transaction Reporting System (TRS)	Governmentwide Accounting	4	4	3.8	-5.0%	3.418	-10.1%	5.18	51.6%
Treasury Receivable, Accounting, and Collections System (TRACS)	Collections	1.9	1.9	1.5	-21.1%	1.5	0.0%	1.6	6.7%
Non-Major IT Investments		$10.4	$10.4	$11.3	9.5%	$11.8	4.0%	$13.8	17.0%
FMS Enterprise Infrastructure (Consolidated)		57.5	57.5	65.4	13.7%	61.3	-6.3%	62.0	1.1%
FMS Computer Security/Disaster Recovery (Consolidated)		11.7	11.7	13.5	15.8%	12.6	-6.8%	13.7	8.7%
FMS Strategic Asset Management/Capital Asset Refresh Initiative (Consolidated)		-	-	-	0.0%	-	0.0%	5.0	0.0%
Infrastructure Investments		$69.2	$69.2	$78.9	14.0%	$73.9	-6.4%	$80.7	9.2%
Enterprise Architecture		$0.9	$0.9	$1.8	96.6%	$1.4	-21.7%	1.4	-0.7%
Total IT Investments		$271.6	$271.2	$294.4	8.6%	$285.5	-3.0%	284.7	-0.3%

1/ Amounts include all funding sources and FTEs.
2/ FY05 Costs for FIRST are for the legacy GFRS system which will be included in this new investment.
3/ PAM FY06-FY08 amounts reflect rebaselined legacy system costs designed to more accurately reflect all costs associated with the RO Payment System.
4/ SAM received credits from the FRB in FY 05, leading to lower costs for FY 05.

4B – Information Technology Strategy

FMS focuses its IT investments on furthering web-based applications and eliminating paper processes to support operational efficiency and the President's Management Agenda (PMA) E-Government initiatives. FMS is committed to establishing policies and processes to facilitate the integration of E-Commerce technologies into its infrastructure. FMS has undertaken considerable efforts to modernize its systems by incorporating new technologies and making full use of the internet. Moving to an all-electronic Treasury, especially for payments and collections, is a Treasury Department and FMS strategic goal.

IT funding is critical for FMS to make significant progress in strengthening its entity-wide IT security especially in the areas of robust intrusion detection, monitoring and patch management, and assuring adequate disaster recovery. These investments ensure that FMS' products and services are provided in a secure environment and the federal government's payment, collection and cash forecasting critical infrastructure assets do not become susceptible to computer attacks, viruses and terrorist activities. FMS' certification and accreditation process is robust and continuously improving. Currently, all major applications and general support systems are certified and accredited. Maintaining the FMS computer security program at an acceptable level requires ongoing upgrades of tools and technologies.

4.3 – PART Evaluation Table

PART Name:	Debt Collection
Year PARTed:	2003
Rating:	Effective
OMB Major Findings/Recommendations	
1. Develop a more ambitious long-term performance measure. 2. Set interim targets and describe interim actions necessary to achieve the long-term performance measure. 3. Level fund the debt collection program for FY 2005. 4. Propose legislation to increase and enhance debt collection opportunities.	
Bureau Actions Planned or Underway	
1. Continuously review the trend in debt collection and revise/update the long-term measure as necessary. 2. FMS establishes annual performance measures for collections and referrals of debt by agencies. These targets/measures and actions help direct efforts to achieve our long-term measure. 3. Operate within budgetary resources. With the FY 08 budget submission, FMS has zeroed-out the salary and expenses appropriated funding requirements for this program and the program will be self-funded through fee revenue. FMS will analyze projected collections and fees with the goal of ensuring fees will cover the full cost of the program. 4. FMS has submitted numerous legislative proposals which will enable FMS to significantly enhance our debt collection opportunities.	

PART Name:	Collections
Year PARTed:	2004
Rating:	Effective
OMB Major Findings/Recommendations	
1. Work with program partners to explore opportunities to better reduce paper-based collections. 2. Provide 2006 funding at the same level as in 2005 (excluding funding received for services provided to other federal agencies).	
Bureau Actions Planned or Underway	
1. FMS is working with federal agencies participating in the General Lockbox Network to eliminate the paper checks that are received converting paper checks into electronic Automated Clearing House transactions (Electronic Check Processing) or truncating the paper check and processing an image of the check (Check 21). 2. FMS has partnered with customs and Border Protection (CBP) to convert the financial piece of CBP's Automated Commercial Environment (ACE) System to Pay.gov. The ACE cash flow totals $20 billion annually. 3. FMS will work with federal agencies as it begins to pilot and implement TGAnet, an automated system designed to eliminate the paper deposit ticket which accompanies over the counter deposits by Federal agencies at financial institutions. 4. Operate within budgetary resources.	

PART Name:	Payments
Year PARTed:	FY 2005
Rating:	Effective

OMB Major Findings/Recommendations

1. The program must continue its efforts toward and all electronic treasury.

Bureau Actions Planned or Underway

1. Working with Federal agencies to reduce the number of paper check payments and increasing the number of more efficient and secure electronic payments. This reflects FMS' efforts to work toward its 2010 goal of 90 percent of all payments made electronically.

2. Implemented Go Direct, a nationwide campaign to encourage current Federal check recipients to switch to direct deposit.

3. Continue to pursue requiring at some future date, that all new benefit recipients receive their benefit payments electronically rather than check unless they do not have a bank account.

PART Name:	Governmentwide Accounting
Year PARTed:	FY 2006
Rating:	Moderately Effective

OMB Major Findings/Recommendations

1. The program must develop a baseline for its efficiency performance measure. While FMS has unit cost, timeliness, and accuracy measures in its internal and external performance reporting that are used to manage for improved efficiency, at the time of this PART evaluation, a baseline for the new unit cost measure had yet not been established.

2. More work needs to be done in order to ahieve a clean opinion on the Financial Report of the U.S. Government. Improvement is needed on material weakness in the areas of accounting data compilation/consolidation and reconciliation of intragovernmental reporting differences.

Bureau Actions Planned or Underway

1. Developing a baseline for the efficiency performance measure that measures the unit cost to manage one million dollars of cash flow.

2. Develop authoritative balances from FMS systems to which agencies will be required to reconcile.

3. Developing the Financial Information Reporting Standardization (FIRST) system in order to better integrate and reconcile budget and accounting data.

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

Bureau of the Public Debt

Mission Statement

To borrow the money needed to operate the federal government, account for the resulting debt, and provide reimbursable support services to federal agencies.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
Salaries and Expenses	Enacted	President's Budget	CR-rate	Request	$ from CR-rate	% from CR-rate
Wholesale Securities Services	$11,812	$11,986	$11,842	$12,474	$632	5.34%
Government Agency Investment Services	13,255	13,451	13,289	13,239	(50)	-0.38%
Retail Securities Services	147,529	149,711	147,912	151,359	3,447	2.33%
Summary Debt Accounting	5,558	5,641	5,573	5,799	226	4.06%
Total Appropriated Resources	**$178,154**	**$180,789**	**$178,616**	**$182,871**	**$4,255**	**2.38%**

Note: FY 2006 and FY 2007 Total Appropriated Resources includes $3,000,000 in projected user fee collections. FY 2008 Total Appropriated Resources includes $10,000,000 in projected user fee collections.

FY 2008 Priorities

- Conduct more than 200 error-free marketable securities auctions that will result in the issue of more than $4 trillion in Treasury bills, notes, bonds and Treasury Inflation-Protected Securities.
- Administer some $3.76 trillion in investments for about 230 federal trust funds.
- Manage 6,600 state and local government accounts valued at approximately $250 billion.
- Complete 90 percent of retail customer service transactions within 12 business days.
- Reconcile more than $72 trillion in securities transactions.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Bureau of the Public Debt's (BPD) vision is to lead the way for responsible, effective government through commitment to service, efficient operations, openness to change, and values-based behavior. In light of its mission and vision, BPD annually auctions and issues more than $4 trillion in Treasury bills, notes, bonds and Treasury Inflation-Protected Securities (TIPS); effectively administers the regulation of the primary and secondary Treasury securities markets; ensures that reliable systems and processes are in place for issuing, transferring, paying interest on, and redeeming Treasury securities; issues and redeems more than 79 million paper savings bonds each year; administers approximately $3.76 trillion in investments for some 230 federal trust funds; and provides timely and accurate information on the public debt.

In support of Treasury's objective to finance the needs of the federal government at the lowest cost over time, Public Debt's top priority is to ensure that the most efficient systems are in place to conduct borrowing and deliver securities services to investors. To that end, BPD continues to enhance its TreasuryDirect system through which retail customers can purchase and manage their holdings of electronic Treasury securities through the internet. With the increased reliance on conducting business electronically, Public Debt also places a high priority on adopting technological advances to ensure that its systems remain secure.

With its resources, Public Debt:

- Conducts more than 200 marketable securities auctions annually, resulting in the issue of more than $4 trillion in Treasury bills, notes, bonds and TIPS;
- Administers approximately $3.76 trillion in Government Account Series (GAS) investments, which comprise about 44 percent of the public debt outstanding;
- Manages some 6,600 active State and Local Government Series (SLGS) accounts valued at $250 billion;
- Serves more than 50 million retail customers holding marketable and savings securities, including nearly 600,000 investor accounts in the internet-based TreasuryDirect system;
- Accounts for and reports on $228 billion in federal agency borrowings from Treasury in more than 80 accounts;
- Accounts for and reports on the balance and composition of the more than $8 trillion public debt, the single largest liability on the federal government's balance sheet, and reconciles more than $72 trillion in securities transactions reported from numerous systems to cash flowing in and out of the federal government each year;
- Receives unqualified audit opinions on the *Schedules of Federal Debt* every year since there was a requirement to produce financial statements;
- Provides reimbursable administrative and information technology services to more than 75 federal agencies.

The total resources required to support BPD activities for FY 2008 are $198,603,000, including $182,871,000 from direct appropriations, of which $10,000,000 is in user fees, and $15,732,000 from offsetting collections and reimbursable programs.

1B – Program History and Future Outlook

In keeping with its vision, BPD is dedicated to maintaining high levels of performance, and its budget is structured to effectively align resources with performance. As a result, Public Debt will successfully carry out its mission, which contains three elements:

Borrow the money needed to operate the federal government: Public Debt will continue to enhance the mechanisms for participation by a wide range of investors in its wholesale, government agency investment services, and retail programs.

Wholesale Program: Over the years, Public Debt has dramatically reduced the times required to complete marketable securities auctions. It now consistently releases auction results within two minutes, plus or minus 30 seconds, of the auction close. This is extremely important because shorter and consistent auction releases reduce the time auction bidders are exposed to the risk of adverse market movements. Hence, by limiting this risk, the implicit premium associated with this period of uncertainty is reduced substantially.

In FY 2007, BPD will replace its aging auction system to fully integrate the automated announcement, auction and issuance of marketable securities, and, at the same time, provide greater speed and flexibility to Treasury debt managers in bringing new types of securities to market. BPD has expanded its ability to provide contingency processing at three auction processing sites and provided a new feature to allow certain large non-primary dealer bidders to submit bids in a secure internet environment. The 2008 request includes funding to support and maintain the new auction system once this transition is complete.

Public Debt will continue to improve the processes for submitting auction bids and enhancing auction systems. Investments in technology and continuity of operations will continue to ensure that payments to investors will be made timely with 100 percent accuracy. Public Debt has improved its service to large institutional investors by enhancing the automated bid submission system for all competitive auction participants in order to keep it current and make it more efficient.

Government Agency Investment Services Program: Public Debt is committed to continuously provide efficient mechanisms to federal, state and local government entities who purchase GAS and SLGS securities and borrow from Treasury. The goal is to conduct 80 percent of customer-initiated transactions online by FY 2008. While BPD's pace with this goal is well ahead of schedule, the Bureau will remain focused on obtaining the highest level of customer self-sufficiency. BPD will also continue to work with the Financial Management Service and federal agency customers to simplify their financial reporting and streamline the reconciliation processes associated with producing government-wide financial statements.

Public Debt's major operational initiative is to consolidate all Government Agency Investment Services functions into one automated system to reduce costs and facilitate future enhancements. To date, the GAS and borrowings are operating from the same automated platform and the effort to merge the SLGS program is underway.

Retail Program: Public Debt will continue to enhance and support TreasuryDirect, the internet-accessed system where all Treasury securities are offered in electronic form. To accelerate efficiencies involved with all electronic processing, Public Debt will continue to encourage customers to convert their paper securities and holdings in the legacy direct-access marketable securities system to TreasuryDirect. Planned improvements to TreasuryDirect include enhancing technological and operational measures to further secure the system and adding the capability to establish accounts for non-individual entities, such as fiduciaries, trusts, and organizations.

Issuing all Treasury securities electronically is a long-term goal for the retail program; however the timetable will depend on several factors. One of which, a key challenge, will be to communicate with customers about the benefits of dealing directly with Treasury to manage their investments online. As the public becomes increasingly comfortable with conducting financial business online, Public Debt believes more and more customers will appreciate these benefits.

<u>Account for the resulting debt:</u> Public Debt is working to improve the clarity, utility and availability of federal debt information. The goal is to produce daily public debt financial statements by year-end FY 2007. This supports the President's Management Agenda goal of providing accurate and timely financial information. Public Debt will also continue its focus on providing financial statements that receive unqualified audit opinions and support improved government-wide accounting. Additionally, Public Debt will continue to provide accurate accounting data with intragovernmental payments and implement other procedures to reduce and ultimately eliminate reconciliation problems in the federal government-wide financial statements.

<u>Provide reimbursable support services to federal agencies:</u> Although this is part of Public Debt's mission statement, appropriated funds are not used. BPD's Administrative Resource Center, a recognized Shared Service Provider (SSP), supplies reimbursable support services to federal agencies, generating revenue to pay all organizational expenses. This designation fosters customer growth, as agencies will be encouraged by the Office of Management and Budget and the General Services Administration to use the efficiencies offered by SSPs, thus allowing customers to focus on mission-related activities. For FY 2008, BPD's Administrative Resource Center projects to serve 63 customers with $80 million in revenue.

BPD also offers investment accounting, training request processing, administrative support to Treasury-managed trust funds, and IT services under the Economy Act. All reimbursable support services are expected to experience strong growth over the next several years.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Appropriation: Administering the Public Debt	FTE	Amount
FY 2006 Appropriation (P.L. 109-115)	**1,390**	**$179,923**
Rescission (P.L. 109-148)	0	(1,769)
FY 2006 Enacted	**1,390**	**$178,154**
FY 2007 President's Budget	**1,390**	**$180,789**
CR-rate Adjustment		(2,173)
FY 2007 CR-rate	**1,390**	**$178,616**
Changes to Base:		
Technical Adjustment to FY 2007 Base due to CR:		
Pay Inflation Adjustment		336
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		1,666
Pay Annualization		590
Pay Inflation Adjustment		3,456
Total FY 2008 Base	**1,390**	**$184,664**
Program Decreases:		
Decline in non-recurring DME Spending for SaBRe		(233)
Decline in non-recurring spending for GAISS		(563)
Projected Growth in TreasuryDirect		(1,997)
Program Reinvestment:		
E-Commerce Risk Management Program		1,000
Subtotal FY 2008 Program Changes	**0**	**($1,793)**
Total FY 2008 Request	**1,390**	**$182,871**
Adjustments to Request:		
User Fees		(10,000)
Subtotal FY 2008 Offsetting Fees and Rescissions	**0**	**(10,000)**
Total FY 2008	**1,390**	**$172,871**

2A – Budget Increases and Decreases Description

Adjustments ....-$2,173,000 / +0 FTE

CR-rate Adjustment -$2,173,000 / +0 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

Technical Adjustment to FY 2007 Base due to CR ....+$336,000 / +0 FTE

Pay Inflation Adjustment +$336,000 / +0 FTE Technical adjustment to FY 2007 Base due to CR.

Maintaining Current Levels (MCLs) ....+$5,712,000 / +0 FTE

Non-Pay Inflation Adjustment +$1,666,000 / +0 FTE Funds are requested for non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments.

Pay Annualization +$590,000 / +0 FTE Funds are requested for the FY 2008 cost of the January 2007 pay increase.

Pay Inflation Adjustment +$3,456,000 / +0 FTE Funds are requested for the proposed January 2008 pay raise. This includes funds for two compensable days.

Program Decreases ....-$2,793,000 / +0 FTE
Decline in non-recurring DME Spending for SaBRe -$233,000 / +0 FTE Funds are reduced for the Savings Bond Replacement System due to non-recurring Development Modernization and Enhancement spending.

Decline in non-recurring Spending for GAISS -$563,000 / +0 FTE Funds are reduced for the Government Agency Investment Services System due to non-recurring spending.

Projected Growth in TreasuryDirect -$1,997,000 / +0 FTE Projected reduction in costs due to the growth of TreasuryDirect and as investors choose to transfer legacy system holdings to TreasuryDirect accounts.

Program Reinvestment ....+$1,000,000 / +0 FTE
E-Commerce Risk Management Program +$1,000,000 / +0 FTE To strengthen security for the TreasuryDirect program, the purchase of software licenses and technology will provide for the implementation of two-factor authentication. It will also fund the renewal of software licenses, enhancement of security features, customer support and the cyclical replacement of security tokens. This enhancement will strengthen an E-Commerce program that is critical to effective and efficient debt management and further reduction of paper transactions.

Adjustments to Request ....-$10,000,000 / +0 FTE
User Fees -$10,000,000 / +0 FTE The account maintenance fees that BPD charges to account holders in the Legacy TreasuryDirect system with an account balance of more than $100,000 in par value, will be raised from $25 to $100 per year. The increased fees will help to partially offset the cost to the Treasury of providing these services. Although the fees may induce some customers to transfer their account holdings to the new internet-accessed TreasuryDirect system, the expected receipts are adjusted to reflect this possibility.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Administering the Public Debt	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogrammings	FY 2007 Proposed Operating Level	FY 2008 Requested Level
FTE	1,390	1,390		1,390		1,390	1,390
Object Classification:							
11.1 Full-Time Permanent Positions	$83,379	$85,735	-	$85,735	-	$85,735	$89,149
11.3 Other than Full-Time Permanent Positions	199	205	-	205	-	205	213
11.5 Other Personnel Compensation	4,282	2,883	-	2,883	-	2,883	2,989
11.8 Special Personal Services Payments	-	-	-	-	-	-	-
11.9 Personnel Compensation (Total)	$87,860	$88,823	$ -	$88,823	$ -	$88,823	$92,351
12.0 Personnel Benefits	22,422	22,549	-	22,549	-	22,549	23,403
13.0 Benefits to Former Personnel	16	16	-	16	-	16	28
21.0 Travel	1,206	1,233	-	1,233	-	1,233	1,732
22.0 Transportation of Things	7	70	-	70	-	70	85
23.1 Rental Payments to GSA	6,120	6,205	-	6,205	-	6,205	6,393
23.2 Rent Payments to Others	96	98	(93)	5	-	5	5
23.3 Communications, Utilities, & Misc.	16,528	16,892	(1,047)	15,845	-	15,845	15,384
24.0 Printing and Reproduction	2,051	2,096	(140)	1,956	-	1,956	1,837
25.1 Advisory & Assistance Services	213	218	-	218	-	218	472
25.2 Other Services	24,582	25,162	-	25,162	-	25,162	25,402
25.3 Purchase of Goods/Serv. from Govt. Accts	9,039	9,237	(426)	8,811	-	8,811	7,392
25.4 Operation & Maintenance of Facilities	-	-	-	-	-	-	742
25.5 Research & Development Contracts	-	-	-	-	-	-	-
25.6 Medical Care	-	-	-	-	-	-	18
25.7 Operation & Maintenance of Equipment	2,125	2,172	-	2,172	-	2,172	2,273
25.8 Subsistence & Support of Persons	-	-	-	-	-	-	-
26.0 Supplies and Materials	2,462	2,516	(151)	2,365	-	2,365	2,222
31.0 Equipment	3,376	3,450	(316)	3,134	-	3,134	3,030
32.0 Lands and Structures	33	34	-	34	-	34	89
33.0 Investments & Loans	-	-	-	-	-	-	-
41.0 Grants, Subsidies	-	-	-	-	-	-	-
42.0 Insurance Claims & Indemn.	4	4	-	4	-	4	2
43.0 Interest and Dividends	14	14	-	14	-	14	11
44.0 Refunds	-	-	-	-	-	-	-
Total Budget Authority	$178,154	$180,789	(2,173)	$178,616	$ -	$178,616	$182,871
Budget Activities:							
Wholesale Securities Services	$11,812	$11,986	(144)	$11,842	-	$11,842	$12,474
Government Agency Investment Services	13,255	13,451	(162)	13,289	-	13,289	$13,239
Retail Securities Services	147,529	149,711	(1,799)	147,912	-	147,912	$151,359
Summary Debt Accounting	5,558	5,641	(68)	5,573	-	5,573	$5,799
Total Budget Authority	$178,154	$180,789	(2,173)	$178,616	$ -	$178,616	$182,871

2B – Appropriation Language

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY BUREAU OF THE PUBLIC DEBT Federal Funds ***Administering the Public Debt*** *For necessary expenses connected with any public-debt issues of the United States, $182,871,000, of which not to exceed $2,500 shall be available for official reception and representation expenses, and of which not to exceed $2,000,000 shall remain available until September 30, 2010 for systems modernization: Provided, That the sum appropriated herein from the general fund for fiscal year 2008 shall be reduced by not more than $10,000,000 as definitive securities issue fees and Legacy Treasury Direct Investor Account Maintenance fees are collected, so as to result in a final fiscal year 2008 appropriation from the general fund estimated at $172,871,000. In addition, $70,000 to be derived from the Oil Spill Liability Trust Fund, to reimburse the Bureau for administrative and personnel expenses for financial management of the Fund, as authorized by section 1012 of Public Law 101-380.*	

2B – Permanent, Indefinite Appropriations

Reimbursements to the Federal Reserve Banks

Public Law 101-509, 104 Stat. 1394, established a permanent indefinite appropriation to pay such sums as necessary to reimburse the Federal Reserve Banks (FRB) for acting as fiscal agents of the federal government in support of financing the public debt. A permanent indefinite account was established in FY 1992. Claims for reimbursements or services related to this account are closely monitored for compliance with the Instructions for Filing Reimbursement Claims for Fiscal Agency Services Provided to the Bureau of the Public Debt (current edition). The FY 2008 funding to support FRB reimbursements is $95,755,000.

Government Losses in Shipment

Public Law 103-329 established a permanent indefinite appropriation to pay such sums as necessary to make payments for the replacement of valuables, or the value thereof, lost, destroyed, or damaged in the course of United States government shipments. The Government Losses in Shipment Act was approved July 8, 1937, to dispense with the necessity for insurance by the government against loss or damage to valuables in shipment and for other purposes. The Act was amended in 1943 to cover losses resulting from the redemption of savings bonds (for example, stolen bonds which were fraudulently negotiated even though the paying agent followed identification guidelines established by the Treasury). All authority of the Treasury under the Act has been delegated to the Commissioner of the Bureau of the Public Debt. In FY 2008, the funding estimated to support payments for the replacement of valuables is $500,000.

2C – Legislative Proposals

BPD has no Legislative Proposals for FY 2008.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted 1/		FY 2006 Obligations		FY 2007 President's Budget 1/		FY 2007 CR-rate 1/		FY 2008 Request 2/		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Wholesale Securities Services	98	$11,812	136	$17,987	98	$11,986	98	$11,842	145	$12,474	47.96%	5.34%
Government Agency Investment Services	112	13,255	110	14,599	112	13,451	112	13,289	118	13,239	5.36%	-0.38%
Retail Securities Services	1,134	147,529	1,004	132,939	1,134	149,711	1,134	147,912	1,075	151,359	-5.20%	2.33%
Summary Debt Accounting	46	5,558	49	6,431	46	5,641	46	5,573	52	5,799	13.04%	4.06%
Subtotal New Appropriated Resources	1,390	$178,154	1,299	$171,956	1,390	$180,789	1,390	$178,616	1,390	$182,871	0.00%	2.38%
Other Resources:												
Offsetting Collections - Reimbursable	64	$16,730	69	$17,456	18	$15,204	18	$15,204	21	$15,732	16.67%	3.47%
Available multi-year/no-year funds		3,654		2,523		3,111		3,111				
User Fees				2,793								
Subtotal Other Resources	64	$20,384	69	$22,772	18	$18,315	18	$18,315	21	$15,732	16.67%	-14.10%
Total Resources Available for Obligation	1,454	$198,538	1,368	$194,728	1,408	$199,104	1,408	$196,931	1,411	$198,603	0.21%	0.85%

1/ Subtotal New Appropriated Resources includes $3,000,000 in projected user fee collections.
2/ Subtotal New Appropriated Resources includes $10,000,000 in projected user fee collections.

3A – Wholesale Securities Services *($12,474,000 from direct appropriations and $1,354,000 from reimbursable programs):* The Wholesale Securities Services activity involves the announcement, auction and issue of marketable Treasury bills, notes, bonds and Treasury Inflation-Protected Securities. It also provides an efficient infrastructure for the transfer, custody and redemption of these securities. Large market participants buy most of Treasury's marketable securities at auction. In FY 2006, Public Debt conducted more than 200 marketable securities auctions resulting in the issuance of more than $4 trillion in securities. Treasury's commercial book-entry system holds approximately $4.3 trillion, or 98 percent, of Treasury marketable securities. Treasury uses this system to issue most of its marketable debt, make principal and interest payments, and support the active secondary market in Treasury securities. It is estimated that about $1.23 trillion per day in Treasury securities are transferred among account holders in the commercial book-entry system.

This activity directly supports Treasury's objective of financing the government at the lowest possible borrowing cost to taxpayers over time. To help meet this objective, BPD continuously improves its auction and debt management systems to provide investors with critical auction-related information faster and enhance customers' abilities to participate easily and securely in Treasury auctions. BPD will also seek opportunities in U.S. and global markets to listen and learn from holders of its securities and share information with them. The Bureau will also educate current and potential investors about Treasury's debt financing policies, the auction process and its securities. —

Another responsibility the Bureau has is regulating the government securities market. Public Debt administers Treasury's regulations that provide investor protection and maintain the integrity, liquidity, and efficiency in the government securities market under the Government Securities Act of 1986. BPD also administers the rules for Treasury's securities auctions and buybacks and prescribes provisions for collateral eligibility and valuation. One of its recent regulatory initiatives was to rewrite, in plain language, the Uniform Offering Circular, which explains Treasury's marketable securities auction rules.

Other Resources:
Reimbursements totaling $1,354,000 are collected for providing: administrative and IT support for the Administrative Resource Center, Public Key Infrastructure (PKI) and Secure Socket Layer (SSL) operations for Treasury and training request processing for the Alcohol and Tobacco Tax and Trade Bureau.

3.2.1 – Wholesale Securities Services Budget and Performance Plan

Dollars in Thousands

Wholesale Securities Services Budget Activity			Includes Strategic Objective F4B		
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$12,064	$11,905	$11,812	$11,986	$12,474
Other Resources	274	666	1,189	1,077	1,354
Total Operating Level	**$12,338**	**$12,571**	**$13,001**	**$13,063**	**$13,828**
Human Resources					
Appropriated FTE	92	92	98	98	145
Other FTE	0	0	3	0	0
Total FTE (direct and reimbursable)	**92**	**92**	**101**	**98**	**145**

Wholesale Securities Services Budget Activity				Includes Strategic Objective F4B		
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Cost per debt financing operation ($) (E)	Target		Baseline	$133,683	$219,114	$159,580
	Actual		$126,828	$148,926		
	Met		Yes	No		
Percent of auction results released in 2 minutes +/- 30 seconds (%) (Oe)	Target	95%	95%	95%	95%	95%
	Actual	99.53%	95%	100%		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: In FY 2006, Public Debt released auction results within two minutes, plus or minus 30 seconds, 100 percent of the time, surpassing its performance target of 95 percent. In addition, in FY 2007, BPD will replace its aging auction system to fully integrate the automated announcement, auction and issuance of marketable securities and provide greater speed and flexibility to Treasury debt managers in bringing new types of securities to market. BPD has also expanded its ability to provide contingency processing at three auction processing sites and provided a new feature to allow certain large non-primary dealer bidders to submit bids in a secure internet environment.

3B – Government Agency Investment Services *($13,239,000 from direct appropriations and $3,068,000 from reimbursable programs):* The Government Agency Investment Services program supports federal, state and local government agency investments in non-marketable Treasury securities as well as federal agency borrowing from Treasury.

Public Debt offers two major non-marketable special purpose investment programs to government agencies. Government Account Series (GAS) securities are issued only to federal agencies with statutory investment authority. There are currently about 230 trust and investment funds held by some 75 agencies. For 18 of the funds, Public Debt also maintains the investment accounts and performs additional administrative functions on behalf of the Secretary of the Treasury. These additional functions include processing receipts into and transfers out of the funds to the related federal program agencies for the purpose of administering the underlying programs that are supported by the trust funds. Some of the more recognizable federal trust funds are the four Social Security and Medicare Funds, as well as the Unemployment and Highway Trust Funds. With more than $3.76 trillion in investments, federal government and other entities' holdings of GAS securities comprise approximately 44 percent of the public debt outstanding.

State and Local Government Series (SLGS) securities are issued to state and local government entities across the nation. At approximately $250 billion outstanding, the SLGS program is important to over 6,600 state and local government entities that use these securities to help comply with provisions of the Internal Revenue Code.

BPD also accounts for and reports on the principal borrowings from and repayments to Treasury for approximately 80 funds managed by other federal agencies, as well as the related interest due to Treasury. These agencies are statutorily authorized to borrow from Treasury to make loans for a broad range of purposes, such as education, housing, farming, and small business support. The funds hold roughly $228 billion in loans and loan guarantees. These federal agencies can conduct their principal transactions online via the Government-Wide Accounting system. The corresponding interest transactions are also processed online through the Intra-governmental Payment and Collection system.

At the federal level, Public Debt's services in this activity also directly assist customers in producing timely and accurate financial information that contributes to the reliability and usefulness of the government-wide financial statements. Instant access to account information has significantly simplified reconciliation and audit confirmation efforts across the country and assisted SLGS purchasers in complying with the Internal Revenue Service's requirements related to the issuance of tax exempt securities.

Other Resources:
Reimbursements totaling $3,068,000 are collected for providing: administrative and IT support for the Administrative Resource Center, Public Key Infrastructure (PKI) and Secure Socket Layer (SSL) operations for Treasury, training request processing for the Alcohol and Tobacco Tax and Trade Bureau, investment accounting performed on behalf of the Secretary of the Treasury, and investment accounting services for the Department of Housing and Urban Development and the Securities and Exchange Commission.

3.2.2 – Government Agency Investment Services Budget and Performance Plan

Dollars in Thousands

Government Agency Investment Services Budget Activity					Includes Strategic Objective F4B
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$13,756	$13,360	$13,255	$13,451	$13,239
Other Resources	2,530	3,278	3,634	3,101	3,068
Total Operating Level	**$16,286**	**$16,638**	**$16,889**	**$16,552**	**$16,307**
Human Resources					
Appropriated FTE	105	105	112	112	118
Other FTE	5	17	17	11	14
Total FTE (direct and reimbursable)	**110**	**122**	**129**	**123**	**132**

Government Agency Investment Services Budget Activity						Includes Strategic Objective F4B
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Cost per federal funds investment transaction ($) (E)	Target		Baseline	$90.15	$64.5	$62.5
	Actual		$88.74	$62.64		
	Met		Yes	Yes		
Percentage of Government Agency customer initiated transactions conducted online (%) (Oe)	Target		Baseline	65%	75%	80%
	Actual		72.7%	97.03%		
	Met		Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: Public Debt has established a long-term goal to expand automation to its customers. BPD will enhance online services provided to federal, state and local government customers so that Public Debt will meet its long-term goal of conducting 80 percent of customer-initiated transactions online by the end of FY 2008. Currently, Public Debt receives more than 95 percent of all investment transactions online. These results are due to three factors. First, all loans receivable transactions are conducted using the Government-Wide Accounting application. Second, regulatory changes effective as of August 2005 require investors in state and local government securities to perform all investment transactions online using the SLGSafe internet application. Finally, the Federal Investments Program made a comprehensive effort to convert and train its user community to conduct investment transactions through the FedInvest internet application.

3C – Retail Securities Services *($151,359,000 from direct appropriations, including $10,000,000 from user fee collections, and $10,768,000 from offsetting collections and reimbursable programs):* Public Debt's Retail Securities Services program serves more than 50 million retail customers who hold marketable and savings securities directly with Treasury in support of the government's financing needs. The focus of this program is to deliver Treasury securities services at the lowest reasonable operational cost through the internet-accessed TreasuryDirect system. TreasuryDirect offers all Treasury securities available to the public—Series EE and I savings bonds and Treasury bills, notes, bonds, and TIPS—in book-entry form. By enabling investors to manage their savings bond and marketable securities holdings online, Public Debt will serve customers more effectively and manage resources more efficiently.

To accelerate the efficiencies that will result from electronic investing, Public Debt is encouraging customers to convert their holdings to TreasuryDirect. The potential for conversions is significant—there are over 700 million paper savings bonds and nearly 400,000 accounts in the legacy marketable securities system. The conversion effort will be ongoing over a number of years.

Throughout this multi-year push toward book-entry and all-electronic processing, Public Debt will remain committed to supporting customers of legacy programs but will also actively encourage them to move to TreasuryDirect. These efforts will position Treasury to eliminate paper securities and replace the legacy marketable system when the time is right. These changes build on a tradition of continuous operational improvement and position Public Debt to offer high quality and easy-to-use investment services to millions of retail customers.

Other Resources:
Offsetting collections totaling $10,000,000 are collected for definitive securities issue and Legacy TreasuryDirect Investor Account maintenance fees, while $10,768,000 in reimbursements are collected for providing: administrative and IT support for the Administrative Resource Center, Public Key Infrastructure (PKI) and Secure Socket Layer (SSL) operations for Treasury, training request processing for the Alcohol and Tobacco Tax and Trade Bureau, and computer matching for the Social Security Administration.

3.2.3 – Retail Securities Services Budget and Performance Plan

Dollars in Thousands

Retail Securities Services Budget Activity					**Includes Strategic Objective F4B**
Resource Level	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 President's Budget**	**FY 2008 Request**
Financial Resources					
Appropriated Resources	$145,419	$147,298	$147,529	$149,711	$151,359
Other Resources	3,260	8,557	15,002	13,630	10,768
Total Operating Level	**$148,679**	**$155,855**	**$162,531**	**$163,341**	**$162,127**
Human Resources					
Appropriated FTE	1,092	1,060	1,134	1,134	1,075
Other FTE	0	0	42	7	7
Total FTE (direct and reimbursable)	**1,092**	**1,060**	**1,176**	**1,141**	**1,082**

Retail Securities Services Budget Activity				**Includes Strategic Objective F4B**		
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Cost per TreasuryDirect assisted transaction ($) (E)	Target		Baseline	$7.75	$4.73	$4.57
	Actual		$8.51	$4.97		
	Met		Yes	Yes		
Cost per TreasuryDirect online transaction ($) (E)	Target		Baseline	$2.99	$2.21	$1.79
	Actual		$3.43	$3.06		
	Met		Yes	No		
Percentage of retail customer service transactions completed within 12 business days (%) (Oe)	Target	90%	90%	90%	90%	90%
	Actual	92.5%	88.7%	98%		
	Met	Yes	No	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: In FY 2006, BPD processed 98 percent of retail customer service transactions within 13 business days, surpassing its performance target of 90 percent. For FY 2007, the Bureau's goal is to complete 90 percent of retail customer service transactions within 12 business days and strive toward a long-term goal to complete 90 percent of retail customer service transactions within ten business days by FY 2010. Efficiencies gained from improved work processes and an increase in electronic transactions will allow Public Debt to meet these goals.

3D – Summary Debt Accounting *($5,799,000 from direct appropriations and $542,000 from reimbursable programs):* The Summary Debt Accounting program accurately accounts for and reports timely on the outstanding public debt and related interest expenses. The program provides daily information on the balance and composition of the public debt, and summary level accounts represent the control totals for dozens of subordinate investment systems.

Each year, Public Debt reconciles more than $72 trillion in securities transactions reported from numerous systems to cash flowing in and out of the federal government. BPD's summary level accounting system provides detailed financial information on the more than $8 trillion public debt and associated interest expense for publication in the annual *Financial Report of the United States Government*, Treasury's *Performance and Accountability Report*, and the *Schedules of Federal Debt Managed by the Bureau of the Public Debt*.

The Bureau publishes information on the balance and composition of the public debt in the *Monthly Statement of the Public Debt of the United States* on its website. Strategically, BPD's direction is to make the *Schedules of Federal Debt* and other related financial data available on a daily basis.

Public Debt has always been committed to maintaining strong accounting controls to ensure the integrity of operations and the accuracy of the information provided to the public. The Bureau has consistently received unqualified audit opinions on the *Schedules of Federal Debt,* which presents details supporting the largest single liability on the government-wide financial statement.

Other Resources:
Offsetting collections and reimbursements totaling $542,000 are collected for providing: administrative and IT support for the Administrative Resource Center, Public Key Infrastructure (PKI) and Secure Socket Layer (SSL) operations for Treasury and training request processing for the Alcohol and Tobacco Tax and Trade Bureau.

3.2.4 – Summary Debt Accounting Budget and Performance Plan

Dollars in Thousands

Summary Debt Accounting Budget Activity					Includes Strategic Objective F4D
Resource Level	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2008 Request
Financial Resources					
Appropriated Resources	$5,788	$5,602	$5,558	$5,641	$5,799
Other Resources	131	143	559	507	542
Total Operating Level	**$5,919**	**$5,745**	**$6,117**	**$6,148**	**$6,341**
Human Resources					
Appropriated FTE	44	44	46	46	52
Other FTE	0	0	2	0	0
Total FTE (direct and reimbursable)	**44**	**44**	**48**	**46**	**52**

Summary Debt Accounting Budget Activity						Includes Strategic Objective F4D
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Cost per summary debt accounting transaction ($) (E)	Target		Baseline	$11.59	$10.34	$10.49
	Actual		$12.62	$10.96		
	Met		Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: Public Debt established an efficiency measure to track the cost per transaction of performing Summary Debt accounting. Public Debt accounts for and reports on all financial activity related to the public debt of the United States. The transactions being tracked are those that must be accounted for to calculate the amount of public debt outstanding and interest paid on the public debt. These transactions include, for example, issues, redemptions, and interest payments on all Treasury securities. Lower costs per item are driven by transaction volumes increasing as a result of continued efforts to convert customers from paper to electronic holdings. Volumes were assumed constant in FY 2008, resulting in an estimated cost per item of $10.49.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents

Direct FTE		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		1,206	1,299	1,390
Increases:				
Reason #1:	Increase in direct FTE due to realignment of core administrative and policy functions back into Public Debt from the Franchise Fund.	93		
Reason #2:	Increase in direct FTE due to realizing a full year of FTE reporting for employees hired late in FY 2006.		91	
Subtotal, Increases		93	91	0
Decreases:				
Subtotal, Decreases		0	0	0
Year-end Actual/Estimated FTEs		1,299	1,390	1,390
Net Change from prior year SOY to budget year EOY				91

4A – Human Capital Strategy Description

Public Debt's strategic management of human capital is consistent with its mission, vision, and priorities and supports not only the President's Management Agenda, but also Treasury's strategic goal to Manage the U.S. Government's Finances Effectively.

Public Debt has high expectations of all employees and recognizes the value of their contributions. BPD's performance appraisal system is supplemented with specific expectations appropriate to the individual employee and the Bureau's current priorities and strategic initiatives. As a result, employees know what is expected of them and how these expectations relate to the mission, objectives, and performance goals. Public Debt's appraisals effectively distinguish between high and low levels of performance.

Leadership training is important at Public Debt. BPD offers extensive in-house training and takes advantage of many opportunities to use the Office of Personnel Management's Management Development Centers to develop leadership competencies in leads, supervisors, managers, and executives. Senior-level employees receive training through the Treasury Executive Institute, the Treasury Executive Leadership Program, and the Federal Executive Institute.

Human capital initiatives, including succession planning, are an important part of Public Debt's Strategic Plan. The Bureau has a Management Candidate Development Program and a Senior Executive Service Candidate Development Program that were designed and implemented to provide Public Debt with a trained, capable pool of managers and executives to fill future vacancies. All of these programs use Individual Development Plans, mentoring, shadowing, position exchanges, and skills development to build leadership/management skills.

Public Debt has a comprehensive recruitment program in place to close skill gaps. BPD attends approximately 25 career fairs per year. Much of its recruitment occurs at colleges and universities with a diverse population or at diversity-specific career fairs. To further its recruiting efforts, Public Debt is also experimenting with more non-traditional recruiting methods such as diversity-specific internet sites to attract candidates. For example, sites such as HBCUConnect.com are making it easier for Public Debt to reach out and specifically target students and alumni of Historically Black Colleges and Universities. BPD will continue to refine its efforts and look for more opportunities to attract and retain diversity candidates in an effort to establish a culturally diverse workforce.

Public Debt uses the full realm of pay flexibilities to recruit and retain high quality candidates with the skills necessary to accomplish its mission. Specifically, Public Debt uses superior qualifications appointments, student loan repayments, and recruitment and retention incentives. BPD also uses special employment programs to hire quality candidates. The Bureau has been very successful using the Federal Career Intern Program, Student Career Experience Program, and Veterans' Recruitment Act to provide a source of highly qualified applicants. The Bureau's recognition of the need for a balanced family and work life makes it an attractive employer. The use of Flexi-time, Alternative Work Schedule, and Flexi-place schedules assist BPD in recruiting and retaining highly talented individuals.

Public Debt has identified three Mission Critical Occupations (MCOs): Customer Service Specialist (CSS), Accountant, and Financial Systems Analyst. Although BPD's workforce will remain relatively stable over the next five years, the retirement eligibility among the CSS positions is relatively high compared to its other MCOs. To offset the potential retirement issue among the CSS positions, BPD recruits applicants with basic communication and customer service skills. Once on board, these basic skills, coupled with specific training, ensure a ready source of qualified employees. Public Debt's workforce analysis indicates that as employees retire, it will continue to have a sufficient pool of internal candidates to fill the CSS positions.

Public Debt believes that training is crucial. BPD determines the readiness of its workforce, including MCOs, through skills gap assessments. BPD works with focus groups to assess the training needs necessary to keep employee skills current and to develop the future training opportunities needed to prevent skills gaps. These focus groups were developed to ensure that Public Debt's employees are among the best trained in the government and are able to stay abreast of new technologies affecting their work. These groups concentrate on broad ranging disciplines including: Accounting, Administration and Analysis, Computer End-Users, Customer Service and Communication, Management, Information Technology, and Human Resources.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments			FY 2005		FY 2006	% Change from FY05 Obligations to FY06	FY 2007	% Change from FY06 to FY07	FY 2008	% Change from FY07 to FY08
Major IT Investments	Budget Activity	Identify the Program that the System is Aligned to	Operating Plan	Obligations	Operating Plan		Enacted		Request	
Invest One	Government Agency Investment Services	Administering the Public Debt	$1.7	$1.7	$1.8	5.9%	-	-100.0%	-	N/A
Oracle Federal Financials Systems	Wholesale Securities Services, Retail Securities Services, Government Agency Investment Services, Summary Debt Accounting	Administering the Public Debt	2.9	2.9	3.3	13.8%	4.0	21.2%	4.6	15.0%
Public Debt Accounting and Reporting System (PARS)	Summary Debt Accounting	Administering the Public Debt	2.0	2.0	2.0	0.0%	2.1	5.0%	2.2	4.8%
SaBRe	Retail Securities Services	Administering the Public Debt	4.2	4.2	4.3	2.4%	4.9	14.0%	4.6	-6.1%
Special Purpose Securities System (SPSS)	Government Agency Investment Services	Administering the Public Debt	1.7	1.7	1.8	5.9%	-	-100.0%	-	N/A
TreasuryDirect	Retail Securities Services	Administering the Public Debt	4.4	4.4	5.0	13.6%	5.2	4.0%	5.4	3.8%
Government Agency Investment Services System (GAISS) 1/	Government Agency Investment Services	Administering the Public Debt	-	-	-	N/A	5.4	N/A	4.8	-11.1%
Treasury Automated Auction Processing System (TAAPS)	Wholesale Securities Services	Administering the Public Debt and Reimbursements to Federal Reserve Banks	2.5	2.5	44.9	N/A	47.1	4.9%	31.6	-32.8%
Subtotal, Major IT Investments			$19.4	$19.4	$63.1	225.2%	$68.8	9.0%	53.2	-22.6%
Non-Major IT Investments			$16.4	$16.4	$9.5	-42.3%	$9.7	3.0%	10.0	3.1%
Infrastructure Investments			$24.6	$24.6	$25.4	3.3%	$29.9	17.7%	32.2	7.7%
Enterprise Architecture			$0.0	$0.3	$0.4	27.7%	$0.6	58.5%	1.4	134.8%
Total IT Investments			$60.4	$60.7	$98.3	62.0%	$109.0	10.9%	96.9	-11.1%

1/ InvestOne and SPSS have merged into GAISS beginning FY 2007.

4B – Information Technology Strategy

Public Debt's major IT systems directly relate to and support its four budget activities. The goals of each of the four budget activities are specifically tied to the Bureau's strategic and annual performance plans, and fully support Treasury's long-term direction. Because BPD's operations have been highly automated, these systems are the primary means by which the Bureau achieves objectives and addresses major challenges.

Public Debt has developed and continually enhances systems to process a wide range of servicing transactions, initiate trillions of dollars in customer payments, and account for the public debt at both the detail and summary accounting levels. By delivering services to customers online and automating work processes, these major IT investments support BPD's vision of responsible, effective government through commitment to service, efficient operations, openness to change, and values-based behavior. These major IT investments represent the most cost-effective means to conduct borrowings and deliver securities services to investors.

The Bureau's IT portfolio of mission critical systems is comprised of certified and accredited applications. Systems modification expenses are being incurred for the continued operation of TreasuryDirect, which will eventually serve as a replacement for other, more expensive, systems. To ensure continuity of operations for these significant technology investments, Public Debt partnered with the Financial Management Service for the use of one of their geographically remote processing centers for hot site contingency. Data is pre-staged and updated in near real time, and recoverability at this location has been fully tested.

4.3 – PART Evaluation Table

PART Name:	Administering the Public Debt
Year PARTed:	FY 2005
Rating:	Effective

OMB Major Findings/Recommendations

1. Continue to improve annual performance measures.
2. Identify new long-term goals to improve efficiency and effectiveness.

Bureau Actions Planned or Underway

Public Debt identified three new long-term goals that will continue its long-standing tradition of operational efficiency and effectiveness.

For a complete list of PART results visit the following website: http://www.whitehouse.gov/omb/expectmore/all.html

Internal Revenue Service

Mission Statement

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

Program Summary by Appropriations Account

Table 1.1						
Dollars in Thousands						
	FY 2006	FY 2007	FY 2007	FY 2008		
Appropriation	Enacted	President's Budget*	CR-rate*	President's Budget*	$ Change over CR-rate	% Change over CR-rate
Taxpayer Services	$2,142,042	$2,079,151	$2,046,908	$2,103,089	$56,181	2.74%
Enforcement	4,708,441	4,797,126	4,660,572	4,925,498	$264,926	5.68%
Operations Support	3,461,205	3,488,404	3,519,228	3,769,587	$250,359	7.11%
Business Systems Modernization	242,010	212,310	196,810	282,090	$85,280	43.33%
Health Insurance Tax Credit Administration	20,008	14,846	14,846	15,235	$389	2.62%
Total Appropriated Resources	$10,573,706	$10,591,837	$10,438,364	$11,095,499	$657,135	6.30%

NOTE: Throughout this document FY 2006 and prior years have been presented in the new budget structure for comparability across fiscal years. This differs from the President's Budget Appendix which presents FY 2006 as it was executed. The FY 2006 enacted level excludes rescission of unobligated balances ($29 million from Taxpayer Services and $9 million from HITCA). In addition, FY 2007 CR-rate includes proposed interappropriation transfers.

*The FY 2007 budget is supplemented by $242 million in users fees (includes $135 million in new user fees) and the FY 2008 budget is supplemented by $180 million in user fees.

FY 2008 Priorities

In 2008 the IRS will focus its efforts on implementing Treasury's tax compliance improvement strategy (see http://www.treasury.gov/press/releases/hp111.htm). This includes the following priorities:

- Maintain balance between taxpayer service and enforcement
- Improving tax compliance by:
  - Increasing front-line enforcement resources to improve tax compliance
  - Increasing voluntary compliance through improved taxpayer service options and enhanced research
  - Implementing legislative and regulatory changes
- Invest in technology to reverse infrastructure deterioration, accelerate modernization, and improve the productivity of existing resources

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Internal Revenue Service (IRS) administers America's tax laws and collects revenue to fund most government operations and public services as well as implements Treasury's tax compliance improvement strategy. The IRS taxpayer service programs provide assistance to millions of taxpayers to help them understand and meet their tax obligations. The IRS enforcement programs are aimed at deterring taxpayers inclined to evade their responsibilities while vigorously pursuing those who violate tax laws.

The President's Budget request for FY 2008 supports the IRS' five-year strategic plan. This plan underscores the IRS commitment to provide quality service to taxpayers while enforcing America's tax laws in a balanced manner. The IRS strategic plan goals are:

- **Improve Taxpayer Service –** Help people understand their tax obligations and making it easier for them to participate in the tax system;
- **Enhance Enforcement of the Tax Law –** 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; and
- **Modernize the IRS through its People, Processes and Technology –** Strategically manage resources, associated business processes and technology systems to effectively and efficiently meet service and enforcement strategic goals.

In support of these goals, the FY 2008 Budget priorities follow the guiding principle of *Service plus Enforcement equals Compliance* and sustain the IRS' objectives:

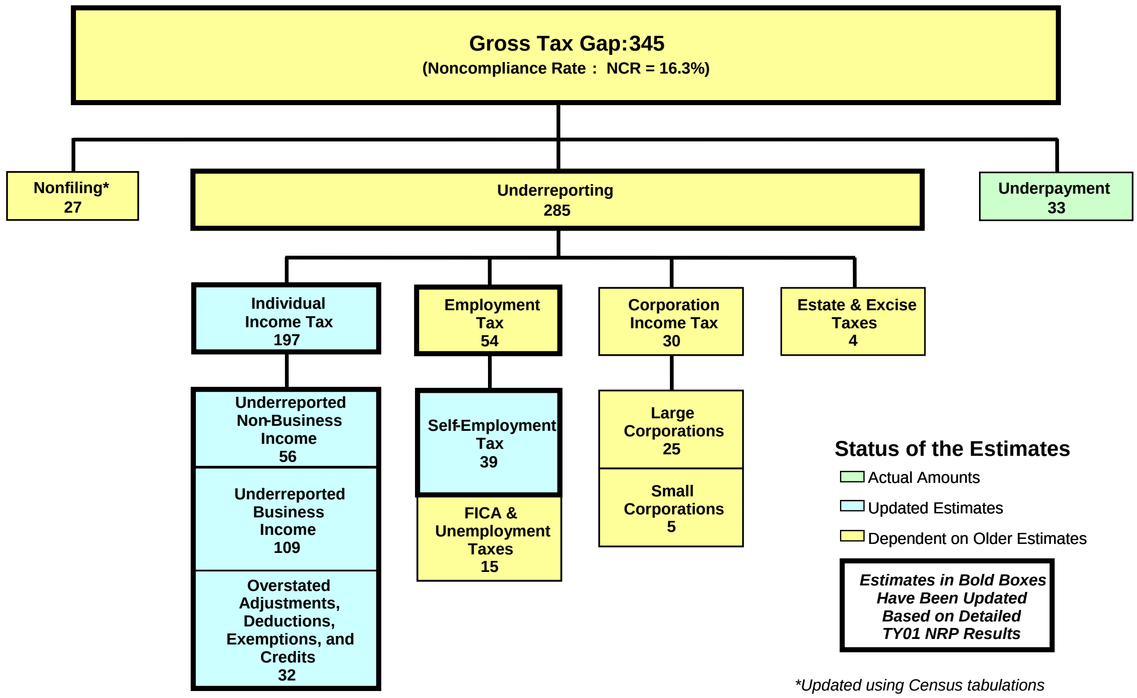
- Modernize information systems and business processes to maximize resources and improve service and enforcement;
- Enhance research to better allocate resources to IRS programs;
- Discourage and deter non-compliance with emphasis on corrosive activity by corporations, high-income taxpayers and abusive domestic and off-shore tax entities;
- Deter abuse within the tax-exempt community; and
- Simplify the tax process and improve service options for the taxpaying public.

Reducing the Tax Gap

The IRS collects 95 percent of the revenues that fund the United States Government. The FY 2008 Budget request will accelerate deficit reduction by improving tax compliance to strengthen the Federal Government's ability to collect more of these legally-owed taxes.

The tax gap is the difference between the amount of tax imposed on taxpayers for a given year and the amount that is paid voluntarily and timely. The IRS' latest estimate shows that the overall gross tax gap for Tax Year 2001 was about $345 billion.

Tax Year 2001 Federal Tax Gap
(Dollars in Billions)



This estimate, however, does not take into account taxes that were paid voluntarily but paid late, or recoveries from the IRS enforcement activities. Taking these factors into account, the "net tax gap" was an estimated $290 billion.

The tax gap is comprised of three sources of taxpayer noncompliance:

- Underreporting (not reporting one's full tax liability even when the return is filed on time), 82 percent of the tax gap;
- Underpayment (not paying by the due date the full amount of tax reported on a timely return), 10 percent of the tax gap; and
- Non-filing (not filing required returns or not filing on time), eight percent of the tax gap.

Increased resources for the IRS' exam and collection programs yield direct measurable results. Once the new staff proposed in this request are trained and become more experienced, the enforcement revenue generated each year will be $699 million. However, this estimate excludes the likely larger revenue impact from the deterrence value of these and other IRS enforcement programs (e.g., criminal investigations). It also excludes the impact of taxpayer services on voluntary compliance.

The IRS cannot currently measure either the impact of deterrence or service, but they are positive. The complexity of the nation's current tax system is a significant reason for the tax gap, and even sophisticated taxpayers make honest mistakes on their tax returns. Accordingly, helping taxpayers understand their obligations under the tax law is a critical part of improving voluntary compliance. To this end, the IRS remains committed to a balanced program assisting taxpayers in both understanding the tax law and remitting the proper amount of tax.

It is the need to improve tax compliance that drives much of what the IRS does. IRS enforcement activities, such as examination and collection, directly target tax gap elements, while IRS taxpayer services provide the information and tools taxpayers need to calculate and understand their tax obligations; collect, process, and store filed forms; and collect and process tax receipt and refunds owed timely. This budget request sets forth the funding, policy and tax law changes need to implement Treasury's tax compliance plan and make progress in improving tax compliance.

Taxpayer Service and Enforcement Programs

The FY 2008 President's Budget request accelerates deficit reduction by strengthening the IRS' ability to administer taxpayer service and increase enforcement and collection of federal unpaid tax liabilities. IRS programs and supporting functions appropriated in the three operating accounts - taxpayer service, enforcement and operations support – are strategically aligned with either taxpayer service or tax law enforcement activities.

Enforcement Program: The IRS continues its emphasis on tax law enforcement, increasing collection of delinquent tax debt from $34 billion in 2002 to $49 billion in 2006, an increase of 44 percent. Since 2003, federal government receipts have also increase by over $600 billion with revenue growth greatest in the areas of corporate taxes and high-income individual taxes. In FY 2008, the President's Budget increases funding for enforcement to $7,228.2 million. This includes $291.3 million for new enforcement initiatives and $225.7 million in inflationary cost increases offset by efficiencies savings of $82.2 million. As in 2006 and 2007, the Administration proposes to include these enforcement increases as a Budget Enforcement Act program integrity cap adjustment (see chapter 15, Budget Reform Proposals in the Analytical Perspectives volume of the 2008 Budget). IRS Enforcement resources are funded in the Enforcement and Operations Support appropriations accounts.

Taxpayer Service Program: Helping the public understand its tax reporting and payment obligations is a cornerstone of taxpayer compliance. In FY 2008, the President's Budget increases funding for taxpayer service to $3,570.0 million. This includes $56.1 million for new service initiatives and $112.7 million in inflationary cost increases offset by efficiency savings of $37.7 million. IRS Taxpayer Service resources are funded in the Taxpayer Service and Operations Support appropriation accounts.

Taxpayer Service and Enforcement Programs
(Dollars in Millions)

Programs	FY 2006 Enacted	FY 2007 CR-rate	FY 2008 President's Budget	% Change FY 2007 to FY 2008
Taxpayer Services	**$3,498.4**	**$3,438.7**	**$3,570.0**	**3.8%**
Direct Appropriation	$2,142.0	$2,046.9	$2,103.1	
Operations Support	$1,356.4	$1,391.8	$1,466.9	
Enforcement	**$6,813.2**	**$6,788.0**	**$7,228.2**	**6.5%**
Direct Appropriation	$4,708.4	$4,660.6	$4,925.5	
Operations Support	$2,104.8	$2,127.4	$2,302.7	
Total Taxpayer Services and Enforcement	**$10,311.6**	**$10,226.7**	**$10,798.2**	**5.6%**

FY 2008 President's Budget Request

The FY 2008 President's Budget request for the IRS is $11,095.5 million, 6.3 percent above the FY 2007 Continuing Resolution (CR) level. The funding request for taxpayer service programs is $3,570.0 million; for enforcement programs is $7,228.2 million; for Business Systems Modernization (BSM) is $282.1 million; and for Health Insurance Tax Credit Administration is $15.2 million. The IRS total increase for FY 2008 of $657.1 million, which includes $27.6 million for a technical adjustment to the FY 2007 base due to the CR; $340.0 million for maintaining current levels offset by $120.0 million in efficiency savings; and a net program increase of $409.5 million to enhance the IRS' infrastructure and modernization, enforcement, and taxpayer service programs that focus on reducing the tax gap. By 2010, these FY 2008 investments will increase annual enforcement revenue by $699 million. In addition, it is estimated that the tax compliance improvement legislative proposals will generate approximately $29 billion over the next ten years.

The IRS program initiatives focus on implementation of Treasury's tax compliance improvement strategy and the most significant needs for FY 2008:

- Improve IRS information technology infrastructure ($81.0 million and $62.1 million for the BSM program) to strengthen both taxpayer service and enforcement programs;
- Expand enforcement activities targeted at improving compliance ($246.4 million); and
- Enhance taxpayer service ($20 million) by continuing its efforts to increase and improve the delivery of services offered to taxpayers by expanding its research and implementing new technology (e.g., Spanish "Where's My Refund?" and an estimated calling wait time feature).

Summary Budget Adjustment Table (Taxpayer Service/Enforcement)

**Taxpayer Service Program Summary Budget Adjustment Table
(includes both direct costs in the Taxpayer Services appropriation
and indirect costs in the Operations Support appropriation)**

Table 2.1

FY 2008 Budget Highlights

Dollars in Thousands

Program: Taxpayer Service	FTE	Amount
FY 2007 President's Budget	35,931	$3,456,333
CR-rate Adjustment	(330)	(39,711)
FY 2007 CR-rate	35,601	$3,416,622
Interappropriation Transfer Corrections to Budget Restructure	43	22,136
FY 2007 Operating Plan at CR-rate	35,644	$3,438,758
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$193
Base Adjustment		193
Maintaining Current Levels (MCLs)		$112,681
Pay Annualization		12,881
Pay Inflation Adjustment		74,475
Non-Pay Inflation Adjustment		25,325
Efficiency Savings	(541)	($37,727)
Subtotal, Changes to Base	(541)	$75,147
FY 2008 Base	35,103	$3,513,905
Program Changes:		
Program Decreases/Savings:	0	($6,479)
Increased e-File Savings		(6,479)
Program Reinvestments:	0	$6,479
Increase Efficiency through Submission Processing Site Consolidations		6,479
Program Increases:		
Infrastructure Initiatives	0	$30,948
Upgrade Critical IT Infrastructure		24,477
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastructure Security		6,471
Enforcement Initiatives	44	$5,107
Improve Compliance Among Small Business and Self-Employed Taxpayers	31	3,309
Increase Compliance for Large Multinational Businesses	4	1,055
Expand Document Matching in Existing Sites	3	248
Increase Individual Filing Compliance	6	495
Taxpayer Service Initiatives	54	$20,000
Research Effect of Service on Taxpayer Compliance	8	5,000
Expand Volunteer Income Tax Assistance	46	5,000
Implement Taxpayer Assistance Blueprint	0	10,000
Subtotal, FY 2008 Program Changes	98	$56,055
Total, FY 2008 President's Budget Request	35,201	$3,569,960

Enforcement Program Summary Budget Adjustment Table
(includes both direct costs in the Enforcement appropriation
and indirect costs in the Operations Support appropriation)

Table 2.1

FY 2008 Budget Highlights
Dollars in Thousands

Program: Enforcement	FTE	Amount
FY 2007 President's Budget	56,771	$6,908,348
CR-rate Adjustment	(988)	(98,262)
FY 2007 CR-rate	55,783	$6,810,086
Interappropriation Transfer Corrections to Budget Restructure	(43)	(22,136)
FY 2007 Operating Plan at CR-rate	55,740	$6,787,950
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$5,494
Base Adjustment		5,494
Maintaining Current Levels (MCLs)		$225,692
Pay Annualization		27,362
Pay Inflation Adjustment		157,054
Non-Pay Inflation Adjustment		41,276
Efficiency Savings	(643)	($82,254)
Subtotal, Changes to Base	(643)	$148,932
FY 2008 Base	55,097	$6,936,882
Program Changes:		
Program Increases:		
Infrastructure Initiatives	0	$50,052
Upgrade Critical IT Infrastructure		35,523
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastructure		14,529
Enforcement Initiatives	1,486	$241,280
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	258	41,022
Improve Compliance Among Small Business and Self-Employed Taxpayers	454	69,856
Implement Legislative Proposals to Improve Compliance		23,045
Increase Compliance for Large Multinational Businesses	154	25,145
Expand Document Matching in Existing Sites	214	27,958
Establish New Document Matching - Kansas City	205	23,205
Increase Individual Filing Compliance	55	6,049
Increase Tax-Exempt Entity Compliance	109	15,000
Increase Criminal Tax Investigations	37	10,000
Subtotal, FY 2008 Program Changes	1,486	$291,332
Total, FY 2008 President's Budget Request	56,583	$7,228,214

1B – Program History and Future Outlook

The IRS helps taxpayers understand and comply with federal income tax laws. Each year, IRS employees make millions of contacts with American taxpayers and businesses. These contacts encourage and facilitate self-sufficiency for taxpayers in meeting their tax obligations. The IRS also enforces the tax laws to ensure that non-compliant taxpayers pay their fair share. To improve voluntary tax compliance, the IRS must meet taxpayer expectations, respond quickly to technological and demographic changes and, provide the proper balance of service and enforcement.

Strategic Goal I: Improve Taxpayer Service

The IRS serves a constituency of more than 135 million individual tax filers. During the 2006 filing season, the IRS issued more than 100 million refunds totaling over $277 billion. In addition, the IRS processed another 46.9 million returns for partnerships, corporations, employment taxes and exempt organizations. Providing quality taxpayer service, and continuing to improve that service, remains a strategic priority for the IRS. The IRS allocates its resources among its service, education and outreach programs to ensure taxpayers understand their obligations and voluntarily pay their taxes.

Assisting the public in meeting its tax obligations is the cornerstone of taxpayer compliance and is vital for maintaining public confidence in the tax system. Over the past several years, the IRS has made significant progress in improving customer service to the taxpayers:

- The overall American Customer Satisfaction Index (ACSI) score for all individual tax filers increased 27 percent, from 51 in 1999 to 65 in 2006. This is the largest increase of all federal agencies surveyed by the ACSI during this period. Program improvements contributing to an increase in customer satisfaction rates were implemented as a result of a Program Assessment Rating Tool (PART) assessment conducted for the Taxpayer Service program in FY 2004. Improvements included the launch of an improved, interactive telephone Probe and Response Guide for the 2005 filing season, and the implementation of a process using recorded call transcripts to create test call scenarios for training and certifying Customer Service Representatives.
- In FY 2006, the IRS level of service reached rates of 90.9 and 93.2 percent for tax law and account accuracy, respectively, and toll-free level of service was maintained at 82 percent.
- Nearly 14,000 large corporate taxpayers subject to the electronic filing mandate e-filed their returns successfully. The largest corporate taxpayers transmitted their returns without delay or backlog. The IRS processed this volume of very complex returns and accepted and acknowledged receipt within its 24-hour turnaround standard.

- IRS.gov is one of the most heavily visited sites on the internet. In FY 2006, the number of visits increased 9.8 percent and the number of pages viewed increased over three percent.
- The IRS delivered another successful filing season in 2006 with 134.7 million total individual returns received compared to 128.6 million in 2005. For the second year in a row, more than half (72.8 million) of all individual returns were filed electronically, representing a 6.6 percent increase over FY 2005. The most striking change is the 18.5 percent (22.2 million) increase in electronic filing from home computers.

The mix of taxpayer services demanded by the public appears to be changing. Toll-free calls and visits to Taxpayer Assistance Centers (TACs) have declined. In FY 2006, the IRS completed more than 24.3 million automated calls compared to 25.7 million in FY 2005, and answered 32.7 million assistor calls compared to 33.4 million in FY 2005. The IRS also achieved the FY 2006 82 percent level of service goal, with an accuracy rate of 91 percent for tax law questions. The accuracy of responses to tax law questions at the TACs increased to 83 percent, compared to 75 percent in FY 2005. Waiting time at the TACs was minimized with more than eight out of ten customers being served in 30 minutes or less.

The TACs experienced an eight percent reduction in walk-in contacts due to the overall decline in the number of customers seeking face-to-face assistance. The reduced demand for these services can be attributed, in part, to increased usage of the newly redesigned, award-winning web site. The redesigned website enhances taxpayers' ability to find desired content through improved search and navigation functions. In addition, the IRS offered a set of web-based business products for practitioners and other third parties. IRS e-Services such as the Internet-Employer Identification Number service and Transcript Delivery service experienced significant usage. Overall customer satisfaction with the award-winning IRS.gov website increased five percentage points based on the ACSI and use continued to grow. More than 1.3 billion web pages were viewed on IRS.gov and over 24 million taxpayers used the web application "Where's My Refund?" to check the status of their refunds.

In FY 2006, the IRS delivered the first phase of the Taxpayer Assistance Blueprint (TAB), a comprehensive study that reviewed current taxpayer service options and identified areas for improvements, including expanded taxpayer education and awareness, optimized use of partner services, increased self-service options, and expanded training and support tools for taxpayers. The Phase II report, which will be delivered in FY 2007, includes additional research and establishes the framework to develop short and long-term outcome goals and metrics for measuring the IRS' progress on service improvements for taxpayers.

In FY 2007 and FY 2008, the IRS will continue with its efforts to increase and improve the services offered to taxpayers, primarily focusing on those outside of the traditional telephone access. The IRS will increase self-service applications, continue to ensure web navigation is user-friendly, and also improve the quality and accuracy of its telephone responses. The IRS will expand its research and evaluate information regarding taxpayer service needs, priorities, and preferences in order to improve delivery services. The IRS will also invest more in technology, process improvements, and training to achieve consistent and repeatable service with reduced costs.

Strategic Goal II: Enhance Enforcement of the Tax Law

A smoothly functioning tax administration system inspires confidence among taxpayers. Voluntary compliance with tax laws increases if all taxpayers believe that their neighbors are paying their fair share.

Over the past decade, the IRS has improved its enforcement programs' performance by streamlining and implementing centralized work processes. This resulted in improved workload selection techniques, increased managerial involvement in casework, and initiatives that reduce cycle time. As a result, in FY 2006, the IRS:

- Collected more than $2.4 trillion dollars in tax revenue, including $48.7 billion through IRS enforcement activities;
- Audited more than 1.2 million taxpayers, a seven percent increase from FY 2005, including an 18 percent increase in audits of high-income taxpayers (those earning $100,000 or more);
- Increased small business audits (assets < $10 million) by eight percent and automated underreporter closures by 10 percent;
- Closed 15 percent more collection cases and collected nine percent more from delinquent accounts in FY 2006 compared to FY 2005; and
- Increased the fraud referral acceptance rate (i.e., the ratio of internal referrals within the IRS received to the number of those cases that are accepted by CI) to 71.8 percent exceeding the five year high achieved in FY 2005 of 68.8 percent and the total number of referrals accepted (445) was also higher than in FY 2005.
- Increased the use of substitute for return authority by 66 percent (substitute for return authority allows the IRS to file a tax return for an individual or business when it does not file a required return). Examiners prepared and filed 665,000 returns for individuals and 182,000 returns for businesses classified as non-filers.

The IRS also exceeded prior-year levels for coverage, efficiency and examination quality annual performance targets. In FY 2006, collection coverage increased to 54 percent, individual examination coverage improved while business examination coverage remained above seven percent, and automated underreporter efficiency increased almost eight percent to 1,832 cases. In addition, examination quality for industry and coordinated industry cases increased to 85 percent and 96 percent, respectively. Improvements in inventory management, decreases in cycle time, and enhanced training all contributed to improved productivity. Improved quality controls measuring critical elements of the examination, a reinforced focus on case quality to drive improvement efforts, and the delivery of business results, led to improved performance for the third consecutive year.

In FY 2007 and FY 2008, the IRS will continue to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. As part of its regular examination program, the IRS is expanding the use of cost-efficient audit techniques. By increasing its use of reliable third-party data to verify information reported by taxpayers, the IRS can better target its audit resources. The IRS is expanding its efforts to shift to agency-wide strategies, which maximize efficiency by better aligning problems (such as non-filers and other areas of noncompliance) and their solutions within the organization. The IRS is committed to improving the efficiency of its audit process, measured by audit change rates and other appropriate benchmarks.

However, efficiency gains in existing programs alone will not significantly reduce the tax gap. Some of the initiatives, including new legislative proposals, such as providing the IRS with access to more third-party data and simplifying the tax code, will also help make compliance activities more effective.

Strategic Goal III: Modernize the IRS through its People, Processes and Technology

Additional funding for information technology (IT) infrastructure and Business Systems Modernization (BSM) is the highest funding priority for FY 2008. The IRS cannot significantly improve compliance through its service and enforcement programs without a robust IT infrastructure. IT infrastructure investments support services to both taxpayers and other government agencies and enforcement by providing IRS frontline employees with the basic tools necessary to perform their jobs. A modernized and secure infrastructure will enhance the speed, security, and functionality necessary to keep pace with an automated economy. The IRS must keep pace with the growing demand and volume of electronic submission, payment, and refund transactions for tax remittances and offer taxpayers a variety of faster alternatives for satisfying their tax obligations. These efforts will continue to place greater demand on the IRS to provide a modernized and secure IT infrastructure.

Furthermore, a successful modernization program is critical to supporting long-term tax administration operations. Successful BSM program delivery during the past two years demonstrates that the IRS has established a foundation of disciplined program management processes and controls. The IRS managed BSM projects with a degree of sustained success not seen since program inception. This accomplishment is especially noteworthy because the program achieved this while transitioning from a contractor-led program to an IRS-led program.

The IRS also developed an IT Modernization Vision and Strategy (MV&S) for its IT systems for 2008 that align with and support the IRS Strategic Plan. Through the MV&S process, the IRS developed a plan showing how the IRS can effectively meet IT modernization goals in an incremental approach that provides near-term value. The plan focuses on delivery of four major tax administration systems - Customer Account Data Engine, Account Management Services, Modernized e-File, and Filing & Payment Compliance - addressing the IRS' strategic business priorities. The plan also capitalizes on IT infrastructure initiatives and smaller IT project initiatives to support a unified approach in continued improvement to program operations.

Throughout FY 2006, IRS modernization efforts continued to focus on its four core tax administration systems designed to provide more sophisticated tools to taxpayers and the IRS employees. The following highlights the IRS' efforts in FY 2006 in advancing these core systems:

- Introduced new Customer Account Data Engine (CADE) capabilities for the 2006 filing season. CADE supports faster refunds to taxpayers, issuing direct deposit refunds between one and seven days faster, and paper refunds four to thirteen days faster than refunds generated by the legacy system. CADE posted over 7.3 million returns – more than a 400 percent increase over the previous year, and issued 7 million refunds totaling in excess of $3.4 billion. CADE improved taxpayer service by allowing access to account information up to seven days sooner, increasing the likelihood of single telephone call resolution, faster issue detection, and more timely account settlement. CADE is expected to post between 25 and 30 million returns in 2007.

- Began the development of Account Management Services (AMS), a project that will enable real-time access to taxpayer account information, to support much faster resolution of taxpayer issues by IRS customer service representatives. AMS, in conjunction with CADE, will enable the IRS to break the weekly update system paradigm that has existed since the 1960s, enabling the IRS to begin to provide settlement of all account information by end-of-day, similar to what one expects from major private-sector financial institutions. The first release of AMS is due the summer of 2007 to support real-time address change capability in CADE and enable faster notice processing for a number of math-error notices.

- Implemented Release 3.2 of its Modernized e-File (MeF) project, which enabled the filing of both federal and state returns concurrently for corporations (Forms 1120 and 1120-S) and tax-exempt organizations (Form 990). In 2006, the MeF platform supported an e-filing mandate for certain large corporations and tax-exempt entities. Tax returns for large corporations typically include hundreds, or even thousands, of pages. Receiving the data electronically improves the accuracy of the tax return, reduces the volume of paper tax returns submitted to IRS Service Centers, and accelerates the examination process by having all tax return data available electronically. Electronic capture of return information enables the IRS to quickly deliver the data to analysts and agents for compliance risk assessment and action. In 2006, MeF accepted over 550,000 corporate returns. The IRS is expanding the MeF taxpayer base in 2007 to include Partnership Income tax returns (Form 1065), eventually enabling nearly 2.7 million small business and self-employed taxpayers to benefit from electronic filing. The IRS is in the planning stage to migrate the 1040 individual tax return to the Modernized e-File platform. The development and implementation of MeF 1040 capability will be complete in January of 2011 with initial planned deployment for January, 2009.

- Completed the first release of the Filing & Payment Compliance (F&PC) strategy. F&PC functionality analyzes tax collection cases and separates cases that require direct IRS involvement from those that can be handled by Private Collection Agencies (PCAs). The introduction of PCAs is expected to:
    - Assist the IRS by addressing the volume of delinquent taxpayers that exceeds the IRS' capacity to work, approximately 250,000 cases per year;
    - Help eliminate backlogs in the large number of outstanding tax liabilities, which have grown by 118 percent over the last 12 years, increasing tax revenue and reducing the tax gap; and,

Tax administration in the 21st century requires improved IRS information technology. For FY 2007 and FY 2008, the IRS is committed to continuing to make improvements in technology, including:

- Replacing antiquated core legacy account management systems and technology with the Customer Account Data Engine (CADE);
- Expanding and enhancing compliance activities through early detection, better case selection, and better case management;
- Delivering effective customer service, including expanded e-file systems and web services at reduced cost; and,
- Investing in infrastructure necessary to perform operations more efficiently, thus freeing up resources for enforcement and taxpayer service programs.

Supporting the President's Management Agenda

The FY 2008 Budget request for the IRS reflects the Department of the Treasury's commitment to further the objectives of the President's Management Agenda (PMA). In June 2006, the IRS developed an implementation plan for Budget-Performance Integration (BPI) that identifies the actions necessary to formulate and execute fully-costed performance and the means to determine the marginal cost of performance, consistent with the BPI requirements of the PMA. As part of this process, the IRS will initiate its plan to improve budget and performance integration using cost accounting pilots that focus on the interrelationship between financial data contained in the Integrated Financial System (IFS) and performance information (e.g., submission processing volume data) stored in IRS legacy systems. The cost pilots will facilitate:

- Standardization of cost methodologies for determining and applying direct and indirect costs associated with performance measures;
- Identification of additional system interfaces needed to support managerial cost accounting;
- Development of a methodology for linking cost data and agency-level outcomes and outputs for the budget formulation and reporting process; and
- Development of an IRS cost accounting policy.

FY 2008 Challenges

The IRS seeks efficiencies in delivering taxpayer service and bolstering its enforcement efforts to improve compliance with the tax laws and, ultimately, increase tax revenue. Using the internet as a means of providing taxpayers access to tax information and services is one approach to achieving greater efficiencies. The use of private collection agencies to collect uncontested tax debt is another. In FY 2007 and beyond, the IRS will continue to seek alternative, cost-effective ways of improving taxpayer service and enforcement. The following discussion identifies some of the most significant internal and external challenges for the IRS.

- **Business Systems Modernization (BSM):** The BSM program remains on the GAO high-risk list and also continues to be tracked as a declared "material weakness" because of the national significance of the program and the expectation that recent program improvements must be sustained over a longer period, given the extensive scope and time horizon of the program. During FY 2007, the IRS will continue to strengthen the management processes developed as part of its corrective action plan to address material weaknesses and will strive to sustain improvements relating to the efficient and effective delivery of the IRS' IT systems.
- **Information Technology Modernization Vision and Strategy (MV&S):** This governance and planning process for IRS IT leverages the IRS strategic plan and associated business plans to drive IT investment decisions, address the priorities around modernizing front-line tax administration, and enable technical capabilities provided by the infrastructure and security. The MV&S approach will leverage existing systems (where possible) and new development (where necessary) to optimize capacity, manage program costs, leverage common IT services across business domains, and deliver business value in smaller and more frequently fielded incremental releases. The MV&S will address the business priorities for the next five years, with particular emphasis on informing and guiding the definition of investment priorities for FY 2007 through FY 2009 across all investment tiers. Using the MV&S approach, the IRS enterprise IT solutions demonstrate alignment with the Treasury Enterprise Architecture.
- **Implement Treasury's Tax Compliance Improvement Plan:** Maximizing tax compliance is at the heart of the IRS emphasis on enforcement. The IRS will continue to improve enforcement by targeting its casework and enforcement activities to deliver results more effectively. The IRS will continue to analyze tax information and data from compliance research studies to better define and quantify the tax gap. The IRS will use the results of these efforts to improve its ability to counter the methods and means of those taxpayers who fail to report or pay what they owe. The IRS is focusing on discouraging and deterring non-compliance with an emphasis on corrosive activity by corporations, high-income individual taxpayers, and other contributors to the tax gap.
- **Abusive Tax Shelters:** Identifying and dismantling Abusive Tax Avoidance Transactions (ATAT) remain a challenge and a high enforcement priority for the IRS. These transactions are corrosive to the equity and the fairness of the tax law for all taxpayers. Vigorous enforcement of the criminal provisions of the tax code, coupled

with appropriate civil sanctions, materially contributes to maintaining voluntary compliance and public confidence in the fairness of the tax system. Tax shelter promoters continue to modify schemes, making it difficult to detect patterns and identify participants on a timely basis. Recent trends indicate that the tax shelter population will continue to expand to small to mid-size corporations where the issues will be more difficult to identify and examine. Large corporate taxpayers are increasingly engaging in structured transactions. These structured transactions involve highly complex fact patterns and large dollar issues. Promoters of tax shelters are migrating from the large accounting firms to other firms and businesses that specialize in tax shelters. These promoters are less compliant for registration and less stable in their business operations, making it more difficult to pursue them for information and for penalties.

- **Taxpayer Assistance Blueprint (TAB):** The IRS remains committed to taxpayer service and completed Phase I of the TAB in April 2006. Phase I describes the needs and preferences of taxpayers, including information on how taxpayers access the IRS services, what services they prefer, and whether the IRS meets their needs. The IRS expects to complete Phase II of the project in FY 2007, and will use the results to better focus its taxpayer services based on taxpayer needs, preferences, and demands. The research resulting from the TAB will enable the IRS to help taxpayers to better understand the tax law and, in return, remit the proper amount of tax.
- **The Complexity of the Tax Code:** The complexity of the tax code is the most significant problem facing taxpayers and the IRS alike. The tax code contains well over a million words, addressing taxpayer provisions such as the alternative minimum tax and the earned income tax credit. Business taxpayers must contend with a multitude of rules that cover the depreciation of equipment; numerous and overlapping filing requirements for employment taxes; and vague standards that govern the classification of workers as either employees or independent contractors. The IRS must explain the Code in a way that taxpayers can understand.
- **Achieving 80 Percent e-Filing:** For the 2006 filing season the IRS received 72.8 million electronically-filed returns, a 6.6 percent increase over the previous year. Report language accompanying the FY 2007 Transportation, Treasury, the Judiciary, Housing and Urban Development Appropriation acknowledges that most experts realize that the IRS will not meet the original goal of 80 percent e-filing by 2007. The Appropriators, therefore, direct the IRS to develop a detailed plan by June 2007 on how to reach the 80 percent e-filing goal.

Section 2 – Budget Adjustments & Appropriations Language

The Internal Revenue Service (IRS) budget request for FY 2008 is $11,095,499,000 in direct appropriations and 92,118 FTE. This is an increase of $657,135,000 or 6.3 percent, and 400 FTE, over the FY 2007 Continuing Resolution (CR) rate of $10,438,364,000 and 91,718 FTE. The CR rate includes proposed interappropriation transfer corrections to budget restructure from Taxpayer Service ($12,243,000) and Enforcement ($47,833,000) to Operations Support ($60,076,000).

Program Summary by Appropriations Account and Budget Activity
Internal Revenue Service

Table 1.1

Dollars in Thousands

	FY 2006	FY 2007	FY 2007	FY 2008		
Appropriation	Enacted	President's Budget	CR-rate	President's Budget	$ Change over CR-rate	% Change over CR-rate
Taxpayer Services	$2,142,042	$2,079,151	$2,046,908	$2,103,089	$56,181	2.74%
Pre-filing Taxpayer Assistance and Education	577,425	575,694	556,693	578,078	21,385	3.84%
Filing and Account Services	1,564,617	1,503,457	1,490,215	1,525,011	34,796	2.33%
Enforcement	4,708,441	4,797,126	4,660,572	4,925,498	264,926	5.68%
Investigations	579,555	591,090	579,883	602,872	22,989	3.96%
Exam and Collections	3,919,275	4,054,760	3,932,599	4,165,233	232,634	5.92%
Regulatory	209,611	151,276	148,090	157,393	9,303	6.28%
Operations Support	3,461,205	3,488,404	3,519,228	3,769,587	250,359	7.11%
Infrastructure	864,403	873,146	873,146	908,095	34,949	4.00%
Shared Services and Support	1,176,202	1,129,617	1,163,846	1,223,351	59,505	5.11%
Information Services	1,420,600	1,485,641	1,482,236	1,638,141	155,905	10.52%
Business Systems Modernization	242,010	212,310	196,810	282,090	85,280	43.33%
Health Insurance Tax Credit Administration	20,008	14,846	14,846	15,235	389	2.62%
Total Appropriated Resources	$10,573,706	$10,591,837	$10,438,364	$11,095,499	$657,135	6.30%

Appropriation Detail Table
Internal Revenue Service

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Taxpayer Services	32,050	$2,142,042	31,386	$2,127,458	30,891	$2,079,151	30,597	$2,046,908	30,160	$2,103,089	-1.43%	2.74%
Enforcement	49,534	4,708,441	48,439	4,675,795	48,869	4,797,126	47,833	4,660,572	48,667	4,925,498	1.74%	5.68%
Operations Support	13,468	3,461,205	11,565	3,438,385	12,942	3,488,404	12,954	3,519,228	12,957	3,769,587	0.02%	7.11%
Business Systems Modernization	317	242,010	317	158,702	317	212,310	317	196,810	317	282,090	0.00%	43.33%
Health Insurance Tax Credit Administration	17	20,008	10	19,993	17	14,846	17	14,846	17	15,235	0.00%	2.62%
Subtotal New Appropriated Resources	95,386	$10,573,706	91,717	$10,420,333	93,036	$10,591,837	91,718	$10,438,364	92,118	$11,095,499	0.44%	6.30%
Other Resources:												
Recoveries												
Offsetting Collections - Reimbursable	1,350	$158,820	1,129	$89,857	682	$125,723	682	$125,723	696	$133,498	2.05%	6.18%
50% Carryover				23,418								
Mandatory Appropriations - User Fees		19,000		19,000		242,000		242,000		180,000		-25.62%
Available multi-year/no-year funds		169,006		143,057		143,282		143,282		149,135		4.08%
Transfers In/Out				37								
Subtotal Other Resources	1,350	$346,826	1,129	$275,369	682	$511,005	682	$511,005	696	$462,633	2.05%	-9.47%
Total Resources Available for Obligation	96,736	$10,920,532	92,846	$10,695,702	93,718	$11,102,842	92,400	$10,949,369	92,814	$11,558,132	0.45%	5.56%

Summary Budget Adjustment Table
Internal Revenue Service

Table 2.1

FY 2008 Budget Highlights

Dollars in Thousands

Appropriation: Internal Revenue Service	FTE	Amount
FY 2007 President's Budget	93,036	$10,591,837
CR-rate Adjustment	(1,318)	(153,473)
FY 2007 CR-rate	91,718	$10,438,364
Interappropriation Transfer Corrections to Budget Restructure	0	0
FY 2007 Operating Plan at CR-rate	91,718	$10,438,364
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$27,573
Base Adjustment		27,573
Maintaining Current Levels (MCLs)		$340,007
Pay Annualization		40,484
Pay Inflation Adjustment		232,630
Non-Pay Inflation Adjustment		$66,893
Efficiency Savings	(1,184)	($119,981)
Subtotal, Changes to Base	(1,184)	$247,599
FY 2008 Base	90,534	$10,685,963
Program Changes:		
Program Decreases/Savings:	0	($6,479)
Increased e-File Savings		(6,479)
Program Reinvestments:	0	$6,479
Increase Efficiency through Submission Processing Site Consolidations		6,479
Program Increases:		
Infrastructure Initiatives	0	$143,149
Upgrade Critical IT Infrastructure		60,000
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastru		21,000
Fund Business Systems Modernization		62,149
Enforcement Initiatives	1,530	$246,387
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	258	41,022
Improve Compliance Among Small Business and Self-Employed Taxpayers	485	73,165
Implement Legislative Proposals to Improve Compliance		23,045
Increase Compliance for Large Multinational Businesses	158	26,200
Expand Document Matching in Existing Sites	214	27,958
Establish New Document Matching - Kansas City	208	23,453
Increase Individual Filing Compliance	61	6,544
Increase Tax-Exempt Entity Compliance	109	15,000
Increase Criminal Tax Investigations	37	10,000
Taxpayer Service Initiatives	54	$20,000
Research Effect of Service on Taxpayer Compliance	8	5,000
Expand Volunteer Income Tax Assistance	46	5,000
Implement Taxpayer Assistance Blueprint		10,000
Subtotal, FY 2008 Program Changes	1,584	$409,536
Total, FY 2008 President's Budget Request	92,118	$11,095,499

2A – Budget Decreases and Increases Description (IRS)

Total Changes to Base +247,599,000 / -1,184 FTE

Technical Adjustments to FY 2007 Base Due to CR
+$27,573,000 / 0 FTE

An increase of $27.6 million is included as a technical adjustment to the FY 2007 base. This adjustment restores $21.9 million for BSM labor and projects and $5.7 for Operations Support infrastructure.

Maintaining Current Levels (MCLs)
+$340,007,000 / 0 FTE

Funds are requested for the FY 2008 costs of the annualization of the FY 2007 federal pay raise in FY 2008; the proposed FY 2008 federal pay raise; and other labor-related benefits; and non-labor related items such as contracts, travel, supplies, equipment, postage, and GSA rent.

Efficiency Savings
-$119,981,000 / -1,184 FTE

The IRS has identified organizational changes designed to increase operating efficiencies and reduce costs for FY 2008.

In the enforcement programs, the IRS will realize a savings of $82.3 million and 643 FTE as a result of efficiency improvements. Savings will be achieved through enhancement of technology and support structure improvements such as deployment of the Electronic Installment Agreements (e-IA) system and expansion of the auto-generated notice initiative; streamlining and centralizing work process such as consolidating the number of Criminal Investigation Lead Development Centers from five to two, and expanding and improving implementation of the Fast Track Settlement (FTS) process (resolution of disputes during the examination phase rather than waiting for the appeal phase); and implementation of new work tools such as improved audit selection formulas. In addition, the completion of initial training programs by both examination and collection FY 2006 enforcement hires will increase efficiency by transitioning them and their trainers to full-time front-line activities.

In the taxpayer service program, the IRS will realize a savings of $37.7 million and 541 FTE. Increases in electronic filing will continue to have a significant impact on the Submission Processing Centers as individual paper return volumes decrease. The IRS will continue to achieve savings as the processing of paper returns is consolidated into fewer Submission Processing Centers. Additional savings will be gained through the implementation of technological improvements such as automating the issuance of Employer Identification Numbers and implementation of the Taxpayer Assistance Blueprint study recommendations.

Total FY 2008 Program Changes +$409,536,000 / +1,584 FTE

Program Decreases/Savings -$6,479,000 / 0 FTE

Increased e-File Savings
- $6,479,000 / 0 FTE

This reduction is a result of savings from a projected decrease in FY 2008 of 4.2 million (3.7 million individual and 0.5 million business) paper returns filed. Starting in FY 2007 and continuing through FY 2008, the IRS will ramp down the Philadelphia Submission Processing Center, generating savings of $6.5 million. The savings will be reinvested under the Increase Efficiency through Submission Processing Site Consolidations initiative to fund anticipated severance pay costs in FY 2008.

The following table shows the actual and projected percent of returns processed electronically for FY 2004 – FY 2010 for individual and business returns.

Measure	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate
Percent of Individual Returns Processed Electronically	46.5	51.1	55.0	57.0	61.6	64.5	67.0
Percent of Business Returns Processed Electronically	17.4	17.8	17.8	19.5	21.2	23.6	25.2

The IRS continues to strive to meet the established goal of 80 percent of all tax returns to be filed electronically. While the IRS has implemented several technological advances, such as modernizing the 1040 e-File system, projections show that the 80 percent e-File goal will not be met in FY 2007. As the IRS moves toward its strategic goal to improve taxpayer service by expanding options for electronic filing, payments, and communications, additional improvements in technology will be used to increase e-File marketing strategies to meet this goal in the future. However, without additional mandates to file electronically, such as the one recently imposed for corporations, the IRS' ability to meet the electronic filing goal will remain a challenge. The Budget includes a proposal to expand the IRS' authority to require electronic filing by corporations (see the Receipts chapter on the Analytical Perspectives volume of the Budget for legislative proposals).

Program Reinvestments +$6,479,000/ 0 FTE

Increase Efficiency through Submission Processing Site Consolidations +$6,479,000 / 0 FTE

This initiative provides $6.0 million to fund severance pay for employees separating as a result of ramp down of the Philadelphia Processing Center and $0.5 million for shared support service related costs. However, the IRS will maintain a large staff of service and enforcement personnel in Philadelphia.

Increased electronic filing will continue to have a significant impact on Submission Processing Centers as individual paper return volumes decline. Individual paper returns are expected to decrease by 4.2 million in FY 2008. As a result, the IRS will continue its initiative to consolidate the processing of individual paper returns into fewer Submission Processing sites. The Philadelphia Submission Processing Center is undergoing a ramp down in FY 2007 and FY 2008. The total costs for severance pay associated with the Philadelphia ramp down totals $8,174,774. However, the estimated severance pay amount needed in FY 2008 is $5,967,585. This initiative is a direct reinvestment of the Increased e-File Savings initiative.

The total severance pay costs for the Philadelphia Processing Center ramp down are broken down by position type and projected on-rolls numbers in the following table:

Employee Category	Work Schedule	As of Oct. 2002	By Oct. 2006	Placed Internally	Remaining	Estimated Severence
Analysts	PERM	29	29	9	20	$876,940
Cash Clerks	PERM	41	29	0	29	$403,897
	SEAS	106	62	0	62	$86,575
Clerks	PERM	203	108	60	48	$482,775
	SEAS	702	315	120	195	$264,892
Data Transcribers	PERM	43	22	2	20	$272,104
	SEAS	1,198	402	0	402	$501,007
Department Mgr.	PERM	14	14	0	14	$691,957
	SEAS	1	1	0	1	$0
Front-line Mgr.	PERM	64	51	14	37	$998,004
	SEAS	22	14	0	14	$129,993
Other	PERM	19	15	2	13	$101,566
	SEAS	20	17	0	17	$37,085
Secretaries	PERM	40	36	20	16	$361,843
Senior Mgr.	PERM	10	10	0	10	$1,172,422
Tax Examiners	PERM	263	212	164	48	$1,070,281
	SEAS	944	677	205	472	$723,433
TOTAL		3,719	2,014	596	1,418	$8,174,774
Permanent Employees		726	526	271	255	$6,431,789
Seasonal Employees		2,993	1,488	325	1,163	$1,742,985
TOTAL		3,719	2,014	596	1,418	$8,174,774

The remaining $511,000 for FY 2008 is for Agency-Wide Shared Services (AWSS) costs in Philadelphia and Andover, as follows:

- Philadelphia - $125,000 for redistribution and disbursement of existing furniture and equipment and $285,000 for dismantling and removing double-deck shelving systems.
- Andover – $101,000 for redistribution/disbursement of existing furniture and equipment.

This initiative supports the IRS' operational priority to optimize and implement planned Submission Processing strategies, including the downsizing of paper operations to meet customer increases in electronic submissions and cost efficient opportunities in working the remaining paper workload. Returns processing efficiency will be improved. The workforce will be aligned to new priorities and technologies. The ramp down and consolidation of the Philadelphia Submission Processing sites will not impact taxpayers.

Program Increases +$409,536,000 / +1,584 FTE

Infrastructure Initiatives

Upgrade Critical IT Infrastructure
+$60,000,000 / 0 FTE

This initiative requests $60 million to reduce the backlog of IRS information technology (IT) equipment that has exceeded its life cycle. This initiative will provide the resources needed to keep IRS IT and telecommunications equipment operable and to current business standards. Failure to replace the IRS' IT infrastructure will lead to increased maintenance costs and will increase the risk of disrupting business operations. Currently, critical business systems are operating on aged and outdated hardware, with the backlog of aged infrastructure increasing every year. Without an effective infrastructure, the risk to tax administration is significant. The question facing the IRS is not "if mission-critical components of the infrastructure will break," but "what will break, when, and how significant will the impact be on tax administration?"

The IRS faces a significant challenge with an aged and ineffective IT infrastructure. Two key challenges are: (1) a backlog of aged inventory, and (2) continued aging of the existing inventory.

To address the growth in aged inventory, the IRS has committed to reserve another $135 million from its base budget for infrastructure replacement over the next three years. In FY 2006, the IRS identified efficiencies in the base IT budget that permitted the permanent reallocation of $45 million into the infrastructure base. The IRS plans to augment this funding with additional reallocations of $45 million in both FY 2007 and 2008. By FY 2008, the IRS plans to have established a base budget for infrastructure replacement equal to $180 million, which will mitigate the impact of rapid growth in aged inventory, but will not address the backlog of aged infrastructure.

Planned expenditures in FY 2008 include, but are not limited to, the following:

- Replacing Aged Computers – A significant component of this initiative includes aged infrastructure of employee workstations (e.g., desktop and laptop computers). The IRS estimates that over 50% of the laptop computers supporting Compliance employees are overage and need replacement. This overage equipment results in (1) increased down time; (2) reduced capability to communicate effectively; and (3) delays in retrieval of taxpayer data that is vital to daily compliance/enforcement activities.
- Automated Call Distributor (ACD) Hardware – ACD hardware routes incoming and outgoing telephone calls to taxpayer assistance agents, operating as the electronic heart of the IRS call centers. Failed hardware could result in incoming taxpayer calls being routed improperly or dropped.
- Prioritized Mission Critical Servers – Critical tax processing applications and solutions are currently operating on aged servers, with this problem worsening by 2008. Failed hardware has recently resulted in permanent loss of business data as well as work stoppage of fundamental business processes.
- WAN/LAN Routers and Switches – Routers and switches support not only IRS personal computer and laptops, but the data communication between systems. Failed WAN/LAN hardware can lead to poor application performance or communication shutdown, causing taxpayer information not being routed to the next step, or agents not being able to retrieve tax records in a timely manner.

Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastructure Security
+$21,000,000 / 0 FTE

This initiative provides $13.1 million to fund enhancements for the Computer Security Incident Response Center (CSIRC). This will enable the IRS to keep pace with the ever-changing security threat environment through increased detection and analysis capability, improved forensics, and the capacity to identify and respond to potential intrusions before they occur.

The number of vulnerabilities (software flaw or configuration weakness) are rapidly increasing each year. These security vulnerabilities expose enterprise systems and processes to unnecessary risk of potential intrusions or unauthorized access, compromise/disclosure of sensitive taxpayer data, and/or disruption of service and process availability. Potential impacts include:

- The disclosure of taxpayer data or disruption of electronic filing initiatives could have a crippling effect on the IRS mission and the taxpayers.

- Cyber-security breach could have a significant adverse impact on the IRS' enforcement activities. A major incident could result in a significant disruption to enforcement efforts, costing numerous days of recovery efforts and inability to detect and protect IRS systems from cyber worms, such as the Sasser worm outbreak in 2004, which resulted in a direct IRS business loss of more than $50 million.

This initiative will mitigate these by employing additional security safeguards, using defense-in-depth, best-of-breed security technologies. This funding will establish a foundation to preemptively mitigate such risk in Modernization Project Support, Voice Over Internet Protocol, E-Filing, E-Commerce, adherence to the E-Gov initiative, the President's Management Agenda, Virtual Office, maintaining distinct network environments, TIGTA/OMB audits/recommendations, and support to FISMA compliance.

In addition, this initiative includes $7.9 million to enhance network infrastructure security. These funds will provide the IRS capability to perform continuous monitoring of the security of operational systems, using security tools, tactics, techniques and procedures to perform network security compliance monitoring of all IT assets on the network. This will ensure all systems have the latest security patches and are in compliance with security configuration control requirements.

Fund Business Systems Modernization
+$62,149,000 / 0 FTE

This initiative requests an additional $62.1 million to continue the development and deployment of the IRS modernization program in line with the Modernization Vision and Strategy (MV&S) recommendations. This increase will result in a total budget request for BSM of $282.1 million in FY 2008, and will allow the IRS to make progress on the following modernization projects:

Customer Account Data Engine (CADE)

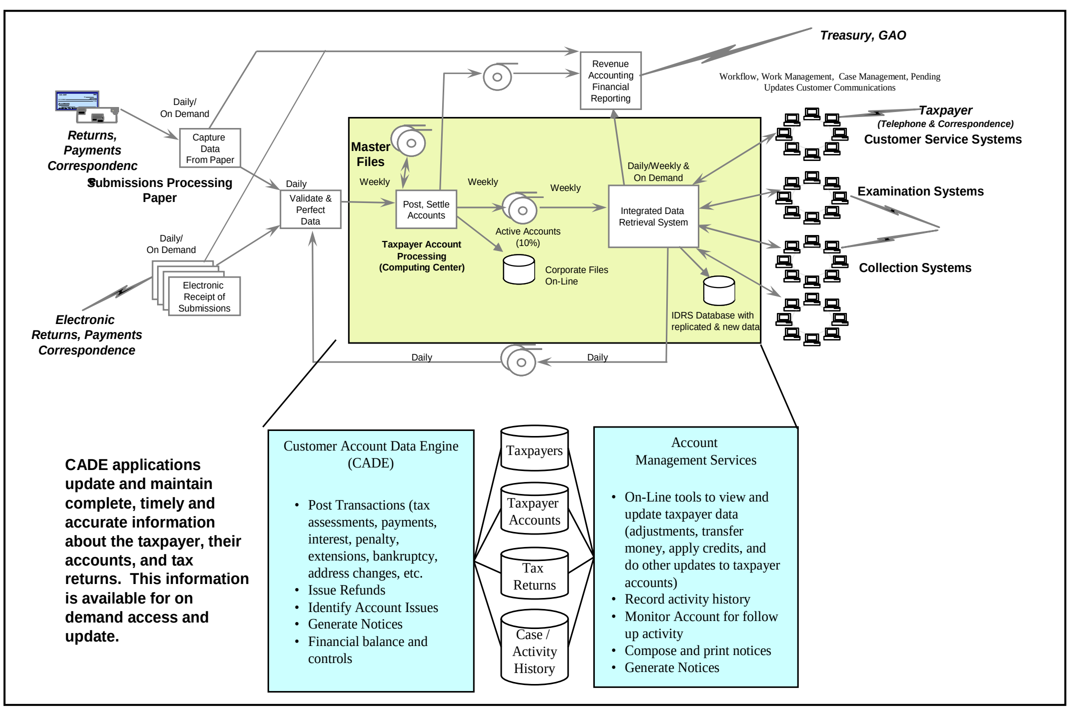
- The IRS requests $58.5 million for CADE. CADE is IRS' lynchpin modernization project replacing the antiquated master file. These master files are based on flat files with weekly updates achieved by batch processing of a sequential file repository. As a result, it takes the IRS two weeks to update taxpayer tax accounts. This performance compares poorly to the real-time updates provided by all other financial institutions. The delay in updating data allows data inconsistencies to develop among the various applications in use across the IRS.

  The master file system, based on 1960s architecture, uses programming language no longer taught or used elsewhere. That, coupled with the lack of system documentation, puts continued maintenance and updating of the master files at risk. Other downsides to the current master file system include high maintenance and operational costs, difficulty implementing policy or tax law changes, and incompatibility with private industry and other government agencies' systems, which limits IRS' ability to partner with other parties and prevents electronic data exchanges. CADE will solve these problems. The IRS is developing CADE in stages and expects to be able to retire the Individual Master File in 2012. When fully operational, the CADE database will house tax information for more than 200 million individual and business taxpayers' returns. In FY 2008, $58.5 million will continue work on the CADE release content master plan.

Account Management Services (AMS)

- IRS is requesting $28.983 million for the Account Management Services Project (AMS). The initiative provides a Common User Interface for access and update of taxpayer accounts managed by CADE and the Individual Master File, Corporate Files on Line, and the Integrated Data Retrieval System. It will provide an enterprise-enabled inventory workflow capability (including referrals, assign, review, and audit) across operating divisions. Specific capabilities include the access and update of both legacy and CADE account information, account monitoring, management of activity history (Case History), and the generation of notices. AMS will provide immediate access to integrated account data, which improves the ability to resolve account inquiries with minimal taxpayer interaction and facilitates the taxpayer's ability to self assist or self correct. AMS will allow IRS staff to create new accounts online at the request of a taxpayer. Also, it will assess taxpayers' account status, trigger actions, and generate notices or letters based on selected queries.

A Schematic Showing Where CADE and AMS fit in the Taxpayer Data Flow



Modernized e-File

- In FY 2008, the IRS is requesting $55.802 million to fund the development of the 1040 on the Modernized e-File (MeF) platform. The development and implementation of the MeF 1040 will take two years. MeF is the future of electronic filing. It provides a single XML-based standard for filing electronic tax returns. Standardizing the formats/structures for all filings will allow transmitters to submit multiple return types (such as 1120 and 941s) in the same transmission, something that restrains e-file growth currently. Tax return data will be stored in XML format in a modernized Tax Return Database with web-based access, allowing all viewers of the data to use their internet browser to view the entire tax return online, and it will look just like the paper document.

Common Services Projects

- The IRS is requesting $16 million for the introduction of the Common Services Projects (CSP), providing funding for new portals, which are technology platforms that meet many IRS business needs through web-based front-ends and provide secure access to data, applications, and services.

  The portals are mission-critical components of the enterprise infrastructure required to support key business processes and compliance initiatives. A new portal infrastructure must be acquired and fully operational, with all applications transitioned before November 2008. The contracts for the existing portals (registered user portal, employee user portal, and public user portal/IRS.gov) expired in May 2006 and sole-source extensions have been approved, with the provision that the current portals will be replaced by November 2008. The IRS portals support Underreporter initiatives in the Examination and Criminal Investigations programs; and Underpayment initiatives in Collection; Modernized E-file; and other E-Government, E-services, and user fee initiatives. The current portals, designed in the late 1990s and implemented in 2000 and 2001, are outdated; capacity is limited; and 90 percent of the hardware components and 70 percent of software products supporting the current portals have reached or exceeded their useful life.

  Funds for CSP cover the costs of program/contract management; design and engineering for the new portal environment; planning and testing of new portal-related application projects and modification of existing projects (E-services, E-file, Integrated Financial System, Internet Refund/Fact of Filing, etc.) to run on the new portals; new portal security mechanisms for access control, intrusion detection, identity management, auditing; and acquisition of new portal development, test and production environments.

  The benefits accruing from delivery and implementation of BSM projects provide value to taxpayers, the business community, and government. Many of these benefits contribute to operational improvements and efficiencies within the IRS.

The program combines best practices and expertise in business solutions and internal management from IRS, business, and technology sectors to develop a world-class tax administration system. The BSM program has made sustained progress in realizing substantial segments of the modernization vision.

The IRS will work to allocate BSM staffing costs for the FY 2009 President's Budget.

Enforcement Initiatives

Improve Compliance Estimates, Measures, and Detection of Non-Compliance +$41,022,000 / +258 FTE

This initiative funds research studies of reporting compliance for new segments of taxpayers (such as partnerships, corporations, other business entities, exempt organizations, and government entities), and updates existing estimates of reporting compliance (individual taxpayers and S-corporations). This initiative establishes a base of operating division examiners for various reporting compliance studies, based on the needed expertise for the study. Unlike in the past, these examiners will conduct an annual study of compliance among 1040 filers based on a smaller sample size than the 2001 National Research Program study. This will provide some fresh compliance data each year, and by combining samples over several years will provide a regular update to the larger sample size needed to keep IRS' targeting systems and compliance estimates up to date.

The data captured during the studies will enable the IRS to develop strategies to combat specific areas of non-compliance and improve voluntary compliance. Efforts under this initiative will significantly help improve the allocation of resources by providing data that will allow the IRS to target audits toward taxpayers who are least compliant with the tax law. This initiative will increase enforcement revenue and also help improve voluntary compliance. Moreover, the initiative will enable IRS to undertake reporting compliance studies in the tax-exempt sector, which is responsible for about one-quarter of overall employment. This initiative benefits taxpayers by increasing the fairness of the tax system and significantly improving workload selection formulas that reduce the burden of unnecessary taxpayer contacts. Ultimately, these efforts will provide benchmarks against which the IRS can evaluate the effectiveness of programs designed to improve compliance and will allow the IRS to better leverage enforcement resources.

Improve Compliance Among Small Business and Self-Employed Taxpayers +$73,165,000 / +485 FTE

This initiative will improve compliance among Small Business and Self-Employed (SB/SE) taxpayers in the elements of reporting, filing, and payment compliance. This request will produce $144 million in additional annual enforcement revenue, once the new hires reach full potential in FY 2010, by increasing audits of high-risk tax returns, collecting unpaid taxes from filed and unfiled tax returns, and investigating, and where appropriate, prosecuting, persons who have evaded taxes.

For Tax Year 2001, the gross tax gap is estimated to be $345 billion (net $290 billion), 16 percent of the $2.1 trillion in total tax liability. Of that amount, 75 percent, or $259 billion, is attributable to SB/SE taxpayers. Underreporting accounts for 82 percent of the total tax gap, with the remainder almost evenly divided between non-filing (eight percent) and underpaying (ten percent).

High-risk areas of under-reporting include abusive tax schemes, flow-through income, and high-income individuals. Approximately 98 percent of all flow-through filings (S-corporations, partnerships, and trusts) are SB/SE taxpayers. All flow-through filings increased from 9.1 million in Tax Year 2000 to nearly 9.4 million in Tax Year 2003, and are expected to reach 10.4 million by Tax Year 2006 – a 14 percent increase since Tax Year 2000. The IRS projects them to increase by 20 percent by Tax Year 2012. Increasing examinations of and improving reporting for these filings is a critical component of addressing the tax gap.

Revenue Agents will continue to focus on Abusive Tax Avoidance Transactions (ATAT), structured transactions, and corporate and high-income examinations involving flow-through entities (i.e., trusts, partnerships, S-corporations). With this funding in FY 2008, 207 field examination staff will examine an additional 3,100 individual returns and 430 additional business returns, generating approximately $26.4 million. The IRS anticipates that an additional 5,400 business returns and 36,500 individual returns will be examined through FY 2012.
Collection activities will increase both the number of high-risk unpaid assessment accounts settled and their involvement in the collection of taxes due from abusive trusts. Field Collection staff (149 Revenue Officers will produce an estimated 23,000 additional tax delinquent accounts (TDA) in FY 2008, and approximately 113,000 through FY 2012. For the non-filers, these Revenue Officers will produce an estimated 5,300 tax delinquency investigations (TDI) in FY 2008 and approximately 24,000 through FY 2012.

Detecting and investigating money laundering activity is an important part of tax compliance for the IRS. This initiative provides $5.4 million to strengthen enforcement activities of the anti-money laundering provisions of Bank Secrecy Act (P.L. No. 92-508) (BSA) and the USA PATRIOT Act (P. L. No. 107-56). Frequently, money-laundering violations are the only possible means to detect tax evaders. Fraud/BSA resources (33 RAs), dedicated to the BSA program, will conduct approximately 390 additional Title 31 cases in FY 2008, with an additional 2,900 cases examined through FY 2012. Approximately 252 additional Section 8300 cases (i.e., examination of an entity's records to determine whether or not they have properly filed the Form 8300 for receipt of cash in excess of $10,000 in one transaction), will be examined in FY 2008, with an additional 1200 cases examined through FY 2012.

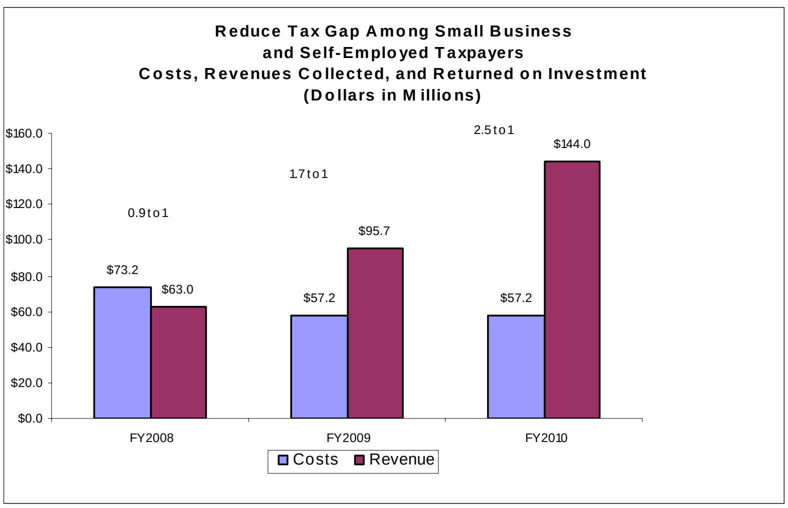
This initiative also provides key resources needed to support the increased case workload generated from this initiative:

- Appeals (24 FTE and $3.2 million) to process additional cases generated from increased examination program and collection program staffing.

- Taxpayer Advocate Service (31 FTE and $2.4 million) to support both examination and collection functions to ensure that the IRS follows appropriate procedures without creating unnecessary burden or compromising taxpayer rights.

- Counsel (18 FTE and $2.7 million) to provide legal advice and assistance in litigating the increased number of cases as well as support additional tax shelter litigation, published tax shelter guidance, and small businesses' need for tax reform related work.

The return-on-investment (ROI) for this initiative is expected to be 2.5 once the new hires reach full potential in FY 2010 (see chart below.)



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

In addition, this initiative will yield:

- Greater coverage of high-risk, SB/SE examination and collection cases;
- Strengthened integrity of the tax system;
- Improved reporting, payment, and filing compliance from the small business community; and
- Mitigation of the adverse impact of employee attrition on achieving Strategic Human Capital Goals.

This initiative will also yield the following benefits to taxpayers:

- Enable taxpayer accounts to be resolved more efficiently and timely, reducing accumulated penalties and interest on unpaid assessments;
- Improve customer satisfaction by holding high-risk taxpayers accountable for tax law compliance and assuring Americans that more taxpayers are paying their fair share; and
- Improve voluntary compliance as taxpayers perceive increased fairness in the tax system. Taxpayers appreciate the value of enforcement. Some 86 percent of taxpayers surveyed by the Oversight Board answered that it was "not at all" acceptable to cheat on one's taxes.

Implement Legislative Proposals to Improve Compliance
+$23,045,000 / 0 FTE

While the IRS continues to address compliance problems by improving customer service and using traditional methods of enforcement, the FY 2008 President's Budget includes several legislative proposals that would yield $29 billion over ten years from improved compliance. These proposals would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties (see Receipts in the Analytical Perspectives volume of the 2008 President's Budget). This enforcement initiative includes funding for purchasing software and making modifications to the IRS' IT systems necessary to implement these legislative proposals. The Budget includes sixteen proposals but the explanation below focuses only on the proposals where implementation of funding is needed in FY 2008.

Payment Card Reporting:
Underreported business income among members of the SB/SE community accounts for a significant portion of the individual income tax gap. Businesses often receive payments for goods or services via a consumer's payment card, but subsequently fail to report the income for transactions on the business' federal income tax return. These underreported transactions add up to be significant contributors to the tax gap.

This proposal will address this portion of the tax gap by providing the IRS with an additional means of cross-referencing the income reported by businesses with their gross receipts. Under this proposal, the IRS would require payment card processors to annually report total reimbursements paid to businesses for goods and services. The reported amount would then be compared to gross receipts reported by taxpayers on their federal returns. A significant difference in the dollar values of the reimbursements by payment card companies and the gross receipts reported by businesses would be a red flag that income was possibly being underreported.

The IRS anticipates that this proposal will help reduce the tax gap in two ways. First, businesses that might otherwise be inclined to underreport their income might reconsider, knowing the IRS has a means to validate the gross income reported on their federal tax returns. Second, businesses that continue to abrogate their responsibilities as taxpayers would be more easily identified, so that appropriate enforcement action could be taken.

The IRS anticipates receiving approximately 125 million information return documents from credit and debit card processors per year, associated with approximately five million SB/SE taxpayers. Revenue Agents in the field could then follow up with delinquent taxpayers in the course of standard enforcement operations.

Government Payment:
One of the most high-profile components of the tax gap relates to the failure of some government vendors and contractors to meet their tax filing and payment obligations. Obviously, it is a major concern any time an entity does business with the government, receives payment from the government, and yet fails to pay taxes due to the government. Under present law, the federal government has broad authority to levy federal payments made to vendors of goods and services. The proposal would authorize the implementation of regulations requiring information reporting and backup withholding on all non-wage payments by federal, state, and local governments to procure property and services.

As part of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), enacted on May 17, 2006, Congress enacted a provision requiring three percent withholding on certain government vendor payments. This provision is broader than the Administration’s proposal in that it requires information reporting and immediate withholding on government payments, rather than information reporting and backup withholding. The TIPRA provision applies only to payments made after December 31, 2010, whereas the Administration’s proposal would be effective for payments made on or after January 1, 2008.

If the Administration’s proposal, the IRS anticipates receiving an additional 89 to 177 million information returns as a result of the new reporting requirements. The costs associated with implementation of this program are for reprogramming affected information technology systems. Once these initial costs have been incurred, subsequent costs will decrease as processing, transcription, and matching activities will occur largely within existing workgroups.

Information Reporting on Payments to Corporations:
Underreporting of income where there is little or no information reporting contributes to approximately 53.9 percent of the underreporting portion of the tax gap. Under current law, businesses are not required to issue Forms 1099 for services provided by corporations. Although the reporting requirements for corporations could be expanded by changing the regulations, Treasury recommends it be changed legislatively.

Implementation of this proposal will increase the number of Forms 1099 filed. Voluntary compliance is expected to increase for corporate reporting of 1099 amounts. The IRS would require additional resources to implement matching programs to address the increased volume of Forms 1099.

Basis Reporting on Security Sales:
GAO estimates that 36 percent of individual taxpayers misreported their securities capital gains or losses in 2001. The estimated capital gains tax gap is $11 billion dollars. This amount will be significantly reduced by requiring financial institutions to:

- report the adjusted cost basis of securities sold and the nature of the sale (short-term or long-term) to the IRS, and
- exchange information to enable other financial institutions to meet adjusted cost basis reporting requirements for clients that transfer securities to a successor financial institution.

In those instances where a broker does not have sufficient information to compute the adjusted cost basis, the taxpayer will be responsible for reporting the sale.

Expanded Broker Information Reporting:
Sales of property and collectibles done via auction brokers and consignment sellers represent a portion of the tax gap. A broker who is an auctioneer or operates a consignment business, whether electronic or at a physical retail location, would be required to make an information return showing customer name, address, and Taxpayer Identification Number, as well as gross proceeds from the sale of tangible personal property. The requirement would apply only with respect to a customer for whom the broker has handled 100 or more separate transactions generating at least $5,000 in gross proceeds in a year. There would be an exception from the proposed requirement (and the sale would not be taken into account for the 100 transactions/$5,000 gross proceeds test) if the sale is required to be reported by other information return requirements (such as payment card sales the gross proceeds of which would be reported through the payment card payment system).

Increase Information Return Penalties:
The IRS currently asserts a penalty for failure to file a correct information return. The current penalty amount of $50 (or $100 for intentional disregard) provides little incentive to increase compliance. This proposal, will enhance compliance in this area by increasing the penalty amount and eliminate the cap to increase the cost of doing business for perpetual offenders. The penalty will be increased to $150/$250 for each unfilled return.

During the 2005 Tax Year, 53,821 payers received a Proposed Penalty Notice for failure to timely and accurately provide Forms 1099. While penalties are not considered a revenue source since they are inversely related to compliance, placing a monetary price on non-compliance is expected to result in significant revenue, enhanced voluntary compliance and a diminishing penalty rate over time.

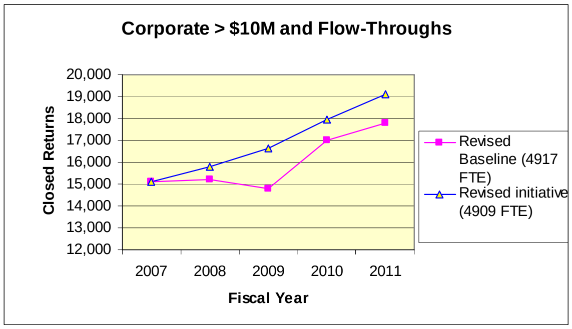
Provide IRS with Access to NDNH Database
The Department of Health and Human Services maintains the National Directory of New Hires (NDNH) which contains newly hired employee data, quarterly wage data from state and federal employment security agencies, and unemployment benefit data. Currently, the IRS may obtain NDNH data *only* for administering the Earned Income Tax Credit and verifying employment reported on a return.

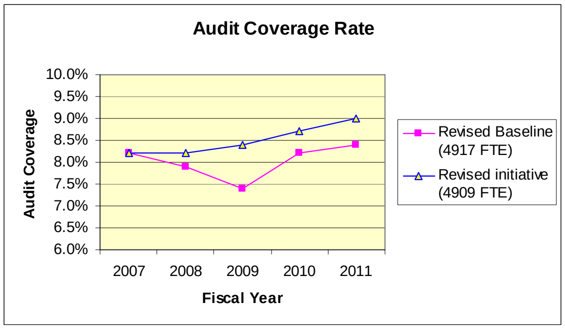
Employment data, used by the IRS to administer a wide range of tax provisions, is currently obtained on a state by state basis, which is both time consuming and costly. This legislative proposal would amend the Social Security Act to allow the IRS access to the NDNH for general tax administration, including data matching, verification of taxpayer claims, preparation of substitute returns for non-compliant taxpayers, and identification of levy sources. Expanded IRS access to NDNH data will increase productivity and enhance compliance.

Increase Compliance for Large Multinational Businesses
+$26,200,000 / +158 FTE

This initiative will increase examination coverage for large, complex business returns; foreign residents; and smaller corporations with significant international activity. The initiative addresses risks arising from the rapid increase in globalization, and the related increase in foreign business activity and multi-national transactions where the potential for non-compliance is significant in the reporting of transactions that occur across differing tax jurisdictions. Additionally, flow-through filings and the use of special purpose entities, for both non-tax and tax-related reasons, continue to increase. Additional compliance resources will increase coverage for these areas of risk and reduce corporate and individual underreporting. An increase in examination coverage and IRS presence has a positive impact on overall compliance levels. With this initiative, coverage for large corporate and flow-through returns will increase to 8.2 percent in FY 2008 from a level of 7.9 percent without the initiative.

Impact of Enforcement Initiative and Partial Reinvestment of Efficiencies





There are multiple issues, patterns, and indicators of risk for these complex flow-through enterprises and multi-national taxpayers:

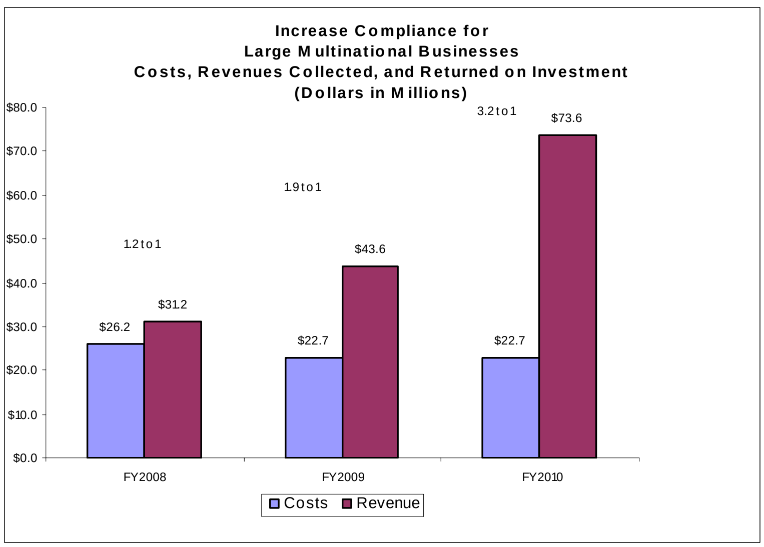
- Flow-through filings (Form 1120S, U.S. Income Tax Return for an S-corporation, and Form 1065, U.S. Return of Partnership Income) have increased 40 percent, from about 77,800 filings in 2000 to 109,300 in 2004.
- Flow-through returns now comprise approximately 63 percent of the Large and Midsize Business return population.
- Flow-through challenges for tax administration include savings in federal tax without economic substance to transactions; artificially-inflated bases to disguise real gains; basis shifting between related entities for tax advantages, contrary to valid accounting and tax practices; structured financial transactions within complex enterprises, including the use of Special Purpose Entities; transfer of high-value/low-basis assets in partnerships; aggressive interpretation of business purpose; and transfer pricing.
- Globalization is increasing.
- U.S. multi-national overseas profits are significantly higher than profits posted by U.S. companies at home.
- Sixty percent of world trade is transacted between different arms of multi-nationals.
- Low- and no-tax jurisdiction countries are home to 58 percent of the foreign profits of U.S. multi-nationals.
- From 1999 to 2004, the amount of Foreign Tax Credit (FTC) claimed increased 31 percent to $45 billion. The largest returns account for over 93 percent of the total FTC claimed for the years 1999-2004.
- The number and value of cross-border mergers and acquisitions are growing. In 2005, 11,000 deals were set up with a value of $1.2 billion.
- The tax issues arising from businesses operating world-wide include Transfer Pricing; Foreign Tax Credit; Worthless Stock Deduction; Avoidance of Subpart F Income; Valuation Issues; Transfer of Property (tangible and intangible) and income streams; Potential Tax Shelters; and Dual Consolidated Losses.

This initiative includes resources to establish a physical presence and focal point for tax treaty and U.S. tax administration in Asia. Outsourcing and growth of Asian businesses and markets have resulted in:

- Significant increases in U.S. corporate business activity and investment in China, which requires greater interaction with Chinese tax officials with the administration of the U.S.-China Income Tax Treaty.
- Increased activity on potential double-taxation matters, exchange of information activities, and tax treaty interpretation issues with China.
- Increased American expatriate population and U.S.-owned business/corporate entities in China, resulting in greater local demand for IRS taxpayer service and assistance.
- The Beijing post will serve as the Asia regional office for all IRS activities and will support treaty administration with other significant economic partners, e.g., Japan and Korea. With the closure of the Tokyo and Singapore posts, Beijing will be the only IRS office in Asia.

- A Chinese presence will help deter non-compliance among this growing expatriate population and address the concern by GAO of a high non-filing rate by U.S. citizens living abroad.
- Chinese multinational businesses and Chinese outsourcing are both growing. The post will also provide tax guidance for Chinese citizens that work temporarily in the U.S. (Non-resident Alien Taxpayers).

In addition to the 4 FTE and related funds to establish a Beijing post, this initiative includes 50 FTE to close 330 additional smaller corporate returns with international activity and 1,571 additional individual returns as well as 14 FTE for the IRS Counsel attorneys to advise revenue agents on complicated issues of tax law and accounting principles in the context of flow-through enterprises. The initiative also addresses GAO and Treasury Inspector General for Tax Administration (TIGTA) concerns about unacceptably high non-compliance by partnerships and S-corporations.



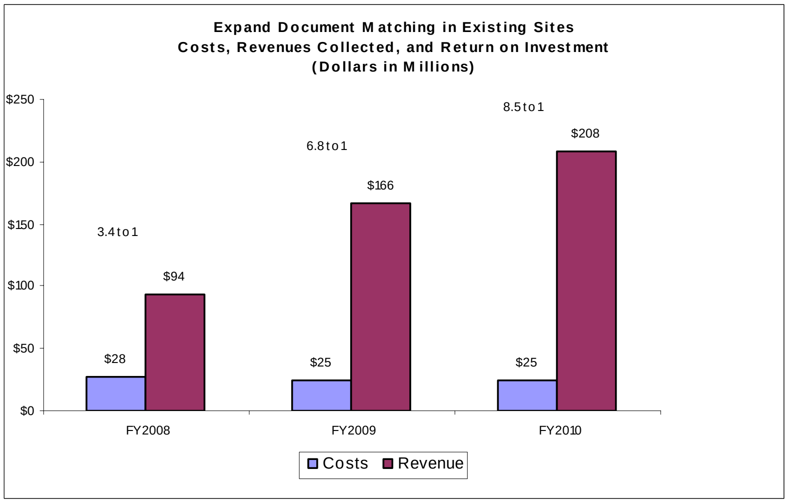
NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

Expand Document Matching in Existing Sites
+$27,958,000 / +214 FTE

This initiative increases coverage within the IRS Automated Underreporter (AUR) program to address the tax gap by minimizing revenue loss through increased document matching of individual taxpayer account information. These resources will increase enforcement revenue collected by approximately $208 million annually, once the new hires reach full potential in FY 2010.

About 6.9 million Small Business Self-Employed (SB/SE) taxpayers may currently misreport their income based on third party information returns. Of those, the SB/SE AUR program processes approximately 2.1 million taxpayer cases, leaving an unaddressed gap of 4.8 million taxpayers. The objective of the AUR program is to minimize revenue loss through document matching of small business and self-employed taxpayer account information. The IRS commitment to maintaining a robust AUR program is demonstrated by a commitment to increasing enforcement results and is reflected in targets for the long-term goals and corresponding performance targets.

The additional resources will increase the number of AUR closures from 2.05 million in FY 2007 to 2.64 million in FY 2010. The AUR program has one of the highest returns on investment ratios of all compliance programs. By 2010, the return on investment, as shown below, is expected to reach 8.5:1.



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

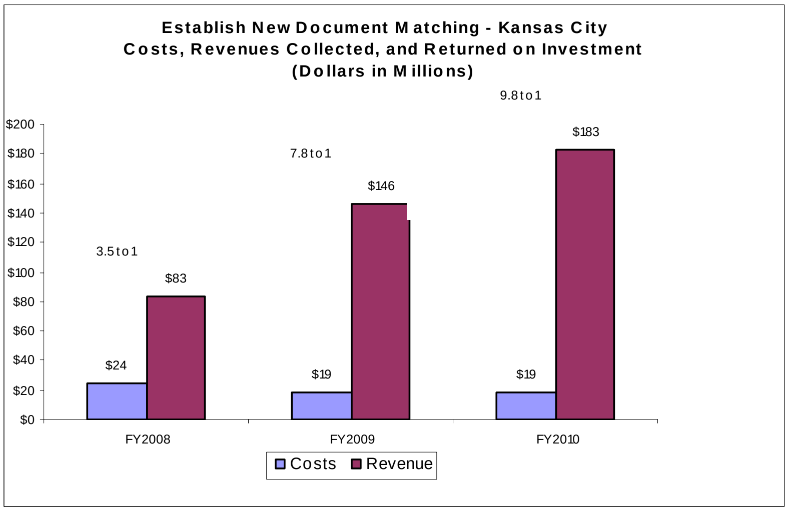
This funding for this initiative will maximize coverage in the three existing sites (Brookhaven, Philadelphia, and Ogden) and establish a new, centralized small business and self-employed AUR toll-free operation, using available space at an existing AUR site. Establishment of an operation designed exclusively to handle the SB/SE AUR toll-free traffic will enable significant coverage expansion in the three existing sites and, ultimately, generate productivity savings in the designated call site. Current technology allows for the routing of calls to a single site. In addition, start-up costs are reduced because equipment currently available at the three existing sites will be used to establish a new toll-free operation.

This initiative links the IRS compliance resources to clearly defined, measurable, results-oriented annual performance outcomes. It further addresses widespread concerns regarding the erosion of the IRS' enforcement presence and the continued growth in non-compliance expressed by TIGTA, GAO, Congress, and the media. By decreasing the AUR tax gap, this initiative will serve to improve the long-term Voluntary Compliance Rate metric and increase the programmatic long-term goal of AUR Coverage.

Establish New Document Matching – Kansas City
+$23,453,000 / +208 FTE

This funding for this initiative will establish a new Automated Underreporter (AUR) site in existing IRS space in Kansas City. The AUR program minimizes revenue loss through document matching of individual taxpayer account information. The AUR program has one of the highest return on investment ratios of all compliance programs. The number of individual taxpayers who may annually misreport their income is about 5.1 million based on third party information returns. The AUR program currently processes about 2.3 million taxpayer cases.

One-time start up costs include designing space alterations, new work stations, furniture, infrastructure changes, computer equipment, initial training and travel costs, and relocation expenses. The on-going operational costs to process daily and weekly AUR computer runs and support weekly maintenance of the AUR system also are included.



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

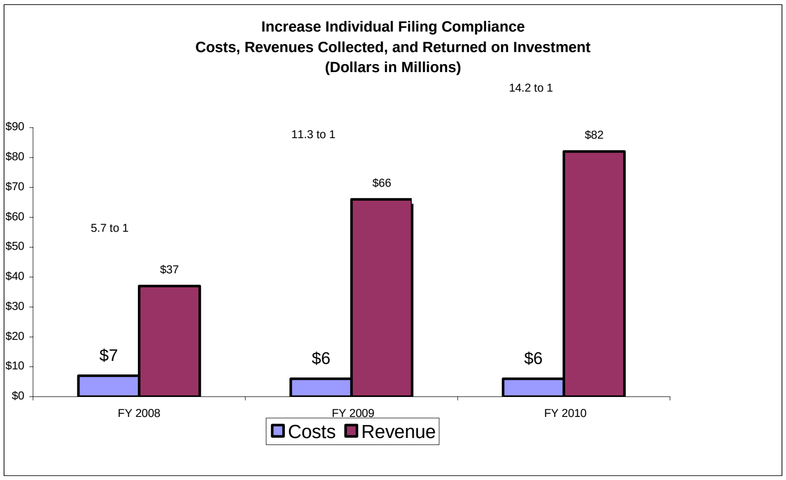
The establishment of this new AUR site will result in $183 million in additional enforcement revenue annually, once the new hires reach full potential in FY 2010.

This initiative links IRS compliance resources to clearly defined, measurable, results-oriented annual performance outcomes. It addresses the erosion of the IRS' enforcement presence and the continued growth in non-compliance expressed by TIGTA, GAO, Congress, and the media. The initiative will also help decrease the tax gap, increase voluntary compliance, and reduce the number of taxpayers who underreport income in future tax years.

Increase Individual Filing Compliance
+$6,544,000 / +61 FTE

This initiative will help address voluntary compliance. The Automated Substitute for Return Refund Hold Program (ASFR Refund Hold) minimizes revenue loss by holding the current-year refunds of taxpayers who are delinquent in filing individual income tax returns and are expected to owe additional taxes and addresses both payment and filing compliance for the IRS. This program will enable the IRS to review any unfiled returns during the previous five years. The current-year held refund is applied or released once delinquent returns are filed or assessed. This initiative will expand the program to include delinquent-year refunds.

Approximately 42 million individual prior-year returns were delinquent for tax years 2000 to 2004. In FY 2006, the ASFR Refund Hold program is projected to work approximately 242,000 current-year Refund Holds. ASFR Refund Hold is a key enforcement tool to address filing compliance.



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

This initiative will result in securing 90,000 delinquent returns in FY 2008 and produce $82 million of additional enforcement revenue annually, once new hires reach full potential in FY 2010.

Increase Tax-Exempt Entity Compliance
+$15,000,000 / +109 FTE

The legitimate tax expenditure related to the tax-exempt provisions of the Internal Revenue Code is estimated at $238 billion in 2008. Because of the special benefits afforded tax-exempt organizations, employee pension plans, and other entities with special tax status, these provisions may attract fraud and abuse. Thus, it is critical to ensure that tax-exempt entities are legitimate when they are established, maintain compliance throughout their operation, and are not misused by third parties for tax avoidance or other unintended purposes.

This initiative will promote compliance with applicable tax laws and regulations in the tax-exempt and governmental arena through a comprehensive program of up-front compliance activities and enhanced downstream enforcement. The determination process, through which tax-exempt organizations and employee retirement plans first seek recognition of their exempt or qualified status from IRS, may be the only formal compliance interaction many entities have with the IRS. As such, it provides IRS a valuable opportunity to ensure that the applicant's proposed design and operations are consistent with the applicable tax law. It further provides an opportunity to detect and address emerging abusive behaviors before they can spread within the sector. Additional resources will strengthen this critical program to address the growing number of requests for determination.

Downstream, this initiative will provide resources to expand enforcement programs aimed at tax exempt and government entities and make them more effective. Increasing enforcement staffing will restore coverage of the tax-exempt community, which has declined due to unprecedented growth in the sector and the emergence of complex abusive tax issues. From FY 1995 to FY 2005, the number of exempt organizations grew 40 percent. At the same time, concerns about credit counseling agencies, excess executive compensation and other compliance issues related to exempt organizations are coming to the fore. This initiative will expand the IRS' examination capacity to pursue critical compliance initiatives such as these, while also using innovative approaches to reverse the decline in enforcement presence in the exempt sector. An expanded Exempt Organizations Compliance Unit will broaden coverage, using efficient techniques to address limited compliance issues among tax-exempt organizations. Meanwhile, additional IRS staffing will meet the growing demand for self-correction in the pension community, resolving, through self-audits, many defects that might not otherwise have been identified and at a lower cost than traditional examination.

Together, these steps will further the IRS strategic objective to deter abuse within tax-exempt and governmental entities and misuse of such entities by third parties for tax avoidance or other unintended purposes. This initiative will increase tax exempt and government entity compliance contacts by 1,700 (6 percent) and employee plan/exempt organization (EP/EO) determinations closures by over 9,000 (8 percent) by FY 2010. In addition, this investment will increase performance by improving the timeliness of Determination and Voluntary Compliance programs.

This initiative directly supports IRS' Strategic Goal to enhance enforcement of the tax law, with the objective to deter abuse within tax-exempt and governmental entities, and misuse of such by third parties for tax avoidance. Additional staffing for Determination and Voluntary Compliance requests will also improve taxpayer service.

Increase Criminal Tax Investigations
+$10,000,000 / +37 FTE

This initiative will provide funding to aggressively attack abusive tax schemes, corporate fraud, non-filers, employment tax fraud, as well as tax and other financial crimes identified through Bank Secrecy Act (BSA)-related examinations and case development efforts, which includes an emphasis on the fraud referral program. During the past decade, criminals capitalizing on advancements in technology and the globalization of the economy have contrived some of the most sophisticated tax evasion schemes in history. The continued threat non-compliance poses to the integrity of the American tax system is evidenced by the latest net tax gap estimate of $290 billion. Criminal Investigations (CI) robust pursuit of tax violators and the resulting publicity, foster deterrence, enhance voluntary compliance and reduce the tax gap.

CI is working closely with the SB/SE and LMSB operating divisions to combat abusive schemes through the use of parallel proceedings. This approach is particularly useful when dealing with tax shelters sold by financial service corporations to high net-worth individuals and corporations. Only a comprehensive approach can successfully defeat these schemes, which sometimes involve thousands of clients and billions in revenue.

CI pursuit of tax violators over the past five years resulted in an increase in the length of prison sentences imposed in tax related investigations (averaging 19 to 22 months) and the substantial media coverage of these cases, evidenced by CI's high publicity rates (the percentage of sentenced cases that have received media coverage: 67.9 percent in FY 2002 to 82.5 percent in FY 2006).

Abusive tax avoidance transactions present formidable compliance challenges. The complex layering of schemes, the use of tax haven jurisdictions, off-shore based financial activities, and the increased sophistication of promoters have required CI to devote more investigative resources to this program area. Further, the increase in Internet-based tax schemes poses new challenges.

The overall success of CI's abusive scheme work is reflected in the stiff prison sentences imposed during the past five years averaging 28 to 47 months and the high publicity rate 90.9 percent in FY 2006. Compared to the average over the past five years, CI forwarded 4.9 percent more prosecution recommendations in FY 2006 (103 vs. 98) and had 16.7 percent more convictions on abusive tax scheme cases (67 vs. 57).

A report by the U.S. Senate Permanent Subcommittee on Investigations released in February 2005, entitled <u>The Role of Professional Firms in the U.S. Tax Shelter Industry</u>, recommended that Congress appropriate additional funds to enable the IRS to hire more enforcement personnel to stop the promotion of potentially abusive and illegal tax shelters by lawyers, accountants, and other financial professionals.

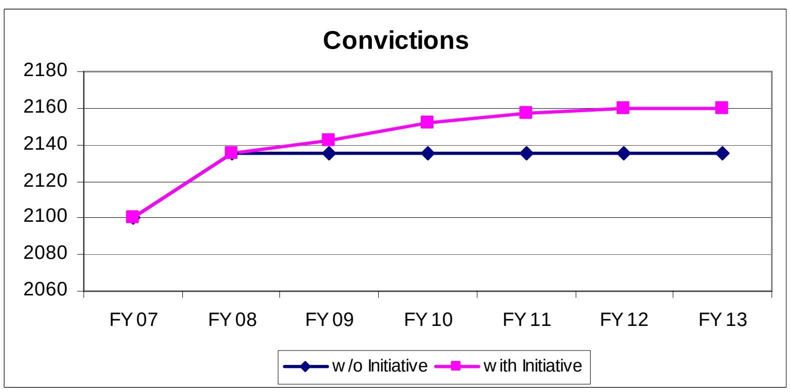
Following the collapse of some of the nation's largest publicly held corporations due to the widespread fraud and executive malfeasance, President Bush authorized the formation of a Department of Justice corporate fraud task force. CI has a particularly important role in this program area. Some of the most crucial corporate fraud related convictions obtained to date were for tax offenses. In FY 2006, the importance of CI's role can be measured by the substantial prison sentences imposed (49 months) and the 97.2 percent publicity rate.

CI's effort to combat non-filers remains at an all-time high. In partnership with the operating divisions, CI pursues high income, non-filers across a broad spectrum of professions. The results of CI's work have been impressive, with sentences in non-filer cases among the most severe imposed for tax offenses. In FY 2006, non-filer initiations and indictments rose 9.5 percent and 12.3 percent, respectively, compared to the averages over the past five years. During the past five years, average prison sentences associated with non-filer cases ranged from 34 to 49 months; and more than 80 percent of sentenced investigations received publicity. These cases will clearly remain a high investigative priority.

CI remains committed to the fraud referral program, which continues to result in quality criminal investigations. Since FY 2004, CI has received 13.7 percent more fraud referrals (603 vs. 530) and the acceptance rate rose from 58 percent to 71.8 percent. In FY 2006, approximately 10.1 percent of the fraud referrals received involved an abusive scheme, 5.0 percent of the referrals involved employment taxes and 1.3 percent involved corporate fraud.

Since Financial Crimes Enforcement Network (FinCEN) published regulations requiring non-bank, money services businesses (MSB) to comply with the same BSA record keeping and reporting requirements as financial institutions, more than 90,000 MSBs were identified. SB/SE, which has regulatory authority over MSBs, is placing greater attention on examining these entities. Their BSA examinations will result in increased criminal referrals.

The chart below shows the impact of implementing the initiative on criminal investigations convictions for all CI activities. Research suggests that tax convictions have a significant positive impact on voluntary compliance.



Taxpayer Services Initiatives

<u>Research Effect of Service on Taxpayer Compliance</u>
<u>+$5,000,000 / +8 FTE</u>

This initiative provides funding to enhance understanding of the role of taxpayer service on compliance by undertaking new research on the service needs of taxpayers. The effect of service on taxpayer compliance will be examined by focusing on four areas:

1. <u>Meeting Taxpayer Needs by Providing the Right Channel of Communication</u> – Classifying the types of services taxpayers seek from various options (internet, walk-in sites, toll-free hotline), preferences among these options, and the costs of providing

the services. The goal is to determine the most productive communication channels for the IRS and taxpayer.

2. Better Understanding Taxpayer Burden – Update the taxpayer burden survey to provide revised estimates of the compliance burden incurred by individual income taxpayers. Continue the development of a post-filing model to allow for the evaluation of proposals designed to reduce taxpayer burden, improve taxpayer service, and further the understanding of the relationship between service and compliance.

3. Understanding Taxpayer Needs through the Errors They Make – Improve taxpayer service and increase voluntary compliance by identifying why taxpayers make errors and the relationships between errors and unclear notices and publications. Further research will assess the effect of proposed changes to remedy the errors. This will channel resources more efficiently to areas with the greatest need and reduce IRS burden by increasing the accuracy of returns by taxpayers who strive to be compliant.

4. Research on the Impact of Service on Overall Levels of Voluntary Compliance – Develop models of how taxpayer services affect voluntary compliance levels and measure the impact of IRS activities relating to taxpayer service on the level of voluntary compliance. This research will attempt to quantify the relationship between services provided and overall compliance. In addition to providing enhanced service to taxpayers, the results of the study will be instrumental in reducing the tax gap by increasing voluntary compliance.

Expand Volunteer Income Tax Assistance
+$5,000,000 / +46 FTE

This initiative supports the IRS goal of improving taxpayer service. It funds additional resources to expand IRS volunteer return preparation, outreach and education, and provide financial literacy training. These services are offered to low-income, elderly, Limited English Proficient (LEP), and disabled taxpayers. The IRS currently partners with more than 60 national organizations representing financial institutions, educational institutions, tribal governments, community, and volunteer organizations to provide these services. At the local level, the IRS has formed over 290 coalitions representing thousands of partners supporting the Volunteer Income Tax Assistance (VITA)/Tax Counseling for the Elderly (TCE) effort. The additional FTE will support the IRS' growing number of partners and growing taxpayer demand for these services. This initiative also will enable the IRS to increase its presence and training support opportunities for its volunteer partners.

The Volunteer Return Preparation Program – Quality Improvement Process (VRPP-QIP) will continue to be a focal point in implementing this initiative. The IRS has implemented several enhanced processes and is working toward continued improvement of the accuracy of tax returns at the volunteer preparation sites. This IRS investment provides partners with tax law and software training, marketing materials, educational products, research data for optimal site placement and effectiveness, supplies, technology support (software, computers and printers); and the necessary products, procedures and technical expertise for effective site operations.

These resources will also enhance and expand the following specific initiatives to improve taxpayer service coverage to IRS customers:

- Rural Strategy – The IRS has a multi-year proposal currently under development to expand services to rural populations in seven states that have some of the largest numbers of low-income taxpayers. These resources will enable the IRS to accelerate this rural strategy and form a coalition of foundations with a rural emphasis to further enable IRS to expand services to these underserved rural areas.

- Disability Initiative – The IRS is expanding its partnering efforts with organizations that serve people with disabilities to ensure that this segment of the population is educated on the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and other unique benefits in the tax code. This includes increasing access to and utilization of free tax preparation services for persons with disabilities.

- Native American Initiative – The IRS is continuing its partnering efforts to provide additional services to low-income Native, rural communities. These resources will assist the IRS in expanding the VITA program to Indian reservations.

This initiative will enable the IRS to expand its outreach and education programs and improve the quality of the Volunteer Return Preparation Program (VRPP). This initiative provides the resources needed to achieve its 60 percent quality rate for VRPP in FY 2008. This funding will provide the additional training presence and on site support most requested by IRS partners and needed to improve the quality of return preparation at VITA sites.

Such investment is consistent with the priorities identified in both the IRS Strategic Plan and the Taxpayer Assistance Blueprint. It supports increased taxpayer value (significantly improved awareness, access) and business value (cost efficiency) gained through partner-based service delivery. The IRS has already realized many of these benefits; however, improving the quality of the assistance is critical to sustaining the viability of this powerful business model.

Implement Taxpayer Assistance Blueprint
+$10,000,000 / 0 FTE

In response to a Congressional directive, the IRS conducted a comprehensive review of its current portfolio of taxpayer service to create a Taxpayer Assistance Blueprint (TAB). The TAB outlines a five-year strategic plan to implement specific, research-based service initiatives. Based on the findings of the TAB study, the funding for this initiative will implement telephone service and Web site electronic interaction enhancements.

Continued investments in automated services and processes offer significant opportunities for the IRS to improve the efficiency and effectiveness of its service provided to taxpayers. The following information details the benefits of investing in this initiative.

Telephone Service Enhancements:

Contact Analytics ($3.5M) – Contact Analytics (CA) provides Commercial-off-the-Shelf (COTS) tools for evaluating contact center recordings for the purpose of identifying improvements. This initiative will expand the IRS' capability to record, store, and analyze information received during a taxpayer telephone contact. Large segments of recorded messages can be selected as a group, reviewed and compared using user-specified search criteria. The analytic tools will provide the capability to drill down to individual recordings to hear selected conversations.

CA will provide the broad and accurate data required to perform business process reengineering, as well as information needed to gain better insight into service preferences. CA improves the ability to measure call accuracy, timeliness, and professionalism--leading to process improvements and cost savings. It also will improve the ability to identify and respond to problems--leading to more accurate, clearer responses to taxpayers. Employee satisfaction will increase through improved work processes that allow assistors to handle more complex calls with fewer transfers. Such advancements will support the IRS in capturing more and better data around the service experience, which will result in improved understanding of service levels and potential enhancements.

Estimated Wait Time ($375K) –According to the Customer Contact Council, recent research shows that customers rate estimated wait time as one of the top five most important technologies when rating Contact Centers; customers who had been exposed to estimated wait technology were virtually all satisfied with its features. The estimated wait time (EWT) enhancement will reduce taxpayer burden and increase customer satisfaction by informing taxpayers about their expected wait time in queue.

Web site Interaction Enhancements:

Expanded Portfolio of Tax Law Decision Support Tools ($5.699M) – Website enhancements are designed to maximize the value of IRS.gov to taxpayers and other external stakeholders, making the Website the first choice for obtaining the information and services required to comply with tax obligations.
This enhancement will enable users to conduct key word and natural language queries and to get answers to tax law questions through the Frequently Asked Questions (FAQs) database accessed on IRS.gov. Users will be able to access standard reports, searches, and "Top Ten" FAQ lists. An analytics console will allow in-depth analysis of reports.

Spanish "Where's My Refund?" ($426K) – This enhancement adds the refund status feature to the Spanish web page on IRS.gov, enabling the Spanish-speaking community to receive the same level of customer service on the web as available on the English web page.

Operating Levels Table
Internal Revenue Service

Table 2.2

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	95,386	93,036	(1,318)	91,718	0	91,718	92,118
Object Classification:							
11.1 Full-Time Permanent Positions	$5,310,233	$5,380,296	($65,454)	$5,314,842	($4,193)	$5,310,649	$5,574,665
11.3 Other than Full-Time Permanent Positions	433,414	427,129	(11,840)	415,289	103	415,392	412,796
11.5 Other Personnel Compensation	246,491	248,226	(3,129)	245,097	288	245,385	259,835
11.8 Special Personal Services Payments	16,753	16,863	0	16,863	0	16,863	17,499
11.9 Personnel Compensation (Total)	$6,006,891	$6,072,514	($80,423)	$5,992,091	($3,802)	$5,988,289	$6,264,795
12.0 Personnel Benefits	1,620,275	1,653,086	(11,154)	1,641,932	(113)	1,641,819	1,712,785
13.0 Benefits to Former Personnel	67,401	62,001	(7,953)	54,048	131	54,179	61,623
21.0 Travel	210,113	214,075	(13,859)	200,216	781	200,997	226,387
22.0 Transportation of Things	26,371	27,309	0	27,309	1	27,310	28,481
23.1 Rental Payments to GSA	680,865	640,193	0	640,193	0	640,193	665,737
23.2 Rent Payments to Others	351	375	0	375	0	375	388
23.3 Communications, Utilities, & Misc	367,907	366,213	(7,551)	358,662	1	358,663	380,022
24.0 Printing and Reproduction	67,187	65,926	0	65,926	128	66,054	67,549
25.1 Advisory & Assistance Services	141,597	61,049	(4,260)	56,789	1,529	58,318	60,143
25.2 Other Services	641,014	620,120	(11,626)	608,494	(1,398)	607,096	707,829
25.3 Purchase of Goods/Serv. from Govt. Accts	83,494	84,247	(1,259)	82,988	2,141	85,129	87,374
25.4 Operation & Maintenance of Facilities	188,951	179,710	(551)	179,159	0	179,159	182,810
25.5 Research & Development Contracts	7,469	7,272	0	7,272	0	7,272	8,177
25.6 Medical Care	10,005	10,005	0	10,005	0	10,005	10,245
25.7 Operation & Maintenance of Equipment	100,296	88,543	(10,389)	78,154	(151)	78,003	78,912
25.8 Subsistence & Support of Persons	5,090	4,732	0	4,732	143	4,875	5,130
26.0 Supplies and Materials	64,415	56,873	(249)	56,624	(1,990)	54,634	59,168
31.0 Equipment	266,981	302,541	(4,199)	298,342	2,598	300,940	410,961
32.0 Lands and Structures	0	58,056	0	58,056	0	58,056	59,449
33.0 Investments & Loans	0	0	0	0	0	0	0
41.0 Grants, Subsidies	11,944	12,195	0	12,195	0	12,195	12,569
42.0 Insurance Claims & Indemn	1,275	988	0	988	1	989	1,033
43.0 Interest and Dividends	0	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0	0
91.0 Unvouchered	3,814	3,814	0	3,814	0	3,814	3,932
Total Budget Authority	$10,573,706	$10,591,837	($153,473)	$10,438,364	$0	$10,438,364	$11,095,499
Budget Activities:							
Pre-Filing Taxpayer Assistance and Education	$2,142,042	$2,079,151	($20,000)	$2,059,151	($12,243)	$2,046,908	$2,103,089
Enforcement	4,708,441	4,797,126	(88,721)	4,708,405	(47,833)	4,660,572	4,925,498
Operations Support	3,461,205	3,488,404	(29,252)	3,459,152	60,076	3,519,228	3,769,587
Business Systems Modernization	242,010	212,310	(15,500)	196,810	0	196,810	282,090
Health Insurance Tax Credit Administration	20,008	14,846	0	14,846	0	14,846	15,235
Total Budget Authority	$10,573,706	$10,591,837	($153,473)	$10,438,364	$0	$10,438,364	$11,095,499

2B – Appropriations Language and Explanation of Changes

TITLE II – DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE

Taxpayer Services

For necessary expenses of the Internal Revenue Service to provide taxpayer services, including pre-filing taxpayer assistance and education, filing and account services, taxpayer advocacy services, and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, $2,103,089,000, of which up to $4,100,000 shall be for the Tax Counseling for the Elderly Program, and of which $8,000,000 shall be for low-income taxpayer clinic grants.

Enforcement
(including Transfer of Funds)

For necessary expenses of the Internal Revenue Service to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes, to purchase (for police-type use, not to exceed 850) and hire of passenger motor vehicles (31 U.S.C. 1343(b)), and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, $4,925,498,000, of which not less than $57,252,000 shall be for the Interagency Crime and Drug Enforcement program: Provided, That up to $10,000,000 may be transferred as necessary from this account to Internal Revenue Service, "Operations Support" solely for the purposes of the Interagency Crime and Drug Enforcement program: Provided further, That this transfer authority shall be in addition to any other transfer authority provided in this Act.

Health Insurance Tax Credit Administration

For expenses necessary to implement the health insurance tax credit included in the Trade Act of 2002 (Public Law 107-210), $15,235,000.

Operations Support

For necessary expenses of the Internal Revenue Service to support taxpayer services and enforcement programs, including rent payments; facilities services; printing; postage; physical security; headquarters and other IRS-wide administration activities; research and statistics of income; telecommunications; information technology development, enhancement, operations, maintenance, and security; the hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; $3,769,587,000 of which $75,000,000 shall remain available until September 30, 2009, for information technology support; of which not to exceed $1,000,000 shall remain available until September 30, 2010, for research; of which not to exceed $1,600,000 shall be for the Internal Revenue Service Oversight Board; and of which not to exceed $25,000 shall be for official reception and representation.

Business Systems Modernization

For necessary expenses of the Internal Revenue Service's business systems modernization program, $282,090,000, to remain available until September 30, 2010, for the capital asset acquisition of information technology systems, including management and related contractual costs of said acquisitions, including related Internal Revenue Service labor costs, and contractual costs associated with operations authorized by 5 U.S.C. 3109: Provided, That, with the exception of labor costs, none of these funds may be obligated until the Internal Revenue Service submits to the Committees on Appropriations, a plan for expenditure that: (1) meets the capital planning and investment control review requirements established by the Office of Management and Budget, including Circular A-11; (2) complies with the Internal Revenue Service's enterprise architecture, including the modernization blueprint; (3) conforms with the Internal Revenue Service's enterprise life cycle methodology; (4) is approved by the Internal Revenue Service, the Department of the Treasury, and the Office of Management and Budget; (5) has been reviewed by the Government Accountability Office; and (6) complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the Federal Government.

ADMINISTRATIVE PROVISIONS—INTERNAL REVENUE SERVICE (INCLUDING TRANSFERS OF FUND)

Sec. 201. Not to exceed 5 percent of any appropriation made available in this Act to the Internal Revenue Service or not to exceed 3 percent of appropriations under the heading "Enforcement" may be transferred to any other Internal Revenue Service appropriation upon the advance notification of the Committees on Appropriations.

Sec. 202. The Internal Revenue Service shall maintain a training program to ensure that Internal Revenue Service employees are trained in taxpayers' rights, in dealing courteously with taxpayers, and in cross-cultural relations.

Sec. 203. The Internal Revenue Service shall institute and enforce policies and procedures that will safeguard the confidentiality of taxpayer information.

Sec. 204. Of the funds made available by this Act to the Internal Revenue Service, not less than $6,787,950,000 shall be available only for tax enforcement and related support activities funded in Internal Revenue Service, "Enforcement" and "Operations Support." In addition, of the funds made available by this Act to the Internal Revenue Service, and subject to the same terms and conditions, an additional $440,264,000 shall be available for tax enforcement and related support activities.

Sec. 205. Section 9503(a) of title 5, United States Code, is amended by striking the clause "for a period of 10 years after the date of enactment of this section" and replacing it with "before July 23, 2013".

Sec. 206. Sections 9504(a) and (b), and 9505(a) of title 5, United States Code, are amended by striking the clause "For a period of 10 years after the date of enactment" each place it occurs, and replacing it with "Before July 23, 2013".

Sec. 207. Section 9502(a) of title 5, United States Code, is further amended by striking "Office of Management and Budget" and replacing it with "Office of Personnel Management".

2C – Legislative Proposals

The IRS needs to find ways to fairly and effectively administer the tax law while minimizing burden on taxpayers. Tax laws are changed each year and the changes are aimed at simplifying the tax code, improving compliance and reducing the cost of administering the tax laws. The IRS works extensively with stakeholders to move closer to meeting the demands of the customers and eliminating barriers that prevent taxpayers from meeting their tax obligations. The President's Budget includes the main categories of legislative proposals below. When implemented, it is estimated that these proposals will generate approximately $29 billion over the next ten years:

- *Expanding Information Reporting*
  Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:
  1. Require information reporting on payments to corporations;
  2. Require basis reporting on security sales;
  3. Expand broker information reporting;
  4. Require information reporting on merchant payment card reimbursements;
  5. Require a certified taxpayer identification number (TIN) from non-employee service providers;
  6. Require increased information reporting for certain government payments for property and services; and
  7. Increase information return penalties.

- *Improve Compliance by Businesses*
  Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:
  1. Require electronic filing by certain large businesses;
  2. Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes; and
  3. Amend collection due process procedures applicable to employment tax liabilities.

- *Strengthen Tax Administration*
  The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would:
  1. Expand IRS access to information in the National Directory of New Hires database;
  2. Permit the IRS to disclose to prison officials return information about tax violations; and
  3. Make repeated failure to file a tax return a felony.

- *Expand Penalties*
  Penalties play an important role in discouraging intentional non-compliance. Specific proposals to expand penalties would:
  1. Expand preparer penalties;
  2. Impose a penalty on failure to comply with electronic filing requirements; and
  3. Create an erroneous refund claim penalty.

- *Other Miscellaneous Proposals*
  The Administration has four proposals relating to IRS administrative reforms.
  1. Modify employee infractions subject to mandatory termination and permit a broader range of available penalties. This will strengthen taxpayer privacy while reducing employee anxiety resulting from unduly harsh discipline or unfounded allegations.
  2. Allow the IRS to terminate installment agreements when taxpayers fail to make timely tax deposits and file tax returns on current liabilities.
  3. Eliminate the requirement that the IRS Chief Counsel provide an opinion for any accepted offer-in-compromise of unpaid tax (including interest and penalties) equal to or exceeding $50,000. This proposal requires that the Secretary of the Treasury establish standards to determine when an opinion is appropriate.
  4. Modify the way that Financial Management Services (FMS) recovers its transaction fees for processing the IRS' levies by permitting FMS to add the fee to the liability being recovered, thereby shifting the cost of collection to the delinquent taxpayer. The offset amount would be included as part of the 15-percent limit on continuous levies against income.

Taxpayer Services

Section 3 – Budget and Performance Plan

Taxpayer Services (TS)

Appropriation Description

The Taxpayer Services appropriation provides funding for taxpayer service activities and programs, including forms and publications; processing tax returns and related documents; filing and account services; taxpayer advocacy services; and assisting taxpayers to understand their tax obligations, correctly file their returns, and pay taxes due timely.

The Taxpayer Services budget request for FY 2008 is $2,103,089,000 in direct appropriations and 30,160 FTE. This is an increase of $56,181,000 or 2.7 percent, and a decrease of 437 FTE, over the FY 2007 Continuing Resolution (CR) Rate of $2,046,908,000 and 30,597 FTE.

Appropriations Detail Table
Taxpayer Services

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Pre-Filing Taxpayer Assistance and Education	6,206	$577,425	5,461	$559,249	6,047	$575,694	5,990	$556,693	6,031	$578,078	0.68%	3.84%
Filing and Account Services	25,844	1,564,617	25,925	1,568,209	24,844	1,503,457	24,607	1,490,215	24,129	1,525,011	-1.94%	2.33%
Subtotal New Appropriated Resources	32,050	$2,142,042	31,386	$2,127,458	30,891	$2,079,151	30,597	$2,046,908	30,160	$2,103,089	-1.43%	2.74%
Other Resources:												
Recoveries												
Offsetting Collections - Reimbursable	767	$51,069	997	$41,474	331	$26,824	331	$26,824	339	$27,414	2.42%	2.20%
50% Carryover				10,655								
Mandatory Appropriations - User Fees						168,000		168,000		108,000		-35.71%
Available multi-year/no-year funds		13,236		3,429		15,866		15,866		6,866		-56.73%
Transfers In/Out												
Subtotal Other Resources	767	$64,305	997	$55,558	331	$210,690	331	$210,690	339	$142,280	2.42%	-32.47%
Total Resources Available for Obligation	32,817	$2,206,347	32,383	$2,183,016	31,222	$2,289,841	30,928	$2,257,598	30,499	$2,245,369	-1.39%	-0.54%

Budget Adjustment Table
Taxpayer Services

Table 2.1		
FY 2008 Budget Highlights		
Dollars in Thousands		
Appropriation: Taxpayer Services	FTE	Amount
FY 2007 President's Budget	30,891	$2,079,151
CR-rate Adjustment	(330)	(20,000)
FY 2007 CR-rate	30,561	$2,059,151
Interappropriation Transfer Corrections to Budget Restructure	36	(12,243)
FY 2007 Operating Plan at CR-rate	30,597	$2,046,908
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$0
Base Adjustment		
Maintaining Current Levels (MCLs)		$71,500
Pay Annualization		10,190
Pay Inflation Adjustment		58,424
Non-Pay Inflation Adjustment		2,886
Efficiency Savings	(527)	($23,407)
Subtotal, Changes to Base	(527)	$48,093
FY 2008 Base	30,070	$2,095,001
Program Changes:		
Program Decreases/Savings:	0	($5,968)
Increased e-File Savings		(5,968)
Program Reinvestments:	0	$5,968
Increase Efficiency Through Submission Processing Site Consolidations		5,968
Program Increases:		
Enforcement Initiatives	44	$4,235
Improve Compliance Among Small Business and Self-Employed Taxpayers	31	2,437
Increase Compliance for Large Multinational Businesses	4	1,055
Establish New Document Matching - Kansas City	3	248
Increase Individual Filing Compliance	6	495
Taxpayer Service Initiative	46	$3,853
Expand Volunteer Income Tax Assistance	46	3,853
Subtotal, FY 2008 Program Changes	90	$8,088
Total, FY 2008 President's Budget Request	30,160	$2,103,089

Operating Levels Table
Taxpayer Services

Table 2.2

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	32,050	30,891	(330)	30,561	36	30,597	30,160
Object Classification:							
11.1 Full-Time Permanent Positions	$1,117,586	$1,112,080	($2,143)	$1,109,937	$1,626	$1,111,563	$1,152,553
11.3 Other than Full-Time Permanent Positions	316,349	321,755	(11,647)	310,108	(1)	310,107	303,897
11.5 Other Personnel Compensation	76,951	76,480	0	76,480	(111)	76,369	78,525
11.8 Special Personal Services Payments	0	0	0	0	0	0	0
11.9 Personnel Compensation (Total)	$1,510,886	$1,510,315	($13,790)	$1,496,525	$1,514	$1,498,039	$1,534,975
12.0 Personnel Benefits	431,056	431,083	(3,971)	427,112	(981)	426,131	435,843
13.0 Benefits to Former Personnel	839	3,046	0	3,046	131	3,177	9,119
21.0 Travel	27,611	27,573	(15)	27,558	2	27,560	28,720
22.0 Transportation of Things	4,403	4,294	0	4,294	0	4,294	4,445
23.1 Rental Payments to GSA	0	0	0	0	0	0	0
23.2 Rent Payments to Others	0	0	0	0	0	0	0
23.3 Communications, Utilities, & Misc	3,817	4,862	0	4,862	0	4,862	4,982
24.0 Printing and Reproduction	7,773	7,898	0	7,898	35	7,933	8,124
25.1 Advisory & Assistance Services	7,778	3,298	0	3,298	(866)	2,432	2,490
25.2 Other Services	96,568	39,532	(2,524)	37,008	(1,385)	35,623	36,470
25.3 Purchase of Goods/Serv. from Govt. Accts	10,931	10,931	0	10,931	(329)	10,602	11,029
25.4 Operation & Maintenance of Facilities	91	91	0	91	0	91	93
25.5 Research & Development Contracts	0	0	0	0	0	0	0
25.6 Medical Care	0	0	0	0	0	0	0
25.7 Operation & Maintenance of Equipment	8,945	8,945	0	8,945	(8,293)	652	667
25.8 Subsistence & Support of Persons	1,467	1,418	0	1,418	9	1,427	1,475
26.0 Supplies and Materials	15,361	11,813	(249)	11,564	(2,160)	9,404	11,827
31.0 Equipment	2,556	2,158	549	2,707	80	2,787	567
32.0 Lands and Structures	0	0	0	0	0	0	0
33.0 Investments & Loans	0	0	0	0	0	0	0
41.0 Grants, Subsidies	11,939	11,866	0	11,866	0	11,866	12,232
42.0 Insurance Claims & Indemn	21	28	0	28	0	28	31
43.0 Interest and Dividends	0	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0	0
91.0 Unvouchered	0	0	0	0	0	0	0
Total Budget Authority	$2,142,042	$2,079,151	($20,000)	$2,059,151	($12,243)	$2,046,908	$2,103,089
Budget Activities:							
Pre-filing Taxpayer Assistance & Education	$577,425	$575,694	($4,222)	$571,472	($14,779)	$556,693	$578,078
Filing & Account Services	1,564,617	1,503,457	(15,778)	1,487,679	2,536	1,490,215	1,525,011
Total Budget Authority	$2,142,042	$2,079,151	($20,000)	$2,059,151	($12,243)	$2,046,908	$2,103,089

TS Budget Activity: *Pre-Filing Taxpayer Assistance and Education*

3A - Description

Pre-Filing Taxpayer Assistance and Education *($578,078,000 in direct appropriation, $1,059,000 from reimbursable programs, and $76,000,000 from user fees)*

This budget activity funds services to assist with tax return filing, including interpretation of the tax laws, media, and publications. This includes the following program activities:

- Filing Services Management administers pre-filing, taxpayer assistance, and education programs;
- Taxpayer Communication and Education researches customer needs, prepares tax forms and publications; develops and manages educational programs; establishes partnerships with stakeholder groups; and disseminates tax information to taxpayers and the general public through a variety of media, including publications and mailings, web sites, broadcasting, and advertising;
- Media and Publications develops understandable notices, produces forms and publications for printed and electronic tax materials, and supplies media production services to taxpayers;
- Taxpayer Advocacy provides advocate services to taxpayers for the purpose of preventing future problems by identifying the underlying causes of taxpayer problems and participating in the development of systematic and/or procedural remedies;
- Account Management & Assistance – Field Assistance provides face-to-face assistance, education, and compliance services to taxpayers. It includes return preparation, answering tax questions, resolving account and notice inquiries, and supplying forms and publications to taxpayers;
- Taxpayer Advocate Case Processing ensures that taxpayers have an advocate to present their interests within the IRS to resolve taxpayers' problems through prompt identification, referral, and settlement; and
- National Distribution Center receives and processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.1

Dollars in Thousands

Pre-Filing Taxpayer Assistance and Education				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$565,841	$577,425	$556,693	$578,078
Offsetting Collections - Reimbursable	1,170	1,573	1,037	1,059
Mandatory Appropriations - User Fees	0	0	76,000	76,000
Total Operating Level	$567,011	$578,998	$557,730	$579,137
Human Resources				
Appropriated FTE	6,586	6,206	5,990	6,031
Other FTE	14	23	10	11
Total FTE (direct and reimbursable)	6,600	6,229	6,000	6,042

Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
				Includes Strategic Objective F4A		
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	Target	75.0%	80.0%	92.0%	85.2%	92.0%
	Actual	76.0%	91.4%	83.0%		
	Met	Y	Y	N		
Timeliness of Critical Other Tax Products to the Public (Ot)	Target	N/A	80.0%	85.0%	79.6%	86.0%
	Actual	76.0%	80.0%	61.2%		
	Met		Y	N		
Taxpayer Self Assistance Rate (Oe) (L)	Target	N/A	Baseline	45.7%	48.6%	51.4%
	Actual	46.4%	42.5%	46.8%		
	Met			Y		
Percent of Eligible Taxpayers Who File for EITC (Oe)	Target	Baseline	80.0%	80.0%	75%-85%	75%-85%
	Actual	80.0%	80.0%	*		
	Met	Y	Y			

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Key: Oe - Outcome Measure, Ot - Output/Workload Measure, L - Long Term Goal

*Data to estimate eligibility rate is not available at this time.

Description of Performance

Improved service options for taxpayers and simplifying the tax process are key objectives under the IRS strategic goal to improve taxpayer service. Helping the public to understand its tax reporting and payment obligations remains a vital part of maintaining public confidence in administering the tax laws. The IRS continues to expand its outreach by relying on partner organizations such as state taxing authorities and a cadre of volunteer groups, such as Volunteer Income Tax Assistance (VITA), to serve taxpayer needs. In FY 2006, the 69,000 volunteers filed approximately 2.3 million returns, a seven percent increase over FY 2005.

In FY 2006, the IRS delivered the first phase of the Taxpayer Assistance Blueprint (TAB), a comprehensive study that reviewed the IRS' current taxpayer service options provided to taxpayers and identified areas for improvements, including expanded taxpayer education and awareness, optimized use of partner services, increased self-service options, and expanded training and support tools for taxpayers. Phase II includes additional research and establishes the framework to develop short and long-term outcome goals and metrics for measuring the IRS' progress on service improvements for taxpayers.

The IRS also played a significant role in outreach and telephone assistance efforts to support disaster response due to the hurricanes that occurred along the gulf coast in August and September of 2005. The IRS assisted the Federal Emergency Management Agency (FEMA) by manning telephone sites to answer 948,814 disaster related questions. Also, a substantial number of taxpayers were contacted by the IRS and educated in tax related matters such as claiming property and personal losses, applying for filing extensions, and requesting extensions of time to pay on existing tax liabilities due to financial hardship. In addition, emergency tax relief bills were enacted that required over 230 changes to 78 tax products. Despite passage late in the tax year, 83 percent of the critical filing season tax products and over 61.2 percent of other tax products were delivered to the public on time.

The IRS continues efforts to simplify its tax forms and publications making them more user-friendly with the ultimate goal of providing all of its published products in electronic format. The FY 2006 taxpayer self-assistance rate was 46.8 percent, which exceeded the target of 45.7 percent. This success can be attributed primarily to the high increase in use of the "Where's My Refund?" website feature, which was up 11.8 percent for the 2006 filing season, and the addition of the Earned Income Tax Computation (EITC) tool to the website.

In FY 2007 and FY 2008, the IRS will continue to simplify tax forms and publications to make them more user friendly for use on computer-based systems with the eventual goal of providing all published products in an electronic format, which should ensure that all critical filing season and other critical tax products are available by established deadlines. In addition, efforts to increase electronic filing will continue, with new forms and schedules added to the business electronic portfolio, leveraging partner organizations such as state taxing authorities, and increasing use of volunteers to better serve taxpayer needs.

TS Budget Activity: *Filing and Account Services*

3A – Description

Filing and Account Services *($1,525,011,000 in direct appropriation, $26,355,000 from reimbursable programs, and $32,000,000 from user fees)*

This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically submitted tax returns, issue refunds, and maintain taxpayer accounts. This includes the following program activities:

- Filing and Account Services Management administers filing and account services programs;
- Submission Processing processes paper and electronically-submitted tax returns and supplemental documents, accounts for tax revenues, and issues refunds and tax notices;
- Account Management and Assistance – Electronic Correspondence Assistance provides education and compliance services to taxpayers through telephone, correspondence, and electronic means and to resolve account and notice inquiries, either electronically or by telephone;
- Electronic Tax Administration markets and administers electronic tax administration products and services; and
- Files Most Efficient Organization stores the administrative files and the most recent tax returns in-process that are most likely to be requested for research by various IRS organizations until they are forwarded to the federal records centers.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.2

Dollars in Thousands

Filing and Account Services				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$1,579,145	$1,564,617	$1,490,215	$1,525,011
Offsetting Collections - Reimbursable	36,813	49,496	25,787	26,355
Mandatory Appropriations - User Fees	0	0	92,000	32,000
Total Operating Level	$1,615,958	$1,614,113	$1,516,002	$1,551,366
Human Resources				
Appropriated FTE	26,892	25,844	24,607	24,129
Other FTE	453	744	321	328
Total FTE (direct and reimbursable)	27,345	26,588	24,928	24,457

Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
				Includes Strategic Objective F4A		
Percent Individual Returns Processed Electronically (Oe) (L)	Target	45.0%	51.0%	55.0%	57.0%	61.6%
	Actual	46.5%	51.1%	54.1%		
	Met	Y	Y	N		
Percent of Business Returns Processed Electronically (Oe) (L)	Target	19.6%	17.0%	18.6%	19.5%	21.2%
	Actual	17.4%	17.8%	16.6%		
	Met	N	Y	N		
Customer Accuracy - Tax Law Phones (Oe)	Target	85.0%	82.0%	90.0%	91.0%	91.2%
	Actual	80.0%	89.0%	90.9%		
	Met	N	Y	Y		
Customer Accuracy - Accounts (Phones) (Oe)	Target	89.0%	89.8%	92.0%	93.3%	93.4%
	Actual	89.0%	91.5%	93.2%		
	Met	Y	Y	Y		
Customer Contacts Resolved per Staff year (E)	Target	N/A	7,261	7,477	7,702	7,880
	Actual	8,015	7,585	7,414		
	Met		Y	N		
Customer Service Representative (CSR) Level of Service (Oe)	Target	83.0%	82.0%	82.0%	78.0%	81.0%
	Actual	87.3%	82.6%	82.0%		
	Met	Y	Y	Y		
Refund Timeliness - Individual (paper)	Target	98.4%	98.4%	99.2%	99.2%	99.2%
	Actual	98.3%	99.2%	99.3%		
	Met	N	Y	Y		

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal

Description of Performance

The IRS delivered a successful 2006 filing season in the midst of a very challenging year. Despite natural disasters that affected a large number of taxpayers and required an unprecedented response, the IRS processed more than 134.7 million total individual returns compared to 128.6 million last year, and issued more than 100 million refunds totaling $277 billion compared to 97.1 million refunds totaling $205.1 billion. For the second consecutive year, more than half, 72.8 million individual returns, were filed electronically, a 6.6 percent increase from FY 2005. The most significant increase in electronic filing came from home computer filing, which increased by 18.5 percent to more than 20.2 million returns. The IRS processed more than 7.7 million business returns electronically, a seven percent increase from last year. With an increase in both individual and business return filings, the IRS remains on track to have more than half of all returns filed electronically.

A key objective of the IRS' Taxpayer Service strategic is to increase electronic services and improve the ease of taxpayer access. Benefits of improved electronic services were demonstrated during the 2006 filing season. The IRS received five percent fewer automated calls and eight percent fewer walk-in contacts. The decline in the number of customers seeking face-to-face assistance in the Taxpayer Assistance Centers reflects taxpayers' preference to pursue self-assisted options for receiving service.

Studies initiated by the IRS Oversight Board and others have demonstrated taxpayer satisfaction with electronic access to IRS for filing tax and information returns, securing forms, instructions and answers including the most frequently asked question, "Where's My Refund?". Research conducted during Phase II of the TAB will identify the key drivers of taxpayer preference for self-assisted versus assisted customer service.

The IRS continues to emphasize direct service to taxpayers. The Customer Service Representative Level of Service was 82 percent. Refund timeliness was at 99.3 percent, also ahead of target and prior year performance.

The IRS and its customers place a high value on accuracy. Accuracy is one of the reasons cited by taxpayers who prefer electronic filing. The importance the IRS places on accuracy is demonstrated by its performance in Customer Accuracy – Tax Law Phones at 90.9 percent and Customer Accuracy – Accounts (Phones) at 93.2 percent, both above the FY 2005 levels.

The IRS developed processes and procedures for administering telecommunications excise tax refunds (TETR) to more than 150 million taxpayers in FY 2007. To do this, the IRS modified all individual and business tax return forms to include TETR information; created a new form to be used by individuals who want to request a refund but who have no other tax filing requirement; and drafted a new form to be used by taxpayers who choose to request refunds based on their actual payments rather than use a standard amount set by the IRS. The IRS also launched an outreach campaign to external stakeholder groups, programmed IRS systems to accept form changes, developed TETR-related internal procedures, and trained employees who will interact with taxpayers on the phone and at Taxpayer Assistance Centers. In addition, the IRS developed a methodology that can be used by businesses and non-profits to estimate their TETR claims.

In FY 2007 and FY 2008, the IRS will continue to research and evaluate information regarding taxpayer service needs, priorities, and preferences in order to improve delivery services that support taxpayer preferable approaches for obtaining information or services. The IRS will seek opportunities to invest in technology, process improvement, and training to achieve consistent repeatable quality service with reduced costs.

Enforcement

Enforcement (ENF)

Appropriation Description

The Enforcement appropriation funds the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; examination of tax returns of exempt organizations; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of under reporting of tax obligations; and the securing of unfiled tax returns and collecting unpaid accounts.

The enforcement budget request for FY 2008 is $4,925,498,000 in direct appropriations and 48,667 FTE. This is an increase of $264,926,000 or 5.7 percent, and 834 FTE or 1.7 percent, over the FY 2007 Continuing Resolution (CR) rate of $4,660,572,000 and 47,833 FTE.

Appropriation Detail Table
Enforcement

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Investigations	4,510	$579,555	4,500	$599,841	4,328	$591,090	4,348	$579,883	4,347	$602,872	-0.02%	3.96%
Exam and Collections	43,045	3,919,275	42,637	3,925,839	43,258	4,054,760	42,264	3,932,599	43,060	4,165,233	1.88%	5.92%
Regulatory	1,979	209,611	1,302	150,115	1,283	151,276	1,221	148,090	1,260	157,393	3.19%	6.28%
Subtotal New Appropriated Resources	49,534	$4,708,441	48,439	$4,675,795	48,869	$4,797,126	47,833	$4,660,572	48,667	$4,925,498	1.74%	5.68%
Other Resources:												
Recoveries												
Offsetting Collections - Reimbursable	376	$86,041	122	$44,106	191	$48,291	191	$48,291	194	$49,353	1.57%	2.20%
50% Carryover				10,054								
Mandatory Appropriations - User Fees				0								
Available multi-year/no-year funds		2,289		1,119		2,286		2,286		1,146		-49.87%
Transfers In/Out				37								
Subtotal Other Resources	376	$88,330	122	$55,316	191	$50,577	191	$50,577	194	$50,499	1.57%	-0.15%
Total Resources Available for Obligation	49,910	$4,796,771	48,561	$4,731,111	49,060	$4,847,703	48,024	$4,711,149	48,861	$4,975,997	1.74%	5.62%

Budget Adjustment Table
Enforcement

Table 2.1		
FY 2008 Budget Highlights		
Dollars in Thousands		
Appropriation: Enforcement	FTE	Amount
FY 2007 President's Budget	48,869	$4,797,126
CR-rate Adjustment	(988)	(88,721)
FY 2007 CR-rate	47,881	$4,708,405
Interappropriation Transfer Corrections to Budget Restructure	(48)	(47,833)
FY 2007 Operating Plan at CR-rate	47,833	$4,660,572
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$0
Base Adjustment		
Maintaining Current Levels (MCLs)		$162,373
Pay Annualization		23,083
Pay Inflation Adjustment		131,573
Non-Pay Inflation Adjustment		7,717
Efficiency Savings	(620)	($60,166)
Subtotal, Changes to Base	(620)	$102,207
FY 2008 Base	47,213	$4,762,779
Program Changes:		
Program Increases:		
Enforcement Initiatives	1,454	$162,719
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	237	29,054
Improve Compliance Among Small Business and Self-Employed Taxpayers	454	55,480
Increase Compliance for Large Multinational Businesses	151	19,916
Expand Document Matching in Existing Sites	208	18,536
Establish New Document Matching - Kansas City	203	15,669
Increase Individual Filing Compliance	55	3,806
Increase Tax-Exempt Entity Compliance	109	11,794
Increase Criminal Tax Investigations	37	8,464
Subtotal, FY 2008 Program Changes	1,454	$162,719
Total, FY 2008 President's Budget Request	48,667	$4,925,498

Operating Levels Table
Enforcement

Table 2.2

Dollars in Thousands

Appropriation Title: Enforcement	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	49,534	48,869	(988)	47,881	(48)	47,833	48,667
Object Classification:							
11.1 Full-Time Permanent Positions	$3,201,250	$3,265,184	($50,373)	$3,214,811	($7,246)	$3,207,565	$3,382,441
11.3 Other than Full-Time Permanent Positions	106,545	94,051	(193)	93,858	96	93,954	97,309
11.5 Other Personnel Compensation	139,605	140,302	(3,112)	137,190	399	137,589	145,646
11.8 Special Personal Services Payments	16,753	16,863	0	16,863	0	16,863	17,499
11.9 Personnel Compensation (Total)	$3,464,153	$3,516,400	($53,678)	$3,462,722	($6,751)	$3,455,971	$3,642,895
12.0 Personnel Benefits	874,868	910,198	(4,134)	906,064	539	906,603	952,840
13.0 Benefits to Former Personnel	4,525	0	0	0	0	0	0
21.0 Travel	151,456	153,124	(13,837)	139,287	620	139,907	163,019
22.0 Transportation of Things	4,042	4,002	0	4,002	1	4,003	4,566
23.1 Rental Payments to GSA	0	0	0	0	0	0	0
23.2 Rent Payments to Others	342	370	0	370	0	370	383
23.3 Communications, Utilities, & Misc	44,687	44,858	0	44,858	(38,921)	5,937	6,642
24.0 Printing and Reproduction	6,559	5,297	0	5,297	93	5,390	5,442
25.1 Advisory & Assistance Services	21,680	28,137	(4,260)	23,877	(3,000)	20,877	21,394
25.2 Other Services	74,577	73,750	(5,553)	68,197	(2,803)	65,394	66,944
25.3 Purchase of Goods/Serv. from Govt. Accts	14,949	12,963	(1,259)	11,704	2,470	14,174	14,537
25.4 Operation & Maintenance of Facilities	507	145	0	145	0	145	1,045
25.5 Research & Development Contracts	2,847	2,908	0	2,908	0	2,908	2,908
25.6 Medical Care	0	0	0	0	0	0	0
25.7 Operation & Maintenance of Equipment	6,755	6,766	(2,800)	3,966	(151)	3,815	3,947
25.8 Subsistence & Support of Persons	3,043	3,043	0	3,043	134	3,177	3,376
26.0 Supplies and Materials	22,172	23,801	0	23,801	(70)	23,731	24,611
31.0 Equipment	6,790	6,848	(3,200)	3,648	5	3,653	6,279
32.0 Lands and Structures	0	0	0	0	0	0	0
33.0 Investments & Loans	0	0	0	0	0	0	0
41.0 Grants, Subsidies	5	329	0	329	0	329	337
42.0 Insurance Claims & Indemn	670	373	0	373	1	374	401
43.0 Interest and Dividends	0	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0	0
91.0 Unvouchered	3,814	3,814	0	3,814	0	3,814	3,932
Total Budget Authority	$4,708,441	$4,797,126	($88,721)	$4,708,405	($47,833)	$4,660,572	$4,925,498
Budget Activities:							
Investigations	$579,555	$591,090	($11,110)	$579,980	($97)	$579,883	$602,872
Exam and Collections	3,919,275	4,054,760	(76,468)	3,978,292	(45,693)	3,932,599	4,165,233
Regulatory	209,611	151,276	(1,143)	150,133	(2,043)	148,090	157,393
Total Budget Authority	$4,708,441	$4,797,126	($88,721)	$4,708,405	($47,833)	$4,660,572	$4,925,498

ENF Budget Activity: *Investigations*

3A – Description

Investigations (*$602,872,000 in direct appropriation and $37,716,000 reimbursable programs)*

This budget activity funds the Criminal Investigations programs that explore potential criminal violations of the internal revenue tax laws, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. This includes the following program activities:

- Criminal Investigations supports the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes. It investigates cases of suspected intent to defraud involving both legal and illegal sources of income and recommends prosecution as warranted. This activity also includes the investigation and prosecution of tax and money laundering violations associated with narcotics organizations; and
- General Management and Administration supports the unit headquarters management activities of strategic planning, communications, finance, human resources for criminal Investigations activities.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.3

Dollars in Thousands

Investigations				Strategic Objective F4A & F3A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$504,075	$579,555	$579,883	$602,872
Offsetting Collections - Reimbursable	90,834	74,842	36,905	37,716
Total Operating Level	$594,909	$654,397	$616,788	$640,588
Human Resources				
Appropriated FTE	4,190	4,510	4,348	4,347
Other FTE	383	325	86	87
Total FTE (direct and reimbursable)	4,573	4,835	4,434	4,434

Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
					Includes Strategic Objective F4A	
Criminal Investigations Completed (Ot) (L)	Target	3,400	3,895	3,945	4,000	4,025
	Actual	4,387	4,104	4,157		
	Met	Y	Y	Y		
Number of Convictions (Ot) (L)	Target	N/A	2,048	2,260	2,069	2,135
	Actual	2,008	2,151	2,019		
	Met		Y	N		
Conviction Rate (E) (L)	Target	N/A	92.0%	92.0%	92.0%	92.0%
	Actual	91.2%	91.2%	91.5%		
	Met		N	N		
Conviction Efficiency Rate ($) (E) (L)	Target	N/A	332,194	339,565	314,008	314,560
	Actual	362,849	295,316	328,750		
	Met		Y	Y		

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Key: E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal

Description of Performance

Enforcement of criminal statutes is an integral component of the IRS' efforts to enhance voluntary compliance and enforce the tax laws. In FY 2006, abusive tax schemes and shelters remained a high investigative priority due to their egregious activities in areas of corporate fraud and tax avoidance of high-income individuals. Among the most effective tools available to combat abusive tax schemes was the use of parallel proceedings that enabled the IRS to enjoin promoters of abusive schemes from further activity while the criminal investigation proceeds. These initiatives focused on the thousands of individuals known to maintain offshore bank accounts while operating domestic businesses. Investigative priorities focused on Corporate Fraud, Abusive Tax Schemes, Refund Crimes, Non-Filers, Employment Tax, and Terrorist Financing. Performance levels remained high in FY 2006:

- The referral acceptance rate (i.e., the ratio of internal referrals within the IRS received to the number of those cases that are accepted by CI) of 71.8 percent exceeded the five year high achieved in FY 2005 and total number of referrals accepted (445) was higher than last year;
- Number of convictions was 2,019, falling short of the 2,260 target;
- Conviction rate was 91.5 percent, higher than FY 2005 and within 99 percent of FY 2006 target; and
- Cost of a conviction (Conviction Efficiency rate) was $328,750, almost $11,000 less than the FY 2006 target.

In FY 2007 and continuing in FY 2008, the IRS will focus its investigative resources on legal source tax investigations by partnering with other law enforcement agencies to develop significant tax and other financial investigations. The IRS will also pursue investigations involving illegal source tax and other financial crimes, including money laundering, that adversely affect tax administration and combat fraudulent and financial crime schemes identified through improved case development efforts and bank secrecy investigations.

ENF Budget Activity: *Exam and Collections*

3A – Description

Exam and Collections *($4,165,233,000 in direct appropriation and $11,637,000 from reimbursable programs)*

This budget activity funds programs that enforce the tax laws and compliance through examination and collection programs that ensure proper payment and tax reporting. The budget activity also supports appeals and litigation activities associated with exam and collection. This includes the following program activities:

- Compliance Services Management supports management associated with compliance program activities;
- Payment Compliance – Correspondence Collection supports the IRS' centralized collection activities via correspondence in the Compliance Services Collection Operation. It initiates contact and collects delinquent taxpayer liabilities through written notices and other means;
- Automated Collections and Support supports the IRS' centralized Automated Collection System (ACS). This program initiates contact and collects delinquent taxpayer liabilities through automated means;
- Payment Compliance – Field Collection conducts field investigations and collection efforts associated with delinquent taxpayer and business entity liabilities, including direct taxpayer contact and outreach programs to protect the government's interest in delinquent tax liability situations;
- Tax Reporting Compliance – Document Matching executes the Automated Underreporter (AUR), Combined Annual Wage Reporting (CAWR), Federal Unemployment Tax Act (FUTA), and other Document Matching Programs;
- Tax Reporting Compliance – Electronic/Correspondence Exam operates the service centers' examination function, which initiates correspondence with taxpayers related to tax issues arising from claims on tax returns;
- Tax Reporting Compliance – Field Exam determines taxpayers' correct income levels and corresponding tax liabilities. This activity also applies the tax law to specific taxpayers in the form of determination letters, advance pricing agreements, and other determinations;
- Appeals oversees an administrative review process that provides a channel for impartial case settlement before a case is docketed in a court of law;
- Litigation represents the IRS in litigation and provides all other legal support for the IRS, including interpretation of the tax law;
- Specialty Programs examines federal tax returns of businesses and individuals responsible for the filing and payment of employment, excise, estate and gift taxes. International exam programs involving U.S. citizens residing abroad, non-resident aliens, expatriates and other examinations involving other international issues (e.g., Foreign Tax Credit, Foreign Earned Income Exclusion) also are centrally managed in this functional area;
- Specialty Programs – Collection supports international field collection efforts associated with delinquent taxpayer and business entity liabilities from U.S. citizens residing abroad, non-resident aliens, expatriates, and those involving other international issues (e.g. Foreign Tax Credit, Foreign Earned Income Exclusion); and
- Communications & Liaison coordinates local government and liaison relationships; handle congressional, state, and national stakeholder relationships and issues; coordinate crosscutting issues including managing audits and legislative implementation; handle national media contacts and local media relationships; and ensure Servicewide compliance with Disclosure and Privacy laws.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.4				
Dollars in Thousands				
Exam and Collections				Strategic Objective F4A & F3A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$3,721,495	$3,919,275	$3,932,599	$4,165,233
Offsetting Collections - Reimbursable	13,287	10,948	11,386	11,637
Mandatory Appropriations - User Fees	6,000	0	0	0
Total Operating Level	$3,734,782	$3,930,223	$3,943,985	$4,176,870
Human Resources				
Appropriated FTE	43,160	43,045	42,264	43,060
Other FTE	56	47	105	107
Total FTE (direct and reimbursable)	43,216	43,092	42,369	43,167

Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
				Includes Strategic Objective F4A		
Examination Coverage - Individual (Oe) (L)	Target	N/A	0.9%	0.9%	1.0%	1.0%
	Actual	0.8%	0.9%	1.0%		
	Met		Y	Y		
Field Exam Embedded Quality (Oe) (L)	Target	N/A	N/A	Baseline	87.0%	87.0%
	Actual			85.9%		
	Met					
Office Exam Embedded Quality (Oe) (L)	Target	N/A	N/A	Baseline	89.0%	89.0%
	Actual			88.2%		
	Met					
Examination Quality (LMSB) - Industry (Oe) (L)	Target	80.0%	78.0%	80.0%	88.0%	90.0%
	Actual	74.0%	77.0%	85.0%		
	Met	N	N	Y		
Examination Quality (LMSB) - Coordinated Industry (Oe) (L)	Target	N/A	N/A	92.0%	97.0%	97.0%
	Actual	87.0%	89.0%	96.0%		
	Met			Y		
Examination Coverage - Business (Corps. > $10M) (Oe) (L)	Target		7.1%	7.5%	8.2%	8.2%
	Actual	7.5%	7.8%	7.3%		
	Met		Y	N		
AUR Efficiency (E) (L)	Target	N/A	N/A	1,759	1,932	1,808
	Actual	1,514	1,701	1,832		
	Met			Y		
AUR Coverage (Oe) (L)	Target	N/A	2.5%	2.3%	2.5%	2.7%
	Actual	1.9%	2.2%	2.4%		
	Met		N	Y		
Examination Efficiency - Individual (E) (L)	Target	N/A	N/A	121	136	136
	Actual	N/A	121	128		
	Met			Y		

Table 3.2.4 (Continued)						
Exam and Collections				Includes Strategic Objective F4A		
Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
Collection Coverage - Units (Oe) (L)	Target	N/A	57.0%	52.0%	54.0%	54.0%
	Actual		53.0%	54.0%		
	Met		N	Y		
Collection Efficiency - Units (E) (L)	Target	N/A	N/A	1,650	1,723	1,751
	Actual		1,514	1,677		
	Met			Y		
Field Collection Embedded Quality (Oe) (L)	Target	N/A	N/A	Baseline	86.0%	86.0%
	Actual			84.2%		
	Met					
Automated Collection System (ACS) Accuracy	Target	Baseline	88.0%	88.0%	91.0%	92.0%
	Actual	87.8%	88.5%	91.0%		
	Met	Y	Y	Y		

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.
Key: Oe - Outcome Measure and E - Efficiency Measure and L - Long Term Goal

Description of Performance

The IRS' examination and collection programs are the primary contributors to the IRS' strategic objective aimed at discouraging and deterring non-compliance by key contributors to the tax gap, particularly corporations, high-income individuals, and domestic and off-shore tax entities.

The IRS continues to enforce the law across all sectors, but is focusing on corrosive activities of corporations, high income taxpayers, and other major violators of the tax code. These efforts are having a positive impact on collecting additional tax revenue. Enforcement revenue from all sources reached a record level of $48.7 billion in FY 2006. Targeting high-risk taxpayers improves IRS efficiency, reduces the burden on compliant taxpayers, and concentrates enforcement presence where it is most needed.

For FY 2006, the IRS met or exceeded 83 percent of its enforcement performance targets. Focusing more on limited scope examinations and productivity enhancements including improved analytics, workload identification, and selection systems that targeted high-risk cases resulted in:

- 7 percent increase in individual audits;
- 18 percent increase in high income audits;
- 8 percent increase in small-business audits;
- 10 percent increase in automated underreporter closures;
- 15 percent increase in collection case closures; and,
- 9 percent increase in revenue received from collection activities.

The IRS continued its efforts in streamlining and improving its examination process, resulting in shortened cycle time for large corporate audits. The time from assigning a large corporate return to a revenue agent until the final closing decreased more than 18 percent. The improvements to the examination process ultimately increased inventory turnover and closures.

The IRS also met its examination coverage - individual, efficiency and embedded quality annual targets. Improvements in inventory management, decreases in cycle time, and focused issue training all contributed to improved productivity. Improved quality controls measuring critical elements of the examination, a reinforced focus on case quality to drive improvement efforts, and the delivery of business results for the third consecutive year all led to improved performance in FY 2006. The IRS will continue to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. The IRS plans to build on its FY 2006 enforcement initiatives with emphasis on early identification of tax liabilities through increased audits and focused collection activities.

In FY 2008, the IRS will focus its resources on targeting compliance of reporting, filing, payment, and other major contributors to the tax gap. Resources will be used to:

- Increase the overall percentage of high-risk tax returns examined, such as multinational corporations, and collect a greater amount of unpaid taxes from filed and un-filed tax returns timely;
- Expand the Automated Underreporter (AUR) program to target the estimated 5.1 million taxpayers who may annually appear to misreport income based on third party information reporting. A new AUR site combined with expanded toll-free telephone service will improve the capability to reach more non-compliant taxpayers; and
- Enhance the analysis of tax information and results of compliance research studies to better define and quantify the tax gap. Targeting high-risk taxpayers will improve IRS efficiency and reduce the burden on compliant taxpayers. It will also increase and focus the enforcement presence where it is most needed.

ENF Budget Activity: *Regulatory*

3A – Description

Regulatory *($157,393,000 in direct appropriations)*

This budget activity funds the development and print of published guidance materials; interpretation of and guidance on tax laws; general legal services, rules and agreements, enforcement of regulatory rules, laws and approved business practices; supporting taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements and the Office of Professional responsibility. This includes the following program activities:

- Tax Law Interpretation and Guidance interprets the tax law through published guidance, technical advice, and other technical legal services;

- General Legal Services provides advice to the IRS on non-tax legal issues, including procurement, personnel, labor relations, equal employment opportunity, fiscal law, tort claims and damages, ethics and conflict of interest;
- Rulings and Agreements applies the tax law to specific taxpayers in the form of pre-filing agreements, determination letters, advance pricing agreements, and other pre-filing determinations and advice;
- Fraud/Bank Secrecy Act enforces the anti-money laundering provisions of the Bank Secrecy Act (BSA) of 1970, and the USA PATRIOT Act of 2001. It examines non-bank financial institutions for compliance with these laws, annually receives and processes more than 15 million financial reports, and manages a centralized database of that information for the Financial Crimes Enforcement Network (FinCEN). The Fraud program follows the "money trail" to support the criminal investigation of tax evasion operations. Fraud Technical Advisors and Revenue Agents provide investigative leads and referrals to federal, state and local law enforcement agencies; and
- Office of Professional Responsibility identifies, communicates, and enforces Treasury Circular 230 standards of competence, integrity, and conduct of those who represent taxpayers before the IRS, such as attorneys, certified public accountants (CPAs), enrolled agents, enrolled actuaries and appraisers, and other professionals.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.5

Dollars in Thousands

Regulatory				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$172,022	$209,611	$148,090	$157,393
Offsetting Collections - Reimbursable	187	251	0	0
Total Operating Level	**$172,209**	**$209,862**	**$148,090**	**$157,393**
Human Resources				
Appropriated FTE	1,605	1,979	1,221	1,260
Other FTE	2	4	0	0
Total FTE (direct and reimbursable)	**1,607**	**1,983**	**1,221**	**1,260**

					Includes Strategic Objective F4A	
Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
TEGE Determination Case Closures (Ot)	Target	141,000	131,700	112,400	118,200	109,500
	Actual	143,877	126,481	108,462		
	Met	Y	N	N		

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Key: Ot - Output/Workload Measure

Description of Performance

Due to major changes in certain filing processes, the IRS did not meet its FY 2006 plan for Tax Exempt and Government Entities (TE/GE) Determination Cases Closed. The implementation of a staggered amendment filing process for employee plans significantly changed the inventory mix. Over 40 percent of the 25,000 receipts were prototype plans that required more extensive review. These cases will not close until FY 2007, resulting in the closure of 3,600 fewer cases than originally planned. Additionally, recent increases in user fees for employee plan determinations resulted in a slight decrease in determination applications and ultimately 1,500 fewer projected closures.

To stabilize the flow of determination receipts and mitigate the significant swings in workload experienced prior to FY 2006, the IRS will continue its roll-out of the staggered amendment process. The IRS also plans to test and pilot (with external partners) a new interactive software application for preparing determination applications designed to improve the quality of determination requests and establish the foundation for future electronic filing of these applications.

Implementation and on-going use of alternative enforcement strategies through "Issue Management Teams" and Settlement Initiatives have rapidly identified abusive promoters and participants. Special attention to develop preparer penalty cases over the past several years continues in FY 2006, using Program Action Cases, Electronic Return Originator and EITC Due Diligence Visits, criminal investigations, and injunctions. To date, the IRS has more than 500 open return preparer investigations, a substantial increase over the same period last year.

The IRS faces a wide variety of non-tax legal issues. In support of the IRS' regulatory activities, proposed changes to Treasury Circular 230 (Regulations Governing Practice Before the Internal Revenue Service) were published in FY 2006. The changes were designed to address weaknesses in the current regulatory scheme to ensure that tax professionals are adhering to standards and following the law, a key objective to success in enforcing the tax laws. Highlights of the proposed changes include rules implementing new authority to impose a monetary penalties, opening the IRS enforcement proceedings to public scrutiny, limiting contingent fees in the federal tax arena, allowing expedited proceedings for egregious tax non-compliance, and eliminating un-enrolled return preparers to "limited practice" before the agency.

In FY 2006, the IRS also developed a strategy to enhance its coordination and effectiveness of return preparer enforcement efforts and maximize resources and coverage of non-compliant preparers. The strategy includes an annual cross-functional meeting to discuss and evaluate the coming year's preparer inventory with focus on identifying cases warranting attention from the prior year's due diligence visits.

In FY 2006, General Legal Services (GLS) litigated cases involving practitioner questionable tax transactions, successfully defended an award protest for private debt collection services, negotiated a Memorandum of Understanding offering online tax return preparation and filing services, and drafted informant agreements concerning the recovery of taxes due.

In FY 2007 and beyond, the IRS will continue to promote compliance with tax laws and regulations in the tax-exempt and government arena. The IRS' FY 2007 initiative to bolster critical activities, such as determinations and voluntary compliance agreements, will continue in FY 2008. This initiative will maintain the integrity of the tax base and ensure charitable and retirement contributions serve the public purposes for which exemptions were created. In addition, the IRS will focus on the Office of Professional Responsibility disciplinary matters and continued activity to revamp automated systems to modernize and enhance compliance activities.

Operations Support

Operations Support (OS)

Appropriation Description

The Operations Support appropriation provides funding for overall planning, direction, and support for the IRS, including shared service support related to facilities services, rent payments, printing, postage, and security. This appropriation also funds headquarters' policy and management activities such as corporate support for strategic planning, communications and liaison, finance, human resources, Equal Employment Opportunity (EEO) and diversity; research and statistics of income; and necessary expenses for information systems and telecommunication support, including development, security and maintenance of IRS' information systems.

The Operations Support budget request for FY 2008 is $3,769,587,000 in direct appropriations and 12,957 FTE. This is an increase of $250,359,000 or 7.1 percent, and 3 FTE, over the FY 2007 Continuing Resolution (CR) Rate of $3,519,228,000 and 12,954 FTE.

Appropriation Detail Table
Operations Support

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Infrastructure	0	$864,403	0	$837,320	0	$873,146	0	$873,146	0	$908,095	0.00%	4.00%
Shared Services and Support	7,047	1,176,202	5,605	1,154,616	6,693	1,129,617	6,705	1,163,846	6,693	1,223,351	-0.18%	5.11%
Information Services	6,421	1,420,600	5,960	1,446,449	6,249	1,485,641	6,249	1,482,236	6,264	1,638,141	0.24%	10.52%
Subtotal New Appropriated Resources	13,468	$3,461,205	11,565	$3,438,385	12,942	$3,488,404	12,954	$3,519,228	12,957	$3,769,587	0.02%	7.11%
Other Resources:												
Recoveries												
Offsetting Collections - Reimbursable	207	$21,710	10	$4,277	160	$50,608	160	$50,608	163	$56,731	1.88%	12.10%
50% Carryover				2,709								
Mandatory Appropriations - User Fees		19,000		19,000		74,000		74,000		72,000		-2.70%
Available multi-year/no-year funds		37,704		37,076		28,018		28,018		4,333		
Transfers In/Out												
Subtotal Other Resources	207	$78,414	10	$63,062	160	$152,626	160	$152,626	163	$133,064	1.88%	-12.82%
Total Resources Available for Obligation	13,675	$3,539,619	11,575	$3,501,447	13,102	$3,641,030	13,114	$3,671,854	13,120	$3,902,651	0.05%	6.29%

Budget Adjustment Table
Operations Support

Table 2.1

FY 2008 Budget Highlights

Dollars in Thousands

Appropriation: Operations Support	FTE	Amount
FY 2007 President's Budget	12,942	$3,488,404
CR-rate Adjustment		(29,252)
FY 2007 CR-rate	12,942	$3,459,152
Interappropriation Transfer Corrections to Budget Restructure	12	60,076
FY 2007 Operating Plan at CR-rate	12,954	$3,519,228
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$5,687
Base Adjustment		5,687
Maintaining Current Levels (MCLs)		$104,500
Pay Annualization		6,970
Pay Inflation Adjustment		41,532
Non-Pay Inflation Adjustment		55,998
Efficiency Savings	(37)	($36,408)
Subtotal, Changes to Base	(37)	$73,779
FY 2008 Base	12,917	$3,593,007
Program Changes:		
Program Decreases/Savings:	0	($511)
Increased e-File Savings		(511)
Program Reinvestments:	0	$511
Increase Efficiency Through Submission Processing Site Consolidations		511
Program Increases:		
Infrastructure Initiatives	0	$81,000
Upgrade Critical IT Infrastructure		60,000
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastru		21,000
Enforcement Initiatives	32	$79,433
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	21	11,968
Improve Compliance Among Small Business and Self-Employed Taxpayers		15,248
Implement Legislative Proposals to Improve Compliance		23,045
Increase Compliance for Large Multinational Businesses	3	5,229
Expand Document Matching in Existing Sites	6	9,422
Establish New Document Matching - Kansas City	2	7,536
Increase Individual Filing Compliance		2,243
Increase Tax-Exempt Entity Compliance		3,206
Increase Criminal Tax Investigations		1,536
Taxpayer Service Initiatives	8	$16,147
Research Effect of Service on Taxpayer Compliance	8	5,000
Expand Volunteer Income Tax Assistance		1,147
Implement Taxpayer Assistance Blueprint		10,000
Subtotal, FY 2008 Program Changes	40	$176,580
Total, FY 2008 President's Budget Request	12,957	$3,769,587

Operating Levels Table
Operations Support

Table 2.2							
Dollars in Thousands							
Appropriation Title: Operations Support	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	13,468	12,942	0	12,942	12	12,954	12,957
Object Classification:							
11.1 Full-Time Permanent Positions	$955,187	$966,762	($65)	$966,697	$1,427	$968,124	$1,002,389
11.3 Other than Full-Time Permanent Positions	10,074	10,876	0	10,876	8	10,884	11,120
11.5 Other Personnel Compensation	29,287	30,796	(17)	30,779	0	30,779	34,983
11.8 Special Personal Services Payments	0	0	0	0	0	0	0
11.9 Personnel Compensation (Total)	$994,548	$1,008,434	($82)	$1,008,352	$1,435	$1,009,787	$1,048,492
12.0 Personnel Benefits	304,231	301,675	(422)	301,253	329	301,582	313,697
13.0 Benefits to Former Personnel	62,037	58,955	(7,953)	51,002	0	51,002	52,504
21.0 Travel	30,717	33,047	(7)	33,040	159	33,199	34,313
22.0 Transportation of Things	17,926	19,013	0	19,013	0	19,013	19,470
23.1 Rental Payments to GSA	680,674	640,000	0	640,000	0	640,000	665,539
23.2 Rent Payments to Others	9	5	0	5	0	5	5
23.3 Communications, Utilities, & Misc	319,403	316,493	(7,551)	308,942	38,922	347,864	368,398
24.0 Printing and Reproduction	52,855	52,731	0	52,731	0	52,731	53,983
25.1 Advisory & Assistance Services	112,139	29,614	0	29,614	5,395	35,009	36,259
25.2 Other Services	305,314	377,220	(3,549)	373,671	2,790	376,461	420,211
25.3 Purchase of Goods/Serv. from Govt. Accts	57,614	60,353	0	60,353	0	60,353	61,808
25.4 Operation & Maintenance of Facilities	188,353	179,474	(551)	178,923	0	178,923	181,672
25.5 Research & Development Contracts	4,622	4,364	0	4,364	0	4,364	5,269
25.6 Medical Care	10,005	10,005	0	10,005	0	10,005	10,245
25.7 Operation & Maintenance of Equipment	78,896	67,132	(7,589)	59,543	8,293	67,836	67,203
25.8 Subsistence & Support of Persons	580	271	0	271	0	271	279
26.0 Supplies and Materials	26,875	21,252	0	21,252	240	21,492	22,723
31.0 Equipment	213,823	249,723	(1,548)	248,175	2,513	250,688	347,467
32.0 Lands and Structures	0	58,056	0	58,056	0	58,056	59,449
33.0 Investments & Loans	0	0	0	0	0	0	0
41.0 Grants, Subsidies	0	0	0	0	0	0	0
42.0 Insurance Claims & Indemn	584	587	0	587	0	587	601
43.0 Interest and Dividends	0	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0	0
91.0 Unvouchered	0	0	0	0	0	0	0
Total Budget Authority	$3,461,205	$3,488,404	($29,252)	$3,459,152	$60,076	$3,519,228	$3,769,587
Budget Activities:							
Infrastructure	$864,403	$873,146	$0	$873,146	$0	$873,146	$908,095
Shared Services & Support	1,176,202	1,129,617	($8,996)	1,120,621	43,225	1,163,846	1,223,351
Information Services	1,420,600	1,485,641	($20,256)	1,465,385	16,851	1,482,236	1,638,141
Total Budget Authority	$3,461,205	$3,488,404	($29,252)	$3,459,152	$60,076	$3,519,228	$3,769,587

OS Budget Activity: *Infrastructure*

3A - Description

Infrastructure (*$908,095,000 in direct appropriation*)

This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-automated data processing equipment. This includes the following program activities:

- Building Delegation oversees and manages the IRS's GSA-delegated buildings, including cleaning, maintenance, utilities, protections, administrative, recurring and one-time repair costs;
- Rent provides resources for all of the IRS' rent needs; and
- Space and Housing / Non-ADP Equipment provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and Non-ADP equipment.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.6

Dollars in Thousands

Infrastructure				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$757,908	$864,403	$873,146	$908,095
Offsetting Collections - Reimbursable	287	385	0	0
Total Operating Level	$758,195	$864,788	$873,146	$908,095
Human Resources				
Appropriated FTE	0	0	0	0
Other FTE	4	6	0	0
Total FTE (direct and reimbursable)	4	6	0	0

				Includes Strategic Objective F4A	
Measure		FY 2005	FY 2006	FY 2007	FY 2008
There are no externally reported performance measures associated with this activity	Target Actual Met				

Description of Performance

The IRS continued to emphasize identification and implementation of cost savings within its infrastructure, in particular, rent costs. The IRS decreased rent costs in FY 2006 by over 2 percent from FY 2005 to $608 million. This was accomplished by identifying and completing 110 space reduction projects releasing a cumulative total of 878,000 square feet. These projects have annualized savings of $19.6 million. As a result of the flooding at the IRS Headquarter building, three projects (57,000 square feet) were maintained to house displaced employees.

In FY 2007 and beyond, the IRS will continue to work to identify and implement rent reduction initiatives and leasing plans to minimize costs. These savings are critical for covering unfunded costs such as new mandates, budget rescissions, and pay raises.

OS Budget Activity: *Shared Services and Support*

3A – Description

Shared Services and Support (*$1,223,351,000 in direct appropriation, $50,990,000 from reimbursable programs, and $10,000,000 from user fees*)

This budget activity funds policy and management and IRS-wide support for research strategic planning, communications and liaison, finance, human resources, and equal employment opportunity and diversity services and programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and specific employee benefits programs. This includes the following program activities:

- National Headquarters Management & Administration directs the management activities of strategic planning, communications and liaison, finance, human resources, EEO and diversity, and business systems planning and embedded training. This activity sets policies and goals, provides leadership and direction for the Internal Revenue Service, and builds partner relationships with key stakeholders (e.g., Congress, OMB, etc.). It provides policy guidance for conducting IRS planning and budgeting strategies, conducting analysis of programs and investments to support strategic decision-making, and developing and managing the human resources. Also, it includes official reception and representation expenses;
- Facilities Services provides services and supplies required to manage IRS facilities;
- Procurement supports the procurement function of the IRS;
- EEO Field Operations plans and manages the IRS EEO and Diversity Program;
- Customer Support plans and manages financial services, including relocation, travel, imprest fund, purchase cards, corporate express, and employee clearances;
- Treasury Complaint Centers plans and manages the Treasury Complaint Centers;
- Shared Support provides resources for shared cross-functional support such as copiers, postage meters, shredders, courier services, and P. O. Boxes;

- Printing and Postage provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials;
- Security protects employees, facilities and assets, and the confidentiality of taxpayer information;
- Shared Services (excluding Space and Housing and Rent) provide addition services such as Public Transit Subsidy and Career Counselor Contract;
- Communications & Liaison coordinates local government and liaison relationships; handles congressional, state, and national stakeholder relationships and issues; coordinates cross-cutting issues including managing audits and legislative implementation; handles national media contacts and local media relationships; and ensures Servicewide compliance with Disclosure and Privacy laws;
- Security Services ensures that the IRS has effective security policies and programs in place to safeguard taxpayer records, employees, facilities, business processes, systems and other resources. It includes operation of the Computer Systems Incident Response Center (CSIRC) and Situation Awareness and Management Centers (SAMC), coordination of Service-wide disaster recovery and business continuity planning, security training and awareness, and sensitive system certification and accreditation coordination with Treasury on the Federal Critical Infrastructure Protection Program;
- Research provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations;
- Statistics of Income provides resources for market-based research to identify compliance issues; for conducting tests of treatments to address non-compliance; and for the implementation of successful treatments of taxpayer non-compliant behavior; and
- Benefit Payments provides resources to fund Workmen's Compensation benefits and Unemployment Compensation payments.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.7				
Dollars in Thousands				
Shared Services and Support			Strategic Objective F4A	
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$1,211,877	$1,176,202	$1,163,846	$1,223,351
Offsetting Collections - Reimbursable	10,216	13,844	44,990	50,990
Mandatory Appropriations - User Fees	0	0	20,000	10,000
Total Operating Level	$1,222,093	$1,190,046	$1,208,836	$1,274,341
Human Resources				
Appropriated FTE	7,084	7,047	6,705	6,693
Other FTE	101	171	140	143
Total FTE (direct and reimbursable)	7,185	7,218	6,845	6,836

				Includes Strategic Objective F4A		
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
There are no externally reported performance measures associated with this activity.	Target Actual Met					

Description of Performance

The IRS continues to provide shared services to all IRS programs through various support programs including: facilities, management and administration of human resources, research, procurement, and security.

In FY 2006, the IRS introduced its Human Capital Strategic Implementation Plan. The plan links achievement of Treasury's Human Capital (HC) Strategic Goals, the IRS' Strategic Goals, and the IRS' HC Strategic Goals outlined in the HC Strategic Plan (2005-2009). The plan also establishes measures to monitor performance against HC objectives, processes, and projects to ensure the IRS builds and maintains a workforce that can carry out its mission.

The IRS remains committed to increasing employee engagement and employee satisfaction. The IRS' Employee Engagement Surveys measure the percentage of IRS employees who feel they are in the right job, managed well, and are productive. In FY 2006, the IRS addressed Employee Engagement through programs that promote employee development and continuity such as safety and security, training, succession planning and workplace conflict prevention. The IRS employee engagement score, as measured by the grand mean on Gallup's survey, increased from 3.80 in 2005 to 3.82 in 2006.

Ninety-six percent of IRS systems are compliant, with 33 percent certified under the new more stringent National Institutes of Standards and Technology (NIST) standards. The IRS efforts in 2004 and 2005 were focused on security certification and accreditation of the network and infrastructure systems, which were achieved at the end of FY 2005. Our priority in FY 2006 was updating the security certification and accreditation of IRS business applications to comply with new process guidance issued by the Office of Management and Budget (OMB) and NIST. The remaining systems will be updated in FY 2007 and FY 2008.

The IRS achieved Personal Identity Verification (PIV I) compliance by October 2005, as mandated by Homeland Security Presidential Directive 12 (HSPD-12). The IRS now leads the Treasury HSPD-12 Program to adopt an enterprise solution for PIV II through the implementation of new Federal identification cards. PIV I compliance focused on implementing standard processes for common identity proofing, registration and issuance that incorporate security and privacy requirements. The Treasury HSPD-12 enterprise solution, PIV II, focuses on government-wide uniformity and the issuance of new identification cards that are interoperable across the federal government. The IRS will continue to work collaboratively with other agencies to manage security costs as it addresses increased security requirements at government facilities nationwide.

Research enables the IRS to develop strategies to combat specific areas of noncompliance, improve voluntary compliance, allocate resources more effectively, and reduce the tax gap.

The National Research Program (NRP) demonstrates the importance of comprehensive compliance data. As part of the NRP, the IRS reviewed approximately 46,000 randomly sampled individual income tax returns from tax year 2001 – the first comprehensive compliance study for individual income tax returns since 1988. Returns for which reported information could not be independently verified were audited. An NRP reporting compliance study of 5,000 S corporation tax returns filed in 2003 and 2004 is currently underway. Data from the NRP reporting compliance study have been used to estimate the individual income tax component of the tax gap and to identify sources of noncompliance. Accurate NRP data provide a critical benchmark for determining the sources of noncompliance and for measuring changes in compliance rates over time. The IRS is also using the findings from the NRP to target examinations and other compliance activities better, thus increasing the dollar-per-case yield and reducing "no change" audits of compliant taxpayers. Innovations in audit techniques to reduce taxpayer burden, pioneered during the 2001 NRP, have been adopted in regular operational audits. In addition, Statistics of Income (SOI) gathered, analyzed, and published information, which was used internally as well as by a variety of federal agencies and other interested parties.

This information is used to analyze tax policy, project tax revenues, and to estimate the impact of tax law changes on tax collections.

In FY 2007 and FY 2008, the IRS will implement new research projects in the following areas: update and initiate new NRP reporting compliance studies, examine the linkages between taxpayer service and compliance, and develop new tools to uncover patterns of noncompliance.

OS Budget Activity: *Information Services*

3A – Description

Information Services *($1,638,141,000 in direct appropriation, $5,741,000 from reimbursable programs, and $62,000,000 from user fees)*

This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of tax administration programs. The IRS' business programs rely on these systems to process tax and information returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunications services for all business activities including the public's toll-free access to tax information. These systems are located in a variety of sites, including the Martinsburg, Tennessee, and Detroit Computing Centers, Service Centers, and in other field office operations. Staffing funded by this activity develop and maintain the millions of lines of programming code supporting all aspects of tax-processing, as well as operate and administer the hardware infrastructure of mainframes, minicomputers, personal computers, networks, and a variety of management information systems. This includes the following program activities:

- Tier B provides support to single owner, small to medium-sized investment projects using core data to support specialized functions;
- Information Technology Services (ITS) Management provides support to the immediate office of the Associate CIO, ITS, and provides executive direction for the ITS organization and its divisions: Infrastructure, Architecture & Engineering; Business Systems Development; Enterprise Operations; Enterprise Networks; End User Equipment & Services; Web Services; and Electronic Tax Administration. This program also includes and funds the MITS Competitive Sourcing Office;
- MITS Executive Oversight provides support to the immediate office of the Chief Information Officer, as well as the direct reports for EEO and Diversity, and the Director, Stakeholder Management (including Communications Services and Program Oversight). The program provides executive direction for the MITS organization, enabling MITS to be a customer-focused supplier of information technology solutions that are responsive to customer business priorities and effectively meet functional and operational needs;

- Business Systems Development performs the analysis, design, development, testing, and implementation of approximately 85,000 application programs supporting critical tax processing, management information reporting, and financial and management support systems for the IRS. This program activity also supports external trading partner data exchanges with federal government agencies, state and local governments, and other third party entities. The program controls application source code and deploys applications to the production environment;
- Enterprise Operations designs, develops, and maintains information technology that supports critical tax processing, management information reporting, and financial and management support systems for the IRS. The program supports data exchanges with external organizations, such as other federal government agencies, state and local governments, and external entities (e.g., employers, banks, etc.) and includes a comprehensive disaster recovery capability to ensure continued operations in the agency in the event of a major interruption of service;
- Enterprise Network provides telecommunications service delivery to all customer segments, including management of day-to-day operations and executing routine modifications to the telecommunications infrastructure and applications. It addresses all phases of engineering, acquisition, implementation and operation of telecommunications systems and services, including voice, video and data communications;
- Enterprise Services plans and manages service and delivery methods used across the MITS organization, including demand analysis, enterprise architecture, configuration management, project reporting, enterprise life cycle management, release management, systems engineering, dashboard reporting and internal management;
- Web Services implements applications and technologies for IRS employees;
- End User Equipment and Services maintains the IRS' automated business processes at headquarters and field sites, including technical systems support and applications software support to end users, maintaining legacy operations, local and corporate systems administration activities, email and domain user account maintenance, network and systems monitoring administration, asset management activities, and support and maintenance of the voice and data infrastructure at the Territory Offices;
- Infrastructure Architecture & Engineering provides the systems architecture, sequencing plans, release management, and high-level engineered designs supporting information systems applications, software development tools, and infrastructure products necessary to build and evolve enterprise-wide business solutions;
- MITS Management provides the management and oversight of investments in information technology, human capital investment, and other MITS operational priorities;
- Information Technology Operational Security oversees FISMA reporting, including preparing for, conducting, and reporting Certification and Accreditation of systems using FIPS 199 and NIST 800-37; and self-assessments and annual testing of controls based on NIST 800-53;

- Information Technology Operational Security oversees FISMA reporting, including preparing for, conducting, and reporting NIST 800-26 self-assessments and annual testing of controls;
- Information Technology Security Training provides training for FISMA reporting purposes; and
- Information Technology Homeland Security Presidential Directive-12 oversees the use of Personal Identify Verification (PIV) technology for physical access to federally-controlled facilities and logical access to information systems for all federal employees and contractors who require long-term access.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.8

Dollars in Thousands

Information Services				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$1,485,802	$1,420,600	$1,482,236	$1,638,141
Offsetting Collections - Reimbursable	4,098	7,481	5,618	5,741
Mandatory Appropriations - User Fees	113,000	19,000	54,000	62,000
Total Operating Level	$1,489,900	$1,428,081	$1,487,854	$1,643,882
Human Resources				
Appropriated FTE	6,901	6,421	6,249	6,264
Other FTE	4	30	20	20
Total FTE (direct and reimbursable)	6,905	6,451	6,269	6,284

				Includes Strategic Objective F4A	
Measure		FY 2005	FY 2006	FY 2007	FY 2008
There are no externally reported performance measures associated with this activity.	Target Actual Met				

Description of Performance

In FY 2007 and FY 2008, the IRS will continue to provide new technology solutions and improve work processes. In addition, the IRS will enhance efficiencies in tax administration operations by delivering modernized information systems to front-line IRS programs.

Information technology solutions are the most effective and efficient means of increasing the number of IRS contacts with taxpayers by increasing the volume of transactions, and offers a greater variety of faster alternatives to file and pay their tax obligations. Information technology solutions also enhance the IRS' ability to identify non-compliance and to combat tax avoidance schemes that contribute to the tax gap.

The IRS' FY 2008 Budget provides base funding to develop and continue projects selected for the FY 2007 and 2008 investment portfolio. The FY 2008 selected projects fall into five major categories as described below:

- Decision Analytics (DA) - In FY 2008, the IRS is investing in several strategic IT projects to enhance compliance and customer service through the development of better case selection tools. Technologies being pursued in FY 2008 include predictive model development, data mining and data marts/data warehouse technologies.

- Case Creation: Electronically build issue and assign workload - Many current production environment (CPE) systems rely, in part, on manual (paper) processes to build, assign and track cases. In FY 2008, these investments target near or mid-term enhancements to CPE systems and enable the migration from manual processes to electronic processes. Enabling technologies being pursued in FY 2008 include document imaging and document management and research of third party data sources.

- Case Processing - These IT investments significantly augment and may, over time, replace CPE systems that bring new tools to improve customer service and/or increase casework. Other FY 2008 projects provide automation for discrete manual tasks that are very time consuming by leveraging available electronic data to pre-populate templates and perform preliminary analytics and centralize the availability of critical customer contact information.

- E-Filing/Self-Service - In FY 2008, these investments will expand the taxpayer's ability to electronically interact with the IRS, whether filing or for self-service capabilities. Other projects anticipated in FY 2008 will expand electronic filing services that are central to the IRS' overall e-file strategy.

In addition, in FY 2008, the IRS will continue to develop and test the automated Correspondence Imaging System and improve FISMA compliance. Maintaining the infrastructure, modernizing our information systems and developing better tools will allow the IRS to operate more efficiently with improved productivity.

Business Systems Modernization

Business Systems Modernization (BSM)

Appropriation Description

The Business Systems Modernization (BSM) appropriation provides resources for the planning and capital asset acquisition of information technology to modernize the IRS' business systems. The program combines best practices and expertise in business solutions and internal management from IRS, business, and technology to develop a world-class tax administration system that fulfills the revenue collection requirements of the United States as well as taxpayers' needs and expectations.

The Business Systems Modernization budget request for FY 2008 is $282,090,000 in direct appropriations and 317 FTE. This is an increase of $85,280,000 or 43.3 percent, and no change in FTE, over the FY 2007 Continuing Resolution (CR) rate of $196,810,000 and 317 FTE.

Appropriation Detail Table
Business Systems Modernization

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Business Systems Modernization	317	$242,010	317	$158,702	317	$212,310	317	$196,810	317	$282,090	0.00%	43.33%
Subtotal New Appropriated Resources	317	$242,010	317	$158,702	317	$212,310	317	$196,810	317	$282,090	0.00%	43.33%
Other Resources:												
Recoveries				$4,361								
Offsetting Collections - Reimbursable												
Available multi-year/no-year funds		$115,777		101,433		$97,112		$97,112		$136,790		
Transfers In/Out												
Subtotal Other Resources	0	$115,777	0	$105,794	0	$97,112	0	$97,112	0	$136,790	0.00%	40.86%
Total Resources Available for Obligation	317	$357,787	317	$264,496	317	$309,422	317	$293,922	317	$418,880	0.00%	42.51%

Budget Adjustment Table
Business Systems Modernization

Table 2.1		
FY 2008 Budget Highlights		
Dollars in Thousands		
Appropriation: Business Systems Modernization	FTE	Amount
FY 2007 President's Budget	317	$212,310
CR-rate Adjustment		(15,500)
FY 2007 CR-rate	317	$196,810
Interappropriation Transfer Corrections to Budget Restructure		
FY 2007 Operating Plan at CR-rate	317	$196,810
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$21,886
Base Adjustment		21,886
Maintaining Current Levels (MCLs)		$1,245
Pay Annualization		226
Pay Inflation Adjustment		1,019
Non-Pay Inflation Adjustment		
Subtotal, Changes to Base	0	$23,131
FY 2008 Base	317	$219,941
Program Changes:		
Program Increases:	0	$62,149
Fund Business Systems Modernization		62,149
Subtotal, FY 2008 Program Changes	0	$62,149
Total, FY 2008 President's Budget Request	317	$282,090

Operating Levels Table
Business Systems Modernization

Table 2.2

Dollars in Thousands

Appropriation Title: Business Systems Modernization	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	317	317		317		317	317
Object Classification:							
11.1 Full-Time Permanent Positions..........................	$33,969	$33,968	($12,873)	$21,095		$21,095	$34,896
11.3 Other than Full-Time Permanent Positions........	446	447	0	447		447	470
11.5 Other Personnel Compensation.........................	626	625	0	625		625	658
11.8 Special Personal Services Payments................	0	0	0	0		0	0
11.9 Personnel Compensation (Total)..................	$35,041	$35,040	($12,873)	$22,167	$0	$22,167	$36,024
12.0 Personnel Benefits...	9,772	9,772	(2,627)	7,145		7,145	10,034
13.0 Benefits to Former Personnel............................	0	0	0	0		0	0
21.0 Travel..	187	187	0	187		187	187
22.0 Transportation of Things......................................	0	0	0	0		0	0
23.1 Rental Payments to GSA....................................	0	0	0	0		0	0
23.2 Rent Payments to Others....................................	0	0	0	0		0	0
23.3 Communications, Utilities, & Misc.......................	0	0	0	0		0	0
24.0 Printing and Reproduction..................................	0	0	0	0		0	0
25.1 Advisory & Assistance Services..........................	0	0	0	0		0	0
25.2 Other Services..	147,498	117,799	0	117,799		117,799	172,102
25.3 Purchase of Goods/Serv. from Govt. Accts…….	0	0	0	0		0	0
25.4 Operation & Maintenance of Facilities................	0	0	0	0		0	0
25.5 Research & Development Contracts..................	0	0	0	0		0	0
25.6 Medical Care...	0	0	0	0		0	0
25.7 Operation & Maintenance of Equipment............	5,700	5,700	0	5,700		5,700	7,095
25.8 Subsistence & Support of Persons.....................	0	0	0	0		0	0
26.0 Supplies and Materials..	0	0	0	0		0	0
31.0 Equipment..	43,812	43,812	0	43,812		43,812	56,648
32.0 Lands and Structures..	0	0	0	0		0	0
33.0 Investments & Loans..	0	0	0	0		0	0
41.0 Grants, Subsidies...	0	0	0	0		0	0
42.0 Insurance Claims & Indemn................................	0	0	0	0		0	0
43.0 Interest and Dividends…………………………	0	0	0	0		0	0
44.0 Refunds..	0	0	0	0		0	0
91.0 Unvouchered…………..………………………	0	0	0	0		0	0
Total Budget Authority……………………………….	$242,010	$212,310	($15,500)	$196,810	$0	$196,810	$282,090
Budget Activities:							
IT Investments	$242,010	$212,310	($15,500)	$196,810		$196,810	$282,090
Total Budget Authority……………………………….	$242,010	$212,310	($15,500)	$196,810	$0	$196,810	$282,090

BSM Budget Activity: ***Business Systems Modernization***

3A – Description

Business Systems Modernization *($282,090,000 in direct appropriation)*

This budget activity funds the planning and capital asset acquisition of information technology to modernize the IRS' business systems, including related contractual costs. The program combines best practices and expertise in business solutions and internal management from the IRS, business, and technology to develop a world-class tax administration system that fulfills the revenue collection requirements of the United States as well as taxpayers' needs and expectations. The IRS' BSM program is required to submit for approval an annual expenditure plan that justifies the projects for which resources are requested.

BSM management provides executive direction over the program. The BSM program develops the vision and strategy, manages the release of projects, and provides enterprise architecture support. The program ensures that all the integrated components of both technical and business modernization will provide a total business solution. This program will meet the needs of both taxpayers and internal users by providing business processes, enabled by information technology, that permit timely and accurate delivery of tax account and other tax-related information while ensuring security and privacy. The BSM program is responsible for the acquisition management activities of all the modernization projects and provides the direct interface to the PRIME Integrated Product Teams.

BSM projects are developed and funded on a useable-segment basis—each request for funding for each project covers an identifiable portion of the project's development. As projects are completed and have demonstrated successful operation, they leave the BSM fold and their operational costs are funded from the Operations Support account. BSM funding by project is shown in the chart below.

FY 2008 BSM Project Activities
(Dollars in Thousands)

Project	Activities	FY 2006 Budget	FY 2007 Budget	FY 2008 President's Budget
Customer Account Data Engine	Release content master plan which includes a mid-year release to add new functionality and January release adding tax law changes	60,000	58,500	58,500
Modernized e-File	Complete forms 1041 and 990T and development of form 1040	27,881	20,000	55,802
Accounts Management Services	Provides a Common User Interface for access and update of taxpayer accounts managed by CADE Systems and IMF/CFOL/IDRS	21,518	0	28,983
Filing & Payment Compliance		6,984	3,500	
Common Services	Initiate work on cross-domain prioritization and sharing projects known as Common Services Project for Portal Upgrade	0	0	16,000
	Core Infrastructure	44,610	43,500	39,150
	Architecture, Integration & Management	30,124	39,500	35,100
	Management Reserve	5,893	2,310	2,310
	Total Capital Investments	$197,010	$167,310	$235,845
	BSM Labor	45,000	45,000	46,245
	Total BSM Program Request	$242,010	$212,310	$282,090

NOTE: The IRS will work to allocate BSM staffing costs to the projects for the FY 2009 President's Budget.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.9

Dollars in Thousands				
Business Systems Modernization				Strategic Objective F4A
Resource Level	FY 2005 Enacted[1]	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$203,360	$242,010	$196,810	$282,090
Offsetting Collections - Reimbursable				
Total Operating Level	$203,360	$242,010	$196,810	$282,090
Human Resources				
Appropriated FTE	0	317	317	317
Other FTE				
Total FTE (direct and reimbursable)	0	317	317	317

[1] FY 2005 Enacted excludes Salaries and Expenses.

Measure				Includes Strategic Objective F4A	
BSM Project Cost Variance by Release/Subrelease (E)					
		FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
F&PC R1.2 MS3 (Filing and Account Payment Compliance)	Target	N/A	10%	10%	10%
	Actual		-46%		
	Met		N		
F&PC R1.2 MS4a (Filing and Account Payment Compliance)	Target	N/A	10%	10%	10%
	Actual		0%		
	Met		Y		
MeF R3.2 MS4 (Modernized e-file)	Target	N/A	10%	10%	10%
	Actual		32%		
	Met		N		
MeF R4 MS3 (Modernized e-file)	Target	N/A	10%	10%	10%
	Actual		-53%		
	Met		N		
CADE R 1.3.2 FS06 (Customer Account Data Engine)	Target	N/A	10%	10%	10%
	Actual		0%		
	Met		Y		
CADE R 2.1 MS4 (Customer Account Data Engine)	Target	N/A	10%	10%	10%
	Actual		15%		
	Met		N		

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Table 3.2.9 (Continued)					
Business Systems Modernization Measure					Includes Strategic Objective F4A
BSM Project Schedule Variance by Release/Subrelease (E)					
		FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
F&PC R1.2 MS3 (Filing and Account Payment Compliance)	Target Actual Met	N/A	10% 0% Y	10%	10%
F&PC R1.2 MS4a (Filing and Account Payment Compliance)	Target Actual Met	N/A	10% 6% Y	10%	10%
MeF R3.2 MS4 (Modernized e-file)	Target Actual Met	N/A	10% -2% Y	10%	10%
MeF R4 MS3 (Modernized e-file)	Target Actual Met	N/A	10% 59% N	10%	10%
CADE R 1.3.2 FS06 (Customer Account Data Engine)	Target Actual Met	N/A	10% 0% Y	10%	10%
CADE R 2.1 MS4 (Customer Account Data Engine)	Target Actual Met	N/A	10% 7% Y	10%	10%

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Description of Performance

Core IT systems investments support services to both taxpayers and other government agencies and enforcement by providing the IRS frontline employees with the basic tools necessary to perform their jobs. A modernized and secure infrastructure will enhance the speed, security, and functionality necessary to keep pace with an automated economy. The IRS must keep pace with the growing demand and volume of electronic submission, payment, and refund transactions for tax remittances and offer taxpayers a variety of faster alternatives for satisfying tax obligations. These efforts will continue to place greater demand on the IRS to provide a modernized and secure IT infrastructure.

Furthermore, a successful modernization program is critical to supporting long-term tax administration operations. Successful program delivery by the IRS during the past two years demonstrates that the IRS' BSM program has established a foundation of disciplined program management processes and controls. The IRS executed BSM projects with a degree of sustained success not seen since program inception. This accomplishment is especially noteworthy in that the program achieved this while transitioning from a contractor-led program to an IRS-led program.

The IRS has developed an IT Modernization Vision and Strategy (MV&S) for its IT systems for 2008 that align with and support the IRS Strategic Plan. Through the MV&S process, the IRS developed a plan showing how the IRS can effectively meet IT modernization goals in an incremental approach that provides near-term value. The plan focuses on delivery of four major tax administration systems – Customer Account Data Engine (CADE), Account Management Services (AMS), Modernized e-File (MeF), and Filing & Payment Compliance (F&PC) – addressing the IRS' strategic business priorities. The plan also capitalizes on IT infrastructure initiatives and smaller IT project initiatives to support a unified approach in continued improvement to program operations.

Throughout FY 2006, the IRS modernization efforts continued to focus on its four core tax administration systems designed to provide more sophisticated tools to taxpayers and the IRS employees. The following highlights the IRS' efforts in FY 2006 in advancing these core systems:

- Introduced new CADE capabilities for the 2006 filing season. CADE supports faster refunds to taxpayers, issuing direct deposit refunds between one and seven days faster, and paper refunds four to thirteen days faster than refunds generated by the legacy system. CADE posted over 7.3 million returns – more than a 400 percent increase over the previous year, and issued 7 million taxpayer refunds exceeding $3.4 billion. CADE improved taxpayer service by allowing access to account information up to seven days sooner, increasing the likelihood of single telephone call resolution, faster issue detection, and more timely account settlement. CADE is expected to post between 25 and 30 million returns in 2007.

- Began the development of Account Management Services (AMS), a project that will enable real-time access to taxpayer account information, to support much faster resolution of taxpayer issues by IRS customer service representatives. AMS, in conjunction with CADE, will finally enable the IRS to break the weekly update system paradigm that has existed since the 1960s, enabling the IRS to begin to provide settlement of all account information by end-of-day, similar to what one expects from major private-sector financial institutions. The first release of AMS is due the summer of 2007 to support real-time address change capability in CADE and enable faster notice processing for a number of math-error notices.

- Implemented Release 3.2 of its Modernized e-File (MeF) project, which enabled the filing of both federal and state returns concurrently for corporations (Forms 1120 and 1120-S) and tax-exempt organizations (Form 990). In 2006, the MeF platform supported an e-filing mandate for certain large corporations and tax-exempt entities. Tax returns for large corporations typically include hundreds, or even thousands, of pages. Receiving the data electronically improves the accuracy of the tax return, reduces the volume of paper tax returns submitted to IRS Service Centers, and accelerates the examination process by having all tax return data available electronically. Electronic capture of return information enables the IRS to quickly deliver the data to analysts and agents for compliance risk assessment and action. In 2006, MeF accepted over 550,000 corporate returns. The IRS is expanding the MeF taxpayer base in 2007 to include Partnership Income tax returns (Form 1065), eventually enabling nearly 2.7 million small business and self-employed taxpayers to benefit from electronic filing. The IRS is in the planning stage to migrate the 1040 individual tax return to the Modernized e-File platform. The development and implementation of MeF 1040 capability will be completed by January 2011, with initial planned deployment for January 2009.

- Completed the first release of the F&PC strategy. F&PC functionality analyzes tax collection cases and separates cases that require direct IRS involvement from those that can be handled by Private Collection Agencies (PCAs). The introduction of PCAs is expected to:
  - Assist the IRS by addressing the volume of delinquent taxpayers that exceeds the IRS' capacity to work, approximately 250,000 cases per year; and
  - Help eliminate backlogs in the large number of outstanding tax liabilities, which have grown by 118 percent over the last 12 years, increasing tax revenue and reducing the tax gap.

Tax administration in the 21st century requires improved IRS information technology. For FY 2007 and FY 2008, the IRS is committed to continuing to make improvements in technology, including:

- Replacing antiquated core account management systems and technology;
- Expanding and enhancing compliance activities through early detection, better case selection, and better case management;
- Delivering effective customer service, including expanded e-file systems and web services at reduced cost; and
- Investing in infrastructure necessary to perform operations more efficiently, thus freeing up resources for enforcement and taxpayer service programs.

Health Insurance Tax Credit Administration

Health Insurance Tax Credit Administration (HITCA)

Appropriation Description

The Health Insurance Tax Credit Administration (HITCA) appropriation provides funding for contractor support to develop and administer the advance payment option for the health insurance tax credit included in Public Law 107-210, the Trade Act of 2002.

The IRS administers specific components of this credit: enrollment, payment and compliance. The Department of Labor, state workforce agencies, and the Pension Benefits Guaranty Corporation are responsible for determining potentially eligible Health Care Tax Credit (HCTC) taxpayers.

The HITCA budget request for FY 2008 is $15,235,000 in direct appropriations and 17 FTE. This is an increase of $389,000 or 2.6 percent, and no change in FTE, over the FY 2007 Continuing Resolution (CR) rate of $14,846,000 and 17 FTE.

Appropriation Detail Table
Health Insurance Tax Credit Administration

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Health Insurance Tax Credit Administration	17	$20,008	10	$19,993	17	$14,846	17	$14,846	17	$15,235	0.00%	2.62%
Subtotal New Appropriated Resources	17	$20,008	10	$19,993	17	$14,846	17	$14,846	17	$15,235	0.00%	2.62%
Other Resources:												
Recoveries												
Offsetting Collections - Reimbursable												
Available multi-year/no-year funds												
Transfers In/Out												
Subtotal Other Resources	0	$0	0	$0	0	$0	0	$0	0	$0	0.00%	0.00%
Total Resources Available for Obligation	17	$20,008	10	$19,993	17	$14,846	17	$14,846	17	$15,235	0.00%	2.62%

Budget Adjustment Table
Health Insurance Tax Credit Administration

Table 2.1		
FY 2008 Budget Highlights		
Dollars in Thousands		
Appropriation: Health Insurance Tax Credit Administration	FTE	Amount
FY 2007 President's Budget	17	$14,846
CR-rate Adjustment		
FY 2007 CR-rate	17	$14,846
Interappropriation Transfer Corrections to Budget Restructure		
FY 2007 Operating Plan at CR-rate	17	$14,846
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$0
Base Adjustment		
Maintaining Current Levels (MCLs)		$389
Pay Annualization		15
Pay Inflation Adjustment		82
Non-Pay Inflation Adjustment		292
Subtotal, Changes to Base	0	$389
FY 2008 Base	17	$15,235
Program Changes:		
Subtotal, FY 2008 Program Changes	0	$0
Total, FY 2008 President's Budget Request	17	$15,235

Operating Levels Table
Health Insurance Tax Credit Administration

Table 2.2

Dollars in Thousands

Appropriation Title: Health Insurance Tax Credit Administration	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	17	17		17		17	17
Object Classification:							
11.1 Full-Time Permanent Positions...........................	$2,241	$2,302	$0	$2,302		$2,302	$2,386
11.3 Other than Full-Time Permanent Positions.........	0	0	0	0		0	0
11.5 Other Personnel Compensation.........................	22	23	0	23		23	23
11.8 Special Personal Services Payments................	0	0	0	0		0	0
11.9 Personnel Compensation (Total)..................	$2,263	$2,325	$0	$2,325	$0	$2,325	$2,409
12.0 Personnel Benefits...	348	358	0	358		358	371
13.0 Benefits to Former Personnel............................	0	0	0	0		0	0
21.0 Travel..	142	144	0	144		144	148
22.0 Transportation of Things......................................	0	0	0	0		0	0
23.1 Rental Payments to GSA.....................................	191	193	0	193		193	198
23.2 Rent Payments to Others.....................................	0	0	0	0		0	0
23.3 Communications, Utilities, & Misc.......................	0	0	0	0		0	0
24.0 Printing and Reproduction..................................	0	0	0	0		0	0
25.1 Advisory & Assistance Services..........................	0	0	0	0		0	0
25.2 Other Services..	17,057	11,819	0	11,819		11,819	12,102
25.3 Purchase of Goods/Serv. from Govt. Accts…….	0	0	0	0		0	0
25.4 Operation & Maintenance of Facilities................	0	0	0	0		0	0
25.5 Research & Development Contracts..................	0	0	0	0		0	0
25.6 Medical Care...	0	0	0	0		0	0
25.7 Operation & Maintenance of Equipment............	0	0	0	0		0	0
25.8 Subsistence & Support of Persons.....................	0	0	0	0		0	0
26.0 Supplies and Materials..	7	7	0	7		7	7
31.0 Equipment..	0	0	0	0		0	0
32.0 Lands and Structures..	0	0	0	0		0	0
33.0 Investments & Loans...	0	0	0	0		0	0
41.0 Grants, Subsidies...	0	0	0	0		0	0
42.0 Insurance Claims & Indemn................................	0	0	0	0		0	0
43.0 Interest and Dividends…………………………	0	0	0	0		0	0
44.0 Refunds..	0	0	0	0		0	0
91.0 Unvouchered………..…………………………….	0	0	0	0		0	0
Total Budget Authority…………………………………	$20,008	$14,846	$0	$14,846	$0	$14,846	$15,235
Budget Activities:							
Health Insurance Tax Credit Administration…………..	$20,008	$14,846	$0	$14,846		$14,846	$15,235
Total Budget Authority…………………………………	$20,008	$14,846	$0	$14,846	$0	$14,846	$15,235

HITCA Budget Activity: ***Health Insurance Tax Credit Administration***

3A - Description

Health Insurance Tax Credit Administration *($15,235,000 in direct appropriation)*

The HITCA budget activity funds costs to administer a refundable tax credit for health insurance to qualified individuals.

The Trade Adjustment Assistance Reform Act of 2002 created a tax credit for the purchase of certain types of health insurance coverage for eligible taxpayers. The credit was created to help displaced workers and retirees who have lost their jobs due to trade with countries who participate in the North American Free Trade Agreement. The credit pays for 65 percent of the health insurance premiums for eligible workers. The IRS' responsibility relating to HCTC is to ensure participating eligible taxpayers receive the credit to which they are entitled.

The Act required the IRS to develop and operate a system to provide an advance, refundable tax credit for certain individuals who receive a trade readjustment allowance or benefit from the Pension Benefit Guaranty Corporation. This activity maintains the administrative and direct support for the HITCA Program Office and the staff charged with administering the program for the Service.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.10

Dollars in Thousands

Health Insurance Tax Credit Administration				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$34,562	$20,008	$14,846	$15,235
Offsetting Collections - Reimbursable				
Total Operating Level	$34,562	$20,008	$14,846	$15,235
Human Resources				
Appropriated FTE	17	17	17	17
Other FTE				
Total FTE (direct and reimbursable)	17	17	17	17

				Includes Strategic Objective F4A	
Measure		FY 2005	FY 2006	FY 2007	FY 2008
Cost per Taxpayer Served	Target	N/A	Baseline	$14.25	$13.97
	Actual	N/A	$12.95		
	Met	N/A			
Sign-up Time	Target	Baseline	99	97	97
	Actual	106	99		
	Met		Y		

Description of Performance

The IRS administers specific components of this credit: enrollment, payment and compliance. The Department of Labor, state workforce agencies, and the Pension Benefits Guaranty Corporation are responsible for determining potentially eligible HCTC taxpayers.

In FY 2005, the IRS implemented a new HCTC service delivery model that saved approximately $20 million. In FY 2006, the IRS continues to implement new business processes to identify, prevent, and recover erroneous payments.

For FY 2007 and continuing in FY 2008, the IRS will maintain a balanced approach to administering the credit -- encouraging eligible taxpayers to comply and seeking to improve compliance through research that will guide future HCTC operation changes.

Supporting Material

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The IRS' approximate 104,000 employees represent approximately 81 percent of the Department of the Treasury's total employee population. The IRS workforce is diverse in multiple dimensions, including job series, demographic mix, and geographic distribution. The IRS has a large seasonal workforce that accounts for as much as 23 percent of the IRS' employee population during peak workload seasons. Between 76 and 77 percent of the IRS annual budget is dedicated to financing the IRS' "human capital." To ensure that strategic management of its human capital resources is aligned with the IRS mission, the four human capital strategic goals were established to help focus the use of these resources:

Goal 1: Continually Assess and Shape the Workforce to Efficiently Accomplish the Service's Mission
Goal 2: Increase Employee Proficiency and Engagement to Enhance Tax Law Compliance
Goal 3: Leverage Human Capital Technology to Reduce Burden
Goal 4: Enable Quick and Agile Management Action to Achieve Business Goals.

In FY 2006, the IRS published its first Human Capital Strategic Plan (HCSP) for FY 2005 - 2009 and the Human Capital Strategic Implementation Plan (HCSIP) for FY 2006-2007. These Plans focus on these strategic goals and address IRS workforce challenges.

In terms of critical workforce challenges, the IRS and continues to make headway in the area of leadership succession. Over 60 percent of IRS' current executive cadre will be eligible to retire within the next five years – half are eligible to retire by the end of 2009. The anticipated loss poses obvious concerns about IRS leadership continuity and clearly supports the need for aggressive leadership succession planning.

Leadership Retirement Eligibility through FY 2011

		Optional Retirement Eligibility						
	On-Boards	2006 +Prior	2007	2008	2009	2010	2011	TOTAL
Management Type								
Department Managers	374	35	31	21	17	17	24	145
Executives	280	83	14	23	18	19	9	166
Front-line Managers	6371	1028	310	368	351	324	285	2666
Senior Managers	1534	342	119	137	109	98	93	898
TOTAL	**8559**	**1488**	**474**	**549**	**495**	**458**	**411**	**3875**

Based on National Finance Center data. Run date 11/28/06

To address this challenge, the IRS has established an overarching Leadership Succession Program that focuses on the recruitment, development and retention of an enterprise-wide talent pool of highly skilled leaders across the organization to effectively and efficiently support tax administration.

In addition to leadership attrition, the IRS continues to focus on the attrition rates of its overall workforce. The following table is based on data from the TreasNet database and shows the number and percent of the current permanent employee population that will be eligible to retire through 2009.

Number Eligible 2007	Percent Eligible 2007	Number Eligible 2008	Percent Eligible 2008	Number Eligible 2009	Percent Eligible 2009
22,490	22.59%	26,747	26.87%	31,250	31.39%

Based on minimum eligibility for Optional Retirement.

To mitigate the anticipated loss of talent and ensure continued workforce competency, the IRS is using the following strategies to maintain the optimum skill/competency level of its workforce:

1. Selecting Mission Critical Occupation (MCO) new hires with increased education/experience;
2. Established a FY 2007 IRS-wide Retention Plan to retain employees who possess mission critical skills and competencies;
3. Expanded use of competency assessment tools to include additional MCO and target technical knowledge;
4. Developed and implemented the Leadership Succession Plan redesign to complete succession management strategies and increase workforce management readiness; and
5. Provided quality continued professional education, e-learning and other training to sustain and/or increase the proficiency of the current workforce.

Human Resources Table

Table 4.1				
Changes in Full Time Equivalents Direct and Reimbursable				
		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		94,282	92,846	93,718
Increases:				
Reason #1:	Adjusted to enacted level[1]	3,158	3,683	
Reason #2:	Program Reinvestment	805	11	
Reason #3:	Program Increase	1,672		1,584
Reason #4:	Transfer of ICDE from Justice	329		
Reason #5:	Increase in reimbursable work	112		14
Reason #6:				
Subtotal, Increases		6,076	3,694	1,598
Decreases:				
Reason #1:	Base Adjustment	(2230)	(937)	
Reason #2:	Rescission	(605)		
Reason #3:	Operating Plan FTE Adjustment	(1018)		
Reason #4:	Program Cost Savings & Efficiencies		(1424)	(1184)
Reason #5:	Adjusted to operating level/under	(3659)		
Reason #6:	CR-rate Adjustment			(1318)
Reason #7:	Decrease in reimbursable work		(461)	
Subtotal, Decreases		(7512)	(2822)	(2502)
Year-end Actual/Estimated FTEs		92,846	93,718	92,814
Net Change from prior year SOY to budget year EOY				

[1] FY 2005 enacted level was 97,440 and FY 2006 enacted level was 96,529.

4B – Information Technology Strategy

In the spring of 2006, the IRS unveiled a comprehensive vision for IRS future operations beyond 2006. The Modernization Vision & Strategy (MV&S) establishes a plan that drives investment decisions, addressing the priorities for modernizing front-line tax administration and establish technical capabilities provided by the infrastructure and security. The MV&S reflects the priorities of the organization across all IRS business units and is coordinated with Treasury's overall Enterprise Architecture. It serves as a guide for where investments should be focused. This strategy allows IRS to develop defined, strategically prioritized, costs and a ranked list of proposed IRS modernization projects (investments) for a given year. Whenever possible, the MV&S approach leverages existing systems and, as necessary, the program will include new development to optimize capacity, manage program costs, and deliver functionality in smaller and more frequent releases. The IRS expects this approach to deliver business value sooner and at lower risk.

The IRS has 31 investments that are defined as major because they meet one or more of the criteria set by OMB in Circular A-11 for a major investment: (1) requires special management attention because of the investment's importance to the mission or function of the IRS; (2) is for financial management purposes and obligates more than $500,000 annually; (3) has significant program or policy implications; (4) has high executive visibility; (5) has high development, operating, or maintenance costs; or (5) is defined as a "major" by the Treasury or IRS' capital planning and investment control process. An Exhibit 300 has been submitted as part of the FY 2008 Congressional Budget Submission for each of these 31 investments.

The IRS Business Systems Modernization (BSM) program has delivered significant benefits, and particularly in recent years, the program has demonstrated a consistent record of success – replacing major segments of antiquated systems with modernized capabilities.

Following two consecutive successful years in FY 2004 and FY 2005, the IRS modernization effort in FY 2006 continued to sustain a track record of successful implementation of modernized capabilities and remains positioned to continue this success in FY 2007. A key success factor has been focusing more directly on managing contractor performance and leveraging IRS resources. This approach is integrated into the Modernization Vision and Strategy (MV&S) efforts, in which a key feature is to leverage the existing production environment. This enables greater cost effectiveness and speeds delivery of IRS modernization.

BSM Major Information Technology (IT) activities address internal and external priorities through a balanced investment portfolio fully aligned with core IRS strategic priorities:

- Taxpayer Service + Enforcement = Compliance
- Modernization of IRS technology

The BSM Program has successfully implemented all projects delivered in the second half of FY 2005 and the first half of FY 2006 – attaining nearly all cost and schedule milestones as planned while delivering desired business benefits and functionality.

During the summer of FY 2005, the IRS coordinated the development of a revised performance methodology with Treasury Inspector General for Tax Administration (TIGTA) and General Accountability Office (GAO). For the first time, the BSM Expenditure Plan introduces a performance measurement methodology based on greater control, visibility, and consistent treatment of baseline and variance calculations.

In FY 2006, BSM continued to stabilize and institutionalize program management improvements. BSM continues to deliver projects with attention to cost and schedule targets and to providing benefits to taxpayers. On a program-wide basis, for four projects in progress (i.e., results represent current performance for projects exiting milestone 3 for F&PC, MeF and CADE), all four have met both cost and schedule targets.

As BSM program management capabilities have continued to mature, the ability to more consistently establish and manage reasonable cost and schedule baselines has similarly improved. BSM has expanded its financial and schedule management capabilities to include finer levels of granularity and controls than previously available in past Expenditure Plans.

Some specific examples of success over the past few fiscal years include the following:

Customer Account Data Engine:

- Supports faster refunds to taxpayers than is possible with legacy systems. CADE allows direct deposit refunds to be issued between one and seven days faster and paper refunds to be issued four to 13 days faster than refunds generated by the legacy system.
- During the 2006 Filing Season, CADE posted more than 7.3 million returns – a nearly fourfold increase over the previous year and issued more than $3.4 billion in refunds to nearly 7 million taxpayers;
- Improves taxpayer service by allowing IRS customer service representatives access to current information up to seven days sooner, increasing the likelihood of single telephone call resolution; and
- Faster issue detection and more timely account settlement.

e-Service:

- Taxpayer and third party transcript request processing cycle time is reduced from 15+ days to minutes;
- To date e-Services has processed more than 1,276,000 requests for transcripts via the Registered User Portal and more than 7.4 million via the Employee User Portal since launch to employees and Telephone Routing Interactive System on May 16, 2005;
- Disclosure Authorization cycle is reduced from 26 days to same day;
- Electronic Account Resolution cycle time reduced by up to two weeks, eliminating delay between initial contact and issue resolution; and
- Prior to e-Services, 70 million, five percent, of the 1.4 billion Form 1099 documents could not be attached to specific taxpayer accounts due to Taxpayer Identification Number (TIN) matching errors. The IRS estimated that unreported income due to non-filing or invalid TINs accounts for $42 billion in income that cannot be taxed, which equates to roughly $93 million per year in tax underpayment. e-Services reduces this error rate to less than one percent (approximately $10 million), enabling recovery of much of this underpayment.

Filing and Payment Compliance:

- Provides a government/industry partnership enabling private collection agencies to assist the IRS by addressing the volume of delinquent taxpayers that exceeds the IRS' capacity to work. Between now and 2017, this partnership will result in approximately 2.6 million delinquent cases receiving treatment that would otherwise have gone unworked;
- Reduces backlogs in outstanding tax liabilities, which have grown by 118% over the last 12 years;
- Improves overall economic outcomes by reducing the large number of unresolved cases (by approximately 250,000 cases/year), which undermine the fairness of the tax system. Reduction of unresolved cases also improves the prevailing attitudes of compliant taxpayers toward their tax obligation, reducing adverse effects associated with the current volume of unresolved cases; and
- Improves financial performance by generating an estimated gross revenue of $2.8 billion through 2017 and reducing taxpayer burden.

Modernized e-File:

- Major productivity and service efficiency gains helping taxpayer service and enforcement:
  - Taxpayer Service – IRS employees have all original documents available online and in real time. This capability eliminates back-end re-keying, data entry and enables responsive taxpayer support. Prior to MeF, only a limited subset of these documents was available – requiring retrieval of source documents – a time consuming process, which could take several weeks;
  - Enforcement – Online abilities and 100 percent data access improves the ability of revenue agents to perform compliance and enforcement activities in a timely and accurate manner. Corporate returns can now be reviewed in a matter of days or weeks as opposed to previous 18 month-long cycle times.

- More than $34 million in savings to taxpayers in reduced tax preparation fees, postage, and storage;
- Fully compatible with industry standard architectures, consistent with long term technology trends, and aligned with IRS third party partners who are also standardizing on Extensible Markup Language (XML)-based technologies. This capability reduces industry burden, greatly simplifies exchanging data in a secure fashion, and reduces the costs incurred by taxpayers and IRS business partners to do business with the IRS; and
- Error rate is reduced to four percent, which compares favorably to the error rate of 18 percent for returns processed in paper-based systems; and MeF processed Form 7004 (filing extension for corporations), Form 1120 as well as Form 990PF (information return for private foundations) at higher than expected volumes – twice the anticipated number of return receipts over projections, while still achieving performance goals – a significant reduction in burden and time for corporate and tax-exempt taxpayer.

Summary of IT Resources Table

IT Investments Portfolio

Information Technology Investments (from Exhibit 53) (in $ Millions)		FY 2005		FY 2006		FY 2007		FY 2008	
Major IT Investments [1]	**Program Alignment**	**Operating Plan**	**Obligations**	**Operating Plan**	% Change from FY 05 Obligations to FY 06	**President's Budget**	% Change from FY 06 to FY 07	**President's Budget**	% Change from FY 07 to FY 08
Account Management Services Program (AMS) - Major	Modernization	0.0	0.0	8.5	8.5%	21.0	147.1%	33.6	60.0%
Appeals Automation Environment (AAE)	Exam/Collections	12.4	9.4	13.1	39.4%	14.8	13.0%	15.3	3.4%
Automated Collection System (ACS) - Major	Tax Collection	0.0	0.0	0.0	0.0%	4.8	0.0%	5.0	4.0%
Business Masterfile (BMF)	Submission Processing	11.9	11.7	14.2	21.4%	12.3	-13.4%	12.7	3.3%
CEAS - Major	**Taxpayer Service**	**0.0**	**0.0**	**0.0**	**0.0%**	**7.5**	**0.0%**	**7.6**	**1.3%**
CEAS - Major	Taxpayer Service	0.0	0.0	0.0	0.0%	5.4	0.0%	5.4	0.0%
CEAS - Major	Taxpayer Service	0.0	0.0	0.0	0.0%	2.1	0.0%	2.2	4.8%
Correspondence Imaging System (CIS) - Release 2 - Major	Tax Collection	0.0	0.0	0.0	0.0%	10.3	0.0%	10.6	2.9%
Counsel Automated Systems Environment (CASE)	Exam/Collections	26.3	25.8	27.0	4.7%	28.5	5.6%	29.2	2.5%
Criminal Investigation Management Information System (CIMIS) - Major	**Criminal Investigations**	**0.0**	**0.0**	**0.0**	**0.0%**	**2.6**	**0.0%**	**2.6**	**0.0%**
Criminal Investigation Management (CIMIS)	Criminal Investigations	0.0	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Criminal Investigation Management (CIMIS)	Criminal Investigations	0.0	0.0	0.0	0.0%	2.6	0.0%	2.6	0.0%
Customer Account Data Engine (CADE)	**Submission Processing/Tax Collection**	**98.9**	**98.9**	**118.6**	**19.9%**	**120.4**	**1.6%**	**72.4**	**-39.9%**
Customer Account Data Engine (CADE)	Same as above	92.6	92.6	104.7	13.0%	110.9	6.0%	62.6	-43.6%
Customer Account Data Engine (CADE)	Same as above	5.2	5.2	2.3	-55.8%	2.2	-4.3%	2.3	4.5%
Customer Account Data Engine (CADE)	Same as above	1.1	1.1	11.6	954.5%	7.3	-37.1%	7.5	2.7%
Electronic Federal Tax Payment System (EFTPS) - Major	**Tax Collection**	**0.0**	**0.0**	**0.0**	**0.0%**	**69.9**	**0.0%**	**69.9**	**0.0%**
Electronic Federal Tax Payment System (EFTPS)	Tax Collection	0.0	0.0	0.0	0.0%	2.1	0.0%	2.2	4.8%
Electronic Federal Tax Payment System (EFTPS)	Tax Collection	0.0	0.0	0.0	0.0%	67.8	0.0%	67.7	-0.1%
Electronic Fraud Detection System (EFDS)	**Tax Collection**	**11.9**	**11.9**	**11.1**	**-7.0%**	**11.3**	**2.1%**	**11.6**	**2.5%**
Electronic Fraud Detection System (EFDS)	Tax Collection	8.0	8.0	7.5	-5.9%	7.8	3.6%	8.0	2.6%
Electronic Fraud Detection System (EFDS)	Earned Income Tax Credit	3.9	3.9	3.5	-9.4%	3.5	-1.0%	3.6	2.4%
Electronic Management System (EMS)	IRS Submission Processing	10.6	10.8	9.8	-9.3%	8.9	-9.2%	9.1	2.2%
Enterprise Data Warehouse (EDW)	Exam/Collections	7.6	7.6	7.0	-8.6%	7.0	0.0%	7.3	5.0%
e-Services	**Examinations**	**41.8**	**41.8**	**14.2**	**-66.0%**	**14.1**	**-0.7%**	**14.4**	**2.1%**
e-Services	Examinations	36.9	36.9	0.0	-100.0%	0.0	0.0%	0.0	0.0%
e-Services	Examinations	4.9	4.9	14.2	189.8%	14.1	-0.7%	14.4	2.1%
Examination Desktop Support System (EDSS) - Release 2 - Major	Examinations	3.6	3.6	7.0	94.4%	4.8	-31.4%	5.0	3.1%
Excise Files Information Retrieval System (ExFIRS) - Major	Exam/Collections	0.0	0.0	0.0	0.0%	6.5	0.0%	6.6	1.5%
Excise Tax e-File & Compliance (ETEC) Major	Submission Processing	0.0	0.0	0.0	0.0%	13.6	0.0%	2.3	-83.1%
Filing and Payment Compliance (F&PC) (Blended)	**Exam/Collections**	**0.2**	**0.2**	**32.5**	**16150.0%**	**19.3**	**-40.6%**	**1.5**	**-92.2%**
Filing and Payment Compliance (F&PC) (Blended)	Exam/Collections	0.0	0.0	28.1	0.0%	19.3	-31.3%	0.0	-100.0%
Filing and Payment Compliance (F&PC) (Blended)	Exam/Collections	0.2	0.2	0.2	0.0%	0.0	-100.0%	0.0	0.0%
Filing and Payment Compliance (F&PC) (Blended)	Exam/Collections	0.0	0.0	4.2	0.0%	0.0	-100.0%	1.5	0.0%
Financial Management Information System (FMIS)	Tax Collection	4.5	4.5	2.5	-44.4%	5.9	136.0%	6.0	1.7%
Individual Master File (IMF)	Submission Processing	11.9	10.1	12.7	25.7%	12.6	-0.8%	13.0	3.2%
Information Returns Processing (IRP)	Submission Processing	6.9	7.3	7.4	1.4%	7.6	2.7%	7.9	3.9%
Integrated Collection System (ICS)	Tax Collection	7.7	9.3	8.9	-4.3%	8.9	0.0%	9.2	3.4%
Integrated Customer Communications Environment (ICCE)	Taxpayer Service	14.2	14.2	17.2	21.1%	17.0	-1.3%	17.9	5.4%
Integrated Data Retrieval Systems (IDRS)	Tax Collection	16.7	16.7	17.9	7.2%	17.6	-1.7%	18.3	4.0%
Integrated Financial System/CORE Financial System (IFS)	**Treasury-Financial**	**12.8**	**12.8**	**22.0**	**71.9%**	**16.6**	**-24.5%**	**17.0**	**2.4%**
Integrated Financial System/CORE Financial System (IFS)	Treasury-Financial	9.4	9.4	18.4	95.7%	12.9	-29.9%	14.8	14.7%
Integrated Financial System/CORE Financial System (IFS)	Treasury-Financial	0.0	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Integrated Financial System/CORE Financial System (IFS)	Treasury-Financial	3.4	3.4	3.6	5.9%	3.7	2.8%	2.2	-40.5%
Integrated Submission and Remittance Processing System (ISRP)	Submission Processing	12.4	13.7	18.0	31.3%	16.6	-7.7%	17.0	2.2%
Interim Revenue Accounting Control System (IRACS)	Treasury-Financial	1.8	1.8	0.7	-61.1%	0.8	14.3%	0.8	0.0%
Modernized e-File (MeF)	**Submission Processing**	**69.2**	**69.2**	**69.9**	**1.0%**	**61.5**	**-12.0%**	**79.6**	**29.4%**
Modernized e-File (MeF)	Submission Processing	61.0	61.0	57.4	**-5.8%**	48.2	**-16.0%**	61.4	**27.4%**
Modernized e-File (MeF)	Submission Processing	6.4	6.4	11.7	**81.5%**	12.0	**2.7%**	12.3	**2.6%**
Modernized e-File (MeF)	Submission Processing	0.0	0.0	0.0	**0.0%**	0.5	**0.0%**	5.2	**940.0%**
Modernized e-File (MeF)	Submission Processing	1.8	1.8	0.8	**-54.7%**	0.8	**-3.5%**	0.7	**-12.5%**
Service Center Recognition/Image Processing System (SCRIPS)	Submission Processing	17.4	17.4	16.0	-8.1%	17.0	6.0%	17.4	2.5%
Tax Return Database (TRDB)	Submission Processing	4.6	4.6	6.9	50.0%	4.8	-30.4%	5.0	4.0%
Travel Reimbursement and Accounting System (TRAS)	Treasury-Financial	1.8	1.8	1.5	-16.7%	1.4	-6.7%	1.5	7.1%
IRS EA Investment		0.0	0.0	4.2	0.0%	4.4	4.8%	4.7	5.8%
Total		**407.1**	**405.1**	**468.6**	**15.7%**	**570.2**	**21.7%**	**531.8**	**-6.7%**

Summary of IT Resources Table

IT Investments Portfolio

Information Technology Investments (from Exhibit 53) (in $ Millions)		FY 2005		FY 2006		FY 2007		FY 2008	
Major IT Investments [1]	**Program Alignment**	**Operating Plan**	**Obligations**	**Operating Plan**	% Change from FY 05 Obligations to FY 06	**President's Budget**	% Change from FY 06 to FY 07	**President's Budget**	% Change from FY 07 to FY 08
Infrastructure Investments									
IRS Consolidated Infrastructure (Infrastructure)		**312.4**	**312.4**	**238.4**	**-23.7%**	**323.0**	**35.5%**	**380.3**	**17.7%**
IRS Consolidated Infrastructure (Infrastructure)		312.4	312.4	238.4	-23.7%	323.0	35.5%	346.5	7.3%
IRS Consolidated Infrastructure (Infrastructure) - BSM Portion		0.0	0.0	0.0	0.0%	0.0	0.0%	33.8	0.0%
IRS Consolidated Infrastructure (Common Services)		**0.0**	**0.0**	**8.8**	**0.0%**	**0.0**	**-100.0%**	**16.0**	**0.0%**
IRS Consolidated Infrastructure (ICommon Services)-Web Portal		0.0	0.0	8.8	0.0%	0.0	-100.0%	16.0	0.0%
IRS Consolidated Infrastructure (Office Automation)		**326.2**	**326.3**	**349.2**	**7.0%**	**259.9**	**-25.6%**	**300.3**	**15.5%**
IRS Consolidated Infrastructure (Office Automation)		326.2	326.3	349.2	7.0%	259.9	-25.6%	300.3	15.5%
IRS Consolidated Infrastructure (Office Automation) - BSM Portion		0.0	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
IRS Consolidated Infrastructure (Security)		**57.0**	**57.0**	**51.1**	**-10.4%**	**51.1**	**0.0%**	**77.3**	**51.3%**
IRS Consolidated Infrastructure (Security)		57.0	57.0	51.1	-10.4%	51.1	0.0%	72.9	42.7%
IRS Consolidated Infrastructure (Security) - BSM Portion		0.0	0.0	0.0	0.0%	0.0	0.0%	4.4	0.0%
IRS Consolidated Infrastructure (Telecommunications)		**288.5**	**288.5**	**245.5**	**-14.9%**	**213.3**	**-13.1%**	**258.4**	**21.1%**
IRS Consolidated Infrastructure (Telecommunications)		288.5	288.5	245.5	-14.9%	213.3	-13.1%	256.4	20.2%
IRS Consolidated Infrastructure (Telecom) - BSM Portion		0.0	0.0	0.0	0.0%	0.0	0.0%	1.0	0.0%
IRS Consolidated Infrastructure (Telecom) - EITC		0.0	0.0	0.0	0.0%	0.0	0.0%	1.0	0.0%
Total		**984.1**	**984.2**	**893.0**	**-9.3%**	**847.3**	**-5.1%**	**1032.3**	**21.8%**
Total Major Investments		**1391.2**	**1389.3**	**1361.6**	**-2.0%**	**1417.5**	**4.1%**	**1564.1**	**10.3%**
Non-Major IT Investments									
Program and Management Support Programs		170.5	167.5	185.5	10.7%	214.9	15.8%	236.2	9.9%
Information Technology Non-Major Systems/Programs		185.1	190.9	196.7	3.0%	98.1	-50.1%	101.6	3.6%
Improvement Project Systems (FY 07 and 08 based on MV&S)		49.3	49.3	56.7	15.0%	45.4	-19.9%	46.6	2.6%
Tier B Infrastructure		0.0	0.0	2.6	0.0%	7.3	182.6%	7.4	1.4%
Security Audit and Analysis System		0.0	0.0	6.6	0.0%	10.8	63.6%	11.0	1.4%
BSM Architecture & Integration		0.0	0.0	0.0	0.0%	27.6	0.0%	62.7	127.2%
BSM Management Reserve		5.8	5.8	13.0	124.1%	2.3	-82.3%	2.3	0.0%
Total		**410.7**	**413.5**	**461.1**	**11.5%**	**406.4**	**-11.9%**	**467.8**	**15.1%**
Total IT Investments		**1,801.9**	**1,802.8**	**1,822.7**	**1.1%**	**1,823.9**	**0.1%**	**2,031.9**	**11.4%**

[1] **Major IT projects include funding for the IRS' staffing associated with direct management of Business Systems Modernization projects.**

Program Assessment Rating Tool (PART) Evaluation Table

The IRS continues to provide full support and attention to the PART process and recommendations. The following are examples of how the IRS uses the PART process to make improvements:

- The Taxpayer Advocate Service (TAS) established teams charged with creating an application that will capture time spent on cases while in the system (Phase I) as well as the development of a front end application to allow capture of time spent on a case outside of the system (Phase II). The System Acceptability Testing (SAT) of Phase I was completed in mid-June and has been followed by a separate stress test to ensure the timekeeping component does not negatively impact Taxpayer Advocate Management Information System (TAMIS) response times. The Request for Information Services (RIS) has been submitted and TAS expects to have Phase 2 implemented before the close of 2007.

- The PART program improvements for the Earned Income Tax Program (EITC) program provide for the increased monitoring of the EITC examination and closure programs. These improvements support the President's Management Agenda (PMA) initiative for "Eliminating Improper Payments" and also provide a potential means to narrow the tax gap. In FY 2006, the IRS launched the second phase of its EITC return preparer strategy with emphasis on tracking and research. The IRS plans to further expand the program to include client audits of preparers penalized in FY 2005 for Reverse Preparer Action Case treatment.

- In May 2006, the IRS implemented its new Criminal Investigation (CI) information management system in compliance with a PART recommendation from FY 2005. This information management system will enhance program effectiveness by providing more timely information on investigative trends and issues that will increase casework accuracy.

Table 4.3	
PART Evaluation	
PART Name:	Tax Collection
Year PARTed:	FY 2002
Rating:	Results Not Demonstrated

This program collects tax debts from citizens and businesses. Agents contact taxpayers through notices, phone calls and personal visits to secure payments. If necessary, collection agents can use liens, levies or seizures, or refer delinquent taxpayers for criminal prosecution.

OMB Major Findings/Recommendations

1. IRS collection of unpaid taxes yields substantial revenue ($18 billion in 2001). However, IRS does not work enough collection cases with its current resources, work processes and technology to ensure fair tax enforcement. Each year billions of dollars of unpaid taxes goes uncollected.

2. IRS has been working to make management improvements in the last several years, including implementing good output measures. However, its financial management systems do not provide the information needed to make effective day to day management decisions.

3. IRS has a strong planning process closely linked to its budget process. IRS is currently developing improved collection outcome measures and goals.

Bureau Actions Planned or Underway

1. Implementing new tools in 2007 to segment collection workload according to risk to ensure IRS takes the right action to secure delinquent taxes.

2. Implementing legislation - including strong taxpayer rights protections - allowing IRS to hire private collection agents to help secure delinquent tax debt (full implementation by January 2008).

3. Reviewing the effectiveness of the revised collection performance measures of workload coverage and efficiency. Information from these measures will be used in the development of the 2008 budget.

Table 4.3

PART Evaluation

PART Name:	Earned Income Tax Credit
Year PARTed:	FY 2002
Rating:	Ineffective

This program administers the earned income tax credit (EITC) which rewards work and lifts families out of poverty. The program seeks to maximize participation of eligible taxpayers and reduce payments to ineligible taxpayers.

OMB Major Findings/Recommendations

1. The program has failed to reduce EITC erroneous payments to acceptable levels. While IRS prevents roughly $1 billion in erroneous EITC payments per year, 27 to 32 percent of all EITC payments were still made in error for 1999. The magnitude of this error rate is the reason for the rating of “ineffective”.

2. IRS has a strong planning process closely linked to its budget process, but it has not yet used outcome information for this program to set performance targets that allow it to demonstrate results.

3. IRS has made numerous management improvements in recent years. However, its financial management systems do not provide the information needed to make effective day to day management decisions.

Bureau Actions Planned or Underway

1. Conducting 500,000 examinations of EITC returns per year based on enhanced case selection systems.

2. Preventing $270 million in incorrect refunds in 2006 by detecting and correcting errors during return processing.

3. Identifying paid tax return preparers with EITC error rates and using education and enforcement procedures to improve their performance.

Table 4.3

PART Evaluation

PART Name:	Submission Processing
Year PARTed:	FY 2003
Rating:	Moderately Effective

This program processes 224 million tax returns and one and a half billion information returns (such as bank reports on taxpayer's interest income) each year and issues 109 million refunds. In 2005, more than half of individual tax returns were submitted electronically.

OMB Major Findings/Recommendations

1. More Americans are electronically filing their taxes. Electronic filing is growing more than 10 percent per year. However, this growth is not sufficient for IRS to meet the legislative goal of 80 percent electronic filing by 2007. Congress has not yet acted on the Administration's proposals to accelerate the increase in electronic filing.

2. Every return converted from paper to electronic filing saves the IRS $2.15 in processing costs. More importantly, electronically filed returns have a less than one percent error rate compared to five percent for paper filed returns, saving taxpayers time and money. Finally, according to the annual American Customer Satisfaction Results report electronic filers have high satisfaction rates.

3. Based on IRS' recently completed tax gap study, approximately 13 percent of refund dollars (excluding earned income tax credit refunds) are paid in error. With current third party reporting and technology, IRS is unable to identify and prevent these errors during processing.

Bureau Actions Planned or Underway

1. Seeking legislative changes to promote electronic filing, including greater authority to require electronically-filed returns.

2. Setting goals by 2007 for reduced taxpayer filing burden resulting from the time and expense of preparing and filing their returns.

3. Using a single cost based efficiency measure by 2008 (cost per return processed).

Table 4.3

PART Evaluation

PART Name:	Taxpayer Service
Year PARTed:	FY 2004
Rating:	Adequate

This program reduces taxpayer burden by providing assistance on tax law and account issues in a professional and courteous manner. In 2005 the IRS answered 59 million calls, served 6.6 million taxpayers in walk-in offices, and had almost 116 million downloads from its forms, instructions and publications web site.

OMB Major Findings/Recommendations

1. IRS has significantly improved taxpayer service and maintained high levels of customer satisfaction in recent years. In 2001 IRS was able to answer only 62 percent of taxpayer calls. In 2005, IRS had improved this to 83 percent with a 94 percent customer satisfaction rate.
2. IRS continues to have trouble with the accuracy of answers. In 2004, IRS estimates only 80 percent of tax law calls were answered accurately (improved to 89 percent in 2005). Accuracy is a significant challenge given the complexity of the tax code.

3. IRS has developed a strong set of balanced measures (quality, customer satisfaction and results) to understand its taxpayer service performance. During the assessment IRS added an efficiency measure (customer contacts per staff year) for this program.

Bureau Actions Planned or Underway

1. Converting to cost based efficiency measures for the 2007 budget (e.g., cost per call answered) and adding efficiency measures for service processes for management. (Delayed until 2008)

2. Improving the accuracy of tax law telephone information provided to taxpayers to 90 percent accuracy by 2010.

3. Researching the impact of taxpayer service programs on voluntary compliance and reporting findings by 2007.

Table 4.3

PART Evaluation

PART Name:	Taxpayer Advocate Service
Year PARTed:	FY 2004
Rating:	Moderately Effective

This program helps taxpayers solve tax problems when normal IRS systems have failed to treat them fairly. It serves as an independent advocate within the IRS for individuals and proposes solutions to systemic problems.

OMB Major Findings/Recommendations

1. The quality of the Advocate's case work on behalf of taxpayers has improved from 71 percent with quality standards in 2001 to 90.5 percent in 2004.

2. Taxpayer hardship cases caused by flaws in IRS' business processes have declined from 217,081 in 2001 to 129,382 in 2004 as the Advocate has worked with IRS program managers to improve processes.

3. During the assessment, the program set goals and developed an efficiency measure. These include achieving a 100 percent closure-to-receipts ratio through 2010, 95 percent case quality score by 2009, and 4.53 (out of 5) customer satisfaction score by 2009. Efficiency is measured by counting the reduction in the quantity of taxpayer problems resulting from flaws in IRS' business processes.

Bureau Actions Planned or Underway

1. Developing a unit cost measure for its casework by 2006 (delayed to 2007).

2. Exploring other means to measure its effectiveness in solving systemic problems leading to taxpayer hardship. IRS will report its findings in 2006 for possible inclusion in its FY 2008 Budget.

3. Improving case quality to 91.5 percent by 2006, 93 percent by 2009, and 95 percent by 2014.

Table 4.3

PART Evaluation

PART Name:	Criminal Investigations
Year PARTed:	FY 2005
Rating:	Moderately Effective

This program ensures taxpayers comply with their tax obligations by investigating possible criminal violations of the tax code. Conviction of tax cheaters deters tax evasion among the general public and helps reassure taxpayers that the system is fair.

OMB Major Findings/Recommendations

1. The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be between $312 and $353 billion. Criminal Investigation is one of the major IRS programs intended to minimize this revenue loss.
2. Research suggests that higher levels of criminal sentences lead to higher tax compliance. IRS has succeeded in raising convictions in recent years. They rose from 1,926 in 2002 to 2,215 in 2005. However, they remain low by historical standards (in 1996 convictions totaled 2,915).
3. IRS has set long term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions.

Bureau Actions Planned or Underway

1. Exploring methods for measuring the impact of criminal investigations on tax compliance. IRS will report on its progress by the end of 2006.
2. Implementing a new information management system in 2006 to enhance investigative case tracking and improve efficiency.
3. Developing methods to improve case prioritization in 2006 to ensure that cases yield the greatest impact on compliance.

Table 4.3

PART Evaluation

PART Name:	Examinations
Year PARTed:	FY 2005
Rating:	Moderately Effective

This program ensures that citizens pay the correct tax by auditing returns at a high risk for non-compliance. Audits help ensure individuals comply with their tax obligations, deter tax evasion among the general public, and help reassure taxpayers that the system is fair.

OMB Major Findings/Recommendations

1. The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be between $312 and $353 billion. Examination is one of the major IRS programs intended to minimize this revenue loss.

2. After dropping substantially in the late 1990s, IRS' audit rates have begun to rise and will continue to increase, largely through productivity growth. IRS' audit rate has grown from a low of 1.49 percent (i.e., less than two returns in one hundred audited) in 2001 to 3.09 percent in 2005.

3. IRS has set long tern goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions. It also needs cost based efficiency measures.

Bureau Actions Planned or Underway

1. Researching tax compliance of S-corporations (a popular business form where profits are taxed only once passed through to the owners) based on a statistically valid sample of the filing population.

2. Improving tools for selecting the most productive audit cases by 2007 using the detailed compliance information gathered in the recent individual tax gap study.

3. Introducing cost based efficiency measures by 2008 (e.g., enforcement revenue/program budget).

Table 4.3

PART Evaluation

PART Name:	Retirement Savings Regulatory Program
Year PARTed:	FY 2006
Rating:	Adequate

This program ensures that tax breaks provided to encourage retirement savings are only allowed for retirement plans that follow minimum standards. The law requires that plans follow participation, funding and vesting standards and provide some protection for the surviving spouse of the plan participants.

OMB Major Findings/Recommendations

1. The Internal Revenue Service cooperates with the Department of Labor and the Pension Benefit Guarantee Corporation to protect retirement investors and to ensure that retirement related tax brakes are used for the intended purposes. Tax breaks to retirement plans to encourage savings total more than $100 billion per year.

2. Preliminary data from the program's compliance study shows that retirement plans are in compliance with legal standards 80 percent of the time. The IRS is working to improve this level by increasing enforcement efforts and improving targeting. This compliance study is a critical element in this effort because it gives the IRS better information on the sources of non-compliance.

3. IRS has had trouble processing requests for regulatory approval from retirement plans in a timely manner (less than 120 days). It is working to improve its performance in this area by implementing a new staggered schedule for retirement plan renewal requests and improving productivity.

Bureau Actions Planned or Underway

1. IRS will introduce cost based efficiency measures by 2008.

2. IRS will work to nearly double enforcement efforts by 2011 in order to improve retirement compliance to 82 percent.

3. IRS will improve efficiency, processing timeliness and case targeting through a new information management system and other inventory selection tools implemented in 2007.

Table 4.3

PART Evaluation

PART Name:	Health Care Tax Credit Administration
Year PARTed:	FY 2006
Rating:	Results Not Demonstrated

This program administers the Health Insurance Tax Credit which helps displaced workers and retirees afford health insurance. It is intended to benefit workers who have lost their jobs due to trade with countries which participate in free trade agreements (e.g., the North America Free Trade Agreement).

OMB Major Findings/Recommendations

1. The program's measures do not adequately capture the program's success in providing access to the credit to potential beneficiaries.

2. This credit has low participation. This can be attributed to the time it takes for other agencies to identify potentially eligible workers and for the Internal Revenue Service to enroll them. Another likely cause is the affordability of coverage to potential recipients. It is also possible that many of those identified as potentially eligible may ultimately not quality.

3. The IRS successfully implemented this unique tax credit in 2003. This required the creation of a new process outside of the normal tax filing system in a short timeframe. Since that time, in response to the low take up, the IRS has successfully reduced the cost of administering the credit by 50 percent.

Bureau Actions Planned or Underway

1. IRS will work with other participating federal agencies to develop long term goals by 2011 that capture the program's success to providing access to the tax credit to potential beneficiaries.

2. IRS will work with partner federal agencies to find ways to improve access to the tax credit for eligible workers.

3. IRS will continue to focus on administrative changes to lower program cost and improve taxpayer service.

IRS Performance Measures Summary Table and Data Dictionary Link

FY 2008 IRS Performance Measures Summary Table

Performance Measures	FY 2003	FY 2004	FY 2005	FY 2006 Planned	FY 2006 Actual	FY 2007 Planned[1]	FY 2008 Planned
Customer Service Representative (CSR) Level of Service Oe, L	80.1%	87.3%	82.6%	82.0%	82.0%	78.0%	81.0%
Customer Contacts Resolved per Staff Year E	8,318	8,015	7,585	7,477	7,414	7,702	7,880
Percent of Eligible Taxpayers Who File for EITC Oe	N/A	80.0%	80.0%	80.0%	*	80.0%	80.0%
Customer Accuracy - Tax Law Phones Oe	82.0%	80.0%	89.0%	90.0%	90.9%	91.0%	91.2%
Customer Accuracy - Accounts (Phones) Oe	88.2%	89.3%	91.5%	92.0%	93.2%	93.3%	93.4%
Timeliness of Critical Filing Season Tax Products to the Public Ot	N/A	76.0%	91.4%	92.0%	83.0%	85.2%	92.0%
Timeliness of Critical Other Tax Products to the Public Ot	N/A	76.0%	80.0%	85.0%	61.2%	79.6%	86.0%
Percent Individual Returns Processed Electronically Oe, L	40.0%	46.5%	51.1%	55.0%	54.1%	57.0%	61.6%
Percent of Business Returns Processed Electronically Oe, L	N/A	17.4%	17.8%	18.6%	16.6%	19.5%	21.2%
Refund Timeliness - Individual (paper) Oe	98.8%	98.3%	99.2%	99.2%	99.3%	99.2%	99.2%
Taxpayer Self Assistance Rate E, L	51.0%	46.4%	42.5%	45.7%	46.8%	48.6%	51.4%
Examination Coverage - Individual Oe, L	N/A	0.8%	0.9%	0.9%	1.0%	1.0%	1.0%
Field Exam Embedded Quality Oe, L	N/A	N/A	N/A	Baseline	85.9%	87.0%	87.0%
Office Exam Embedded Quality Oe, L	N/A	N/A	N/A	Baseline	88.2%	89.0%	89.0%
Examination Quality - Industry Oe, L	74.0%	74.0%	77.0%	80.0%	85.0%	88.0%	90.0%
Examination Quality - Coordinated Industry Oe, L	89.0%	87.0%	89.0%	92.0%	96.0%	97.0%	97.0%
Examination Coverage - Business Oe, L	N/A	7.5%	7.8%	7.5%	7.3%	8.2%	8.2%
Examination Efficiency - Individual E, L	N/A	N/A	121	121	128	136	136
Automated Underreporter Efficiency E, L	N/A	1,514	1,701	1,759	1,832	1,932	1,808
Automated Underreporter Coverage E, L	N/A	1.90%	2.2%	2.3%	2.4%	2.5%	2.7%
Collection Coverage - units Oe, L	N/A	N/A	53.0%	52.0%	54.0%	54.0%	54.0%
Collection Efficiency - units E, L	N/A	N/A	1,514	1,650	1,677	1,723	1,751
Field Collection Embedded Quality Oe, L	N/A	N/A	N/A	Baseline	84.2%	86.0%	86.0%
Automated Collection System Accuracy Oe	N/A	87.8%	88.5%	88.0%	91.0%	91.0%	92.0%
Criminal Investigations Completed Ot, L	3,766	4,387	4,104	3,945	4,157	4,000	4,025
Number of Convictions Ot, L	N/A	2,008	2,151	2,260	2,019	2,069	2,135
Conviction Rate E, L	N/A	91.2%	91.2%	92.0%	91.5%	92.0%	92.0%
Conviction Efficiency Rate($) E, L	N/A	362,849	295,316	339,565	328,750	314,008	314,560
TEGE Determination Case Closures Ot	171,812	143,877	126,481	112,400	108,462	118,200	109,500
BSM Project Cost Variance by Release/Subrelease E	N/A	N/A	N/A	Baseline	**	10.0%	10.0%
BSM Project Schedule Variance by Release/Subrelease E	N/A	N/A	N/A	Baseline	**	10.0%	10.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure and L - Long-Term Goal

and improvements resulting from program efficiencies.

* Data to estimate the eligibility rate will be available late in FY 2007..

** Cost and Schedule variance is based on +/- 10% and is reported on several project releases/subreleases.

Data Dictionary Link for Performance Measures:

For detailed information about each performance measure, including definition, verification and validation, please go to:

http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Internal Revenue Service

Mission Statement

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

Program Summary by Appropriations Account

Table 1.1

Dollars in Thousands

Appropriation	FY 2006 Enacted	FY 2007 President's Budget*	FY 2007 CR-rate*	FY 2008 President's Budget*	FY 2008 $ Change over CR-rate	FY 2008 % Change over CR-rate
Taxpayer Services	$2,142,042	$2,079,151	$2,046,908	$2,103,089	$56,181	2.74%
Enforcement	4,708,441	4,797,126	4,660,572	4,925,498	$264,926	5.68%
Operations Support	3,461,205	3,488,404	3,519,228	3,769,587	$250,359	7.11%
Business Systems Modernization	242,010	212,310	196,810	282,090	$85,280	43.33%
Health Insurance Tax Credit Administration	20,008	14,846	14,846	15,235	$389	2.62%
Total Appropriated Resources	$10,573,706	$10,591,837	$10,438,364	$11,095,499	$657,135	6.30%

NOTE: Throughout this document FY 2006 and prior years have been presented in the new budget structure for comparability across fiscal years. This differs from the President's Budget Appendix which presents FY 2006 as it was executed. The FY 2006 enacted level excludes rescission of unobligated balances ($29 million from Taxpayer Services and $9 million from HITCA). In addition, FY 2007 CR-rate includes proposed interappropriation transfers.

*The FY 2007 budget is supplemented by $242 million in users fees (includes $135 million in new user fees) and the FY 2008 budget is supplemented by $180 million in user fees.

FY 2008 Priorities

In 2008 the IRS will focus its efforts on implementing Treasury's tax compliance improvement strategy (see http://www.treasury.gov/press/releases/hp111.htm). This includes the following priorities:

- Maintain balance between taxpayer service and enforcement
- Improving tax compliance by:
    - Increasing front-line enforcement resources to improve tax compliance
    - Increasing voluntary compliance through improved taxpayer service options and enhanced research
    - Implementing legislative and regulatory changes
- Invest in technology to reverse infrastructure deterioration, accelerate modernization, and improve the productivity of existing resources

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Internal Revenue Service (IRS) administers America's tax laws and collects revenue to fund most government operations and public services as well as implements Treasury's tax compliance improvement strategy. The IRS taxpayer service programs provide assistance to millions of taxpayers to help them understand and meet their tax obligations. The IRS enforcement programs are aimed at deterring taxpayers inclined to evade their responsibilities while vigorously pursuing those who violate tax laws.

The President's Budget request for FY 2008 supports the IRS' five-year strategic plan. This plan underscores the IRS commitment to provide quality service to taxpayers while enforcing America's tax laws in a balanced manner. The IRS strategic plan goals are:

- **Improve Taxpayer Service –** Help people understand their tax obligations and making it easier for them to participate in the tax system;
- **Enhance Enforcement of the Tax Law –** 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; and
- **Modernize the IRS through its People, Processes and Technology –** Strategically manage resources, associated business processes and technology systems to effectively and efficiently meet service and enforcement strategic goals.

In support of these goals, the FY 2008 Budget priorities follow the guiding principle of *Service plus Enforcement equals Compliance* and sustain the IRS' objectives:

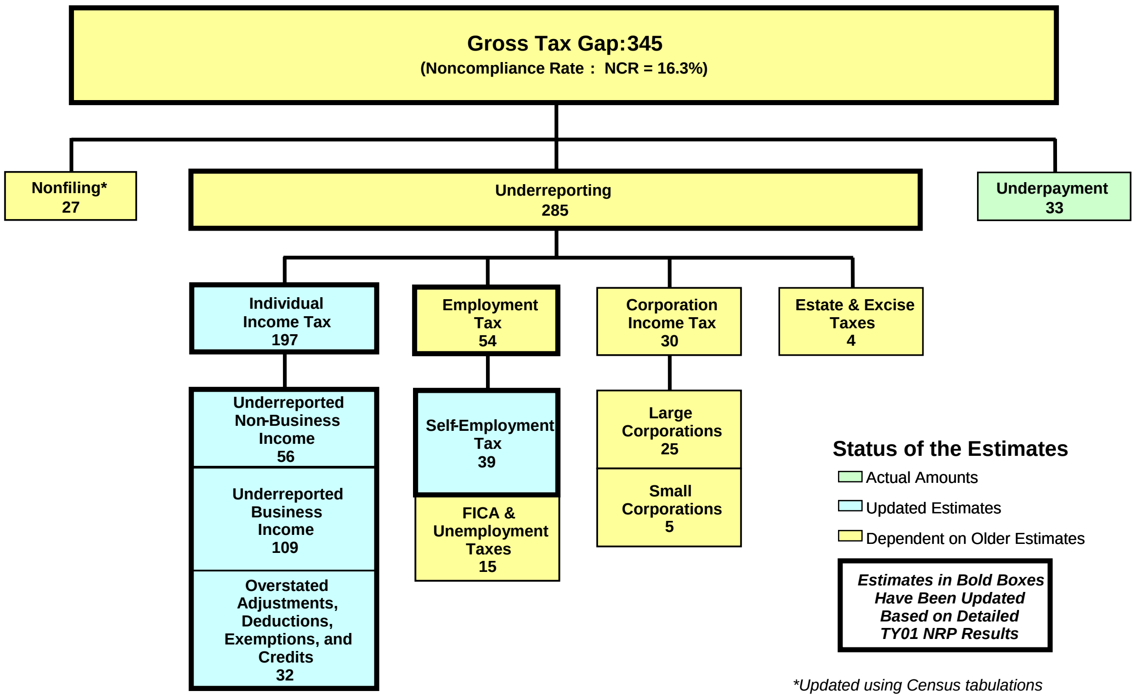
- Modernize information systems and business processes to maximize resources and improve service and enforcement;
- Enhance research to better allocate resources to IRS programs;
- Discourage and deter non-compliance with emphasis on corrosive activity by corporations, high-income taxpayers and abusive domestic and off-shore tax entities;
- Deter abuse within the tax-exempt community; and
- Simplify the tax process and improve service options for the taxpaying public.

Reducing the Tax Gap

The IRS collects 95 percent of the revenues that fund the United States Government. The FY 2008 Budget request will accelerate deficit reduction by improving tax compliance to strengthen the Federal Government's ability to collect more of these legally-owed taxes.

The tax gap is the difference between the amount of tax imposed on taxpayers for a given year and the amount that is paid voluntarily and timely. The IRS' latest estimate shows that the overall gross tax gap for Tax Year 2001 was about $345 billion.

Tax Year 2001 Federal Tax Gap
(Dollars in Billions)



This estimate, however, does not take into account taxes that were paid voluntarily but paid late, or recoveries from the IRS enforcement activities. Taking these factors into account, the "net tax gap" was an estimated $290 billion.

The tax gap is comprised of three sources of taxpayer noncompliance:

- Underreporting (not reporting one's full tax liability even when the return is filed on time), 82 percent of the tax gap;
- Underpayment (not paying by the due date the full amount of tax reported on a timely return), 10 percent of the tax gap; and
- Non-filing (not filing required returns or not filing on time), eight percent of the tax gap.

Increased resources for the IRS' exam and collection programs yield direct measurable results. Once the new staff proposed in this request are trained and become more experienced, the enforcement revenue generated each year will be $699 million. However, this estimate excludes the likely larger revenue impact from the deterrence value of these and other IRS enforcement programs (e.g., criminal investigations). It also excludes the impact of taxpayer services on voluntary compliance.

The IRS cannot currently measure either the impact of deterrence or service, but they are positive. The complexity of the nation's current tax system is a significant reason for the tax gap, and even sophisticated taxpayers make honest mistakes on their tax returns. Accordingly, helping taxpayers understand their obligations under the tax law is a critical part of improving voluntary compliance. To this end, the IRS remains committed to a balanced program assisting taxpayers in both understanding the tax law and remitting the proper amount of tax.

It is the need to improve tax compliance that drives much of what the IRS does. IRS enforcement activities, such as examination and collection, directly target tax gap elements, while IRS taxpayer services provide the information and tools taxpayers need to calculate and understand their tax obligations; collect, process, and store filed forms; and collect and process tax receipt and refunds owed timely. This budget request sets forth the funding, policy and tax law changes need to implement Treasury's tax compliance plan and make progress in improving tax compliance.

Taxpayer Service and Enforcement Programs

The FY 2008 President's Budget request accelerates deficit reduction by strengthening the IRS' ability to administer taxpayer service and increase enforcement and collection of federal unpaid tax liabilities. IRS programs and supporting functions appropriated in the three operating accounts - taxpayer service, enforcement and operations support – are strategically aligned with either taxpayer service or tax law enforcement activities.

Enforcement Program: The IRS continues its emphasis on tax law enforcement, increasing collection of delinquent tax debt from $34 billion in 2002 to $49 billion in 2006, an increase of 44 percent. Since 2003, federal government receipts have also increase by over $600 billion with revenue growth greatest in the areas of corporate taxes and high-income individual taxes. In FY 2008, the President's Budget increases funding for enforcement to $7,228.2 million. This includes $291.3 million for new enforcement initiatives and $225.7 million in inflationary cost increases offset by efficiencies savings of $82.2 million. As in 2006 and 2007, the Administration proposes to include these enforcement increases as a Budget Enforcement Act program integrity cap adjustment (see chapter 15, Budget Reform Proposals in the Analytical Perspectives volume of the 2008 Budget). IRS Enforcement resources are funded in the Enforcement and Operations Support appropriations accounts.

Taxpayer Service Program: Helping the public understand its tax reporting and payment obligations is a cornerstone of taxpayer compliance. In FY 2008, the President's Budget increases funding for taxpayer service to $3,570.0 million. This includes $56.1 million for new service initiatives and $112.7 million in inflationary cost increases offset by efficiency savings of $37.7 million. IRS Taxpayer Service resources are funded in the Taxpayer Service and Operations Support appropriation accounts.

Taxpayer Service and Enforcement Programs
(Dollars in Millions)

Programs	FY 2006 Enacted	FY 2007 CR-rate	FY 2008 President's Budget	% Change FY 2007 to FY 2008
Taxpayer Services	**$3,498.4**	**$3,438.7**	**$3,570.0**	**3.8%**
Direct Appropriation	$2,142.0	$2,046.9	$2,103.1	
Operations Support	$1,356.4	$1,391.8	$1,466.9	
Enforcement	**$6,813.2**	**$6,788.0**	**$7,228.2**	**6.5%**
Direct Appropriation	$4,708.4	$4,660.6	$4,925.5	
Operations Support	$2,104.8	$2,127.4	$2,302.7	
Total Taxpayer Services and Enforcement	**$10,311.6**	**$10,226.7**	**$10,798.2**	**5.6%**

FY 2008 President's Budget Request

The FY 2008 President's Budget request for the IRS is $11,095.5 million, 6.3 percent above the FY 2007 Continuing Resolution (CR) level. The funding request for taxpayer service programs is $3,570.0 million; for enforcement programs is $7,228.2 million; for Business Systems Modernization (BSM) is $282.1 million; and for Health Insurance Tax Credit Administration is $15.2 million. The IRS total increase for FY 2008 of $657.1 million, which includes $27.6 million for a technical adjustment to the FY 2007 base due to the CR; $340.0 million for maintaining current levels offset by $120.0 million in efficiency savings; and a net program increase of $409.5 million to enhance the IRS' infrastructure and modernization, enforcement, and taxpayer service programs that focus on reducing the tax gap. By 2010, these FY 2008 investments will increase annual enforcement revenue by $699 million. In addition, it is estimated that the tax compliance improvement legislative proposals will generate approximately $29 billion over the next ten years.

The IRS program initiatives focus on implementation of Treasury's tax compliance improvement strategy and the most significant needs for FY 2008:

- Improve IRS information technology infrastructure ($81.0 million and $62.1 million for the BSM program) to strengthen both taxpayer service and enforcement programs;
- Expand enforcement activities targeted at improving compliance ($246.4 million); and
- Enhance taxpayer service ($20 million) by continuing its efforts to increase and improve the delivery of services offered to taxpayers by expanding its research and implementing new technology (e.g., Spanish "Where's My Refund?" and an estimated calling wait time feature).

Summary Budget Adjustment Table (Taxpayer Service/Enforcement)

Taxpayer Service Program Summary Budget Adjustment Table (includes both direct costs in the Taxpayer Services appropriation and indirect costs in the Operations Support appropriation)

Table 2.1

FY 2008 Budget Highlights

Dollars in Thousands

Program: Taxpayer Service	FTE	Amount
FY 2007 President's Budget	35,931	$3,456,333
CR-rate Adjustment	(330)	(39,711)
FY 2007 CR-rate	35,601	$3,416,622
Interappropriation Transfer Corrections to Budget Restructure	43	22,136
FY 2007 Operating Plan at CR-rate	35,644	$3,438,758
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$193
Base Adjustment		193
Maintaining Current Levels (MCLs)		$112,681
Pay Annualization		12,881
Pay Inflation Adjustment		74,475
Non-Pay Inflation Adjustment		25,325
Efficiency Savings	(541)	($37,727)
Subtotal, Changes to Base	(541)	$75,147
FY 2008 Base	35,103	$3,513,905
Program Changes:		
Program Decreases/Savings:	0	($6,479)
Increased e-File Savings		(6,479)
Program Reinvestments:	0	$6,479
Increase Efficiency through Submission Processing Site Consolidations		6,479
Program Increases:		
Infrastructure Initiatives	0	$30,948
Upgrade Critical IT Infrastructure		24,477
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastructure Security		6,471
Enforcement Initiatives	44	$5,107
Improve Compliance Among Small Business and Self-Employed Taxpayers	31	3,309
Increase Compliance for Large Multinational Businesses	4	1,055
Expand Document Matching in Existing Sites	3	248
Increase Individual Filing Compliance	6	495
Taxpayer Service Initiatives	54	$20,000
Research Effect of Service on Taxpayer Compliance	8	5,000
Expand Volunteer Income Tax Assistance	46	5,000
Implement Taxpayer Assistance Blueprint	0	10,000
Subtotal, FY 2008 Program Changes	98	$56,055
Total, FY 2008 President's Budget Request	35,201	$3,569,960

Enforcement Program Summary Budget Adjustment Table (includes both direct costs in the Enforcement appropriation and indirect costs in the Operations Support appropriation)

Table 2.1

FY 2008 Budget Highlights

Dollars in Thousands

Program: Enforcement	FTE	Amount
FY 2007 President's Budget	56,771	$6,908,348
CR-rate Adjustment	(988)	(98,262)
FY 2007 CR-rate	55,783	$6,810,086
Interappropriation Transfer Corrections to Budget Restructure	(43)	(22,136)
FY 2007 Operating Plan at CR-rate	55,740	$6,787,950
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$5,494
Base Adjustment		5,494
Maintaining Current Levels (MCLs)		$225,692
Pay Annualization		27,362
Pay Inflation Adjustment		157,054
Non-Pay Inflation Adjustment		41,276
Efficiency Savings	(643)	($82,254)
Subtotal, Changes to Base	(643)	$148,932
FY 2008 Base	55,097	$6,936,882
Program Changes:		
Program Increases:		
Infrastructure Initiatives	0	$50,052
Upgrade Critical IT Infrastructure		35,523
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastructure		14,529
Enforcement Initiatives	1,486	$241,280
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	258	41,022
Improve Compliance Among Small Business and Self-Employed Taxpayers	454	69,856
Implement Legislative Proposals to Improve Compliance		23,045
Increase Compliance for Large Multinational Businesses	154	25,145
Expand Document Matching in Existing Sites	214	27,958
Establish New Document Matching - Kansas City	205	23,205
Increase Individual Filing Compliance	55	6,049
Increase Tax-Exempt Entity Compliance	109	15,000
Increase Criminal Tax Investigations	37	10,000
Subtotal, FY 2008 Program Changes	1,486	$291,332
Total, FY 2008 President's Budget Request	56,583	$7,228,214

1B – Program History and Future Outlook

The IRS helps taxpayers understand and comply with federal income tax laws. Each year, IRS employees make millions of contacts with American taxpayers and businesses. These contacts encourage and facilitate self-sufficiency for taxpayers in meeting their tax obligations. The IRS also enforces the tax laws to ensure that non-compliant taxpayers pay their fair share. To improve voluntary tax compliance, the IRS must meet taxpayer expectations, respond quickly to technological and demographic changes and, provide the proper balance of service and enforcement.

Strategic Goal I: Improve Taxpayer Service

The IRS serves a constituency of more than 135 million individual tax filers. During the 2006 filing season, the IRS issued more than 100 million refunds totaling over $277 billion. In addition, the IRS processed another 46.9 million returns for partnerships, corporations, employment taxes and exempt organizations. Providing quality taxpayer service, and continuing to improve that service, remains a strategic priority for the IRS. The IRS allocates its resources among its service, education and outreach programs to ensure taxpayers understand their obligations and voluntarily pay their taxes.

Assisting the public in meeting its tax obligations is the cornerstone of taxpayer compliance and is vital for maintaining public confidence in the tax system. Over the past several years, the IRS has made significant progress in improving customer service to the taxpayers:

- The overall American Customer Satisfaction Index (ACSI) score for all individual tax filers increased 27 percent, from 51 in 1999 to 65 in 2006. This is the largest increase of all federal agencies surveyed by the ACSI during this period. Program improvements contributing to an increase in customer satisfaction rates were implemented as a result of a Program Assessment Rating Tool (PART) assessment conducted for the Taxpayer Service program in FY 2004. Improvements included the launch of an improved, interactive telephone Probe and Response Guide for the 2005 filing season, and the implementation of a process using recorded call transcripts to create test call scenarios for training and certifying Customer Service Representatives.
- In FY 2006, the IRS level of service reached rates of 90.9 and 93.2 percent for tax law and account accuracy, respectively, and toll-free level of service was maintained at 82 percent.
- Nearly 14,000 large corporate taxpayers subject to the electronic filing mandate e-filed their returns successfully. The largest corporate taxpayers transmitted their returns without delay or backlog. The IRS processed this volume of very complex returns and accepted and acknowledged receipt within its 24-hour turnaround standard.

- IRS.gov is one of the most heavily visited sites on the internet. In FY 2006, the number of visits increased 9.8 percent and the number of pages viewed increased over three percent.
- The IRS delivered another successful filing season in 2006 with 134.7 million total individual returns received compared to 128.6 million in 2005. For the second year in a row, more than half (72.8 million) of all individual returns were filed electronically, representing a 6.6 percent increase over FY 2005. The most striking change is the 18.5 percent (22.2 million) increase in electronic filing from home computers.

The mix of taxpayer services demanded by the public appears to be changing. Toll-free calls and visits to Taxpayer Assistance Centers (TACs) have declined. In FY 2006, the IRS completed more than 24.3 million automated calls compared to 25.7 million in FY 2005, and answered 32.7 million assistor calls compared to 33.4 million in FY 2005. The IRS also achieved the FY 2006 82 percent level of service goal, with an accuracy rate of 91 percent for tax law questions. The accuracy of responses to tax law questions at the TACs increased to 83 percent, compared to 75 percent in FY 2005. Waiting time at the TACs was minimized with more than eight out of ten customers being served in 30 minutes or less.

The TACs experienced an eight percent reduction in walk-in contacts due to the overall decline in the number of customers seeking face-to-face assistance. The reduced demand for these services can be attributed, in part, to increased usage of the newly redesigned, award-winning web site. The redesigned website enhances taxpayers' ability to find desired content through improved search and navigation functions. In addition, the IRS offered a set of web-based business products for practitioners and other third parties. IRS e-Services such as the Internet-Employer Identification Number service and Transcript Delivery service experienced significant usage. Overall customer satisfaction with the award-winning IRS.gov website increased five percentage points based on the ACSI and use continued to grow. More than 1.3 billion web pages were viewed on IRS.gov and over 24 million taxpayers used the web application "Where's My Refund?" to check the status of their refunds.

In FY 2006, the IRS delivered the first phase of the Taxpayer Assistance Blueprint (TAB), a comprehensive study that reviewed current taxpayer service options and identified areas for improvements, including expanded taxpayer education and awareness, optimized use of partner services, increased self-service options, and expanded training and support tools for taxpayers. The Phase II report, which will be delivered in FY 2007, includes additional research and establishes the framework to develop short and long-term outcome goals and metrics for measuring the IRS' progress on service improvements for taxpayers.

In FY 2007 and FY 2008, the IRS will continue with its efforts to increase and improve the services offered to taxpayers, primarily focusing on those outside of the traditional telephone access. The IRS will increase self-service applications, continue to ensure web navigation is user-friendly, and also improve the quality and accuracy of its telephone responses. The IRS will expand its research and evaluate information regarding taxpayer service needs, priorities, and preferences in order to improve delivery services. The IRS will also invest more in technology, process improvements, and training to achieve consistent and repeatable service with reduced costs.

Strategic Goal II: Enhance Enforcement of the Tax Law

A smoothly functioning tax administration system inspires confidence among taxpayers. Voluntary compliance with tax laws increases if all taxpayers believe that their neighbors are paying their fair share.

Over the past decade, the IRS has improved its enforcement programs' performance by streamlining and implementing centralized work processes. This resulted in improved workload selection techniques, increased managerial involvement in casework, and initiatives that reduce cycle time. As a result, in FY 2006, the IRS:

- Collected more than $2.4 trillion dollars in tax revenue, including $48.7 billion through IRS enforcement activities;
- Audited more than 1.2 million taxpayers, a seven percent increase from FY 2005, including an 18 percent increase in audits of high-income taxpayers (those earning $100,000 or more);
- Increased small business audits (assets < $10 million) by eight percent and automated underreporter closures by 10 percent;
- Closed 15 percent more collection cases and collected nine percent more from delinquent accounts in FY 2006 compared to FY 2005; and
- Increased the fraud referral acceptance rate (i.e., the ratio of internal referrals within the IRS received to the number of those cases that are accepted by CI) to 71.8 percent exceeding the five year high achieved in FY 2005 of 68.8 percent and the total number of referrals accepted (445) was also higher than in FY 2005.
- Increased the use of substitute for return authority by 66 percent (substitute for return authority allows the IRS to file a tax return for an individual or business when it does not file a required return). Examiners prepared and filed 665,000 returns for individuals and 182,000 returns for businesses classified as non-filers.

The IRS also exceeded prior-year levels for coverage, efficiency and examination quality annual performance targets. In FY 2006, collection coverage increased to 54 percent, individual examination coverage improved while business examination coverage remained above seven percent, and automated underreporter efficiency increased almost eight percent to 1,832 cases. In addition, examination quality for industry and coordinated industry cases increased to 85 percent and 96 percent, respectively. Improvements in inventory management, decreases in cycle time, and enhanced training all contributed to improved productivity. Improved quality controls measuring critical elements of the examination, a reinforced focus on case quality to drive improvement efforts, and the delivery of business results, led to improved performance for the third consecutive year.

In FY 2007 and FY 2008, the IRS will continue to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. As part of its regular examination program, the IRS is expanding the use of cost-efficient audit techniques. By increasing its use of reliable third-party data to verify information reported by taxpayers, the IRS can better target its audit resources. The IRS is expanding its efforts to shift to agency-wide strategies, which maximize efficiency by better aligning problems (such as non-filers and other areas of noncompliance) and their solutions within the organization. The IRS is committed to improving the efficiency of its audit process, measured by audit change rates and other appropriate benchmarks.

However, efficiency gains in existing programs alone will not significantly reduce the tax gap. Some of the initiatives, including new legislative proposals, such as providing the IRS with access to more third-party data and simplifying the tax code, will also help make compliance activities more effective.

Strategic Goal III: Modernize the IRS through its People, Processes and Technology

Additional funding for information technology (IT) infrastructure and Business Systems Modernization (BSM) is the highest funding priority for FY 2008. The IRS cannot significantly improve compliance through its service and enforcement programs without a robust IT infrastructure. IT infrastructure investments support services to both taxpayers and other government agencies and enforcement by providing IRS frontline employees with the basic tools necessary to perform their jobs. A modernized and secure infrastructure will enhance the speed, security, and functionality necessary to keep pace with an automated economy. The IRS must keep pace with the growing demand and volume of electronic submission, payment, and refund transactions for tax remittances and offer taxpayers a variety of faster alternatives for satisfying their tax obligations. These efforts will continue to place greater demand on the IRS to provide a modernized and secure IT infrastructure.

Furthermore, a successful modernization program is critical to supporting long-term tax administration operations. Successful BSM program delivery during the past two years demonstrates that the IRS has established a foundation of disciplined program management processes and controls. The IRS managed BSM projects with a degree of sustained success not seen since program inception. This accomplishment is especially noteworthy because the program achieved this while transitioning from a contractor-led program to an IRS-led program.

The IRS also developed an IT Modernization Vision and Strategy (MV&S) for its IT systems for 2008 that align with and support the IRS Strategic Plan. Through the MV&S process, the IRS developed a plan showing how the IRS can effectively meet IT modernization goals in an incremental approach that provides near-term value. The plan focuses on delivery of four major tax administration systems - Customer Account Data Engine, Account Management Services, Modernized e-File, and Filing & Payment Compliance - addressing the IRS' strategic business priorities. The plan also capitalizes on IT infrastructure initiatives and smaller IT project initiatives to support a unified approach in continued improvement to program operations.

Throughout FY 2006, IRS modernization efforts continued to focus on its four core tax administration systems designed to provide more sophisticated tools to taxpayers and the IRS employees. The following highlights the IRS' efforts in FY 2006 in advancing these core systems:

- Introduced new Customer Account Data Engine (CADE) capabilities for the 2006 filing season. CADE supports faster refunds to taxpayers, issuing direct deposit refunds between one and seven days faster, and paper refunds four to thirteen days faster than refunds generated by the legacy system. CADE posted over 7.3 million returns – more than a 400 percent increase over the previous year, and issued 7 million refunds totaling in excess of $3.4 billion. CADE improved taxpayer service by allowing access to account information up to seven days sooner, increasing the likelihood of single telephone call resolution, faster issue detection, and more timely account settlement. CADE is expected to post between 25 and 30 million returns in 2007.

- Began the development of Account Management Services (AMS), a project that will enable real-time access to taxpayer account information, to support much faster resolution of taxpayer issues by IRS customer service representatives. AMS, in conjunction with CADE, will enable the IRS to break the weekly update system paradigm that has existed since the 1960s, enabling the IRS to begin to provide settlement of all account information by end-of-day, similar to what one expects from major private-sector financial institutions. The first release of AMS is due the summer of 2007 to support real-time address change capability in CADE and enable faster notice processing for a number of math-error notices.

- Implemented Release 3.2 of its Modernized e-File (MeF) project, which enabled the filing of both federal and state returns concurrently for corporations (Forms 1120 and 1120-S) and tax-exempt organizations (Form 990). In 2006, the MeF platform supported an e-filing mandate for certain large corporations and tax-exempt entities. Tax returns for large corporations typically include hundreds, or even thousands, of pages. Receiving the data electronically improves the accuracy of the tax return, reduces the volume of paper tax returns submitted to IRS Service Centers, and accelerates the examination process by having all tax return data available electronically. Electronic capture of return information enables the IRS to quickly deliver the data to analysts and agents for compliance risk assessment and action. In 2006, MeF accepted over 550,000 corporate returns. The IRS is expanding the MeF taxpayer base in 2007 to include Partnership Income tax returns (Form 1065), eventually enabling nearly 2.7 million small business and self-employed taxpayers to benefit from electronic filing. The IRS is in the planning stage to migrate the 1040 individual tax return to the Modernized e-File platform. The development and implementation of MeF 1040 capability will be complete in January of 2011 with initial planned deployment for January, 2009.

- Completed the first release of the Filing & Payment Compliance (F&PC) strategy. F&PC functionality analyzes tax collection cases and separates cases that require direct IRS involvement from those that can be handled by Private Collection Agencies (PCAs). The introduction of PCAs is expected to:
  - Assist the IRS by addressing the volume of delinquent taxpayers that exceeds the IRS' capacity to work, approximately 250,000 cases per year;
  - Help eliminate backlogs in the large number of outstanding tax liabilities, which have grown by 118 percent over the last 12 years, increasing tax revenue and reducing the tax gap; and,

Tax administration in the 21st century requires improved IRS information technology. For FY 2007 and FY 2008, the IRS is committed to continuing to make improvements in technology, including:

- Replacing antiquated core legacy account management systems and technology with the Customer Account Data Engine (CADE);
- Expanding and enhancing compliance activities through early detection, better case selection, and better case management;
- Delivering effective customer service, including expanded e-file systems and web services at reduced cost; and,
- Investing in infrastructure necessary to perform operations more efficiently, thus freeing up resources for enforcement and taxpayer service programs.

Supporting the President's Management Agenda

The FY 2008 Budget request for the IRS reflects the Department of the Treasury's commitment to further the objectives of the President's Management Agenda (PMA). In June 2006, the IRS developed an implementation plan for Budget-Performance Integration (BPI) that identifies the actions necessary to formulate and execute fully-costed performance and the means to determine the marginal cost of performance, consistent with the BPI requirements of the PMA. As part of this process, the IRS will initiate its plan to improve budget and performance integration using cost accounting pilots that focus on the interrelationship between financial data contained in the Integrated Financial System (IFS) and performance information (e.g., submission processing volume data) stored in IRS legacy systems. The cost pilots will facilitate:

- Standardization of cost methodologies for determining and applying direct and indirect costs associated with performance measures;
- Identification of additional system interfaces needed to support managerial cost accounting;
- Development of a methodology for linking cost data and agency-level outcomes and outputs for the budget formulation and reporting process; and
- Development of an IRS cost accounting policy.

FY 2008 Challenges

The IRS seeks efficiencies in delivering taxpayer service and bolstering its enforcement efforts to improve compliance with the tax laws and, ultimately, increase tax revenue. Using the internet as a means of providing taxpayers access to tax information and services is one approach to achieving greater efficiencies. The use of private collection agencies to collect uncontested tax debt is another. In FY 2007 and beyond, the IRS will continue to seek alternative, cost-effective ways of improving taxpayer service and enforcement. The following discussion identifies some of the most significant internal and external challenges for the IRS.

- **Business Systems Modernization (BSM):** The BSM program remains on the GAO high-risk list and also continues to be tracked as a declared "material weakness" because of the national significance of the program and the expectation that recent program improvements must be sustained over a longer period, given the extensive scope and time horizon of the program. During FY 2007, the IRS will continue to strengthen the management processes developed as part of its corrective action plan to address material weaknesses and will strive to sustain improvements relating to the efficient and effective delivery of the IRS' IT systems.
- **Information Technology Modernization Vision and Strategy (MV&S):** This governance and planning process for IRS IT leverages the IRS strategic plan and associated business plans to drive IT investment decisions, address the priorities around modernizing front-line tax administration, and enable technical capabilities provided by the infrastructure and security. The MV&S approach will leverage existing systems (where possible) and new development (where necessary) to optimize capacity, manage program costs, leverage common IT services across business domains, and deliver business value in smaller and more frequently fielded incremental releases. The MV&S will address the business priorities for the next five years, with particular emphasis on informing and guiding the definition of investment priorities for FY 2007 through FY 2009 across all investment tiers. Using the MV&S approach, the IRS enterprise IT solutions demonstrate alignment with the Treasury Enterprise Architecture.
- **Implement Treasury's Tax Compliance Improvement Plan:** Maximizing tax compliance is at the heart of the IRS emphasis on enforcement. The IRS will continue to improve enforcement by targeting its casework and enforcement activities to deliver results more effectively. The IRS will continue to analyze tax information and data from compliance research studies to better define and quantify the tax gap. The IRS will use the results of these efforts to improve its ability to counter the methods and means of those taxpayers who fail to report or pay what they owe. The IRS is focusing on discouraging and deterring non-compliance with an emphasis on corrosive activity by corporations, high-income individual taxpayers, and other contributors to the tax gap.
- **Abusive Tax Shelters:** Identifying and dismantling Abusive Tax Avoidance Transactions (ATAT) remain a challenge and a high enforcement priority for the IRS. These transactions are corrosive to the equity and the fairness of the tax law for all taxpayers. Vigorous enforcement of the criminal provisions of the tax code, coupled

with appropriate civil sanctions, materially contributes to maintaining voluntary compliance and public confidence in the fairness of the tax system. Tax shelter promoters continue to modify schemes, making it difficult to detect patterns and identify participants on a timely basis. Recent trends indicate that the tax shelter population will continue to expand to small to mid-size corporations where the issues will be more difficult to identify and examine. Large corporate taxpayers are increasingly engaging in structured transactions. These structured transactions involve highly complex fact patterns and large dollar issues. Promoters of tax shelters are migrating from the large accounting firms to other firms and businesses that specialize in tax shelters. These promoters are less compliant for registration and less stable in their business operations, making it more difficult to pursue them for information and for penalties.

- **Taxpayer Assistance Blueprint (TAB):** The IRS remains committed to taxpayer service and completed Phase I of the TAB in April 2006. Phase I describes the needs and preferences of taxpayers, including information on how taxpayers access the IRS services, what services they prefer, and whether the IRS meets their needs. The IRS expects to complete Phase II of the project in FY 2007, and will use the results to better focus its taxpayer services based on taxpayer needs, preferences, and demands. The research resulting from the TAB will enable the IRS to help taxpayers to better understand the tax law and, in return, remit the proper amount of tax.
- **The Complexity of the Tax Code:** The complexity of the tax code is the most significant problem facing taxpayers and the IRS alike. The tax code contains well over a million words, addressing taxpayer provisions such as the alternative minimum tax and the earned income tax credit. Business taxpayers must contend with a multitude of rules that cover the depreciation of equipment; numerous and overlapping filing requirements for employment taxes; and vague standards that govern the classification of workers as either employees or independent contractors. The IRS must explain the Code in a way that taxpayers can understand.
- **Achieving 80 Percent e-Filing:** For the 2006 filing season the IRS received 72.8 million electronically-filed returns, a 6.6 percent increase over the previous year. Report language accompanying the FY 2007 Transportation, Treasury, the Judiciary, Housing and Urban Development Appropriation acknowledges that most experts realize that the IRS will not meet the original goal of 80 percent e-filing by 2007. The Appropriators, therefore, direct the IRS to develop a detailed plan by June 2007 on how to reach the 80 percent e-filing goal.

Section 2 – Budget Adjustments & Appropriations Language

The Internal Revenue Service (IRS) budget request for FY 2008 is $11,095,499,000 in direct appropriations and 92,118 FTE. This is an increase of $657,135,000 or 6.3 percent, and 400 FTE, over the FY 2007 Continuing Resolution (CR) rate of $10,438,364,000 and 91,718 FTE. The CR rate includes proposed interappropriation transfer corrections to budget restructure from Taxpayer Service ($12,243,000) and Enforcement ($47,833,000) to Operations Support ($60,076,000).

Program Summary by Appropriations Account and Budget Activity
Internal Revenue Service

Table 1.1

Dollars in Thousands

	FY 2006	FY 2007	FY 2007	FY 2008		
Appropriation	Enacted	President's Budget	CR-rate	President's Budget	$ Change over CR-rate	% Change over CR-rate
Taxpayer Services	$2,142,042	$2,079,151	$2,046,908	$2,103,089	$56,181	2.74%
Pre-filing Taxpayer Assistance and Education	577,425	575,694	556,693	578,078	21,385	3.84%
Filing and Account Services	1,564,617	1,503,457	1,490,215	1,525,011	34,796	2.33%
Enforcement	4,708,441	4,797,126	4,660,572	4,925,498	264,926	5.68%
Investigations	579,555	591,090	579,883	602,872	22,989	3.96%
Exam and Collections	3,919,275	4,054,760	3,932,599	4,165,233	232,634	5.92%
Regulatory	209,611	151,276	148,090	157,393	9,303	6.28%
Operations Support	3,461,205	3,488,404	3,519,228	3,769,587	250,359	7.11%
Infrastructure	864,403	873,146	873,146	908,095	34,949	4.00%
Shared Services and Support	1,176,202	1,129,617	1,163,846	1,223,351	59,505	5.11%
Information Services	1,420,600	1,485,641	1,482,236	1,638,141	155,905	10.52%
Business Systems Modernization	242,010	212,310	196,810	282,090	85,280	43.33%
Health Insurance Tax Credit Administration	20,008	14,846	14,846	15,235	389	2.62%
Total Appropriated Resources	$10,573,706	$10,591,837	$10,438,364	$11,095,499	$657,135	6.30%

Appropriation Detail Table
Internal Revenue Service

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Taxpayer Services	32,050	$2,142,042	31,386	$2,127,458	30,891	$2,079,151	30,597	$2,046,908	30,160	$2,103,089	-1.43%	2.74%
Enforcement	49,534	4,708,441	48,439	4,675,795	48,869	4,797,126	47,833	4,660,572	48,667	4,925,498	1.74%	5.68%
Operations Support	13,468	3,461,205	11,565	3,438,385	12,942	3,488,404	12,954	3,519,228	12,957	3,769,587	0.02%	7.11%
Business Systems Modernization	317	242,010	317	158,702	317	212,310	317	196,810	317	282,090	0.00%	43.33%
Health Insurance Tax Credit Administration	17	20,008	10	19,993	17	14,846	17	14,846	17	15,235	0.00%	2.62%
Subtotal New Appropriated Resources	95,386	$10,573,706	91,717	$10,420,333	93,036	$10,591,837	91,718	$10,438,364	92,118	$11,095,499	0.44%	6.30%
Other Resources:												
Recoveries												
Offsetting Collections - Reimbursable	1,350	$158,820	1,129	$89,857	682	$125,723	682	$125,723	696	$133,498	2.05%	6.18%
50% Carryover				23,418								
Mandatory Appropriations - User Fees		19,000		19,000		242,000		242,000		180,000		-25.62%
Available multi-year/no-year funds		169,006		143,057		143,282		143,282		149,135		4.08%
Transfers In/Out				37								
Subtotal Other Resources	1,350	$346,826	1,129	$275,369	682	$511,005	682	$511,005	696	$462,633	2.05%	-9.47%
Total Resources Available for Obligation	96,736	$10,920,532	92,846	$10,695,702	93,718	$11,102,842	92,400	$10,949,369	92,814	$11,558,132	0.45%	5.56%

Summary Budget Adjustment Table
Internal Revenue Service

Table 2.1

FY 2008 Budget Highlights
Dollars in Thousands

Appropriation: Internal Revenue Service	FTE	Amount
FY 2007 President's Budget	93,036	$10,591,837
CR-rate Adjustment	(1,318)	(153,473)
FY 2007 CR-rate	91,718	$10,438,364
Interappropriation Transfer Corrections to Budget Restructure	0	0
FY 2007 Operating Plan at CR-rate	91,718	$10,438,364
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$27,573
Base Adjustment		27,573
Maintaining Current Levels (MCLs)		$340,007
Pay Annualization		40,484
Pay Inflation Adjustment		232,630
Non-Pay Inflation Adjustment		$66,893
Efficiency Savings	(1,184)	($119,981)
Subtotal, Changes to Base	(1,184)	$247,599
FY 2008 Base	90,534	$10,685,963
Program Changes:		
Program Decreases/Savings:	0	($6,479)
Increased e-File Savings		(6,479)
Program Reinvestments:	0	$6,479
Increase Efficiency through Submission Processing Site Consolidations		6,479
Program Increases:		
Infrastructure Initiatives	0	$143,149
Upgrade Critical IT Infrastructure		60,000
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastru		21,000
Fund Business Systems Modernization		62,149
Enforcement Initiatives	1,530	$246,387
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	258	41,022
Improve Compliance Among Small Business and Self-Employed Taxpayers	485	73,165
Implement Legislative Proposals to Improve Compliance		23,045
Increase Compliance for Large Multinational Businesses	158	26,200
Expand Document Matching in Existing Sites	214	27,958
Establish New Document Matching - Kansas City	208	23,453
Increase Individual Filing Compliance	61	6,544
Increase Tax-Exempt Entity Compliance	109	15,000
Increase Criminal Tax Investigations	37	10,000
Taxpayer Service Initiatives	54	$20,000
Research Effect of Service on Taxpayer Compliance	8	5,000
Expand Volunteer Income Tax Assistance	46	5,000
Implement Taxpayer Assistance Blueprint		10,000
Subtotal, FY 2008 Program Changes	1,584	$409,536
Total, FY 2008 President's Budget Request	92,118	$11,095,499

2A – Budget Decreases and Increases Description (IRS)

Total Changes to Base +247,599,000 / -1,184 FTE

Technical Adjustments to FY 2007 Base Due to CR
+$27,573,000 / 0 FTE

An increase of $27.6 million is included as a technical adjustment to the FY 2007 base. This adjustment restores $21.9 million for BSM labor and projects and $5.7 for Operations Support infrastructure.

Maintaining Current Levels (MCLs)
+$340,007,000 / 0 FTE

Funds are requested for the FY 2008 costs of the annualization of the FY 2007 federal pay raise in FY 2008; the proposed FY 2008 federal pay raise; and other labor-related benefits; and non-labor related items such as contracts, travel, supplies, equipment, postage, and GSA rent.

Efficiency Savings
-$119,981,000 / -1,184 FTE

The IRS has identified organizational changes designed to increase operating efficiencies and reduce costs for FY 2008.

In the enforcement programs, the IRS will realize a savings of $82.3 million and 643 FTE as a result of efficiency improvements. Savings will be achieved through enhancement of technology and support structure improvements such as deployment of the Electronic Installment Agreements (e-IA) system and expansion of the auto-generated notice initiative; streamlining and centralizing work process such as consolidating the number of Criminal Investigation Lead Development Centers from five to two, and expanding and improving implementation of the Fast Track Settlement (FTS) process (resolution of disputes during the examination phase rather than waiting for the appeal phase); and implementation of new work tools such as improved audit selection formulas. In addition, the completion of initial training programs by both examination and collection FY 2006 enforcement hires will increase efficiency by transitioning them and their trainers to full-time front-line activities.

In the taxpayer service program, the IRS will realize a savings of $37.7 million and 541 FTE. Increases in electronic filing will continue to have a significant impact on the Submission Processing Centers as individual paper return volumes decrease. The IRS will continue to achieve savings as the processing of paper returns is consolidated into fewer Submission Processing Centers. Additional savings will be gained through the implementation of technological improvements such as automating the issuance of Employer Identification Numbers and implementation of the Taxpayer Assistance Blueprint study recommendations.

Total FY 2008 Program Changes +$409,536,000 / +1,584 FTE

Program Decreases/Savings -$6,479,000 / 0 FTE

Increased e-File Savings
- $6,479,000 / 0 FTE

This reduction is a result of savings from a projected decrease in FY 2008 of 4.2 million (3.7 million individual and 0.5 million business) paper returns filed. Starting in FY 2007 and continuing through FY 2008, the IRS will ramp down the Philadelphia Submission Processing Center, generating savings of $6.5 million. The savings will be reinvested under the Increase Efficiency through Submission Processing Site Consolidations initiative to fund anticipated severance pay costs in FY 2008.

The following table shows the actual and projected percent of returns processed electronically for FY 2004 – FY 2010 for individual and business returns.

Measure	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate
Percent of Individual Returns Processed Electronically	46.5	51.1	55.0	57.0	61.6	64.5	67.0
Percent of Business Returns Processed Electronically	17.4	17.8	17.8	19.5	21.2	23.6	25.2

The IRS continues to strive to meet the established goal of 80 percent of all tax returns to be filed electronically. While the IRS has implemented several technological advances, such as modernizing the 1040 e-File system, projections show that the 80 percent e-File goal will not be met in FY 2007. As the IRS moves toward its strategic goal to improve taxpayer service by expanding options for electronic filing, payments, and communications, additional improvements in technology will be used to increase e-File marketing strategies to meet this goal in the future. However, without additional mandates to file electronically, such as the one recently imposed for corporations, the IRS' ability to meet the electronic filing goal will remain a challenge. The Budget includes a proposal to expand the IRS' authority to require electronic filing by corporations (see the Receipts chapter on the Analytical Perspectives volume of the Budget for legislative proposals).

Program Reinvestments +$6,479,000/ 0 FTE

Increase Efficiency through Submission Processing Site Consolidations +$6,479,000 / 0 FTE

This initiative provides $6.0 million to fund severance pay for employees separating as a result of ramp down of the Philadelphia Processing Center and $0.5 million for shared support service related costs. However, the IRS will maintain a large staff of service and enforcement personnel in Philadelphia.

Increased electronic filing will continue to have a significant impact on Submission Processing Centers as individual paper return volumes decline. Individual paper returns are expected to decrease by 4.2 million in FY 2008. As a result, the IRS will continue its initiative to consolidate the processing of individual paper returns into fewer Submission Processing sites. The Philadelphia Submission Processing Center is undergoing a ramp down in FY 2007 and FY 2008. The total costs for severance pay associated with the Philadelphia ramp down totals $8,174,774. However, the estimated severance pay amount needed in FY 2008 is $5,967,585. This initiative is a direct reinvestment of the Increased e-File Savings initiative.

The total severance pay costs for the Philadelphia Processing Center ramp down are broken down by position type and projected on-rolls numbers in the following table:

Employee Category	Work Schedule	As of Oct. 2002	By Oct. 2006	Placed Internally	Remaining	Estimated Severence
Analysts	PERM	29	29	9	20	$876,940
Cash Clerks	PERM	41	29	0	29	$403,897
	SEAS	106	62	0	62	$86,575
Clerks	PERM	203	108	60	48	$482,775
	SEAS	702	315	120	195	$264,892
Data Transcribers	PERM	43	22	2	20	$272,104
	SEAS	1,198	402	0	402	$501,007
Department Mgr.	PERM	14	14	0	14	$691,957
	SEAS	1	1	0	1	$0
Front-line Mgr.	PERM	64	51	14	37	$998,004
	SEAS	22	14	0	14	$129,993
Other	PERM	19	15	2	13	$101,566
	SEAS	20	17	0	17	$37,085
Secretaries	PERM	40	36	20	16	$361,843
Senior Mgr.	PERM	10	10	0	10	$1,172,422
Tax Examiners	PERM	263	212	164	48	$1,070,281
	SEAS	944	677	205	472	$723,433
TOTAL		3,719	2,014	596	1,418	$8,174,774
Permanent Employees		726	526	271	255	$6,431,789
Seasonal Employees		2,993	1,488	325	1,163	$1,742,985
TOTAL		3,719	2,014	596	1,418	$8,174,774

The remaining $511,000 for FY 2008 is for Agency-Wide Shared Services (AWSS) costs in Philadelphia and Andover, as follows:

- Philadelphia - $125,000 for redistribution and disbursement of existing furniture and equipment and $285,000 for dismantling and removing double-deck shelving systems.
- Andover – $101,000 for redistribution/disbursement of existing furniture and equipment.

This initiative supports the IRS' operational priority to optimize and implement planned Submission Processing strategies, including the downsizing of paper operations to meet customer increases in electronic submissions and cost efficient opportunities in working the remaining paper workload. Returns processing efficiency will be improved. The workforce will be aligned to new priorities and technologies. The ramp down and consolidation of the Philadelphia Submission Processing sites will not impact taxpayers.

Program Increases +$409,536,000 / +1,584 FTE

Infrastructure Initiatives

Upgrade Critical IT Infrastructure
+$60,000,000 / 0 FTE

This initiative requests $60 million to reduce the backlog of IRS information technology (IT) equipment that has exceeded its life cycle. This initiative will provide the resources needed to keep IRS IT and telecommunications equipment operable and to current business standards. Failure to replace the IRS' IT infrastructure will lead to increased maintenance costs and will increase the risk of disrupting business operations. Currently, critical business systems are operating on aged and outdated hardware, with the backlog of aged infrastructure increasing every year. Without an effective infrastructure, the risk to tax administration is significant. The question facing the IRS is not "if mission-critical components of the infrastructure will break," but "what will break, when, and how significant will the impact be on tax administration?"

The IRS faces a significant challenge with an aged and ineffective IT infrastructure. Two key challenges are: (1) a backlog of aged inventory, and (2) continued aging of the existing inventory.

To address the growth in aged inventory, the IRS has committed to reserve another $135 million from its base budget for infrastructure replacement over the next three years. In FY 2006, the IRS identified efficiencies in the base IT budget that permitted the permanent reallocation of $45 million into the infrastructure base. The IRS plans to augment this funding with additional reallocations of $45 million in both FY 2007 and 2008. By FY 2008, the IRS plans to have established a base budget for infrastructure replacement equal to $180 million, which will mitigate the impact of rapid growth in aged inventory, but will not address the backlog of aged infrastructure.

Planned expenditures in FY 2008 include, but are not limited to, the following:

- Replacing Aged Computers – A significant component of this initiative includes aged infrastructure of employee workstations (e.g., desktop and laptop computers). The IRS estimates that over 50% of the laptop computers supporting Compliance employees are overage and need replacement. This overage equipment results in (1) increased down time; (2) reduced capability to communicate effectively; and (3) delays in retrieval of taxpayer data that is vital to daily compliance/enforcement activities.
- Automated Call Distributor (ACD) Hardware – ACD hardware routes incoming and outgoing telephone calls to taxpayer assistance agents, operating as the electronic heart of the IRS call centers. Failed hardware could result in incoming taxpayer calls being routed improperly or dropped.
- Prioritized Mission Critical Servers – Critical tax processing applications and solutions are currently operating on aged servers, with this problem worsening by 2008. Failed hardware has recently resulted in permanent loss of business data as well as work stoppage of fundamental business processes.
- WAN/LAN Routers and Switches – Routers and switches support not only IRS personal computer and laptops, but the data communication between systems. Failed WAN/LAN hardware can lead to poor application performance or communication shutdown, causing taxpayer information not being routed to the next step, or agents not being able to retrieve tax records in a timely manner.

Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastructure Security
+$21,000,000 / 0 FTE

This initiative provides $13.1 million to fund enhancements for the Computer Security Incident Response Center (CSIRC). This will enable the IRS to keep pace with the ever-changing security threat environment through increased detection and analysis capability, improved forensics, and the capacity to identify and respond to potential intrusions before they occur.

The number of vulnerabilities (software flaw or configuration weakness) are rapidly increasing each year. These security vulnerabilities expose enterprise systems and processes to unnecessary risk of potential intrusions or unauthorized access, compromise/disclosure of sensitive taxpayer data, and/or disruption of service and process availability. Potential impacts include:

- The disclosure of taxpayer data or disruption of electronic filing initiatives could have a crippling effect on the IRS mission and the taxpayers.

- Cyber-security breach could have a significant adverse impact on the IRS' enforcement activities. A major incident could result in a significant disruption to enforcement efforts, costing numerous days of recovery efforts and inability to detect and protect IRS systems from cyber worms, such as the Sasser worm outbreak in 2004, which resulted in a direct IRS business loss of more than $50 million.

This initiative will mitigate these by employing additional security safeguards, using defense-in-depth, best-of-breed security technologies. This funding will establish a foundation to preemptively mitigate such risk in Modernization Project Support, Voice Over Internet Protocol, E-Filing, E-Commerce, adherence to the E-Gov initiative, the President's Management Agenda, Virtual Office, maintaining distinct network environments, TIGTA/OMB audits/recommendations, and support to FISMA compliance.

In addition, this initiative includes $7.9 million to enhance network infrastructure security. These funds will provide the IRS capability to perform continuous monitoring of the security of operational systems, using security tools, tactics, techniques and procedures to perform network security compliance monitoring of all IT assets on the network. This will ensure all systems have the latest security patches and are in compliance with security configuration control requirements.

Fund Business Systems Modernization
+$62,149,000 / 0 FTE

This initiative requests an additional $62.1 million to continue the development and deployment of the IRS modernization program in line with the Modernization Vision and Strategy (MV&S) recommendations. This increase will result in a total budget request for BSM of $282.1 million in FY 2008, and will allow the IRS to make progress on the following modernization projects:

Customer Account Data Engine (CADE)

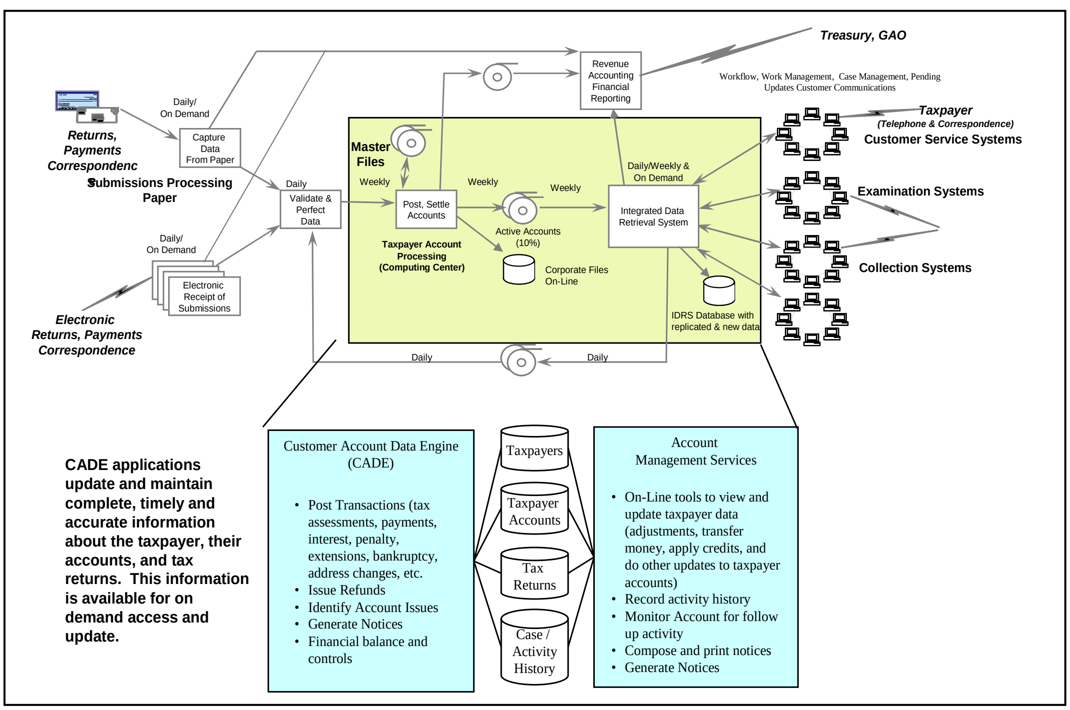
- The IRS requests $58.5 million for CADE. CADE is IRS' lynchpin modernization project replacing the antiquated master file. These master files are based on flat files with weekly updates achieved by batch processing of a sequential file repository. As a result, it takes the IRS two weeks to update taxpayer tax accounts. This performance compares poorly to the real-time updates provided by all other financial institutions. The delay in updating data allows data inconsistencies to develop among the various applications in use across the IRS.

  The master file system, based on 1960s architecture, uses programming language no longer taught or used elsewhere. That, coupled with the lack of system documentation, puts continued maintenance and updating of the master files at risk. Other downsides to the current master file system include high maintenance and operational costs, difficulty implementing policy or tax law changes, and incompatibility with private industry and other government agencies' systems, which limits IRS' ability to partner with other parties and prevents electronic data exchanges. CADE will solve these problems. The IRS is developing CADE in stages and expects to be able to retire the Individual Master File in 2012. When fully operational, the CADE database will house tax information for more than 200 million individual and business taxpayers' returns. In FY 2008, $58.5 million will continue work on the CADE release content master plan.

Account Management Services (AMS)

- IRS is requesting $28.983 million for the Account Management Services Project (AMS). The initiative provides a Common User Interface for access and update of taxpayer accounts managed by CADE and the Individual Master File, Corporate Files on Line, and the Integrated Data Retrieval System. It will provide an enterprise-enabled inventory workflow capability (including referrals, assign, review, and audit) across operating divisions. Specific capabilities include the access and update of both legacy and CADE account information, account monitoring, management of activity history (Case History), and the generation of notices. AMS will provide immediate access to integrated account data, which improves the ability to resolve account inquiries with minimal taxpayer interaction and facilitates the taxpayer's ability to self assist or self correct. AMS will allow IRS staff to create new accounts online at the request of a taxpayer. Also, it will assess taxpayers' account status, trigger actions, and generate notices or letters based on selected queries.

A Schematic Showing Where CADE and AMS fit in the Taxpayer Data Flow



Modernized e-File

- In FY 2008, the IRS is requesting $55.802 million to fund the development of the 1040 on the Modernized e-File (MeF) platform. The development and implementation of the MeF 1040 will take two years. MeF is the future of electronic filing. It provides a single XML-based standard for filing electronic tax returns. Standardizing the formats/structures for all filings will allow transmitters to submit multiple return types (such as 1120 and 941s) in the same transmission, something that restrains e-file growth currently. Tax return data will be stored in XML format in a modernized Tax Return Database with web-based access, allowing all viewers of the data to use their internet browser to view the entire tax return online, and it will look just like the paper document.

Common Services Projects

- The IRS is requesting $16 million for the introduction of the Common Services Projects (CSP), providing funding for new portals, which are technology platforms that meet many IRS business needs through web-based front-ends and provide secure access to data, applications, and services.

  The portals are mission-critical components of the enterprise infrastructure required to support key business processes and compliance initiatives. A new portal infrastructure must be acquired and fully operational, with all applications transitioned before November 2008. The contracts for the existing portals (registered user portal, employee user portal, and public user portal/IRS.gov) expired in May 2006 and sole-source extensions have been approved, with the provision that the current portals will be replaced by November 2008. The IRS portals support Underreporter initiatives in the Examination and Criminal Investigations programs; and Underpayment initiatives in Collection; Modernized E-file; and other E-Government, E-services, and user fee initiatives. The current portals, designed in the late 1990s and implemented in 2000 and 2001, are outdated; capacity is limited; and 90 percent of the hardware components and 70 percent of software products supporting the current portals have reached or exceeded their useful life.

  Funds for CSP cover the costs of program/contract management; design and engineering for the new portal environment; planning and testing of new portal-related application projects and modification of existing projects (E-services, E-file, Integrated Financial System, Internet Refund/Fact of Filing, etc.) to run on the new portals; new portal security mechanisms for access control, intrusion detection, identity management, auditing; and acquisition of new portal development, test and production environments.

  The benefits accruing from delivery and implementation of BSM projects provide value to taxpayers, the business community, and government. Many of these benefits contribute to operational improvements and efficiencies within the IRS.

The program combines best practices and expertise in business solutions and internal management from IRS, business, and technology sectors to develop a world-class tax administration system. The BSM program has made sustained progress in realizing substantial segments of the modernization vision.

The IRS will work to allocate BSM staffing costs for the FY 2009 President's Budget.

Enforcement Initiatives

Improve Compliance Estimates, Measures, and Detection of Non-Compliance +$41,022,000 / +258 FTE

This initiative funds research studies of reporting compliance for new segments of taxpayers (such as partnerships, corporations, other business entities, exempt organizations, and government entities), and updates existing estimates of reporting compliance (individual taxpayers and S-corporations). This initiative establishes a base of operating division examiners for various reporting compliance studies, based on the needed expertise for the study. Unlike in the past, these examiners will conduct an annual study of compliance among 1040 filers based on a smaller sample size than the 2001 National Research Program study. This will provide some fresh compliance data each year, and by combining samples over several years will provide a regular update to the larger sample size needed to keep IRS' targeting systems and compliance estimates up to date.

The data captured during the studies will enable the IRS to develop strategies to combat specific areas of non-compliance and improve voluntary compliance. Efforts under this initiative will significantly help improve the allocation of resources by providing data that will allow the IRS to target audits toward taxpayers who are least compliant with the tax law. This initiative will increase enforcement revenue and also help improve voluntary compliance. Moreover, the initiative will enable IRS to undertake reporting compliance studies in the tax-exempt sector, which is responsible for about one-quarter of overall employment. This initiative benefits taxpayers by increasing the fairness of the tax system and significantly improving workload selection formulas that reduce the burden of unnecessary taxpayer contacts. Ultimately, these efforts will provide benchmarks against which the IRS can evaluate the effectiveness of programs designed to improve compliance and will allow the IRS to better leverage enforcement resources.

Improve Compliance Among Small Business and Self-Employed Taxpayers +$73,165,000 / +485 FTE

This initiative will improve compliance among Small Business and Self-Employed (SB/SE) taxpayers in the elements of reporting, filing, and payment compliance. This request will produce $144 million in additional annual enforcement revenue, once the new hires reach full potential in FY 2010, by increasing audits of high-risk tax returns, collecting unpaid taxes from filed and unfiled tax returns, and investigating, and where appropriate, prosecuting, persons who have evaded taxes.

For Tax Year 2001, the gross tax gap is estimated to be $345 billion (net $290 billion), 16 percent of the $2.1 trillion in total tax liability. Of that amount, 75 percent, or $259 billion, is attributable to SB/SE taxpayers. Underreporting accounts for 82 percent of the total tax gap, with the remainder almost evenly divided between non-filing (eight percent) and underpaying (ten percent).

High-risk areas of under-reporting include abusive tax schemes, flow-through income, and high-income individuals. Approximately 98 percent of all flow-through filings (S-corporations, partnerships, and trusts) are SB/SE taxpayers. All flow-through filings increased from 9.1 million in Tax Year 2000 to nearly 9.4 million in Tax Year 2003, and are expected to reach 10.4 million by Tax Year 2006 – a 14 percent increase since Tax Year 2000. The IRS projects them to increase by 20 percent by Tax Year 2012. Increasing examinations of and improving reporting for these filings is a critical component of addressing the tax gap.

Revenue Agents will continue to focus on Abusive Tax Avoidance Transactions (ATAT), structured transactions, and corporate and high-income examinations involving flow-through entities (i.e., trusts, partnerships, S-corporations). With this funding in FY 2008, 207 field examination staff will examine an additional 3,100 individual returns and 430 additional business returns, generating approximately $26.4 million. The IRS anticipates that an additional 5,400 business returns and 36,500 individual returns will be examined through FY 2012.
Collection activities will increase both the number of high-risk unpaid assessment accounts settled and their involvement in the collection of taxes due from abusive trusts. Field Collection staff (149 Revenue Officers will produce an estimated 23,000 additional tax delinquent accounts (TDA) in FY 2008, and approximately 113,000 through FY 2012. For the non-filers, these Revenue Officers will produce an estimated 5,300 tax delinquency investigations (TDI) in FY 2008 and approximately 24,000 through FY 2012.

Detecting and investigating money laundering activity is an important part of tax compliance for the IRS. This initiative provides $5.4 million to strengthen enforcement activities of the anti-money laundering provisions of Bank Secrecy Act (P.L. No. 92-508) (BSA) and the USA PATRIOT Act (P. L. No. 107-56). Frequently, money-laundering violations are the only possible means to detect tax evaders. Fraud/BSA resources (33 RAs), dedicated to the BSA program, will conduct approximately 390 additional Title 31 cases in FY 2008, with an additional 2,900 cases examined through FY 2012. Approximately 252 additional Section 8300 cases (i.e., examination of an entity's records to determine whether or not they have properly filed the Form 8300 for receipt of cash in excess of $10,000 in one transaction), will be examined in FY 2008, with an additional 1200 cases examined through FY 2012.

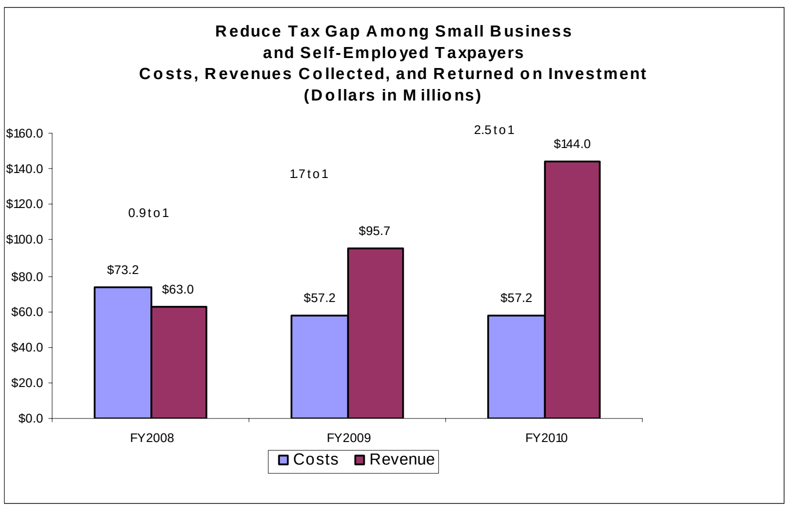
This initiative also provides key resources needed to support the increased case workload generated from this initiative:

- Appeals (24 FTE and $3.2 million) to process additional cases generated from increased examination program and collection program staffing.

- Taxpayer Advocate Service (31 FTE and $2.4 million) to support both examination and collection functions to ensure that the IRS follows appropriate procedures without creating unnecessary burden or compromising taxpayer rights.

- Counsel (18 FTE and $2.7 million) to provide legal advice and assistance in litigating the increased number of cases as well as support additional tax shelter litigation, published tax shelter guidance, and small businesses' need for tax reform related work.

The return-on-investment (ROI) for this initiative is expected to be 2.5 once the new hires reach full potential in FY 2010 (see chart below.)



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

In addition, this initiative will yield:

- Greater coverage of high-risk, SB/SE examination and collection cases;
- Strengthened integrity of the tax system;
- Improved reporting, payment, and filing compliance from the small business community; and
- Mitigation of the adverse impact of employee attrition on achieving Strategic Human Capital Goals.

This initiative will also yield the following benefits to taxpayers:

- Enable taxpayer accounts to be resolved more efficiently and timely, reducing accumulated penalties and interest on unpaid assessments;
- Improve customer satisfaction by holding high-risk taxpayers accountable for tax law compliance and assuring Americans that more taxpayers are paying their fair share; and
- Improve voluntary compliance as taxpayers perceive increased fairness in the tax system. Taxpayers appreciate the value of enforcement. Some 86 percent of taxpayers surveyed by the Oversight Board answered that it was "not at all" acceptable to cheat on one's taxes.

Implement Legislative Proposals to Improve Compliance
+$23,045,000 / 0 FTE

While the IRS continues to address compliance problems by improving customer service and using traditional methods of enforcement, the FY 2008 President's Budget includes several legislative proposals that would yield $29 billion over ten years from improved compliance. These proposals would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties (see Receipts in the Analytical Perspectives volume of the 2008 President's Budget). This enforcement initiative includes funding for purchasing software and making modifications to the IRS' IT systems necessary to implement these legislative proposals. The Budget includes sixteen proposals but the explanation below focuses only on the proposals where implementation of funding is needed in FY 2008.

Payment Card Reporting:
Underreported business income among members of the SB/SE community accounts for a significant portion of the individual income tax gap. Businesses often receive payments for goods or services via a consumer's payment card, but subsequently fail to report the income for transactions on the business' federal income tax return. These underreported transactions add up to be significant contributors to the tax gap.

This proposal will address this portion of the tax gap by providing the IRS with an additional means of cross-referencing the income reported by businesses with their gross receipts. Under this proposal, the IRS would require payment card processors to annually report total reimbursements paid to businesses for goods and services. The reported amount would then be compared to gross receipts reported by taxpayers on their federal returns. A significant difference in the dollar values of the reimbursements by payment card companies and the gross receipts reported by businesses would be a red flag that income was possibly being underreported.

The IRS anticipates that this proposal will help reduce the tax gap in two ways. First, businesses that might otherwise be inclined to underreport their income might reconsider, knowing the IRS has a means to validate the gross income reported on their federal tax returns. Second, businesses that continue to abrogate their responsibilities as taxpayers would be more easily identified, so that appropriate enforcement action could be taken.

The IRS anticipates receiving approximately 125 million information return documents from credit and debit card processors per year, associated with approximately five million SB/SE taxpayers. Revenue Agents in the field could then follow up with delinquent taxpayers in the course of standard enforcement operations.

Government Payment:
One of the most high-profile components of the tax gap relates to the failure of some government vendors and contractors to meet their tax filing and payment obligations. Obviously, it is a major concern any time an entity does business with the government, receives payment from the government, and yet fails to pay taxes due to the government. Under present law, the federal government has broad authority to levy federal payments made to vendors of goods and services. The proposal would authorize the implementation of regulations requiring information reporting and backup withholding on all non-wage payments by federal, state, and local governments to procure property and services.

As part of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), enacted on May 17, 2006, Congress enacted a provision requiring three percent withholding on certain government vendor payments. This provision is broader than the Administration’s proposal in that it requires information reporting and immediate withholding on government payments, rather than information reporting and backup withholding. The TIPRA provision applies only to payments made after December 31, 2010, whereas the Administration’s proposal would be effective for payments made on or after January 1, 2008.

If the Administration’s proposal, the IRS anticipates receiving an additional 89 to 177 million information returns as a result of the new reporting requirements. The costs associated with implementation of this program are for reprogramming affected information technology systems. Once these initial costs have been incurred, subsequent costs will decrease as processing, transcription, and matching activities will occur largely within existing workgroups.

Information Reporting on Payments to Corporations:
Underreporting of income where there is little or no information reporting contributes to approximately 53.9 percent of the underreporting portion of the tax gap. Under current law, businesses are not required to issue Forms 1099 for services provided by corporations. Although the reporting requirements for corporations could be expanded by changing the regulations, Treasury recommends it be changed legislatively.

Implementation of this proposal will increase the number of Forms 1099 filed. Voluntary compliance is expected to increase for corporate reporting of 1099 amounts. The IRS would require additional resources to implement matching programs to address the increased volume of Forms 1099.

Basis Reporting on Security Sales:
GAO estimates that 36 percent of individual taxpayers misreported their securities capital gains or losses in 2001. The estimated capital gains tax gap is $11 billion dollars. This amount will be significantly reduced by requiring financial institutions to:

- report the adjusted cost basis of securities sold and the nature of the sale (short-term or long-term) to the IRS, and
- exchange information to enable other financial institutions to meet adjusted cost basis reporting requirements for clients that transfer securities to a successor financial institution.

In those instances where a broker does not have sufficient information to compute the adjusted cost basis, the taxpayer will be responsible for reporting the sale.

Expanded Broker Information Reporting:
Sales of property and collectibles done via auction brokers and consignment sellers represent a portion of the tax gap. A broker who is an auctioneer or operates a consignment business, whether electronic or at a physical retail location, would be required to make an information return showing customer name, address, and Taxpayer Identification Number, as well as gross proceeds from the sale of tangible personal property. The requirement would apply only with respect to a customer for whom the broker has handled 100 or more separate transactions generating at least $5,000 in gross proceeds in a year. There would be an exception from the proposed requirement (and the sale would not be taken into account for the 100 transactions/$5,000 gross proceeds test) if the sale is required to be reported by other information return requirements (such as payment card sales the gross proceeds of which would be reported through the payment card payment system).

Increase Information Return Penalties:
The IRS currently asserts a penalty for failure to file a correct information return. The current penalty amount of $50 (or $100 for intentional disregard) provides little incentive to increase compliance. This proposal, will enhance compliance in this area by increasing the penalty amount and eliminate the cap to increase the cost of doing business for perpetual offenders. The penalty will be increased to $150/$250 for each unfilled return.

During the 2005 Tax Year, 53,821 payers received a Proposed Penalty Notice for failure to timely and accurately provide Forms 1099. While penalties are not considered a revenue source since they are inversely related to compliance, placing a monetary price on non-compliance is expected to result in significant revenue, enhanced voluntary compliance and a diminishing penalty rate over time.

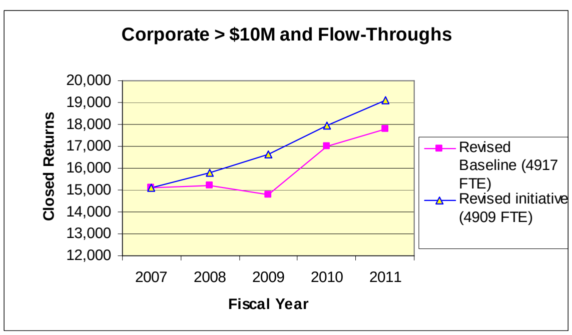
Provide IRS with Access to NDNH Database
The Department of Health and Human Services maintains the National Directory of New Hires (NDNH) which contains newly hired employee data, quarterly wage data from state and federal employment security agencies, and unemployment benefit data. Currently, the IRS may obtain NDNH data *only* for administering the Earned Income Tax Credit and verifying employment reported on a return.

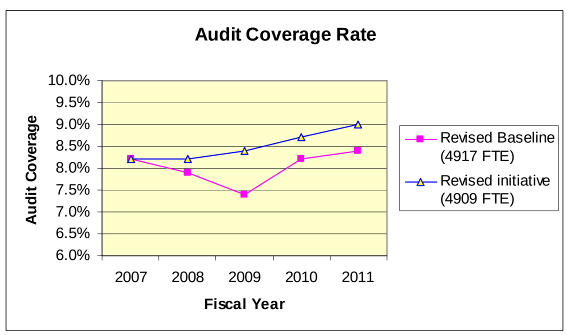
Employment data, used by the IRS to administer a wide range of tax provisions, is currently obtained on a state by state basis, which is both time consuming and costly. This legislative proposal would amend the Social Security Act to allow the IRS access to the NDNH for general tax administration, including data matching, verification of taxpayer claims, preparation of substitute returns for non-compliant taxpayers, and identification of levy sources. Expanded IRS access to NDNH data will increase productivity and enhance compliance.

Increase Compliance for Large Multinational Businesses
+$26,200,000 / +158 FTE

This initiative will increase examination coverage for large, complex business returns; foreign residents; and smaller corporations with significant international activity. The initiative addresses risks arising from the rapid increase in globalization, and the related increase in foreign business activity and multi-national transactions where the potential for non-compliance is significant in the reporting of transactions that occur across differing tax jurisdictions. Additionally, flow-through filings and the use of special purpose entities, for both non-tax and tax-related reasons, continue to increase. Additional compliance resources will increase coverage for these areas of risk and reduce corporate and individual underreporting. An increase in examination coverage and IRS presence has a positive impact on overall compliance levels. With this initiative, coverage for large corporate and flow-through returns will increase to 8.2 percent in FY 2008 from a level of 7.9 percent without the initiative.

Impact of Enforcement Initiative and Partial Reinvestment of Efficiencies





There are multiple issues, patterns, and indicators of risk for these complex flow-through enterprises and multi-national taxpayers:

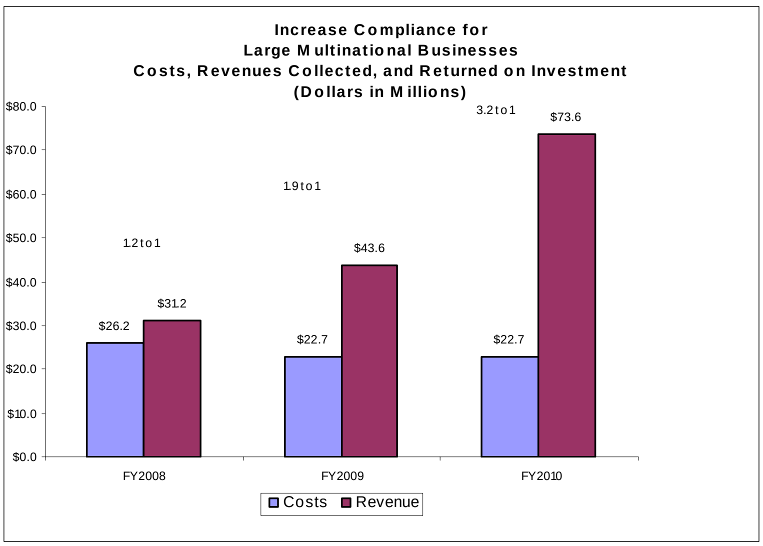
- Flow-through filings (Form 1120S, U.S. Income Tax Return for an S-corporation, and Form 1065, U.S. Return of Partnership Income) have increased 40 percent, from about 77,800 filings in 2000 to 109,300 in 2004.
- Flow-through returns now comprise approximately 63 percent of the Large and Midsize Business return population.
- Flow-through challenges for tax administration include savings in federal tax without economic substance to transactions; artificially-inflated bases to disguise real gains; basis shifting between related entities for tax advantages, contrary to valid accounting and tax practices; structured financial transactions within complex enterprises, including the use of Special Purpose Entities; transfer of high-value/low-basis assets in partnerships; aggressive interpretation of business purpose; and transfer pricing.
- Globalization is increasing.
- U.S. multi-national overseas profits are significantly higher than profits posted by U.S. companies at home.
- Sixty percent of world trade is transacted between different arms of multi-nationals.
- Low- and no-tax jurisdiction countries are home to 58 percent of the foreign profits of U.S. multi-nationals.
- From 1999 to 2004, the amount of Foreign Tax Credit (FTC) claimed increased 31 percent to $45 billion. The largest returns account for over 93 percent of the total FTC claimed for the years 1999-2004.
- The number and value of cross-border mergers and acquisitions are growing. In 2005, 11,000 deals were set up with a value of $1.2 billion.
- The tax issues arising from businesses operating world-wide include Transfer Pricing; Foreign Tax Credit; Worthless Stock Deduction; Avoidance of Subpart F Income; Valuation Issues; Transfer of Property (tangible and intangible) and income streams; Potential Tax Shelters; and Dual Consolidated Losses.

This initiative includes resources to establish a physical presence and focal point for tax treaty and U.S. tax administration in Asia. Outsourcing and growth of Asian businesses and markets have resulted in:

- Significant increases in U.S. corporate business activity and investment in China, which requires greater interaction with Chinese tax officials with the administration of the U.S.-China Income Tax Treaty.
- Increased activity on potential double-taxation matters, exchange of information activities, and tax treaty interpretation issues with China.
- Increased American expatriate population and U.S.-owned business/corporate entities in China, resulting in greater local demand for IRS taxpayer service and assistance.
- The Beijing post will serve as the Asia regional office for all IRS activities and will support treaty administration with other significant economic partners, e.g., Japan and Korea. With the closure of the Tokyo and Singapore posts, Beijing will be the only IRS office in Asia.

- A Chinese presence will help deter non-compliance among this growing expatriate population and address the concern by GAO of a high non-filing rate by U.S. citizens living abroad.
- Chinese multinational businesses and Chinese outsourcing are both growing. The post will also provide tax guidance for Chinese citizens that work temporarily in the U.S. (Non-resident Alien Taxpayers).

In addition to the 4 FTE and related funds to establish a Beijing post, this initiative includes 50 FTE to close 330 additional smaller corporate returns with international activity and 1,571 additional individual returns as well as 14 FTE for the IRS Counsel attorneys to advise revenue agents on complicated issues of tax law and accounting principles in the context of flow-through enterprises. The initiative also addresses GAO and Treasury Inspector General for Tax Administration (TIGTA) concerns about unacceptably high non-compliance by partnerships and S-corporations.



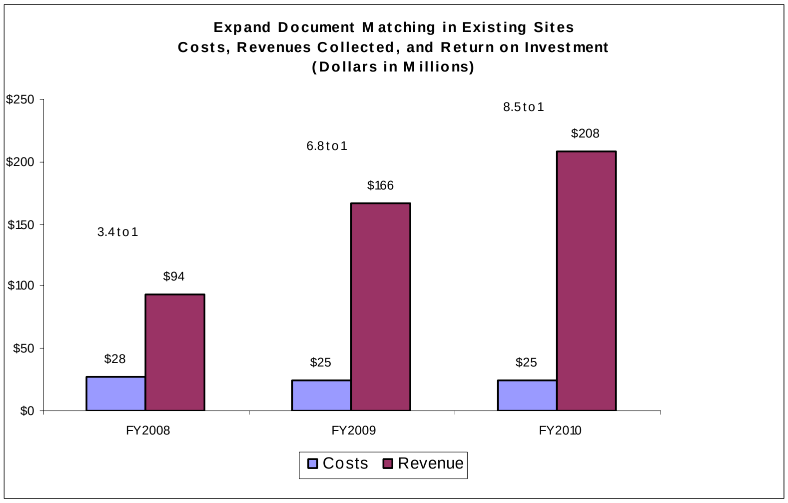
NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

Expand Document Matching in Existing Sites
+$27,958,000 / +214 FTE

This initiative increases coverage within the IRS Automated Underreporter (AUR) program to address the tax gap by minimizing revenue loss through increased document matching of individual taxpayer account information. These resources will increase enforcement revenue collected by approximately $208 million annually, once the new hires reach full potential in FY 2010.

About 6.9 million Small Business Self-Employed (SB/SE) taxpayers may currently misreport their income based on third party information returns. Of those, the SB/SE AUR program processes approximately 2.1 million taxpayer cases, leaving an unaddressed gap of 4.8 million taxpayers. The objective of the AUR program is to minimize revenue loss through document matching of small business and self-employed taxpayer account information. The IRS commitment to maintaining a robust AUR program is demonstrated by a commitment to increasing enforcement results and is reflected in targets for the long-term goals and corresponding performance targets.

The additional resources will increase the number of AUR closures from 2.05 million in FY 2007 to 2.64 million in FY 2010. The AUR program has one of the highest returns on investment ratios of all compliance programs. By 2010, the return on investment, as shown below, is expected to reach 8.5:1.



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

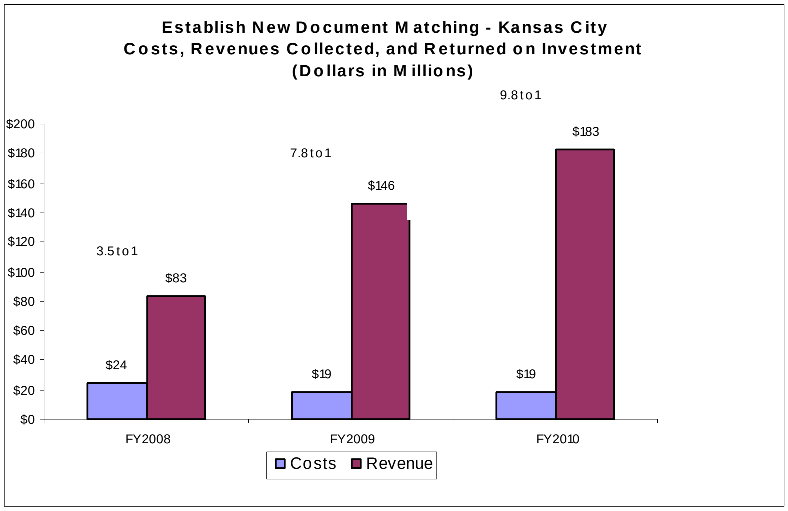
This funding for this initiative will maximize coverage in the three existing sites (Brookhaven, Philadelphia, and Ogden) and establish a new, centralized small business and self-employed AUR toll-free operation, using available space at an existing AUR site. Establishment of an operation designed exclusively to handle the SB/SE AUR toll-free traffic will enable significant coverage expansion in the three existing sites and, ultimately, generate productivity savings in the designated call site. Current technology allows for the routing of calls to a single site. In addition, start-up costs are reduced because equipment currently available at the three existing sites will be used to establish a new toll-free operation.

This initiative links the IRS compliance resources to clearly defined, measurable, results-oriented annual performance outcomes. It further addresses widespread concerns regarding the erosion of the IRS' enforcement presence and the continued growth in non-compliance expressed by TIGTA, GAO, Congress, and the media. By decreasing the AUR tax gap, this initiative will serve to improve the long-term Voluntary Compliance Rate metric and increase the programmatic long-term goal of AUR Coverage.

Establish New Document Matching – Kansas City
+$23,453,000 / +208 FTE

This funding for this initiative will establish a new Automated Underreporter (AUR) site in existing IRS space in Kansas City. The AUR program minimizes revenue loss through document matching of individual taxpayer account information. The AUR program has one of the highest return on investment ratios of all compliance programs. The number of individual taxpayers who may annually misreport their income is about 5.1 million based on third party information returns. The AUR program currently processes about 2.3 million taxpayer cases.

One-time start up costs include designing space alterations, new work stations, furniture, infrastructure changes, computer equipment, initial training and travel costs, and relocation expenses. The on-going operational costs to process daily and weekly AUR computer runs and support weekly maintenance of the AUR system also are included.



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

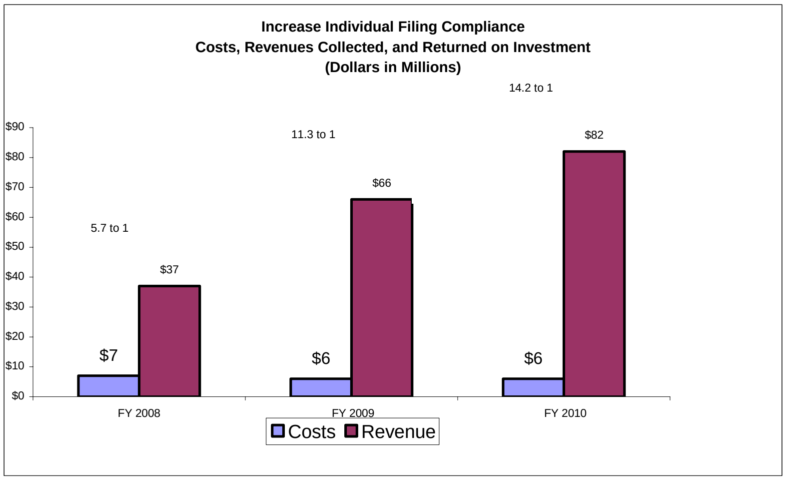
The establishment of this new AUR site will result in $183 million in additional enforcement revenue annually, once the new hires reach full potential in FY 2010.

This initiative links IRS compliance resources to clearly defined, measurable, results-oriented annual performance outcomes. It addresses the erosion of the IRS' enforcement presence and the continued growth in non-compliance expressed by TIGTA, GAO, Congress, and the media. The initiative will also help decrease the tax gap, increase voluntary compliance, and reduce the number of taxpayers who underreport income in future tax years.

Increase Individual Filing Compliance
+$6,544,000 / +61 FTE

This initiative will help address voluntary compliance. The Automated Substitute for Return Refund Hold Program (ASFR Refund Hold) minimizes revenue loss by holding the current-year refunds of taxpayers who are delinquent in filing individual income tax returns and are expected to owe additional taxes and addresses both payment and filing compliance for the IRS. This program will enable the IRS to review any unfiled returns during the previous five years. The current-year held refund is applied or released once delinquent returns are filed or assessed. This initiative will expand the program to include delinquent-year refunds.

Approximately 42 million individual prior-year returns were delinquent for tax years 2000 to 2004. In FY 2006, the ASFR Refund Hold program is projected to work approximately 242,000 current-year Refund Holds. ASFR Refund Hold is a key enforcement tool to address filing compliance.



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

This initiative will result in securing 90,000 delinquent returns in FY 2008 and produce $82 million of additional enforcement revenue annually, once new hires reach full potential in FY 2010.

Increase Tax-Exempt Entity Compliance
+$15,000,000 / +109 FTE

The legitimate tax expenditure related to the tax-exempt provisions of the Internal Revenue Code is estimated at $238 billion in 2008. Because of the special benefits afforded tax-exempt organizations, employee pension plans, and other entities with special tax status, these provisions may attract fraud and abuse. Thus, it is critical to ensure that tax-exempt entities are legitimate when they are established, maintain compliance throughout their operation, and are not misused by third parties for tax avoidance or other unintended purposes.

This initiative will promote compliance with applicable tax laws and regulations in the tax-exempt and governmental arena through a comprehensive program of up-front compliance activities and enhanced downstream enforcement. The determination process, through which tax-exempt organizations and employee retirement plans first seek recognition of their exempt or qualified status from IRS, may be the only formal compliance interaction many entities have with the IRS. As such, it provides IRS a valuable opportunity to ensure that the applicant's proposed design and operations are consistent with the applicable tax law. It further provides an opportunity to detect and address emerging abusive behaviors before they can spread within the sector. Additional resources will strengthen this critical program to address the growing number of requests for determination.

Downstream, this initiative will provide resources to expand enforcement programs aimed at tax exempt and government entities and make them more effective. Increasing enforcement staffing will restore coverage of the tax-exempt community, which has declined due to unprecedented growth in the sector and the emergence of complex abusive tax issues. From FY 1995 to FY 2005, the number of exempt organizations grew 40 percent. At the same time, concerns about credit counseling agencies, excess executive compensation and other compliance issues related to exempt organizations are coming to the fore. This initiative will expand the IRS' examination capacity to pursue critical compliance initiatives such as these, while also using innovative approaches to reverse the decline in enforcement presence in the exempt sector. An expanded Exempt Organizations Compliance Unit will broaden coverage, using efficient techniques to address limited compliance issues among tax-exempt organizations. Meanwhile, additional IRS staffing will meet the growing demand for self-correction in the pension community, resolving, through self-audits, many defects that might not otherwise have been identified and at a lower cost than traditional examination.

Together, these steps will further the IRS strategic objective to deter abuse within tax-exempt and governmental entities and misuse of such entities by third parties for tax avoidance or other unintended purposes. This initiative will increase tax exempt and government entity compliance contacts by 1,700 (6 percent) and employee plan/exempt organization (EP/EO) determinations closures by over 9,000 (8 percent) by FY 2010. In addition, this investment will increase performance by improving the timeliness of Determination and Voluntary Compliance programs.

This initiative directly supports IRS' Strategic Goal to enhance enforcement of the tax law, with the objective to deter abuse within tax-exempt and governmental entities, and misuse of such by third parties for tax avoidance. Additional staffing for Determination and Voluntary Compliance requests will also improve taxpayer service.

Increase Criminal Tax Investigations
+$10,000,000 / +37 FTE

This initiative will provide funding to aggressively attack abusive tax schemes, corporate fraud, non-filers, employment tax fraud, as well as tax and other financial crimes identified through Bank Secrecy Act (BSA)-related examinations and case development efforts, which includes an emphasis on the fraud referral program. During the past decade, criminals capitalizing on advancements in technology and the globalization of the economy have contrived some of the most sophisticated tax evasion schemes in history. The continued threat non-compliance poses to the integrity of the American tax system is evidenced by the latest net tax gap estimate of $290 billion. Criminal Investigations (CI) robust pursuit of tax violators and the resulting publicity, foster deterrence, enhance voluntary compliance and reduce the tax gap.

CI is working closely with the SB/SE and LMSB operating divisions to combat abusive schemes through the use of parallel proceedings. This approach is particularly useful when dealing with tax shelters sold by financial service corporations to high net-worth individuals and corporations. Only a comprehensive approach can successfully defeat these schemes, which sometimes involve thousands of clients and billions in revenue.

CI pursuit of tax violators over the past five years resulted in an increase in the length of prison sentences imposed in tax related investigations (averaging 19 to 22 months) and the substantial media coverage of these cases, evidenced by CI's high publicity rates (the percentage of sentenced cases that have received media coverage: 67.9 percent in FY 2002 to 82.5 percent in FY 2006).

Abusive tax avoidance transactions present formidable compliance challenges. The complex layering of schemes, the use of tax haven jurisdictions, off-shore based financial activities, and the increased sophistication of promoters have required CI to devote more investigative resources to this program area. Further, the increase in Internet-based tax schemes poses new challenges.

The overall success of CI's abusive scheme work is reflected in the stiff prison sentences imposed during the past five years averaging 28 to 47 months and the high publicity rate 90.9 percent in FY 2006. Compared to the average over the past five years, CI forwarded 4.9 percent more prosecution recommendations in FY 2006 (103 vs. 98) and had 16.7 percent more convictions on abusive tax scheme cases (67 vs. 57).

A report by the U.S. Senate Permanent Subcommittee on Investigations released in February 2005, entitled The Role of Professional Firms in the U.S. Tax Shelter Industry, recommended that Congress appropriate additional funds to enable the IRS to hire more enforcement personnel to stop the promotion of potentially abusive and illegal tax shelters by lawyers, accountants, and other financial professionals.

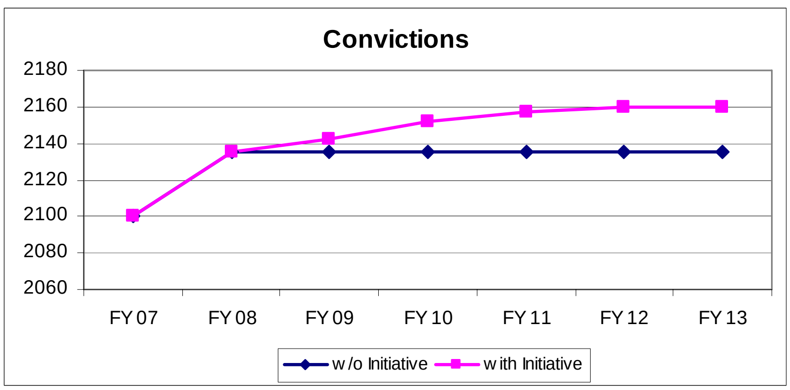
Following the collapse of some of the nation's largest publicly held corporations due to the widespread fraud and executive malfeasance, President Bush authorized the formation of a Department of Justice corporate fraud task force. CI has a particularly important role in this program area. Some of the most crucial corporate fraud related convictions obtained to date were for tax offenses. In FY 2006, the importance of CI's role can be measured by the substantial prison sentences imposed (49 months) and the 97.2 percent publicity rate.

CI's effort to combat non-filers remains at an all-time high. In partnership with the operating divisions, CI pursues high income, non-filers across a broad spectrum of professions. The results of CI's work have been impressive, with sentences in non-filer cases among the most severe imposed for tax offenses. In FY 2006, non-filer initiations and indictments rose 9.5 percent and 12.3 percent, respectively, compared to the averages over the past five years. During the past five years, average prison sentences associated with non-filer cases ranged from 34 to 49 months; and more than 80 percent of sentenced investigations received publicity. These cases will clearly remain a high investigative priority.

CI remains committed to the fraud referral program, which continues to result in quality criminal investigations. Since FY 2004, CI has received 13.7 percent more fraud referrals (603 vs. 530) and the acceptance rate rose from 58 percent to 71.8 percent. In FY 2006, approximately 10.1 percent of the fraud referrals received involved an abusive scheme, 5.0 percent of the referrals involved employment taxes and 1.3 percent involved corporate fraud.

Since Financial Crimes Enforcement Network (FinCEN) published regulations requiring non-bank, money services businesses (MSB) to comply with the same BSA record keeping and reporting requirements as financial institutions, more than 90,000 MSBs were identified. SB/SE, which has regulatory authority over MSBs, is placing greater attention on examining these entities. Their BSA examinations will result in increased criminal referrals.

The chart below shows the impact of implementing the initiative on criminal investigations convictions for all CI activities. Research suggests that tax convictions have a significant positive impact on voluntary compliance.



Taxpayer Services Initiatives

<u>*Research Effect of Service on Taxpayer Compliance*</u>
<u>*+$5,000,000 / +8 FTE*</u>

This initiative provides funding to enhance understanding of the role of taxpayer service on compliance by undertaking new research on the service needs of taxpayers. The effect of service on taxpayer compliance will be examined by focusing on four areas:

1. <u>Meeting Taxpayer Needs by Providing the Right Channel of Communication</u> – Classifying the types of services taxpayers seek from various options (internet, walk-in sites, toll-free hotline), preferences among these options, and the costs of providing

the services. The goal is to determine the most productive communication channels for the IRS and taxpayer.

2. Better Understanding Taxpayer Burden – Update the taxpayer burden survey to provide revised estimates of the compliance burden incurred by individual income taxpayers. Continue the development of a post-filing model to allow for the evaluation of proposals designed to reduce taxpayer burden, improve taxpayer service, and further the understanding of the relationship between service and compliance.

3. Understanding Taxpayer Needs through the Errors They Make – Improve taxpayer service and increase voluntary compliance by identifying why taxpayers make errors and the relationships between errors and unclear notices and publications. Further research will assess the effect of proposed changes to remedy the errors. This will channel resources more efficiently to areas with the greatest need and reduce IRS burden by increasing the accuracy of returns by taxpayers who strive to be compliant.

4. Research on the Impact of Service on Overall Levels of Voluntary Compliance – Develop models of how taxpayer services affect voluntary compliance levels and measure the impact of IRS activities relating to taxpayer service on the level of voluntary compliance. This research will attempt to quantify the relationship between services provided and overall compliance. In addition to providing enhanced service to taxpayers, the results of the study will be instrumental in reducing the tax gap by increasing voluntary compliance.

Expand Volunteer Income Tax Assistance
+$5,000,000 / +46 FTE

This initiative supports the IRS goal of improving taxpayer service. It funds additional resources to expand IRS volunteer return preparation, outreach and education, and provide financial literacy training. These services are offered to low-income, elderly, Limited English Proficient (LEP), and disabled taxpayers. The IRS currently partners with more than 60 national organizations representing financial institutions, educational institutions, tribal governments, community, and volunteer organizations to provide these services. At the local level, the IRS has formed over 290 coalitions representing thousands of partners supporting the Volunteer Income Tax Assistance (VITA)/Tax Counseling for the Elderly (TCE) effort. The additional FTE will support the IRS' growing number of partners and growing taxpayer demand for these services. This initiative also will enable the IRS to increase its presence and training support opportunities for its volunteer partners.

The Volunteer Return Preparation Program – Quality Improvement Process (VRPP-QIP) will continue to be a focal point in implementing this initiative. The IRS has implemented several enhanced processes and is working toward continued improvement of the accuracy of tax returns at the volunteer preparation sites. This IRS investment provides partners with tax law and software training, marketing materials, educational products, research data for optimal site placement and effectiveness, supplies, technology support (software, computers and printers); and the necessary products, procedures and technical expertise for effective site operations.

These resources will also enhance and expand the following specific initiatives to improve taxpayer service coverage to IRS customers:

- Rural Strategy – The IRS has a multi-year proposal currently under development to expand services to rural populations in seven states that have some of the largest numbers of low-income taxpayers. These resources will enable the IRS to accelerate this rural strategy and form a coalition of foundations with a rural emphasis to further enable IRS to expand services to these underserved rural areas.

- Disability Initiative – The IRS is expanding its partnering efforts with organizations that serve people with disabilities to ensure that this segment of the population is educated on the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and other unique benefits in the tax code. This includes increasing access to and utilization of free tax preparation services for persons with disabilities.

- Native American Initiative – The IRS is continuing its partnering efforts to provide additional services to low-income Native, rural communities. These resources will assist the IRS in expanding the VITA program to Indian reservations.

This initiative will enable the IRS to expand its outreach and education programs and improve the quality of the Volunteer Return Preparation Program (VRPP). This initiative provides the resources needed to achieve its 60 percent quality rate for VRPP in FY 2008. This funding will provide the additional training presence and on site support most requested by IRS partners and needed to improve the quality of return preparation at VITA sites.

Such investment is consistent with the priorities identified in both the IRS Strategic Plan and the Taxpayer Assistance Blueprint. It supports increased taxpayer value (significantly improved awareness, access) and business value (cost efficiency) gained through partner-based service delivery. The IRS has already realized many of these benefits; however, improving the quality of the assistance is critical to sustaining the viability of this powerful business model.

Implement Taxpayer Assistance Blueprint
+$10,000,000 / 0 FTE

In response to a Congressional directive, the IRS conducted a comprehensive review of its current portfolio of taxpayer service to create a Taxpayer Assistance Blueprint (TAB). The TAB outlines a five-year strategic plan to implement specific, research-based service initiatives. Based on the findings of the TAB study, the funding for this initiative will implement telephone service and Web site electronic interaction enhancements.

Continued investments in automated services and processes offer significant opportunities for the IRS to improve the efficiency and effectiveness of its service provided to taxpayers. The following information details the benefits of investing in this initiative.

Telephone Service Enhancements:

Contact Analytics ($3.5M) – Contact Analytics (CA) provides Commercial-off-the-Shelf (COTS) tools for evaluating contact center recordings for the purpose of identifying improvements. This initiative will expand the IRS' capability to record, store, and analyze information received during a taxpayer telephone contact. Large segments of recorded messages can be selected as a group, reviewed and compared using user-specified search criteria. The analytic tools will provide the capability to drill down to individual recordings to hear selected conversations.

CA will provide the broad and accurate data required to perform business process reengineering, as well as information needed to gain better insight into service preferences. CA improves the ability to measure call accuracy, timeliness, and professionalism--leading to process improvements and cost savings. It also will improve the ability to identify and respond to problems--leading to more accurate, clearer responses to taxpayers. Employee satisfaction will increase through improved work processes that allow assistors to handle more complex calls with fewer transfers. Such advancements will support the IRS in capturing more and better data around the service experience, which will result in improved understanding of service levels and potential enhancements.

Estimated Wait Time ($375K) –According to the Customer Contact Council, recent research shows that customers rate estimated wait time as one of the top five most important technologies when rating Contact Centers; customers who had been exposed to estimated wait technology were virtually all satisfied with its features. The estimated wait time (EWT) enhancement will reduce taxpayer burden and increase customer satisfaction by informing taxpayers about their expected wait time in queue.

Web site Interaction Enhancements:

Expanded Portfolio of Tax Law Decision Support Tools ($5.699M) – Website enhancements are designed to maximize the value of IRS.gov to taxpayers and other external stakeholders, making the Website the first choice for obtaining the information and services required to comply with tax obligations.
This enhancement will enable users to conduct key word and natural language queries and to get answers to tax law questions through the Frequently Asked Questions (FAQs) database accessed on IRS.gov. Users will be able to access standard reports, searches, and "Top Ten" FAQ lists. An analytics console will allow in-depth analysis of reports.

Spanish "Where's My Refund?" ($426K) – This enhancement adds the refund status feature to the Spanish web page on IRS.gov, enabling the Spanish-speaking community to receive the same level of customer service on the web as available on the English web page.

Operating Levels Table
Internal Revenue Service

Table 2.2

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	95,386	93,036	(1,318)	91,718	0	91,718	92,118
Object Classification:							
11.1 Full-Time Permanent Positions	$5,310,233	$5,380,296	($65,454)	$5,314,842	($4,193)	$5,310,649	$5,574,665
11.3 Other than Full-Time Permanent Positions	433,414	427,129	(11,840)	415,289	103	415,392	412,796
11.5 Other Personnel Compensation	246,491	248,226	(3,129)	245,097	288	245,385	259,835
11.8 Special Personal Services Payments	16,753	16,863	0	16,863	0	16,863	17,499
11.9 Personnel Compensation (Total)	$6,006,891	$6,072,514	($80,423)	$5,992,091	($3,802)	$5,988,289	$6,264,795
12.0 Personnel Benefits	1,620,275	1,653,086	(11,154)	1,641,932	(113)	1,641,819	1,712,785
13.0 Benefits to Former Personnel	67,401	62,001	(7,953)	54,048	131	54,179	61,623
21.0 Travel	210,113	214,075	(13,859)	200,216	781	200,997	226,387
22.0 Transportation of Things	26,371	27,309	0	27,309	1	27,310	28,481
23.1 Rental Payments to GSA	680,865	640,193	0	640,193	0	640,193	665,737
23.2 Rent Payments to Others	351	375	0	375	0	375	388
23.3 Communications, Utilities, & Misc	367,907	366,213	(7,551)	358,662	1	358,663	380,022
24.0 Printing and Reproduction	67,187	65,926	0	65,926	128	66,054	67,549
25.1 Advisory & Assistance Services	141,597	61,049	(4,260)	56,789	1,529	58,318	60,143
25.2 Other Services	641,014	620,120	(11,626)	608,494	(1,398)	607,096	707,829
25.3 Purchase of Goods/Serv. from Govt. Accts	83,494	84,247	(1,259)	82,988	2,141	85,129	87,374
25.4 Operation & Maintenance of Facilities	188,951	179,710	(551)	179,159	0	179,159	182,810
25.5 Research & Development Contracts	7,469	7,272	0	7,272	0	7,272	8,177
25.6 Medical Care	10,005	10,005	0	10,005	0	10,005	10,245
25.7 Operation & Maintenance of Equipment	100,296	88,543	(10,389)	78,154	(151)	78,003	78,912
25.8 Subsistence & Support of Persons	5,090	4,732	0	4,732	143	4,875	5,130
26.0 Supplies and Materials	64,415	56,873	(249)	56,624	(1,990)	54,634	59,168
31.0 Equipment	266,981	302,541	(4,199)	298,342	2,598	300,940	410,961
32.0 Lands and Structures	0	58,056	0	58,056	0	58,056	59,449
33.0 Investments & Loans	0	0	0	0	0	0	0
41.0 Grants, Subsidies	11,944	12,195	0	12,195	0	12,195	12,569
42.0 Insurance Claims & Indemn	1,275	988	0	988	1	989	1,033
43.0 Interest and Dividends	0	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0	0
91.0 Unvouchered	3,814	3,814	0	3,814	0	3,814	3,932
Total Budget Authority	$10,573,706	$10,591,837	($153,473)	$10,438,364	$0	$10,438,364	$11,095,499
Budget Activities:							
Pre-Filing Taxpayer Assistance and Education	$2,142,042	$2,079,151	($20,000)	$2,059,151	($12,243)	$2,046,908	$2,103,089
Enforcement	4,708,441	4,797,126	(88,721)	4,708,405	(47,833)	4,660,572	4,925,498
Operations Support	3,461,205	3,488,404	(29,252)	3,459,152	60,076	3,519,228	3,769,587
Business Systems Modernization	242,010	212,310	(15,500)	196,810	0	196,810	282,090
Health Insurance Tax Credit Administration	20,008	14,846	0	14,846	0	14,846	15,235
Total Budget Authority	$10,573,706	$10,591,837	($153,473)	$10,438,364	$0	$10,438,364	$11,095,499

2B – Appropriations Language and Explanation of Changes

TITLE II – DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE

Taxpayer Services

For necessary expenses of the Internal Revenue Service to provide taxpayer services, including pre-filing taxpayer assistance and education, filing and account services, taxpayer advocacy services, and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, $2,103,089,000, of which up to $4,100,000 shall be for the Tax Counseling for the Elderly Program, and of which $8,000,000 shall be for low-income taxpayer clinic grants.

Enforcement
(including Transfer of Funds)

For necessary expenses of the Internal Revenue Service to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes, to purchase (for police-type use, not to exceed 850) and hire of passenger motor vehicles (31 U.S.C. 1343(b)), and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, $4,925,498,000, of which not less than $57,252,000 shall be for the Interagency Crime and Drug Enforcement program: Provided, That up to $10,000,000 may be transferred as necessary from this account to Internal Revenue Service, "Operations Support" solely for the purposes of the Interagency Crime and Drug Enforcement program: Provided further, That this transfer authority shall be in addition to any other transfer authority provided in this Act.

Health Insurance Tax Credit Administration

For expenses necessary to implement the health insurance tax credit included in the Trade Act of 2002 (Public Law 107-210), $15,235,000.

Operations Support

For necessary expenses of the Internal Revenue Service to support taxpayer services and enforcement programs, including rent payments; facilities services; printing; postage; physical security; headquarters and other IRS-wide administration activities; research and statistics of income; telecommunications; information technology development, enhancement, operations, maintenance, and security; the hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; $3,769,587,000 of which $75,000,000 shall remain available until September 30, 2009, for information technology support; of which not to exceed $1,000,000 shall remain available until September 30, 2010, for research; of which not to exceed $1,600,000 shall be for the Internal Revenue Service Oversight Board; and of which not to exceed $25,000 shall be for official reception and representation.

Business Systems Modernization

For necessary expenses of the Internal Revenue Service's business systems modernization program, $282,090,000, to remain available until September 30, 2010, for the capital asset acquisition of information technology systems, including management and related contractual costs of said acquisitions, including related Internal Revenue Service labor costs, and contractual costs associated with operations authorized by 5 U.S.C. 3109: Provided, That, with the exception of labor costs, none of these funds may be obligated until the Internal Revenue Service submits to the Committees on Appropriations, a plan for expenditure that: (1) meets the capital planning and investment control review requirements established by the Office of Management and Budget, including Circular A-11; (2) complies with the Internal Revenue Service's enterprise architecture, including the modernization blueprint; (3) conforms with the Internal Revenue Service's enterprise life cycle methodology; (4) is approved by the Internal Revenue Service, the Department of the Treasury, and the Office of Management and Budget; (5) has been reviewed by the Government Accountability Office; and (6) complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the Federal Government.

ADMINISTRATIVE PROVISIONS—INTERNAL REVENUE SERVICE (INCLUDING TRANSFERS OF FUND)

Sec. 201. Not to exceed 5 percent of any appropriation made available in this Act to the Internal Revenue Service or not to exceed 3 percent of appropriations under the heading "Enforcement" may be transferred to any other Internal Revenue Service appropriation upon the advance notification of the Committees on Appropriations.

Sec. 202. The Internal Revenue Service shall maintain a training program to ensure that Internal Revenue Service employees are trained in taxpayers' rights, in dealing courteously with taxpayers, and in cross-cultural relations.

Sec. 203. The Internal Revenue Service shall institute and enforce policies and procedures that will safeguard the confidentiality of taxpayer information.

Sec. 204. Of the funds made available by this Act to the Internal Revenue Service, not less than $6,787,950,000 shall be available only for tax enforcement and related support activities funded in Internal Revenue Service, "Enforcement" and "Operations Support." In addition, of the funds made available by this Act to the Internal Revenue Service, and subject to the same terms and conditions, an additional $440,264,000 shall be available for tax enforcement and related support activities.

Sec. 205. Section 9503(a) of title 5, United States Code, is amended by striking the clause "for a period of 10 years after the date of enactment of this section" and replacing it with "before July 23, 2013".

Sec. 206. Sections 9504(a) and (b), and 9505(a) of title 5, United States Code, are amended by striking the clause "For a period of 10 years after the date of enactment" each place it occurs, and replacing it with "Before July 23, 2013".

Sec. 207. Section 9502(a) of title 5, United States Code, is further amended by striking "Office of Management and Budget" and replacing it with "Office of Personnel Management".

2C – Legislative Proposals

The IRS needs to find ways to fairly and effectively administer the tax law while minimizing burden on taxpayers. Tax laws are changed each year and the changes are aimed at simplifying the tax code, improving compliance and reducing the cost of administering the tax laws. The IRS works extensively with stakeholders to move closer to meeting the demands of the customers and eliminating barriers that prevent taxpayers from meeting their tax obligations. The President's Budget includes the main categories of legislative proposals below. When implemented, it is estimated that these proposals will generate approximately $29 billion over the next ten years:

- *Expanding Information Reporting*
  Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:
  1. Require information reporting on payments to corporations;
  2. Require basis reporting on security sales;
  3. Expand broker information reporting;
  4. Require information reporting on merchant payment card reimbursements;
  5. Require a certified taxpayer identification number (TIN) from non-employee service providers;
  6. Require increased information reporting for certain government payments for property and services; and
  7. Increase information return penalties.

- *Improve Compliance by Businesses*
  Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:
  1. Require electronic filing by certain large businesses;
  2. Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes; and
  3. Amend collection due process procedures applicable to employment tax liabilities.

- *Strengthen Tax Administration*
  The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would:
  1. Expand IRS access to information in the National Directory of New Hires database;
  2. Permit the IRS to disclose to prison officials return information about tax violations; and
  3. Make repeated failure to file a tax return a felony.

- *Expand Penalties*
  Penalties play an important role in discouraging intentional non-compliance. Specific proposals to expand penalties would:
  1. Expand preparer penalties;
  2. Impose a penalty on failure to comply with electronic filing requirements; and
  3. Create an erroneous refund claim penalty.

- *Other Miscellaneous Proposals*
  The Administration has four proposals relating to IRS administrative reforms.
  1. Modify employee infractions subject to mandatory termination and permit a broader range of available penalties. This will strengthen taxpayer privacy while reducing employee anxiety resulting from unduly harsh discipline or unfounded allegations.
  2. Allow the IRS to terminate installment agreements when taxpayers fail to make timely tax deposits and file tax returns on current liabilities.
  3. Eliminate the requirement that the IRS Chief Counsel provide an opinion for any accepted offer-in-compromise of unpaid tax (including interest and penalties) equal to or exceeding $50,000. This proposal requires that the Secretary of the Treasury establish standards to determine when an opinion is appropriate.
  4. Modify the way that Financial Management Services (FMS) recovers its transaction fees for processing the IRS' levies by permitting FMS to add the fee to the liability being recovered, thereby shifting the cost of collection to the delinquent taxpayer. The offset amount would be included as part of the 15-percent limit on continuous levies against income.

Taxpayer Services

Section 3 – Budget and Performance Plan

Taxpayer Services (TS)

Appropriation Description

The Taxpayer Services appropriation provides funding for taxpayer service activities and programs, including forms and publications; processing tax returns and related documents; filing and account services; taxpayer advocacy services; and assisting taxpayers to understand their tax obligations, correctly file their returns, and pay taxes due timely.

The Taxpayer Services budget request for FY 2008 is $2,103,089,000 in direct appropriations and 30,160 FTE. This is an increase of $56,181,000 or 2.7 percent, and a decrease of 437 FTE, over the FY 2007 Continuing Resolution (CR) Rate of $2,046,908,000 and 30,597 FTE.

Appropriations Detail Table
Taxpayer Services

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Pre-Filing Taxpayer Assistance and Education	6,206	$577,425	5,461	$559,249	6,047	$575,694	5,990	$556,693	6,031	$578,078	0.68%	3.84%
Filing and Account Services	25,844	1,564,617	25,925	1,568,209	24,844	1,503,457	24,607	1,490,215	24,129	1,525,011	-1.94%	2.33%
Subtotal New Appropriated Resources	32,050	$2,142,042	31,386	$2,127,458	30,891	$2,079,151	30,597	$2,046,908	30,160	$2,103,089	-1.43%	2.74%
Other Resources:												
Recoveries												
Offsetting Collections - Reimbursable	767	$51,069	997	$41,474	331	$26,824	331	$26,824	339	$27,414	2.42%	2.20%
50% Carryover				10,655								
Mandatory Appropriations - User Fees						168,000		168,000		108,000		-35.71%
Available multi-year/no-year funds		13,236		3,429		15,866		15,866		6,866		-56.73%
Transfers In/Out												
Subtotal Other Resources	767	$64,305	997	$55,558	331	$210,690	331	$210,690	339	$142,280	2.42%	-32.47%
Total Resources Available for Obligation	32,817	$2,206,347	32,383	$2,183,016	31,222	$2,289,841	30,928	$2,257,598	30,499	$2,245,369	-1.39%	-0.54%

Budget Adjustment Table
Taxpayer Services

Table 2.1		
FY 2008 Budget Highlights		
Dollars in Thousands		
Appropriation: Taxpayer Services	FTE	Amount
FY 2007 President's Budget	30,891	$2,079,151
CR-rate Adjustment	(330)	(20,000)
FY 2007 CR-rate	30,561	$2,059,151
Interappropriation Transfer Corrections to Budget Restructure	36	(12,243)
FY 2007 Operating Plan at CR-rate	30,597	$2,046,908
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$0
Base Adjustment		
Maintaining Current Levels (MCLs)		$71,500
Pay Annualization		10,190
Pay Inflation Adjustment		58,424
Non-Pay Inflation Adjustment		2,886
Efficiency Savings	(527)	($23,407)
Subtotal, Changes to Base	(527)	$48,093
FY 2008 Base	30,070	$2,095,001
Program Changes:		
Program Decreases/Savings:	0	($5,968)
Increased e-File Savings		(5,968)
Program Reinvestments:	0	$5,968
Increase Efficiency Through Submission Processing Site Consolidations		5,968
Program Increases:		
Enforcement Initiatives	44	$4,235
Improve Compliance Among Small Business and Self-Employed Taxpayers	31	2,437
Increase Compliance for Large Multinational Businesses	4	1,055
Establish New Document Matching - Kansas City	3	248
Increase Individual Filing Compliance	6	495
Taxpayer Service Initiative	46	$3,853
Expand Volunteer Income Tax Assistance	46	3,853
Subtotal, FY 2008 Program Changes	90	$8,088
Total, FY 2008 President's Budget Request	30,160	$2,103,089

Operating Levels Table
Taxpayer Services

Table 2.2

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	32,050	30,891	(330)	30,561	36	30,597	30,160
Object Classification:							
11.1 Full-Time Permanent Positions	$1,117,586	$1,112,080	($2,143)	$1,109,937	$1,626	$1,111,563	$1,152,553
11.3 Other than Full-Time Permanent Positions	316,349	321,755	(11,647)	310,108	(1)	310,107	303,897
11.5 Other Personnel Compensation	76,951	76,480	0	76,480	(111)	76,369	78,525
11.8 Special Personal Services Payments	0	0	0	0	0	0	0
11.9 Personnel Compensation (Total)	$1,510,886	$1,510,315	($13,790)	$1,496,525	$1,514	$1,498,039	$1,534,975
12.0 Personnel Benefits	431,056	431,083	(3,971)	427,112	(981)	426,131	435,843
13.0 Benefits to Former Personnel	839	3,046	0	3,046	131	3,177	9,119
21.0 Travel	27,611	27,573	(15)	27,558	2	27,560	28,720
22.0 Transportation of Things	4,403	4,294	0	4,294	0	4,294	4,445
23.1 Rental Payments to GSA	0	0	0	0	0	0	0
23.2 Rent Payments to Others	0	0	0	0	0	0	0
23.3 Communications, Utilities, & Misc	3,817	4,862	0	4,862	0	4,862	4,982
24.0 Printing and Reproduction	7,773	7,898	0	7,898	35	7,933	8,124
25.1 Advisory & Assistance Services	7,778	3,298	0	3,298	(866)	2,432	2,490
25.2 Other Services	96,568	39,532	(2,524)	37,008	(1,385)	35,623	36,470
25.3 Purchase of Goods/Serv. from Govt. Accts	10,931	10,931	0	10,931	(329)	10,602	11,029
25.4 Operation & Maintenance of Facilities	91	91	0	91	0	91	93
25.5 Research & Development Contracts	0	0	0	0	0	0	0
25.6 Medical Care	0	0	0	0	0	0	0
25.7 Operation & Maintenance of Equipment	8,945	8,945	0	8,945	(8,293)	652	667
25.8 Subsistence & Support of Persons	1,467	1,418	0	1,418	9	1,427	1,475
26.0 Supplies and Materials	15,361	11,813	(249)	11,564	(2,160)	9,404	11,827
31.0 Equipment	2,556	2,158	549	2,707	80	2,787	567
32.0 Lands and Structures	0	0	0	0	0	0	0
33.0 Investments & Loans	0	0	0	0	0	0	0
41.0 Grants, Subsidies	11,939	11,866	0	11,866	0	11,866	12,232
42.0 Insurance Claims & Indemn	21	28	0	28	0	28	31
43.0 Interest and Dividends	0	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0	0
91.0 Unvouchered	0	0	0	0	0	0	0
Total Budget Authority	$2,142,042	$2,079,151	($20,000)	$2,059,151	($12,243)	$2,046,908	$2,103,089
Budget Activities:							
Pre-filing Taxpayer Assistance & Education	$577,425	$575,694	($4,222)	$571,472	($14,779)	$556,693	$578,078
Filing & Account Services	1,564,617	1,503,457	(15,778)	1,487,679	2,536	1,490,215	1,525,011
Total Budget Authority	$2,142,042	$2,079,151	($20,000)	$2,059,151	($12,243)	$2,046,908	$2,103,089

TS Budget Activity: ***Pre-Filing Taxpayer Assistance and Education***

3A - Description

Pre-Filing Taxpayer Assistance and Education *($578,078,000 in direct appropriation, $1,059,000 from reimbursable programs, and $76,000,000 from user fees)*

This budget activity funds services to assist with tax return filing, including interpretation of the tax laws, media, and publications. This includes the following program activities:

- Filing Services Management administers pre-filing, taxpayer assistance, and education programs;
- Taxpayer Communication and Education researches customer needs, prepares tax forms and publications; develops and manages educational programs; establishes partnerships with stakeholder groups; and disseminates tax information to taxpayers and the general public through a variety of media, including publications and mailings, web sites, broadcasting, and advertising;
- Media and Publications develops understandable notices, produces forms and publications for printed and electronic tax materials, and supplies media production services to taxpayers;
- Taxpayer Advocacy provides advocate services to taxpayers for the purpose of preventing future problems by identifying the underlying causes of taxpayer problems and participating in the development of systematic and/or procedural remedies;
- Account Management & Assistance – Field Assistance provides face-to-face assistance, education, and compliance services to taxpayers. It includes return preparation, answering tax questions, resolving account and notice inquiries, and supplying forms and publications to taxpayers;
- Taxpayer Advocate Case Processing ensures that taxpayers have an advocate to present their interests within the IRS to resolve taxpayers' problems through prompt identification, referral, and settlement; and
- National Distribution Center receives and processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.1				
Dollars in Thousands				
Pre-Filing Taxpayer Assistance and Education				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$565,841	$577,425	$556,693	$578,078
Offsetting Collections - Reimbursable	1,170	1,573	1,037	1,059
Mandatory Appropriations - User Fees	0	0	76,000	76,000
Total Operating Level	$567,011	$578,998	$557,730	$579,137
Human Resources				
Appropriated FTE	6,586	6,206	5,990	6,031
Other FTE	14	23	10	11
Total FTE (direct and reimbursable)	6,600	6,229	6,000	6,042

					Includes Strategic Objective F4A	
Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	Target	75.0%	80.0%	92.0%	85.2%	92.0%
	Actual	76.0%	91.4%	83.0%		
	Met	Y	Y	N		
Timeliness of Critical Other Tax Products to the Public (Ot)	Target	N/A	80.0%	85.0%	79.6%	86.0%
	Actual	76.0%	80.0%	61.2%		
	Met		Y	N		
Taxpayer Self Assistance Rate (Oe) (L)	Target	N/A	Baseline	45.7%	48.6%	51.4%
	Actual	46.4%	42.5%	46.8%		
	Met			Y		
Percent of Eligible Taxpayers Who File for EITC (Oe)	Target	Baseline	80.0%	80.0%	75%-85%	75%-85%
	Actual	80.0%	80.0%	*		
	Met	Y	Y			

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Key: Oe - Outcome Measure, Ot - Output/Workload Measure, L - Long Term Goal

*Data to estimate eligibility rate is not available at this time.

Description of Performance

Improved service options for taxpayers and simplifying the tax process are key objectives under the IRS strategic goal to improve taxpayer service. Helping the public to understand its tax reporting and payment obligations remains a vital part of maintaining public confidence in administering the tax laws. The IRS continues to expand its outreach by relying on partner organizations such as state taxing authorities and a cadre of volunteer groups, such as Volunteer Income Tax Assistance (VITA), to serve taxpayer needs. In FY 2006, the 69,000 volunteers filed approximately 2.3 million returns, a seven percent increase over FY 2005.

In FY 2006, the IRS delivered the first phase of the Taxpayer Assistance Blueprint (TAB), a comprehensive study that reviewed the IRS' current taxpayer service options provided to taxpayers and identified areas for improvements, including expanded taxpayer education and awareness, optimized use of partner services, increased self-service options, and expanded training and support tools for taxpayers. Phase II includes additional research and establishes the framework to develop short and long-term outcome goals and metrics for measuring the IRS' progress on service improvements for taxpayers.

The IRS also played a significant role in outreach and telephone assistance efforts to support disaster response due to the hurricanes that occurred along the gulf coast in August and September of 2005. The IRS assisted the Federal Emergency Management Agency (FEMA) by manning telephone sites to answer 948,814 disaster related questions. Also, a substantial number of taxpayers were contacted by the IRS and educated in tax related matters such as claiming property and personal losses, applying for filing extensions, and requesting extensions of time to pay on existing tax liabilities due to financial hardship. In addition, emergency tax relief bills were enacted that required over 230 changes to 78 tax products. Despite passage late in the tax year, 83 percent of the critical filing season tax products and over 61.2 percent of other tax products were delivered to the public on time.

The IRS continues efforts to simplify its tax forms and publications making them more user-friendly with the ultimate goal of providing all of its published products in electronic format. The FY 2006 taxpayer self-assistance rate was 46.8 percent, which exceeded the target of 45.7 percent. This success can be attributed primarily to the high increase in use of the "Where's My Refund?" website feature, which was up 11.8 percent for the 2006 filing season, and the addition of the Earned Income Tax Computation (EITC) tool to the website.

In FY 2007 and FY 2008, the IRS will continue to simplify tax forms and publications to make them more user friendly for use on computer-based systems with the eventual goal of providing all published products in an electronic format, which should ensure that all critical filing season and other critical tax products are available by established deadlines. In addition, efforts to increase electronic filing will continue, with new forms and schedules added to the business electronic portfolio, leveraging partner organizations such as state taxing authorities, and increasing use of volunteers to better serve taxpayer needs.

TS Budget Activity: *Filing and Account Services*

3A – Description

Filing and Account Services *($1,525,011,000 in direct appropriation, $26,355,000 from reimbursable programs, and $32,000,000 from user fees)*

This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically submitted tax returns, issue refunds, and maintain taxpayer accounts. This includes the following program activities:

- Filing and Account Services Management administers filing and account services programs;
- Submission Processing processes paper and electronically-submitted tax returns and supplemental documents, accounts for tax revenues, and issues refunds and tax notices;
- Account Management and Assistance – Electronic Correspondence Assistance provides education and compliance services to taxpayers through telephone, correspondence, and electronic means and to resolve account and notice inquiries, either electronically or by telephone;
- Electronic Tax Administration markets and administers electronic tax administration products and services; and
- Files Most Efficient Organization stores the administrative files and the most recent tax returns in-process that are most likely to be requested for research by various IRS organizations until they are forwarded to the federal records centers.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.2				
Dollars in Thousands				
Filing and Account Services				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$1,579,145	$1,564,617	$1,490,215	$1,525,011
Offsetting Collections - Reimbursable	36,813	49,496	25,787	26,355
Mandatory Appropriations - User Fees	0	0	92,000	32,000
Total Operating Level	$1,615,958	$1,614,113	$1,516,002	$1,551,366
Human Resources				
Appropriated FTE	26,892	25,844	24,607	24,129
Other FTE	453	744	321	328
Total FTE (direct and reimbursable)	27,345	26,588	24,928	24,457

					Includes Strategic Objective F4A	
Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
Percent Individual Returns Processed Electronically (Oe) (L)	Target	45.0%	51.0%	55.0%	57.0%	61.6%
	Actual	46.5%	51.1%	54.1%		
	Met	Y	Y	N		
Percent of Business Returns Processed Electronically (Oe) (L)	Target	19.6%	17.0%	18.6%	19.5%	21.2%
	Actual	17.4%	17.8%	16.6%		
	Met	N	Y	N		
Customer Accuracy - Tax Law Phones (Oe)	Target	85.0%	82.0%	90.0%	91.0%	91.2%
	Actual	80.0%	89.0%	90.9%		
	Met	N	Y	Y		
Customer Accuracy - Accounts (Phones) (Oe)	Target	89.0%	89.8%	92.0%	93.3%	93.4%
	Actual	89.0%	91.5%	93.2%		
	Met	Y	Y	Y		
Customer Contacts Resolved per Staff year (E)	Target	N/A	7,261	7,477	7,702	7,880
	Actual	8,015	7,585	7,414		
	Met		Y	N		
Customer Service Representative (CSR) Level of Service (Oe)	Target	83.0%	82.0%	82.0%	78.0%	81.0%
	Actual	87.3%	82.6%	82.0%		
	Met	Y	Y	Y		
Refund Timeliness - Individual (paper)	Target	98.4%	98.4%	99.2%	99.2%	99.2%
	Actual	98.3%	99.2%	99.3%		
	Met	N	Y	Y		

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal

Description of Performance

The IRS delivered a successful 2006 filing season in the midst of a very challenging year. Despite natural disasters that affected a large number of taxpayers and required an unprecedented response, the IRS processed more than 134.7 million total individual returns compared to 128.6 million last year, and issued more than 100 million refunds totaling $277 billion compared to 97.1 million refunds totaling $205.1 billion. For the second consecutive year, more than half, 72.8 million individual returns, were filed electronically, a 6.6 percent increase from FY 2005. The most significant increase in electronic filing came from home computer filing, which increased by 18.5 percent to more than 20.2 million returns. The IRS processed more than 7.7 million business returns electronically, a seven percent increase from last year. With an increase in both individual and business return filings, the IRS remains on track to have more than half of all returns filed electronically.

A key objective of the IRS' Taxpayer Service strategic is to increase electronic services and improve the ease of taxpayer access. Benefits of improved electronic services were demonstrated during the 2006 filing season. The IRS received five percent fewer automated calls and eight percent fewer walk-in contacts. The decline in the number of customers seeking face-to-face assistance in the Taxpayer Assistance Centers reflects taxpayers' preference to pursue self-assisted options for receiving service.

Studies initiated by the IRS Oversight Board and others have demonstrated taxpayer satisfaction with electronic access to IRS for filing tax and information returns, securing forms, instructions and answers including the most frequently asked question, "Where's My Refund?". Research conducted during Phase II of the TAB will identify the key drivers of taxpayer preference for self-assisted versus assisted customer service.

The IRS continues to emphasize direct service to taxpayers. The Customer Service Representative Level of Service was 82 percent. Refund timeliness was at 99.3 percent, also ahead of target and prior year performance.

The IRS and its customers place a high value on accuracy. Accuracy is one of the reasons cited by taxpayers who prefer electronic filing. The importance the IRS places on accuracy is demonstrated by its performance in Customer Accuracy – Tax Law Phones at 90.9 percent and Customer Accuracy – Accounts (Phones) at 93.2 percent, both above the FY 2005 levels.

The IRS developed processes and procedures for administering telecommunications excise tax refunds (TETR) to more than 150 million taxpayers in FY 2007. To do this, the IRS modified all individual and business tax return forms to include TETR information; created a new form to be used by individuals who want to request a refund but who have no other tax filing requirement; and drafted a new form to be used by taxpayers who choose to request refunds based on their actual payments rather than use a standard amount set by the IRS. The IRS also launched an outreach campaign to external stakeholder groups, programmed IRS systems to accept form changes, developed TETR-related internal procedures, and trained employees who will interact with taxpayers on the phone and at Taxpayer Assistance Centers. In addition, the IRS developed a methodology that can be used by businesses and non-profits to estimate their TETR claims.

In FY 2007 and FY 2008, the IRS will continue to research and evaluate information regarding taxpayer service needs, priorities, and preferences in order to improve delivery services that support taxpayer preferable approaches for obtaining information or services. The IRS will seek opportunities to invest in technology, process improvement, and training to achieve consistent repeatable quality service with reduced costs.

Enforcement

Enforcement (ENF)

Appropriation Description

The Enforcement appropriation funds the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; examination of tax returns of exempt organizations; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of under reporting of tax obligations; and the securing of unfiled tax returns and collecting unpaid accounts.

The enforcement budget request for FY 2008 is $4,925,498,000 in direct appropriations and 48,667 FTE. This is an increase of $264,926,000 or 5.7 percent, and 834 FTE or 1.7 percent, over the FY 2007 Continuing Resolution (CR) rate of $4,660,572,000 and 47,833 FTE.

Appropriation Detail Table
Enforcement

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Investigations	4,510	$579,555	4,500	$599,841	4,328	$591,090	4,348	$579,883	4,347	$602,872	-0.02%	3.96%
Exam and Collections	43,045	3,919,275	42,637	3,925,839	43,258	4,054,760	42,264	3,932,599	43,060	4,165,233	1.88%	5.92%
Regulatory	1,979	209,611	1,302	150,115	1,283	151,276	1,221	148,090	1,260	157,393	3.19%	6.28%
Subtotal New Appropriated Resources	49,534	$4,708,441	48,439	$4,675,795	48,869	$4,797,126	47,833	$4,660,572	48,667	$4,925,498	1.74%	5.68%
Other Resources:												
Recoveries												
Offsetting Collections - Reimbursable	376	$86,041	122	$44,106	191	$48,291	191	$48,291	194	$49,353	1.57%	2.20%
50% Carryover				10,054								
Mandatory Appropriations - User Fees				0								
Available multi-year/no-year funds		2,289		1,119		2,286		2,286		1,146		-49.87%
Transfers In/Out				37								
Subtotal Other Resources	376	$88,330	122	$55,316	191	$50,577	191	$50,577	194	$50,499	1.57%	-0.15%
Total Resources Available for Obligation	49,910	$4,796,771	48,561	$4,731,111	49,060	$4,847,703	48,024	$4,711,149	48,861	$4,975,997	1.74%	5.62%

Budget Adjustment Table
Enforcement

Table 2.1		
FY 2008 Budget Highlights		
Dollars in Thousands		
Appropriation: Enforcement	FTE	Amount
FY 2007 President's Budget	48,869	$4,797,126
CR-rate Adjustment	(988)	(88,721)
FY 2007 CR-rate	47,881	$4,708,405
Interappropriation Transfer Corrections to Budget Restructure	(48)	(47,833)
FY 2007 Operating Plan at CR-rate	47,833	$4,660,572
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$0
Base Adjustment		
Maintaining Current Levels (MCLs)		$162,373
Pay Annualization		23,083
Pay Inflation Adjustment		131,573
Non-Pay Inflation Adjustment		7,717
Efficiency Savings	(620)	($60,166)
Subtotal, Changes to Base	(620)	$102,207
FY 2008 Base	47,213	$4,762,779
Program Changes:		
Program Increases:		
Enforcement Initiatives	1,454	$162,719
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	237	29,054
Improve Compliance Among Small Business and Self-Employed Taxpayers	454	55,480
Increase Compliance for Large Multinational Businesses	151	19,916
Expand Document Matching in Existing Sites	208	18,536
Establish New Document Matching - Kansas City	203	15,669
Increase Individual Filing Compliance	55	3,806
Increase Tax-Exempt Entity Compliance	109	11,794
Increase Criminal Tax Investigations	37	8,464
Subtotal, FY 2008 Program Changes	1,454	$162,719
Total, FY 2008 President's Budget Request	48,667	$4,925,498

Operating Levels Table
Enforcement

Table 2.2

Dollars in Thousands

Appropriation Title: Enforcement	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	49,534	48,869	(988)	47,881	(48)	47,833	48,667
Object Classification:							
11.1 Full-Time Permanent Positions	$3,201,250	$3,265,184	($50,373)	$3,214,811	($7,246)	$3,207,565	$3,382,441
11.3 Other than Full-Time Permanent Positions	106,545	94,051	(193)	93,858	96	93,954	97,309
11.5 Other Personnel Compensation	139,605	140,302	(3,112)	137,190	399	137,589	145,646
11.8 Special Personal Services Payments	16,753	16,863	0	16,863	0	16,863	17,499
11.9 Personnel Compensation (Total)	$3,464,153	$3,516,400	($53,678)	$3,462,722	($6,751)	$3,455,971	$3,642,895
12.0 Personnel Benefits	874,868	910,198	(4,134)	906,064	539	906,603	952,840
13.0 Benefits to Former Personnel	4,525	0	0	0	0	0	0
21.0 Travel	151,456	153,124	(13,837)	139,287	620	139,907	163,019
22.0 Transportation of Things	4,042	4,002	0	4,002	1	4,003	4,566
23.1 Rental Payments to GSA	0	0	0	0	0	0	0
23.2 Rent Payments to Others	342	370	0	370	0	370	383
23.3 Communications, Utilities, & Misc	44,687	44,858	0	44,858	(38,921)	5,937	6,642
24.0 Printing and Reproduction	6,559	5,297	0	5,297	93	5,390	5,442
25.1 Advisory & Assistance Services	21,680	28,137	(4,260)	23,877	(3,000)	20,877	21,394
25.2 Other Services	74,577	73,750	(5,553)	68,197	(2,803)	65,394	66,944
25.3 Purchase of Goods/Serv. from Govt. Accts	14,949	12,963	(1,259)	11,704	2,470	14,174	14,537
25.4 Operation & Maintenance of Facilities	507	145	0	145	0	145	1,045
25.5 Research & Development Contracts	2,847	2,908	0	2,908	0	2,908	2,908
25.6 Medical Care	0	0	0	0	0	0	0
25.7 Operation & Maintenance of Equipment	6,755	6,766	(2,800)	3,966	(151)	3,815	3,947
25.8 Subsistence & Support of Persons	3,043	3,043	0	3,043	134	3,177	3,376
26.0 Supplies and Materials	22,172	23,801	0	23,801	(70)	23,731	24,611
31.0 Equipment	6,790	6,848	(3,200)	3,648	5	3,653	6,279
32.0 Lands and Structures	0	0	0	0	0	0	0
33.0 Investments & Loans	0	0	0	0	0	0	0
41.0 Grants, Subsidies	5	329	0	329	0	329	337
42.0 Insurance Claims & Indemn	670	373	0	373	1	374	401
43.0 Interest and Dividends	0	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0	0
91.0 Unvouchered	3,814	3,814	0	3,814	0	3,814	3,932
Total Budget Authority	$4,708,441	$4,797,126	($88,721)	$4,708,405	($47,833)	$4,660,572	$4,925,498
Budget Activities:							
Investigations	$579,555	$591,090	($11,110)	$579,980	($97)	$579,883	$602,872
Exam and Collections	3,919,275	4,054,760	(76,468)	3,978,292	(45,693)	3,932,599	4,165,233
Regulatory	209,611	151,276	(1,143)	150,133	(2,043)	148,090	157,393
Total Budget Authority	$4,708,441	$4,797,126	($88,721)	$4,708,405	($47,833)	$4,660,572	$4,925,498

ENF Budget Activity: *Investigations*

3A – Description

Investigations (*$602,872,000 in direct appropriation and $37,716,000 reimbursable programs)*

This budget activity funds the Criminal Investigations programs that explore potential criminal violations of the internal revenue tax laws, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. This includes the following program activities:

- Criminal Investigations supports the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes. It investigates cases of suspected intent to defraud involving both legal and illegal sources of income and recommends prosecution as warranted. This activity also includes the investigation and prosecution of tax and money laundering violations associated with narcotics organizations; and
- General Management and Administration supports the unit headquarters management activities of strategic planning, communications, finance, human resources for criminal Investigations activities.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.3

Dollars in Thousands

Investigations				Strategic Objective F4A & F3A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$504,075	$579,555	$579,883	$602,872
Offsetting Collections - Reimbursable	90,834	74,842	36,905	37,716
Total Operating Level	$594,909	$654,397	$616,788	$640,588
Human Resources				
Appropriated FTE	4,190	4,510	4,348	4,347
Other FTE	383	325	86	87
Total FTE (direct and reimbursable)	4,573	4,835	4,434	4,434

Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
						Includes Strategic Objective F4A
Criminal Investigations Completed (Ot) (L)	Target	3,400	3,895	3,945	4,000	4,025
	Actual	4,387	4,104	4,157		
	Met	Y	Y	Y		
Number of Convictions (Ot) (L)	Target	N/A	2,048	2,260	2,069	2,135
	Actual	2,008	2,151	2,019		
	Met		Y	N		
Conviction Rate (E) (L)	Target	N/A	92.0%	92.0%	92.0%	92.0%
	Actual	91.2%	91.2%	91.5%		
	Met		N	N		
Conviction Efficiency Rate ($) (E) (L)	Target	N/A	332,194	339,565	314,008	314,560
	Actual	362,849	295,316	328,750		
	Met		Y	Y		

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Key: E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal

Description of Performance

Enforcement of criminal statutes is an integral component of the IRS' efforts to enhance voluntary compliance and enforce the tax laws. In FY 2006, abusive tax schemes and shelters remained a high investigative priority due to their egregious activities in areas of corporate fraud and tax avoidance of high-income individuals. Among the most effective tools available to combat abusive tax schemes was the use of parallel proceedings that enabled the IRS to enjoin promoters of abusive schemes from further activity while the criminal investigation proceeds. These initiatives focused on the thousands of individuals known to maintain offshore bank accounts while operating domestic businesses. Investigative priorities focused on Corporate Fraud, Abusive Tax Schemes, Refund Crimes, Non-Filers, Employment Tax, and Terrorist Financing. Performance levels remained high in FY 2006:

- The referral acceptance rate (i.e., the ratio of internal referrals within the IRS received to the number of those cases that are accepted by CI) of 71.8 percent exceeded the five year high achieved in FY 2005 and total number of referrals accepted (445) was higher than last year;
- Number of convictions was 2,019, falling short of the 2,260 target;
- Conviction rate was 91.5 percent, higher than FY 2005 and within 99 percent of FY 2006 target; and
- Cost of a conviction (Conviction Efficiency rate) was $328,750, almost $11,000 less than the FY 2006 target.

In FY 2007 and continuing in FY 2008, the IRS will focus its investigative resources on legal source tax investigations by partnering with other law enforcement agencies to develop significant tax and other financial investigations. The IRS will also pursue investigations involving illegal source tax and other financial crimes, including money laundering, that adversely affect tax administration and combat fraudulent and financial crime schemes identified through improved case development efforts and bank secrecy investigations.

ENF Budget Activity: *Exam and Collections*

3A – Description

Exam and Collections *($4,165,233,000 in direct appropriation and $11,637,000 from reimbursable programs)*

This budget activity funds programs that enforce the tax laws and compliance through examination and collection programs that ensure proper payment and tax reporting. The budget activity also supports appeals and litigation activities associated with exam and collection. This includes the following program activities:

- Compliance Services Management supports management associated with compliance program activities;
- Payment Compliance – Correspondence Collection supports the IRS' centralized collection activities via correspondence in the Compliance Services Collection Operation. It initiates contact and collects delinquent taxpayer liabilities through written notices and other means;
- Automated Collections and Support supports the IRS' centralized Automated Collection System (ACS). This program initiates contact and collects delinquent taxpayer liabilities through automated means;
- Payment Compliance – Field Collection conducts field investigations and collection efforts associated with delinquent taxpayer and business entity liabilities, including direct taxpayer contact and outreach programs to protect the government's interest in delinquent tax liability situations;
- Tax Reporting Compliance – Document Matching executes the Automated Underreporter (AUR), Combined Annual Wage Reporting (CAWR), Federal Unemployment Tax Act (FUTA), and other Document Matching Programs;
- Tax Reporting Compliance – Electronic/Correspondence Exam operates the service centers' examination function, which initiates correspondence with taxpayers related to tax issues arising from claims on tax returns;
- Tax Reporting Compliance – Field Exam determines taxpayers' correct income levels and corresponding tax liabilities. This activity also applies the tax law to specific taxpayers in the form of determination letters, advance pricing agreements, and other determinations;
- Appeals oversees an administrative review process that provides a channel for impartial case settlement before a case is docketed in a court of law;
- Litigation represents the IRS in litigation and provides all other legal support for the IRS, including interpretation of the tax law;
- Specialty Programs examines federal tax returns of businesses and individuals responsible for the filing and payment of employment, excise, estate and gift taxes. International exam programs involving U.S. citizens residing abroad, non-resident aliens, expatriates and other examinations involving other international issues (e.g., Foreign Tax Credit, Foreign Earned Income Exclusion) also are centrally managed in this functional area;
- Specialty Programs – Collection supports international field collection efforts associated with delinquent taxpayer and business entity liabilities from U.S. citizens residing abroad, non-resident aliens, expatriates, and those involving other international issues (e.g. Foreign Tax Credit, Foreign Earned Income Exclusion); and
- Communications & Liaison coordinates local government and liaison relationships; handle congressional, state, and national stakeholder relationships and issues; coordinate crosscutting issues including managing audits and legislative implementation; handle national media contacts and local media relationships; and ensure Servicewide compliance with Disclosure and Privacy laws.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.4				
Dollars in Thousands				
Exam and Collections				Strategic Objective F4A & F3A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$3,721,495	$3,919,275	$3,932,599	$4,165,233
Offsetting Collections - Reimbursable	13,287	10,948	11,386	11,637
Mandatory Appropriations - User Fees	6,000	0	0	0
Total Operating Level	$3,734,782	$3,930,223	$3,943,985	$4,176,870
Human Resources				
Appropriated FTE	43,160	43,045	42,264	43,060
Other FTE	56	47	105	107
Total FTE (direct and reimbursable)	43,216	43,092	42,369	43,167

Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
				Includes Strategic Objective F4A		
Examination Coverage - Individual (Oe) (L)	Target	N/A	0.9%	0.9%	1.0%	1.0%
	Actual	0.8%	0.9%	1.0%		
	Met		Y	Y		
Field Exam Embedded Quality (Oe) (L)	Target	N/A	N/A	Baseline	87.0%	87.0%
	Actual			85.9%		
	Met					
Office Exam Embedded Quality (Oe) (L)	Target	N/A	N/A	Baseline	89.0%	89.0%
	Actual			88.2%		
	Met					
Examination Quality (LMSB) - Industry (Oe) (L)	Target	80.0%	78.0%	80.0%	88.0%	90.0%
	Actual	74.0%	77.0%	85.0%		
	Met	N	N	Y		
Examination Quality (LMSB) - Coordinated Industry (Oe) (L)	Target	N/A	N/A	92.0%	97.0%	97.0%
	Actual	87.0%	89.0%	96.0%		
	Met			Y		
Examination Coverage - Business (Corps. > $10M) (Oe) (L)	Target		7.1%	7.5%	8.2%	8.2%
	Actual	7.5%	7.8%	7.3%		
	Met		Y	N		
AUR Efficiency (E) (L)	Target	N/A	N/A	1,759	1,932	1,808
	Actual	1,514	1,701	1,832		
	Met			Y		
AUR Coverage (Oe) (L)	Target	N/A	2.5%	2.3%	2.5%	2.7%
	Actual	1.9%	2.2%	2.4%		
	Met		N	Y		
Examination Efficiency - Individual (E) (L)	Target	N/A	N/A	121	136	136
	Actual	N/A	121	128		
	Met			Y		

Table 3.2.4 (Continued)						
Exam and Collections Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
				Includes Strategic Objective F4A		
Collection Coverage - Units (Oe) (L)	Target Actual Met	N/A	57.0% 53.0% N	52.0% 54.0% Y	54.0%	54.0%
Collection Efficiency - Units (E) (L)	Target Actual Met	N/A	N/A 1,514	1,650 1,677 Y	1,723	1,751
Field Collection Embedded Quality (Oe) (L)	Target Actual Met	N/A	N/A	Baseline 84.2%	86.0%	86.0%
Automated Collection System (ACS) Accuracy	Target Actual Met	Baseline 87.8% Y	88.0% 88.5% Y	88.0% 91.0% Y	91.0%	92.0%

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.
Key: Oe - Outcome Measure and E - Efficiency Measure and L - Long Term Goal

Description of Performance

The IRS' examination and collection programs are the primary contributors to the IRS' strategic objective aimed at discouraging and deterring non-compliance by key contributors to the tax gap, particularly corporations, high-income individuals, and domestic and off-shore tax entities.

The IRS continues to enforce the law across all sectors, but is focusing on corrosive activities of corporations, high income taxpayers, and other major violators of the tax code. These efforts are having a positive impact on collecting additional tax revenue. Enforcement revenue from all sources reached a record level of $48.7 billion in FY 2006. Targeting high-risk taxpayers improves IRS efficiency, reduces the burden on compliant taxpayers, and concentrates enforcement presence where it is most needed.

For FY 2006, the IRS met or exceeded 83 percent of its enforcement performance targets. Focusing more on limited scope examinations and productivity enhancements including improved analytics, workload identification, and selection systems that targeted high-risk cases resulted in:

- 7 percent increase in individual audits;
- 18 percent increase in high income audits;
- 8 percent increase in small-business audits;
- 10 percent increase in automated underreporter closures;
- 15 percent increase in collection case closures; and,
- 9 percent increase in revenue received from collection activities.

The IRS continued its efforts in streamlining and improving its examination process, resulting in shortened cycle time for large corporate audits. The time from assigning a large corporate return to a revenue agent until the final closing decreased more than 18 percent. The improvements to the examination process ultimately increased inventory turnover and closures.

The IRS also met its examination coverage - individual, efficiency and embedded quality annual targets. Improvements in inventory management, decreases in cycle time, and focused issue training all contributed to improved productivity. Improved quality controls measuring critical elements of the examination, a reinforced focus on case quality to drive improvement efforts, and the delivery of business results for the third consecutive year all led to improved performance in FY 2006. The IRS will continue to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. The IRS plans to build on its FY 2006 enforcement initiatives with emphasis on early identification of tax liabilities through increased audits and focused collection activities.

In FY 2008, the IRS will focus its resources on targeting compliance of reporting, filing, payment, and other major contributors to the tax gap. Resources will be used to:
- Increase the overall percentage of high-risk tax returns examined, such as multinational corporations, and collect a greater amount of unpaid taxes from filed and un-filed tax returns timely;
- Expand the Automated Underreporter (AUR) program to target the estimated 5.1 million taxpayers who may annually appear to misreport income based on third party information reporting. A new AUR site combined with expanded toll-free telephone service will improve the capability to reach more non-compliant taxpayers; and
- Enhance the analysis of tax information and results of compliance research studies to better define and quantify the tax gap. Targeting high-risk taxpayers will improve IRS efficiency and reduce the burden on compliant taxpayers. It will also increase and focus the enforcement presence where it is most needed.

ENF Budget Activity: *Regulatory*

3A – Description

Regulatory *($157,393,000 in direct appropriations)*

This budget activity funds the development and print of published guidance materials; interpretation of and guidance on tax laws; general legal services, rules and agreements, enforcement of regulatory rules, laws and approved business practices; supporting taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements and the Office of Professional responsibility. This includes the following program activities:

- Tax Law Interpretation and Guidance interprets the tax law through published guidance, technical advice, and other technical legal services;

- General Legal Services provides advice to the IRS on non-tax legal issues, including procurement, personnel, labor relations, equal employment opportunity, fiscal law, tort claims and damages, ethics and conflict of interest;
- Rulings and Agreements applies the tax law to specific taxpayers in the form of pre-filing agreements, determination letters, advance pricing agreements, and other pre-filing determinations and advice;
- Fraud/Bank Secrecy Act enforces the anti-money laundering provisions of the Bank Secrecy Act (BSA) of 1970, and the USA PATRIOT Act of 2001. It examines non-bank financial institutions for compliance with these laws, annually receives and processes more than 15 million financial reports, and manages a centralized database of that information for the Financial Crimes Enforcement Network (FinCEN). The Fraud program follows the "money trail" to support the criminal investigation of tax evasion operations. Fraud Technical Advisors and Revenue Agents provide investigative leads and referrals to federal, state and local law enforcement agencies; and
- Office of Professional Responsibility identifies, communicates, and enforces Treasury Circular 230 standards of competence, integrity, and conduct of those who represent taxpayers before the IRS, such as attorneys, certified public accountants (CPAs), enrolled agents, enrolled actuaries and appraisers, and other professionals.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.5

Dollars in Thousands

Regulatory				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$172,022	$209,611	$148,090	$157,393
Offsetting Collections - Reimbursable	187	251	0	0
Total Operating Level	**$172,209**	**$209,862**	**$148,090**	**$157,393**
Human Resources				
Appropriated FTE	1,605	1,979	1,221	1,260
Other FTE	2	4	0	0
Total FTE (direct and reimbursable)	**1,607**	**1,983**	**1,221**	**1,260**

				Includes Strategic Objective F4A		
Measure		FY 2004	FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
TEGE Determination Case Closures (Ot)	Target	141,000	131,700	112,400	118,200	109,500
	Actual	143,877	126,481	108,462		
	Met	Y	N	N		

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Key: Ot - Output/Workload Measure

Description of Performance

Due to major changes in certain filing processes, the IRS did not meet its FY 2006 plan for Tax Exempt and Government Entities (TE/GE) Determination Cases Closed. The implementation of a staggered amendment filing process for employee plans significantly changed the inventory mix. Over 40 percent of the 25,000 receipts were prototype plans that required more extensive review. These cases will not close until FY 2007, resulting in the closure of 3,600 fewer cases than originally planned. Additionally, recent increases in user fees for employee plan determinations resulted in a slight decrease in determination applications and ultimately 1,500 fewer projected closures.

To stabilize the flow of determination receipts and mitigate the significant swings in workload experienced prior to FY 2006, the IRS will continue its roll-out of the staggered amendment process. The IRS also plans to test and pilot (with external partners) a new interactive software application for preparing determination applications designed to improve the quality of determination requests and establish the foundation for future electronic filing of these applications.

Implementation and on-going use of alternative enforcement strategies through "Issue Management Teams" and Settlement Initiatives have rapidly identified abusive promoters and participants. Special attention to develop preparer penalty cases over the past several years continues in FY 2006, using Program Action Cases, Electronic Return Originator and EITC Due Diligence Visits, criminal investigations, and injunctions. To date, the IRS has more than 500 open return preparer investigations, a substantial increase over the same period last year.

The IRS faces a wide variety of non-tax legal issues. In support of the IRS' regulatory activities, proposed changes to Treasury Circular 230 (Regulations Governing Practice Before the Internal Revenue Service) were published in FY 2006. The changes were designed to address weaknesses in the current regulatory scheme to ensure that tax professionals are adhering to standards and following the law, a key objective to success in enforcing the tax laws. Highlights of the proposed changes include rules implementing new authority to impose a monetary penalties, opening the IRS enforcement proceedings to public scrutiny, limiting contingent fees in the federal tax arena, allowing expedited proceedings for egregious tax non-compliance, and eliminating un-enrolled return preparers to "limited practice" before the agency.

In FY 2006, the IRS also developed a strategy to enhance its coordination and effectiveness of return preparer enforcement efforts and maximize resources and coverage of non-compliant preparers. The strategy includes an annual cross-functional meeting to discuss and evaluate the coming year's preparer inventory with focus on identifying cases warranting attention from the prior year's due diligence visits.

In FY 2006, General Legal Services (GLS) litigated cases involving practitioner questionable tax transactions, successfully defended an award protest for private debt collection services, negotiated a Memorandum of Understanding offering online tax return preparation and filing services, and drafted informant agreements concerning the recovery of taxes due.

In FY 2007 and beyond, the IRS will continue to promote compliance with tax laws and regulations in the tax-exempt and government arena. The IRS' FY 2007 initiative to bolster critical activities, such as determinations and voluntary compliance agreements, will continue in FY 2008. This initiative will maintain the integrity of the tax base and ensure charitable and retirement contributions serve the public purposes for which exemptions were created. In addition, the IRS will focus on the Office of Professional Responsibility disciplinary matters and continued activity to revamp automated systems to modernize and enhance compliance activities.

Operations Support

Operations Support (OS)

Appropriation Description

The Operations Support appropriation provides funding for overall planning, direction, and support for the IRS, including shared service support related to facilities services, rent payments, printing, postage, and security. This appropriation also funds headquarters' policy and management activities such as corporate support for strategic planning, communications and liaison, finance, human resources, Equal Employment Opportunity (EEO) and diversity; research and statistics of income; and necessary expenses for information systems and telecommunication support, including development, security and maintenance of IRS' information systems.

The Operations Support budget request for FY 2008 is $3,769,587,000 in direct appropriations and 12,957 FTE. This is an increase of $250,359,000 or 7.1 percent, and 3 FTE, over the FY 2007 Continuing Resolution (CR) Rate of $3,519,228,000 and 12,954 FTE.

Appropriation Detail Table
Operations Support

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Infrastructure	0	$864,403	0	$837,320	0	$873,146	0	$873,146	0	$908,095	0.00%	4.00%
Shared Services and Support	7,047	1,176,202	5,605	1,154,616	6,693	1,129,617	6,705	1,163,846	6,693	1,223,351	-0.18%	5.11%
Information Services	6,421	1,420,600	5,960	1,446,449	6,249	1,485,641	6,249	1,482,236	6,264	1,638,141	0.24%	10.52%
Subtotal New Appropriated Resources	13,468	$3,461,205	11,565	$3,438,385	12,942	$3,488,404	12,954	$3,519,228	12,957	$3,769,587	0.02%	7.11%
Other Resources:												
Recoveries												
Offsetting Collections - Reimbursable	207	$21,710	10	$4,277	160	$50,608	160	$50,608	163	$56,731	1.88%	12.10%
50% Carryover				2,709								
Mandatory Appropriations - User Fees		19,000		19,000		74,000		74,000		72,000		-2.70%
Available multi-year/no-year funds		37,704		37,076		28,018		28,018		4,333		
Transfers In/Out												
Subtotal Other Resources	207	$78,414	10	$63,062	160	$152,626	160	$152,626	163	$133,064	1.88%	-12.82%
Total Resources Available for Obligation	13,675	$3,539,619	11,575	$3,501,447	13,102	$3,641,030	13,114	$3,671,854	13,120	$3,902,651	0.05%	6.29%

Budget Adjustment Table
Operations Support

Table 2.1		
FY 2008 Budget Highlights		
Dollars in Thousands		
Appropriation: Operations Support	FTE	Amount
FY 2007 President's Budget	12,942	$3,488,404
CR-rate Adjustment		(29,252)
FY 2007 CR-rate	12,942	$3,459,152
Interappropriation Transfer Corrections to Budget Restructure	12	60,076
FY 2007 Operating Plan at CR-rate	12,954	$3,519,228
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$5,687
Base Adjustment		5,687
Maintaining Current Levels (MCLs)		$104,500
Pay Annualization		6,970
Pay Inflation Adjustment		41,532
Non-Pay Inflation Adjustment		55,998
Efficiency Savings	(37)	($36,408)
Subtotal, Changes to Base	(37)	$73,779
FY 2008 Base	12,917	$3,593,007
Program Changes:		
Program Decreases/Savings:	0	($511)
Increased e-File Savings		(511)
Program Reinvestments:	0	$511
Increase Efficiency Through Submission Processing Site Consolidations		511
Program Increases:		
Infrastructure Initiatives	0	$81,000
Upgrade Critical IT Infrastructure		60,000
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastru		21,000
Enforcement Initiatives	32	$79,433
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	21	11,968
Improve Compliance Among Small Business and Self-Employed Taxpayers		15,248
Implement Legislative Proposals to Improve Compliance		23,045
Increase Compliance for Large Multinational Businesses	3	5,229
Expand Document Matching in Existing Sites	6	9,422
Establish New Document Matching - Kansas City	2	7,536
Increase Individual Filing Compliance		2,243
Increase Tax-Exempt Entity Compliance		3,206
Increase Criminal Tax Investigations		1,536
Taxpayer Service Initiatives	8	$16,147
Research Effect of Service on Taxpayer Compliance	8	5,000
Expand Volunteer Income Tax Assistance		1,147
Implement Taxpayer Assistance Blueprint		10,000
Subtotal, FY 2008 Program Changes	40	$176,580
Total, FY 2008 President's Budget Request	12,957	$3,769,587

Operating Levels Table
Operations Support

Table 2.2							
Dollars in Thousands							
Appropriation Title: Operations Support	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	13,468	12,942	0	12,942	12	12,954	12,957
Object Classification:							
11.1 Full-Time Permanent Positions	$955,187	$966,762	($65)	$966,697	$1,427	$968,124	$1,002,389
11.3 Other than Full-Time Permanent Positions	10,074	10,876	0	10,876	8	10,884	11,120
11.5 Other Personnel Compensation	29,287	30,796	(17)	30,779	0	30,779	34,983
11.8 Special Personal Services Payments	0	0	0	0	0	0	0
11.9 Personnel Compensation (Total)	$994,548	$1,008,434	($82)	$1,008,352	$1,435	$1,009,787	$1,048,492
12.0 Personnel Benefits	304,231	301,675	(422)	301,253	329	301,582	313,697
13.0 Benefits to Former Personnel	62,037	58,955	(7,953)	51,002	0	51,002	52,504
21.0 Travel	30,717	33,047	(7)	33,040	159	33,199	34,313
22.0 Transportation of Things	17,926	19,013	0	19,013	0	19,013	19,470
23.1 Rental Payments to GSA	680,674	640,000	0	640,000	0	640,000	665,539
23.2 Rent Payments to Others	9	5	0	5	0	5	5
23.3 Communications, Utilities, & Misc	319,403	316,493	(7,551)	308,942	38,922	347,864	368,398
24.0 Printing and Reproduction	52,855	52,731	0	52,731	0	52,731	53,983
25.1 Advisory & Assistance Services	112,139	29,614	0	29,614	5,395	35,009	36,259
25.2 Other Services	305,314	377,220	(3,549)	373,671	2,790	376,461	420,211
25.3 Purchase of Goods/Serv. from Govt. Accts	57,614	60,353	0	60,353	0	60,353	61,808
25.4 Operation & Maintenance of Facilities	188,353	179,474	(551)	178,923	0	178,923	181,672
25.5 Research & Development Contracts	4,622	4,364	0	4,364	0	4,364	5,269
25.6 Medical Care	10,005	10,005	0	10,005	0	10,005	10,245
25.7 Operation & Maintenance of Equipment	78,896	67,132	(7,589)	59,543	8,293	67,836	67,203
25.8 Subsistence & Support of Persons	580	271	0	271	0	271	279
26.0 Supplies and Materials	26,875	21,252	0	21,252	240	21,492	22,723
31.0 Equipment	213,823	249,723	(1,548)	248,175	2,513	250,688	347,467
32.0 Lands and Structures	0	58,056	0	58,056	0	58,056	59,449
33.0 Investments & Loans	0	0	0	0	0	0	0
41.0 Grants, Subsidies	0	0	0	0	0	0	0
42.0 Insurance Claims & Indemn	584	587	0	587	0	587	601
43.0 Interest and Dividends	0	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0	0
91.0 Unvouchered	0	0	0	0	0	0	0
Total Budget Authority	$3,461,205	$3,488,404	($29,252)	$3,459,152	$60,076	$3,519,228	$3,769,587
Budget Activities:							
Infrastructure	$864,403	$873,146	$0	$873,146	$0	$873,146	$908,095
Shared Services & Support	1,176,202	1,129,617	($8,996)	1,120,621	43,225	1,163,846	1,223,351
Information Services	1,420,600	1,485,641	($20,256)	1,465,385	16,851	1,482,236	1,638,141
Total Budget Authority	$3,461,205	$3,488,404	($29,252)	$3,459,152	$60,076	$3,519,228	$3,769,587

OS Budget Activity: *Infrastructure*

3A - Description

Infrastructure (*$908,095,000 in direct appropriation*)

This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-automated data processing equipment. This includes the following program activities:

- Building Delegation oversees and manages the IRS's GSA-delegated buildings, including cleaning, maintenance, utilities, protections, administrative, recurring and one-time repair costs;
- Rent provides resources for all of the IRS' rent needs; and
- Space and Housing / Non-ADP Equipment provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and Non-ADP equipment.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.6

Dollars in Thousands

Infrastructure				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$757,908	$864,403	$873,146	$908,095
Offsetting Collections - Reimbursable	287	385	0	0
Total Operating Level	$758,195	$864,788	$873,146	$908,095
Human Resources				
Appropriated FTE	0	0	0	0
Other FTE	4	6	0	0
Total FTE (direct and reimbursable)	4	6	0	0

					Includes Strategic Objective F4A
Measure		FY 2005	FY 2006	FY 2007	FY 2008
There are no externally reported performance measures associated with this activity	Target				
	Actual				
	Met				

Description of Performance

The IRS continued to emphasize identification and implementation of cost savings within its infrastructure, in particular, rent costs. The IRS decreased rent costs in FY 2006 by over 2 percent from FY 2005 to $608 million. This was accomplished by identifying and completing 110 space reduction projects releasing a cumulative total of 878,000 square feet. These projects have annualized savings of $19.6 million. As a result of the flooding at the IRS Headquarter building, three projects (57,000 square feet) were maintained to house displaced employees.

In FY 2007 and beyond, the IRS will continue to work to identify and implement rent reduction initiatives and leasing plans to minimize costs. These savings are critical for covering unfunded costs such as new mandates, budget rescissions, and pay raises.

OS Budget Activity: *Shared Services and Support*

3A – Description

Shared Services and Support (*$1,223,351,000 in direct appropriation, $50,990,000 from reimbursable programs, and $10,000,000 from user fees*)

This budget activity funds policy and management and IRS-wide support for research strategic planning, communications and liaison, finance, human resources, and equal employment opportunity and diversity services and programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and specific employee benefits programs. This includes the following program activities:

- National Headquarters Management & Administration directs the management activities of strategic planning, communications and liaison, finance, human resources, EEO and diversity, and business systems planning and embedded training. This activity sets policies and goals, provides leadership and direction for the Internal Revenue Service, and builds partner relationships with key stakeholders (e.g., Congress, OMB, etc.). It provides policy guidance for conducting IRS planning and budgeting strategies, conducting analysis of programs and investments to support strategic decision-making, and developing and managing the human resources. Also, it includes official reception and representation expenses;
- Facilities Services provides services and supplies required to manage IRS facilities;
- Procurement supports the procurement function of the IRS;
- EEO Field Operations plans and manages the IRS EEO and Diversity Program;
- Customer Support plans and manages financial services, including relocation, travel, imprest fund, purchase cards, corporate express, and employee clearances;
- Treasury Complaint Centers plans and manages the Treasury Complaint Centers;
- Shared Support provides resources for shared cross-functional support such as copiers, postage meters, shredders, courier services, and P. O. Boxes;

- Printing and Postage provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials;
- Security protects employees, facilities and assets, and the confidentiality of taxpayer information;
- Shared Services (excluding Space and Housing and Rent) provide addition services such as Public Transit Subsidy and Career Counselor Contract;
- Communications & Liaison coordinates local government and liaison relationships; handles congressional, state, and national stakeholder relationships and issues; coordinates cross-cutting issues including managing audits and legislative implementation; handles national media contacts and local media relationships; and ensures Servicewide compliance with Disclosure and Privacy laws;
- Security Services ensures that the IRS has effective security policies and programs in place to safeguard taxpayer records, employees, facilities, business processes, systems and other resources. It includes operation of the Computer Systems Incident Response Center (CSIRC) and Situation Awareness and Management Centers (SAMC), coordination of Service-wide disaster recovery and business continuity planning, security training and awareness, and sensitive system certification and accreditation coordination with Treasury on the Federal Critical Infrastructure Protection Program;
- Research provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations;
- Statistics of Income provides resources for market-based research to identify compliance issues; for conducting tests of treatments to address non-compliance; and for the implementation of successful treatments of taxpayer non-compliant behavior; and
- Benefit Payments provides resources to fund Workmen’s Compensation benefits and Unemployment Compensation payments.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.7				
Dollars in Thousands				
Shared Services and Support				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$1,211,877	$1,176,202	$1,163,846	$1,223,351
Offsetting Collections - Reimbursable	10,216	13,844	44,990	50,990
Mandatory Appropriations - User Fees	0	0	20,000	10,000
Total Operating Level	$1,222,093	$1,190,046	$1,208,836	$1,274,341
Human Resources				
Appropriated FTE	7,084	7,047	6,705	6,693
Other FTE	101	171	140	143
Total FTE (direct and reimbursable)	7,185	7,218	6,845	6,836

						Includes Strategic Objective F4A
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
There are no externally reported performance measures associated with this activity.	Target					
	Actual					
	Met					

Description of Performance

The IRS continues to provide shared services to all IRS programs through various support programs including: facilities, management and administration of human resources, research, procurement, and security.

In FY 2006, the IRS introduced its Human Capital Strategic Implementation Plan. The plan links achievement of Treasury's Human Capital (HC) Strategic Goals, the IRS' Strategic Goals, and the IRS' HC Strategic Goals outlined in the HC Strategic Plan (2005-2009). The plan also establishes measures to monitor performance against HC objectives, processes, and projects to ensure the IRS builds and maintains a workforce that can carry out its mission.

The IRS remains committed to increasing employee engagement and employee satisfaction. The IRS' Employee Engagement Surveys measure the percentage of IRS employees who feel they are in the right job, managed well, and are productive. In FY 2006, the IRS addressed Employee Engagement through programs that promote employee development and continuity such as safety and security, training, succession planning and workplace conflict prevention. The IRS employee engagement score, as measured by the grand mean on Gallup's survey, increased from 3.80 in 2005 to 3.82 in 2006.

Ninety-six percent of IRS systems are compliant, with 33 percent certified under the new more stringent National Institutes of Standards and Technology (NIST) standards. The IRS efforts in 2004 and 2005 were focused on security certification and accreditation of the network and infrastructure systems, which were achieved at the end of FY 2005. Our priority in FY 2006 was updating the security certification and accreditation of IRS business applications to comply with new process guidance issued by the Office of Management and Budget (OMB) and NIST. The remaining systems will be updated in FY 2007 and FY 2008.

The IRS achieved Personal Identity Verification (PIV I) compliance by October 2005, as mandated by Homeland Security Presidential Directive 12 (HSPD-12). The IRS now leads the Treasury HSPD-12 Program to adopt an enterprise solution for PIV II through the implementation of new Federal identification cards. PIV I compliance focused on implementing standard processes for common identity proofing, registration and issuance that incorporate security and privacy requirements. The Treasury HSPD-12 enterprise solution, PIV II, focuses on government-wide uniformity and the issuance of new identification cards that are interoperable across the federal government. The IRS will continue to work collaboratively with other agencies to manage security costs as it addresses increased security requirements at government facilities nationwide.

Research enables the IRS to develop strategies to combat specific areas of noncompliance, improve voluntary compliance, allocate resources more effectively, and reduce the tax gap.

The National Research Program (NRP) demonstrates the importance of comprehensive compliance data. As part of the NRP, the IRS reviewed approximately 46,000 randomly sampled individual income tax returns from tax year 2001 – the first comprehensive compliance study for individual income tax returns since 1988. Returns for which reported information could not be independently verified were audited. An NRP reporting compliance study of 5,000 S corporation tax returns filed in 2003 and 2004 is currently underway. Data from the NRP reporting compliance study have been used to estimate the individual income tax component of the tax gap and to identify sources of noncompliance. Accurate NRP data provide a critical benchmark for determining the sources of noncompliance and for measuring changes in compliance rates over time. The IRS is also using the findings from the NRP to target examinations and other compliance activities better, thus increasing the dollar-per-case yield and reducing "no change" audits of compliant taxpayers. Innovations in audit techniques to reduce taxpayer burden, pioneered during the 2001 NRP, have been adopted in regular operational audits. In addition, Statistics of Income (SOI) gathered, analyzed, and published information, which was used internally as well as by a variety of federal agencies and other interested parties.

This information is used to analyze tax policy, project tax revenues, and to estimate the impact of tax law changes on tax collections.

In FY 2007 and FY 2008, the IRS will implement new research projects in the following areas: update and initiate new NRP reporting compliance studies, examine the linkages between taxpayer service and compliance, and develop new tools to uncover patterns of noncompliance.

OS Budget Activity: *Information Services*

3A – Description

Information Services *($1,638,141,000 in direct appropriation, $5,741,000 from reimbursable programs, and $62,000,000 from user fees)*

This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of tax administration programs. The IRS' business programs rely on these systems to process tax and information returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunications services for all business activities including the public's toll-free access to tax information. These systems are located in a variety of sites, including the Martinsburg, Tennessee, and Detroit Computing Centers, Service Centers, and in other field office operations. Staffing funded by this activity develop and maintain the millions of lines of programming code supporting all aspects of tax-processing, as well as operate and administer the hardware infrastructure of mainframes, minicomputers, personal computers, networks, and a variety of management information systems. This includes the following program activities:

- Tier B provides support to single owner, small to medium-sized investment projects using core data to support specialized functions;
- Information Technology Services (ITS) Management provides support to the immediate office of the Associate CIO, ITS, and provides executive direction for the ITS organization and its divisions: Infrastructure, Architecture & Engineering; Business Systems Development; Enterprise Operations; Enterprise Networks; End User Equipment & Services; Web Services; and Electronic Tax Administration. This program also includes and funds the MITS Competitive Sourcing Office;
- MITS Executive Oversight provides support to the immediate office of the Chief Information Officer, as well as the direct reports for EEO and Diversity, and the Director, Stakeholder Management (including Communications Services and Program Oversight). The program provides executive direction for the MITS organization, enabling MITS to be a customer-focused supplier of information technology solutions that are responsive to customer business priorities and effectively meet functional and operational needs;

- Business Systems Development performs the analysis, design, development, testing, and implementation of approximately 85,000 application programs supporting critical tax processing, management information reporting, and financial and management support systems for the IRS. This program activity also supports external trading partner data exchanges with federal government agencies, state and local governments, and other third party entities. The program controls application source code and deploys applications to the production environment;
- Enterprise Operations designs, develops, and maintains information technology that supports critical tax processing, management information reporting, and financial and management support systems for the IRS. The program supports data exchanges with external organizations, such as other federal government agencies, state and local governments, and external entities (e.g., employers, banks, etc.) and includes a comprehensive disaster recovery capability to ensure continued operations in the agency in the event of a major interruption of service;
- Enterprise Network provides telecommunications service delivery to all customer segments, including management of day-to-day operations and executing routine modifications to the telecommunications infrastructure and applications. It addresses all phases of engineering, acquisition, implementation and operation of telecommunications systems and services, including voice, video and data communications;
- Enterprise Services plans and manages service and delivery methods used across the MITS organization, including demand analysis, enterprise architecture, configuration management, project reporting, enterprise life cycle management, release management, systems engineering, dashboard reporting and internal management;
- Web Services implements applications and technologies for IRS employees;
- End User Equipment and Services maintains the IRS' automated business processes at headquarters and field sites, including technical systems support and applications software support to end users, maintaining legacy operations, local and corporate systems administration activities, email and domain user account maintenance, network and systems monitoring administration, asset management activities, and support and maintenance of the voice and data infrastructure at the Territory Offices;
- Infrastructure Architecture & Engineering provides the systems architecture, sequencing plans, release management, and high-level engineered designs supporting information systems applications, software development tools, and infrastructure products necessary to build and evolve enterprise-wide business solutions;
- MITS Management provides the management and oversight of investments in information technology, human capital investment, and other MITS operational priorities;
- Information Technology Operational Security oversees FISMA reporting, including preparing for, conducting, and reporting Certification and Accreditation of systems using FIPS 199 and NIST 800-37; and self-assessments and annual testing of controls based on NIST 800-53;

- Information Technology Operational Security oversees FISMA reporting, including preparing for, conducting, and reporting NIST 800-26 self-assessments and annual testing of controls;
- Information Technology Security Training provides training for FISMA reporting purposes; and
- Information Technology Homeland Security Presidential Directive-12 oversees the use of Personal Identify Verification (PIV) technology for physical access to federally-controlled facilities and logical access to information systems for all federal employees and contractors who require long-term access.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.8

Dollars in Thousands

Information Services				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$1,485,802	$1,420,600	$1,482,236	$1,638,141
Offsetting Collections - Reimbursable	4,098	7,481	5,618	5,741
Mandatory Appropriations - User Fees	113,000	19,000	54,000	62,000
Total Operating Level	$1,489,900	$1,428,081	$1,487,854	$1,643,882
Human Resources				
Appropriated FTE	6,901	6,421	6,249	6,264
Other FTE	4	30	20	20
Total FTE (direct and reimbursable)	6,905	6,451	6,269	6,284

				Includes Strategic Objective F4A	
Measure		FY 2005	FY 2006	FY 2007	FY 2008
There are no externally reported performance measures associated with this activity.	Target				
	Actual				
	Met				

Description of Performance

In FY 2007 and FY 2008, the IRS will continue to provide new technology solutions and improve work processes. In addition, the IRS will enhance efficiencies in tax administration operations by delivering modernized information systems to front-line IRS programs.

Information technology solutions are the most effective and efficient means of increasing the number of IRS contacts with taxpayers by increasing the volume of transactions, and offers a greater variety of faster alternatives to file and pay their tax obligations. Information technology solutions also enhance the IRS' ability to identify non-compliance and to combat tax avoidance schemes that contribute to the tax gap.

The IRS' FY 2008 Budget provides base funding to develop and continue projects selected for the FY 2007 and 2008 investment portfolio. The FY 2008 selected projects fall into five major categories as described below:

- Decision Analytics (DA) - In FY 2008, the IRS is investing in several strategic IT projects to enhance compliance and customer service through the development of better case selection tools. Technologies being pursued in FY 2008 include predictive model development, data mining and data marts/data warehouse technologies.

- Case Creation: Electronically build issue and assign workload - Many current production environment (CPE) systems rely, in part, on manual (paper) processes to build, assign and track cases. In FY 2008, these investments target near or mid-term enhancements to CPE systems and enable the migration from manual processes to electronic processes. Enabling technologies being pursued in FY 2008 include document imaging and document management and research of third party data sources.

- Case Processing - These IT investments significantly augment and may, over time, replace CPE systems that bring new tools to improve customer service and/or increase casework. Other FY 2008 projects provide automation for discrete manual tasks that are very time consuming by leveraging available electronic data to pre-populate templates and perform preliminary analytics and centralize the availability of critical customer contact information.

- E-Filing/Self-Service - In FY 2008, these investments will expand the taxpayer's ability to electronically interact with the IRS, whether filing or for self-service capabilities. Other projects anticipated in FY 2008 will expand electronic filing services that are central to the IRS' overall e-file strategy.

In addition, in FY 2008, the IRS will continue to develop and test the automated Correspondence Imaging System and improve FISMA compliance. Maintaining the infrastructure, modernizing our information systems and developing better tools will allow the IRS to operate more efficiently with improved productivity.

Business Systems Modernization

Business Systems Modernization (BSM)

Appropriation Description

The Business Systems Modernization (BSM) appropriation provides resources for the planning and capital asset acquisition of information technology to modernize the IRS' business systems. The program combines best practices and expertise in business solutions and internal management from IRS, business, and technology to develop a world-class tax administration system that fulfills the revenue collection requirements of the United States as well as taxpayers' needs and expectations.

The Business Systems Modernization budget request for FY 2008 is $282,090,000 in direct appropriations and 317 FTE. This is an increase of $85,280,000 or 43.3 percent, and no change in FTE, over the FY 2007 Continuing Resolution (CR) rate of $196,810,000 and 317 FTE.

Appropriation Detail Table
Business Systems Modernization

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Business Systems Modernization	317	$242,010	317	$158,702	317	$212,310	317	$196,810	317	$282,090	0.00%	43.33%
Subtotal New Appropriated Resources	317	$242,010	317	$158,702	317	$212,310	317	$196,810	317	$282,090	0.00%	43.33%
Other Resources:												
Recoveries				$4,361								
Offsetting Collections - Reimbursable												
Available multi-year/no-year funds		$115,777		101,433		$97,112		$97,112		$136,790		
Transfers In/Out												
Subtotal Other Resources	0	$115,777	0	$105,794	0	$97,112	0	$97,112	0	$136,790	0.00%	40.86%
Total Resources Available for Obligation	317	$357,787	317	$264,496	317	$309,422	317	$293,922	317	$418,880	0.00%	42.51%

Budget Adjustment Table
Business Systems Modernization

Table 2.1 FY 2008 Budget Highlights Dollars in Thousands		
Appropriation: Business Systems Modernization	FTE	Amount
FY 2007 President's Budget	317	$212,310
CR-rate Adjustment		(15,500)
FY 2007 CR-rate	317	$196,810
Interappropriation Transfer Corrections to Budget Restructure		
FY 2007 Operating Plan at CR-rate	317	$196,810
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$21,886
Base Adjustment		21,886
Maintaining Current Levels (MCLs)		$1,245
Pay Annualization		226
Pay Inflation Adjustment		1,019
Non-Pay Inflation Adjustment		
Subtotal, Changes to Base	0	$23,131
FY 2008 Base	317	$219,941
Program Changes:		
Program Increases:	0	$62,149
Fund Business Systems Modernization		62,149
Subtotal, FY 2008 Program Changes	0	$62,149
Total, FY 2008 President's Budget Request	317	$282,090

Operating Levels Table
Business Systems Modernization

Table 2.2

Dollars in Thousands							
Appropriation Title: Business Systems Modernization	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	317	317		317		317	317
Object Classification:							
11.1 Full-Time Permanent Positions..........................	$33,969	$33,968	($12,873)	$21,095		$21,095	$34,896
11.3 Other than Full-Time Permanent Positions........	446	447	0	447		447	470
11.5 Other Personnel Compensation.........................	626	625	0	625		625	658
11.8 Special Personal Services Payments................	0	0	0	0		0	0
11.9 Personnel Compensation (Total)..................	$35,041	$35,040	($12,873)	$22,167	$0	$22,167	$36,024
12.0 Personnel Benefits..	9,772	9,772	(2,627)	7,145		7,145	10,034
13.0 Benefits to Former Personnel............................	0	0	0	0		0	0
21.0 Travel..	187	187	0	187		187	187
22.0 Transportation of Things......................................	0	0	0	0		0	0
23.1 Rental Payments to GSA.....................................	0	0	0	0		0	0
23.2 Rent Payments to Others.....................................	0	0	0	0		0	0
23.3 Communications, Utilities, & Misc.......................	0	0	0	0		0	0
24.0 Printing and Reproduction...................................	0	0	0	0		0	0
25.1 Advisory & Assistance Services..........................	0	0	0	0		0	0
25.2 Other Services..	147,498	117,799	0	117,799		117,799	172,102
25.3 Purchase of Goods/Serv. from Govt. Accts…….	0	0	0	0		0	0
25.4 Operation & Maintenance of Facilities................	0	0	0	0		0	0
25.5 Research & Development Contracts..................	0	0	0	0		0	0
25.6 Medical Care...	0	0	0	0		0	0
25.7 Operation & Maintenance of Equipment............	5,700	5,700	0	5,700		5,700	7,095
25.8 Subsistence & Support of Persons.....................	0	0	0	0		0	0
26.0 Supplies and Materials..	0	0	0	0		0	0
31.0 Equipment..	43,812	43,812	0	43,812		43,812	56,648
32.0 Lands and Structures..	0	0	0	0		0	0
33.0 Investments & Loans..	0	0	0	0		0	0
41.0 Grants, Subsidies...	0	0	0	0		0	0
42.0 Insurance Claims & Indemn................................	0	0	0	0		0	0
43.0 Interest and Dividends…………………………	0	0	0	0		0	0
44.0 Refunds..	0	0	0	0		0	0
91.0 Unvouchered………...………………………..	0	0	0	0		0	0
Total Budget Authority………………………………	$242,010	$212,310	($15,500)	$196,810	$0	$196,810	$282,090
Budget Activities:							
IT Investments	$242,010	$212,310	($15,500)	$196,810		$196,810	$282,090
Total Budget Authority………………………………	$242,010	$212,310	($15,500)	$196,810	$0	$196,810	$282,090

BSM Budget Activity: ***Business Systems Modernization***

3A – Description

Business Systems Modernization *($282,090,000 in direct appropriation)*

This budget activity funds the planning and capital asset acquisition of information technology to modernize the IRS' business systems, including related contractual costs. The program combines best practices and expertise in business solutions and internal management from the IRS, business, and technology to develop a world-class tax administration system that fulfills the revenue collection requirements of the United States as well as taxpayers' needs and expectations. The IRS' BSM program is required to submit for approval an annual expenditure plan that justifies the projects for which resources are requested.

BSM management provides executive direction over the program. The BSM program develops the vision and strategy, manages the release of projects, and provides enterprise architecture support. The program ensures that all the integrated components of both technical and business modernization will provide a total business solution. This program will meet the needs of both taxpayers and internal users by providing business processes, enabled by information technology, that permit timely and accurate delivery of tax account and other tax-related information while ensuring security and privacy. The BSM program is responsible for the acquisition management activities of all the modernization projects and provides the direct interface to the PRIME Integrated Product Teams.

BSM projects are developed and funded on a useable-segment basis—each request for funding for each project covers an identifiable portion of the project's development. As projects are completed and have demonstrated successful operation, they leave the BSM fold and their operational costs are funded from the Operations Support account. BSM funding by project is shown in the chart below.

FY 2008 BSM Project Activities
(Dollars in Thousands)

Project	Activities	FY 2006 Budget	FY 2007 Budget	FY 2008 President's Budget
Customer Account Data Engine	Release content master plan which includes a mid-year release to add new functionality and January release adding tax law changes	60,000	58,500	58,500
Modernized e-File	Complete forms 1041 and 990T and development of form 1040	27,881	20,000	55,802
Accounts Management Services	Provides a Common User Interface for access and update of taxpayer accounts managed by CADE Systems and IMF/CFOL/IDRS	21,518	0	28,983
Filing & Payment Compliance		6,984	3,500	
Common Services	Initiate work on cross-domain prioritization and sharing projects known as Common Services Project for Portal Upgrade	0	0	16,000
	Core Infrastructure	44,610	43,500	39,150
	Architecture, Integration & Management	30,124	39,500	35,100
	Management Reserve	5,893	2,310	2,310
	Total Capital Investments	**$197,010**	**$167,310**	**$235,845**
	BSM Labor	**45,000**	**45,000**	**46,245**
	Total BSM Program Request	**$242,010**	**$212,310**	**$282,090**

NOTE: The IRS will work to allocate BSM staffing costs to the projects for the FY 2009 President's Budget.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.9

Dollars in Thousands

Business Systems Modernization				Strategic Objective F4A
Resource Level	FY 2005 Enacted[1]	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$203,360	$242,010	$196,810	$282,090
Offsetting Collections - Reimbursable				
Total Operating Level	$203,360	$242,010	$196,810	$282,090
Human Resources				
Appropriated FTE	0	317	317	317
Other FTE				
Total FTE (direct and reimbursable)	0	317	317	317

[1] FY 2005 Enacted excludes Salaries and Expenses.

Measure				Includes Strategic Objective F4A	
BSM Project Cost Variance by Release/Subrelease (E)					
		FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
F&PC R1.2 MS3 (Filing and Account Payment Compliance)	Target	N/A	10%	10%	10%
	Actual		-46%		
	Met		N		
F&PC R1.2 MS4a (Filing and Account Payment Compliance)	Target	N/A	10%	10%	10%
	Actual		0%		
	Met		Y		
MeF R3.2 MS4 (Modernized e-file)	Target	N/A	10%	10%	10%
	Actual		32%		
	Met		N		
MeF R4 MS3 (Modernized e-file)	Target	N/A	10%	10%	10%
	Actual		-53%		
	Met		N		
CADE R 1.3.2 FS06 (Customer Account Data Engine)	Target	N/A	10%	10%	10%
	Actual		0%		
	Met		Y		
CADE R 2.1 MS4 (Customer Account Data Engine)	Target	N/A	10%	10%	10%
	Actual		15%		
	Met		N		

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Table 3.2.9 (Continued)					
Business Systems Modernization Measure					Includes Strategic Objective F4A
BSM Project Schedule Variance by Release/Subrelease (E)					
		FY 2005	FY 2006	FY 2007 Target[1]	FY 2008
F&PC R1.2 MS3 (Filing and Account Payment Compliance)	Target Actual Met	N/A	10% 0% Y	10%	10%
F&PC R1.2 MS4a (Filing and Account Payment Compliance)	Target Actual Met	N/A	10% 6% Y	10%	10%
MeF R3.2 MS4 (Modernized e-file)	Target Actual Met	N/A	10% -2% Y	10%	10%
MeF R4 MS3 (Modernized e-file)	Target Actual Met	N/A	10% 59% N	10%	10%
CADE R 1.3.2 FS06 (Customer Account Data Engine)	Target Actual Met	N/A	10% 0% Y	10%	10%
CADE R 2.1 MS4 (Customer Account Data Engine)	Target Actual Met	N/A	10% 7% Y	10%	10%

[1] Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Description of Performance

Core IT systems investments support services to both taxpayers and other government agencies and enforcement by providing the IRS frontline employees with the basic tools necessary to perform their jobs. A modernized and secure infrastructure will enhance the speed, security, and functionality necessary to keep pace with an automated economy. The IRS must keep pace with the growing demand and volume of electronic submission, payment, and refund transactions for tax remittances and offer taxpayers a variety of faster alternatives for satisfying tax obligations. These efforts will continue to place greater demand on the IRS to provide a modernized and secure IT infrastructure.

Furthermore, a successful modernization program is critical to supporting long-term tax administration operations. Successful program delivery by the IRS during the past two years demonstrates that the IRS' BSM program has established a foundation of disciplined program management processes and controls. The IRS executed BSM projects with a degree of sustained success not seen since program inception. This accomplishment is especially noteworthy in that the program achieved this while transitioning from a contractor-led program to an IRS-led program.

The IRS has developed an IT Modernization Vision and Strategy (MV&S) for its IT systems for 2008 that align with and support the IRS Strategic Plan. Through the MV&S process, the IRS developed a plan showing how the IRS can effectively meet IT modernization goals in an incremental approach that provides near-term value. The plan focuses on delivery of four major tax administration systems – Customer Account Data Engine (CADE), Account Management Services (AMS), Modernized e-File (MeF), and Filing & Payment Compliance (F&PC) – addressing the IRS' strategic business priorities. The plan also capitalizes on IT infrastructure initiatives and smaller IT project initiatives to support a unified approach in continued improvement to program operations.

Throughout FY 2006, the IRS modernization efforts continued to focus on its four core tax administration systems designed to provide more sophisticated tools to taxpayers and the IRS employees. The following highlights the IRS' efforts in FY 2006 in advancing these core systems:

- Introduced new CADE capabilities for the 2006 filing season. CADE supports faster refunds to taxpayers, issuing direct deposit refunds between one and seven days faster, and paper refunds four to thirteen days faster than refunds generated by the legacy system. CADE posted over 7.3 million returns – more than a 400 percent increase over the previous year, and issued 7 million taxpayer refunds exceeding $3.4 billion. CADE improved taxpayer service by allowing access to account information up to seven days sooner, increasing the likelihood of single telephone call resolution, faster issue detection, and more timely account settlement. CADE is expected to post between 25 and 30 million returns in 2007.

- Began the development of Account Management Services (AMS), a project that will enable real-time access to taxpayer account information, to support much faster resolution of taxpayer issues by IRS customer service representatives. AMS, in conjunction with CADE, will finally enable the IRS to break the weekly update system paradigm that has existed since the 1960s, enabling the IRS to begin to provide settlement of all account information by end-of-day, similar to what one expects from major private-sector financial institutions. The first release of AMS is due the summer of 2007 to support real-time address change capability in CADE and enable faster notice processing for a number of math-error notices.

- Implemented Release 3.2 of its Modernized e-File (MeF) project, which enabled the filing of both federal and state returns concurrently for corporations (Forms 1120 and 1120-S) and tax-exempt organizations (Form 990). In 2006, the MeF platform supported an e-filing mandate for certain large corporations and tax-exempt entities. Tax returns for large corporations typically include hundreds, or even thousands, of pages. Receiving the data electronically improves the accuracy of the tax return, reduces the volume of paper tax returns submitted to IRS Service Centers, and accelerates the examination process by having all tax return data available electronically. Electronic capture of return information enables the IRS to quickly deliver the data to analysts and agents for compliance risk assessment and action. In 2006, MeF accepted over 550,000 corporate returns. The IRS is expanding the MeF taxpayer base in 2007 to include Partnership Income tax returns (Form 1065), eventually enabling nearly 2.7 million small business and self-employed taxpayers to benefit from electronic filing. The IRS is in the planning stage to migrate the 1040 individual tax return to the Modernized e-File platform. The development and implementation of MeF 1040 capability will be completed by January 2011, with initial planned deployment for January 2009.

- Completed the first release of the F&PC strategy. F&PC functionality analyzes tax collection cases and separates cases that require direct IRS involvement from those that can be handled by Private Collection Agencies (PCAs). The introduction of PCAs is expected to:
  - Assist the IRS by addressing the volume of delinquent taxpayers that exceeds the IRS' capacity to work, approximately 250,000 cases per year; and
  - Help eliminate backlogs in the large number of outstanding tax liabilities, which have grown by 118 percent over the last 12 years, increasing tax revenue and reducing the tax gap.

Tax administration in the 21st century requires improved IRS information technology. For FY 2007 and FY 2008, the IRS is committed to continuing to make improvements in technology, including:

- Replacing antiquated core account management systems and technology;
- Expanding and enhancing compliance activities through early detection, better case selection, and better case management;
- Delivering effective customer service, including expanded e-file systems and web services at reduced cost; and
- Investing in infrastructure necessary to perform operations more efficiently, thus freeing up resources for enforcement and taxpayer service programs.

Health Insurance Tax Credit Administration

Health Insurance Tax Credit Administration (HITCA)

Appropriation Description

The Health Insurance Tax Credit Administration (HITCA) appropriation provides funding for contractor support to develop and administer the advance payment option for the health insurance tax credit included in Public Law 107-210, the Trade Act of 2002.

The IRS administers specific components of this credit: enrollment, payment and compliance. The Department of Labor, state workforce agencies, and the Pension Benefits Guaranty Corporation are responsible for determining potentially eligible Health Care Tax Credit (HCTC) taxpayers.

The HITCA budget request for FY 2008 is $15,235,000 in direct appropriations and 17 FTE. This is an increase of $389,000 or 2.6 percent, and no change in FTE, over the FY 2007 Continuing Resolution (CR) rate of $14,846,000 and 17 FTE.

Appropriation Detail Table
Health Insurance Tax Credit Administration

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Health Insurance Tax Credit Administration	17	$20,008	10	$19,993	17	$14,846	17	$14,846	17	$15,235	0.00%	2.62%
Subtotal New Appropriated Resources	17	$20,008	10	$19,993	17	$14,846	17	$14,846	17	$15,235	0.00%	2.62%
Other Resources:												
Recoveries												
Offsetting Collections - Reimbursable												
Available multi-year/no-year funds												
Transfers In/Out												
Subtotal Other Resources	0	$0	0	$0	0	$0	0	$0	0	$0	0.00%	0.00%
Total Resources Available for Obligation	17	$20,008	10	$19,993	17	$14,846	17	$14,846	17	$15,235	0.00%	2.62%

Budget Adjustment Table
Health Insurance Tax Credit Administration

Table 2.1 FY 2008 Budget Highlights Dollars in Thousands		
Appropriation: Health Insurance Tax Credit Administration	FTE	Amount
FY 2007 President's Budget	17	$14,846
CR-rate Adjustment		
FY 2007 CR-rate	17	$14,846
Interappropriation Transfer Corrections to Budget Restructure		
FY 2007 Operating Plan at CR-rate	17	$14,846
Changes to Base:		
Technical Adjustments to FY 2007 Base due to CR	0	$0
Base Adjustment		
Maintaining Current Levels (MCLs)		$389
Pay Annualization		15
Pay Inflation Adjustment		82
Non-Pay Inflation Adjustment		292
Subtotal, Changes to Base	0	$389
FY 2008 Base	17	$15,235
Program Changes:		
Subtotal, FY 2008 Program Changes	0	$0
Total, FY 2008 President's Budget Request	17	$15,235

Operating Levels Table
Health Insurance Tax Credit Administration

Table 2.2

Dollars in Thousands

Appropriation Title: Health Insurance Tax Credit Administration	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram-mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
FTE	17	17		17		17	17
Object Classification:							
11.1 Full-Time Permanent Positions..........................	$2,241	$2,302	$0	$2,302		$2,302	$2,386
11.3 Other than Full-Time Permanent Positions.........	0	0	0	0		0	0
11.5 Other Personnel Compensation.........................	22	23	0	23		23	23
11.8 Special Personal Services Payments................	0	0	0	0		0	0
11.9 Personnel Compensation (Total)..................	$2,263	$2,325	$0	$2,325	$0	$2,325	$2,409
12.0 Personnel Benefits...	348	358	0	358		358	371
13.0 Benefits to Former Personnel............................	0	0	0	0		0	0
21.0 Travel...	142	144	0	144		144	148
22.0 Transportation of Things......................................	0	0	0	0		0	0
23.1 Rental Payments to GSA.....................................	191	193	0	193		193	198
23.2 Rent Payments to Others.....................................	0	0	0	0		0	0
23.3 Communications, Utilities, & Misc.......................	0	0	0	0		0	0
24.0 Printing and Reproduction...................................	0	0	0	0		0	0
25.1 Advisory & Assistance Services..........................	0	0	0	0		0	0
25.2 Other Services..	17,057	11,819	0	11,819		11,819	12,102
25.3 Purchase of Goods/Serv. from Govt. Accts.......	0	0	0	0		0	0
25.4 Operation & Maintenance of Facilities................	0	0	0	0		0	0
25.5 Research & Development Contracts..................	0	0	0	0		0	0
25.6 Medical Care...	0	0	0	0		0	0
25.7 Operation & Maintenance of Equipment............	0	0	0	0		0	0
25.8 Subsistence & Support of Persons.....................	0	0	0	0		0	0
26.0 Supplies and Materials..	7	7	0	7		7	7
31.0 Equipment..	0	0	0	0		0	0
32.0 Lands and Structures..	0	0	0	0		0	0
33.0 Investments & Loans..	0	0	0	0		0	0
41.0 Grants, Subsidies...	0	0	0	0		0	0
42.0 Insurance Claims & Indemn................................	0	0	0	0		0	0
43.0 Interest and Dividends…………………………	0	0	0	0		0	0
44.0 Refunds..	0	0	0	0		0	0
91.0 Unvouchered………..…………………………….	0	0	0	0		0	0
Total Budget Authority…………………………………	$20,008	$14,846	$0	$14,846	$0	$14,846	$15,235
Budget Activities:							
Health Insurance Tax Credit Administration…………..	$20,008	$14,846	$0	$14,846		$14,846	$15,235
Total Budget Authority…………………………………	$20,008	$14,846	$0	$14,846	$0	$14,846	$15,235

HITCA Budget Activity: *Health Insurance Tax Credit Administration*

3A - Description

Health Insurance Tax Credit Administration *($15,235,000 in direct appropriation)*

The HITCA budget activity funds costs to administer a refundable tax credit for health insurance to qualified individuals.

The Trade Adjustment Assistance Reform Act of 2002 created a tax credit for the purchase of certain types of health insurance coverage for eligible taxpayers. The credit was created to help displaced workers and retirees who have lost their jobs due to trade with countries who participate in the North American Free Trade Agreement. The credit pays for 65 percent of the health insurance premiums for eligible workers. The IRS' responsibility relating to HCTC is to ensure participating eligible taxpayers receive the credit to which they are entitled.

The Act required the IRS to develop and operate a system to provide an advance, refundable tax credit for certain individuals who receive a trade readjustment allowance or benefit from the Pension Benefit Guaranty Corporation. This activity maintains the administrative and direct support for the HITCA Program Office and the staff charged with administering the program for the Service.

3B – Budget and Performance Plan

Budget and Performance by Budget Activities

Table 3.2.10

Dollars in Thousands

Health Insurance Tax Credit Administration				Strategic Objective F4A
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	$34,562	$20,008	$14,846	$15,235
Offsetting Collections - Reimbursable				
Total Operating Level	**$34,562**	**$20,008**	**$14,846**	**$15,235**
Human Resources				
Appropriated FTE	17	17	17	17
Other FTE				
Total FTE (direct and reimbursable)	**17**	**17**	**17**	**17**

				Includes Strategic Objective F4A	
Measure		FY 2005	FY 2006	FY 2007	FY 2008
Cost per Taxpayer Served	Target	N/A	Baseline	$14.25	$13.97
	Actual	N/A	$12.95		
	Met	N/A			
Sign-up Time	Target	Baseline	99	97	97
	Actual	106	99		
	Met		Y		

Description of Performance

The IRS administers specific components of this credit: enrollment, payment and compliance. The Department of Labor, state workforce agencies, and the Pension Benefits Guaranty Corporation are responsible for determining potentially eligible HCTC taxpayers.

In FY 2005, the IRS implemented a new HCTC service delivery model that saved approximately $20 million. In FY 2006, the IRS continues to implement new business processes to identify, prevent, and recover erroneous payments.

For FY 2007 and continuing in FY 2008, the IRS will maintain a balanced approach to administering the credit -- encouraging eligible taxpayers to comply and seeking to improve compliance through research that will guide future HCTC operation changes.

Supporting Material

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The IRS' approximate 104,000 employees represent approximately 81 percent of the Department of the Treasury's total employee population. The IRS workforce is diverse in multiple dimensions, including job series, demographic mix, and geographic distribution. The IRS has a large seasonal workforce that accounts for as much as 23 percent of the IRS' employee population during peak workload seasons. Between 76 and 77 percent of the IRS annual budget is dedicated to financing the IRS' "human capital." To ensure that strategic management of its human capital resources is aligned with the IRS mission, the four human capital strategic goals were established to help focus the use of these resources:

Goal 1: Continually Assess and Shape the Workforce to Efficiently Accomplish the Service's Mission
Goal 2: Increase Employee Proficiency and Engagement to Enhance Tax Law Compliance
Goal 3: Leverage Human Capital Technology to Reduce Burden
Goal 4: Enable Quick and Agile Management Action to Achieve Business Goals.

In FY 2006, the IRS published its first Human Capital Strategic Plan (HCSP) for FY 2005 - 2009 and the Human Capital Strategic Implementation Plan (HCSIP) for FY 2006-2007. These Plans focus on these strategic goals and address IRS workforce challenges.

In terms of critical workforce challenges, the IRS and continues to make headway in the area of leadership succession. Over 60 percent of IRS' current executive cadre will be eligible to retire within the next five years – half are eligible to retire by the end of 2009. The anticipated loss poses obvious concerns about IRS leadership continuity and clearly supports the need for aggressive leadership succession planning.

Leadership Retirement Eligibility through FY 2011

		Optional Retirement Eligibility						
	On-Boards	2006 +Prior	2007	2008	2009	2010	2011	TOTAL
Management Type								
Department Managers	374	35	31	21	17	17	24	145
Executives	280	83	14	23	18	19	9	166
Front-line Managers	6371	1028	310	368	351	324	285	2666
Senior Managers	1534	342	119	137	109	98	93	898
TOTAL	**8559**	**1488**	**474**	**549**	**495**	**458**	**411**	**3875**

Based on National Finance Center data. Run date 11/28/06

To address this challenge, the IRS has established an overarching Leadership Succession Program that focuses on the recruitment, development and retention of an enterprise-wide talent pool of highly skilled leaders across the organization to effectively and efficiently support tax administration.

In addition to leadership attrition, the IRS continues to focus on the attrition rates of its overall workforce. The following table is based on data from the TreasNet database and shows the number and percent of the current permanent employee population that will be eligible to retire through 2009.

Number Eligible 2007	Percent Eligible 2007	Number Eligible 2008	Percent Eligible 2008	Number Eligible 2009	Percent Eligible 2009
22,490	22.59%	26,747	26.87%	31,250	31.39%

Based on minimum eligibility for Optional Retirement.

To mitigate the anticipated loss of talent and ensure continued workforce competency, the IRS is using the following strategies to maintain the optimum skill/competency level of its workforce:

1. Selecting Mission Critical Occupation (MCO) new hires with increased education/experience;
2. Established a FY 2007 IRS-wide Retention Plan to retain employees who possess mission critical skills and competencies;
3. Expanded use of competency assessment tools to include additional MCO and target technical knowledge;
4. Developed and implemented the Leadership Succession Plan redesign to complete succession management strategies and increase workforce management readiness; and
5. Provided quality continued professional education, e-learning and other training to sustain and/or increase the proficiency of the current workforce.

Human Resources Table

Table 4.1				
Changes in Full Time Equivalents Direct and Reimbursable				
		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		94,282	92,846	93,718
Increases:				
Reason #1:	Adjusted to enacted level[1]	3,158	3,683	
Reason #2:	Program Reinvestment	805	11	
Reason #3:	Program Increase	1,672		1,584
Reason #4:	Transfer of ICDE from Justice	329		
Reason #5:	Increase in reimbursable work	112		14
Reason #6:				
Subtotal, Increases		6,076	3,694	1,598
Decreases:				
Reason #1:	Base Adjustment	(2230)	(937)	
Reason #2:	Rescission	(605)		
Reason #3:	Operating Plan FTE Adjustment	(1018)		
Reason #4:	Program Cost Savings & Efficiencies		(1424)	(1184)
Reason #5:	Adjusted to operating level/under	(3659)		
Reason #6:	CR-rate Adjustment			(1318)
Reason #7:	Decrease in reimbursable work		(461)	
Subtotal, Decreases		(7512)	(2822)	(2502)
Year-end Actual/Estimated FTEs		92,846	93,718	92,814
Net Change from prior year SOY to budget year EOY				

[1] FY 2005 enacted level was 97,440 and FY 2006 enacted level was 96,529.

4B – Information Technology Strategy

In the spring of 2006, the IRS unveiled a comprehensive vision for IRS future operations beyond 2006. The Modernization Vision & Strategy (MV&S) establishes a plan that drives investment decisions, addressing the priorities for modernizing front-line tax administration and establish technical capabilities provided by the infrastructure and security. The MV&S reflects the priorities of the organization across all IRS business units and is coordinated with Treasury's overall Enterprise Architecture. It serves as a guide for where investments should be focused. This strategy allows IRS to develop defined, strategically prioritized, costs and a ranked list of proposed IRS modernization projects (investments) for a given year. Whenever possible, the MV&S approach leverages existing systems and, as necessary, the program will include new development to optimize capacity, manage program costs, and deliver functionality in smaller and more frequent releases. The IRS expects this approach to deliver business value sooner and at lower risk.

The IRS has 31 investments that are defined as major because they meet one or more of the criteria set by OMB in Circular A-11 for a major investment: (1) requires special management attention because of the investment's importance to the mission or function of the IRS; (2) is for financial management purposes and obligates more than $500,000 annually; (3) has significant program or policy implications; (4) has high executive visibility; (5) has high development, operating, or maintenance costs; or (5) is defined as a "major" by the Treasury or IRS' capital planning and investment control process. An Exhibit 300 has been submitted as part of the FY 2008 Congressional Budget Submission for each of these 31 investments.

The IRS Business Systems Modernization (BSM) program has delivered significant benefits, and particularly in recent years, the program has demonstrated a consistent record of success – replacing major segments of antiquated systems with modernized capabilities.

Following two consecutive successful years in FY 2004 and FY 2005, the IRS modernization effort in FY 2006 continued to sustain a track record of successful implementation of modernized capabilities and remains positioned to continue this success in FY 2007. A key success factor has been focusing more directly on managing contractor performance and leveraging IRS resources. This approach is integrated into the Modernization Vision and Strategy (MV&S) efforts, in which a key feature is to leverage the existing production environment. This enables greater cost effectiveness and speeds delivery of IRS modernization.

BSM Major Information Technology (IT) activities address internal and external priorities through a balanced investment portfolio fully aligned with core IRS strategic priorities:

- Taxpayer Service + Enforcement = Compliance
- Modernization of IRS technology

The BSM Program has successfully implemented all projects delivered in the second half of FY 2005 and the first half of FY 2006 – attaining nearly all cost and schedule milestones as planned while delivering desired business benefits and functionality.

During the summer of FY 2005, the IRS coordinated the development of a revised performance methodology with Treasury Inspector General for Tax Administration (TIGTA) and General Accountability Office (GAO). For the first time, the BSM Expenditure Plan introduces a performance measurement methodology based on greater control, visibility, and consistent treatment of baseline and variance calculations.

In FY 2006, BSM continued to stabilize and institutionalize program management improvements. BSM continues to deliver projects with attention to cost and schedule targets and to providing benefits to taxpayers. On a program-wide basis, for four projects in progress (i.e., results represent current performance for projects exiting milestone 3 for F&PC, MeF and CADE), all four have met both cost and schedule targets.

As BSM program management capabilities have continued to mature, the ability to more consistently establish and manage reasonable cost and schedule baselines has similarly improved. BSM has expanded its financial and schedule management capabilities to include finer levels of granularity and controls than previously available in past Expenditure Plans.

Some specific examples of success over the past few fiscal years include the following:

Customer Account Data Engine:
- Supports faster refunds to taxpayers than is possible with legacy systems. CADE allows direct deposit refunds to be issued between one and seven days faster and paper refunds to be issued four to 13 days faster than refunds generated by the legacy system.
- During the 2006 Filing Season, CADE posted more than 7.3 million returns – a nearly fourfold increase over the previous year and issued more than $3.4 billion in refunds to nearly 7 million taxpayers;
- Improves taxpayer service by allowing IRS customer service representatives access to current information up to seven days sooner, increasing the likelihood of single telephone call resolution; and
- Faster issue detection and more timely account settlement.

e-Service:

- Taxpayer and third party transcript request processing cycle time is reduced from 15+ days to minutes;
- To date e-Services has processed more than 1,276,000 requests for transcripts via the Registered User Portal and more than 7.4 million via the Employee User Portal since launch to employees and Telephone Routing Interactive System on May 16, 2005;
- Disclosure Authorization cycle is reduced from 26 days to same day;
- Electronic Account Resolution cycle time reduced by up to two weeks, eliminating delay between initial contact and issue resolution; and
- Prior to e-Services, 70 million, five percent, of the 1.4 billion Form 1099 documents could not be attached to specific taxpayer accounts due to Taxpayer Identification Number (TIN) matching errors. The IRS estimated that unreported income due to non-filing or invalid TINs accounts for $42 billion in income that cannot be taxed, which equates to roughly $93 million per year in tax underpayment. e-Services reduces this error rate to less than one percent (approximately $10 million), enabling recovery of much of this underpayment.

Filing and Payment Compliance:

- Provides a government/industry partnership enabling private collection agencies to assist the IRS by addressing the volume of delinquent taxpayers that exceeds the IRS' capacity to work. Between now and 2017, this partnership will result in approximately 2.6 million delinquent cases receiving treatment that would otherwise have gone unworked;
- Reduces backlogs in outstanding tax liabilities, which have grown by 118% over the last 12 years;
- Improves overall economic outcomes by reducing the large number of unresolved cases (by approximately 250,000 cases/year), which undermine the fairness of the tax system. Reduction of unresolved cases also improves the prevailing attitudes of compliant taxpayers toward their tax obligation, reducing adverse effects associated with the current volume of unresolved cases; and
- Improves financial performance by generating an estimated gross revenue of $2.8 billion through 2017 and reducing taxpayer burden.

Modernized e-File:

- Major productivity and service efficiency gains helping taxpayer service and enforcement:
    - Taxpayer Service – IRS employees have all original documents available online and in real time. This capability eliminates back-end re-keying, data entry and enables responsive taxpayer support. Prior to MeF, only a limited subset of these documents was available – requiring retrieval of source documents – a time consuming process, which could take several weeks;
    - Enforcement – Online abilities and 100 percent data access improves the ability of revenue agents to perform compliance and enforcement activities in a timely and accurate manner. Corporate returns can now be reviewed in a matter of days or weeks as opposed to previous 18 month-long cycle times.

- More than $34 million in savings to taxpayers in reduced tax preparation fees, postage, and storage;
- Fully compatible with industry standard architectures, consistent with long term technology trends, and aligned with IRS third party partners who are also standardizing on Extensible Markup Language (XML)-based technologies. This capability reduces industry burden, greatly simplifies exchanging data in a secure fashion, and reduces the costs incurred by taxpayers and IRS business partners to do business with the IRS; and
- Error rate is reduced to four percent, which compares favorably to the error rate of 18 percent for returns processed in paper-based systems; and MeF processed Form 7004 (filing extension for corporations), Form 1120 as well as Form 990PF (information return for private foundations) at higher than expected volumes – twice the anticipated number of return receipts over projections, while still achieving performance goals – a significant reduction in burden and time for corporate and tax-exempt taxpayer.

Summary of IT Resources Table

IT Investments Portfolio

Information Technology Investments (from Exhibit 53) (in $ Millions)		FY 2005		FY 2006		FY 2007		FY 2008	
Major IT Investments [1]	**Program Alignment**	**Operating Plan**	**Obligations**	**Operating Plan**	% Change from FY 05 Obligations to FY 06	**President's Budget**	% Change from FY 06 to FY 07	**President's Budget**	% Change from FY 07 to FY 08
Account Management Services Program (AMS) - Major	Modernization	0.0	0.0	8.5	8.5%	21.0	147.1%	33.6	60.0%
Appeals Automation Environment (AAE)	Exam/Collections	12.4	9.4	13.1	39.4%	14.8	13.0%	15.3	3.4%
Automated Collection System (ACS) - Major	Tax Collection	0.0	0.0	0.0	0.0%	4.8	0.0%	5.0	4.0%
Business Masterfile (BMF)	Submission Processing	11.9	11.7	14.2	21.4%	12.3	-13.4%	12.7	3.3%
CEAS - Major	**Taxpayer Service**	**0.0**	**0.0**	**0.0**	**0.0%**	**7.5**	**0.0%**	**7.6**	**1.3%**
CEAS - Major	Taxpayer Service	0.0	0.0	0.0	0.0%	5.4	0.0%	5.4	0.0%
CEAS - Major	Taxpayer Service	0.0	0.0	0.0	0.0%	2.1	0.0%	2.2	4.8%
Correspondence Imaging System (CIS) - Release 2 - Major	Tax Collection	0.0	0.0	0.0	0.0%	10.3	0.0%	10.6	2.9%
Counsel Automated Systems Environment (CASE)	Exam/Collections	26.3	25.8	27.0	4.7%	28.5	5.6%	29.2	2.5%
Criminal Investigation Management Information System (CIMIS) - Major	**Criminal Investigations**	**0.0**	**0.0**	**0.0**	**0.0%**	**2.6**	**0.0%**	**2.6**	**0.0%**
Criminal Investigation Management (CIMIS)	Criminal Investigations	0.0	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Criminal Investigation Management (CIMIS)	Criminal Investigations	0.0	0.0	0.0	0.0%	2.6	0.0%	2.6	0.0%
Customer Account Data Engine (CADE)	**Submission Processing/Tax Collection**	**98.9**	**98.9**	**118.6**	**19.9%**	**120.4**	**1.6%**	**72.4**	**-39.9%**
Customer Account Data Engine (CADE)	Same as above	92.6	92.6	104.7	13.0%	110.9	6.0%	62.6	-43.6%
Customer Account Data Engine (CADE)	Same as above	5.2	5.2	2.3	-55.8%	2.2	-4.3%	2.3	4.5%
Customer Account Data Engine (CADE)	Same as above	1.1	1.1	11.6	954.5%	7.3	-37.1%	7.5	2.7%
Electronic Federal Tax Payment System (EFTPS) - Major	**Tax Collection**	**0.0**	**0.0**	**0.0**	**0.0%**	**69.9**	**0.0%**	**69.9**	**0.0%**
Electronic Federal Tax Payment System (EFTPS)	Tax Collection	0.0	0.0	0.0	0.0%	2.1	0.0%	2.2	4.8%
Electronic Federal Tax Payment System (EFTPS)	Tax Collection	0.0	0.0	0.0	0.0%	67.8	0.0%	67.7	-0.1%
Electronic Fraud Detection System (EFDS)	**Tax Collection**	**11.9**	**11.9**	**11.1**	**-7.0%**	**11.3**	**2.1%**	**11.6**	**2.5%**
Electronic Fraud Detection System (EFDS)	Tax Collection	8.0	8.0	7.5	-5.9%	7.8	3.6%	8.0	2.6%
Electronic Fraud Detection System (EFDS)	Earned Income Tax Credit	3.9	3.9	3.5	-9.4%	3.5	-1.0%	3.6	2.4%
Electronic Management System (EMS)	IRS Submission Processing	10.6	10.8	9.8	-9.3%	8.9	-9.2%	9.1	2.2%
Enterprise Data Warehouse (EDW)	Exam/Collections	7.6	7.6	7.0	-8.6%	7.0	0.0%	7.3	5.0%
e-Services	**Examinations**	**41.8**	**41.8**	**14.2**	**-66.0%**	**14.1**	**-0.7%**	**14.4**	**2.1%**
e-Services	Examinations	36.9	36.9	0.0	-100.0%	0.0	0.0%	0.0	0.0%
e-Services	Examinations	4.9	4.9	14.2	189.8%	14.1	-0.7%	14.4	2.1%
Examination Desktop Support System (EDSS) - Release 2 - Major	Examinations	3.6	3.6	7.0	94.4%	4.8	-31.4%	5.0	3.1%
Excise Files Information Retrieval System (ExFIRS) - Major	Exam/Collections	0.0	0.0	0.0	0.0%	6.5	0.0%	6.6	1.5%
Excise Tax e-File & Compliance (ETEC) Major	Submission Processing	0.0	0.0	0.0	0.0%	13.6	0.0%	2.3	-83.1%
Filing and Payment Compliance (F&PC) (Blended)	**Exam/Collections**	**0.2**	**0.2**	**32.5**	**16150.0%**	**19.3**	**-40.6%**	**1.5**	**-92.2%**
Filing and Payment Compliance (F&PC) (Blended)	Exam/Collections	0.0	0.0	28.1	0.0%	19.3	-31.3%	0.0	-100.0%
Filing and Payment Compliance (F&PC) (Blended)	Exam/Collections	0.2	0.2	0.2	0.0%	0.0	-100.0%	0.0	0.0%
Filing and Payment Compliance (F&PC) (Blended)	Exam/Collections	0.0	0.0	4.2	0.0%	0.0	-100.0%	1.5	0.0%
Financial Management Information System (FMIS)	Tax Collection	4.5	4.5	2.5	-44.4%	5.9	136.0%	6.0	1.7%
Individual Master File (IMF)	Submission Processing	11.9	10.1	12.7	25.7%	12.6	-0.8%	13.0	3.2%
Information Returns Processing (IRP)	Submission Processing	6.9	7.3	7.4	1.4%	7.6	2.7%	7.9	3.9%
Integrated Collection System (ICS)	Tax Collection	7.7	9.3	8.9	-4.3%	8.9	0.0%	9.2	3.4%
Integrated Customer Communications Environment (ICCE)	Taxpayer Service	14.2	14.2	17.2	21.1%	17.0	-1.3%	17.9	5.4%
Integrated Data Retrieval Systems (IDRS)	Tax Collection	16.7	16.7	17.9	7.2%	17.6	-1.7%	18.3	4.0%
Integrated Financial System/CORE Financial System (IFS)	**Treasury-Financial**	**12.8**	**12.8**	**22.0**	**71.9%**	**16.6**	**-24.5%**	**17.0**	**2.4%**
Integrated Financial System/CORE Financial System (IFS)	Treasury-Financial	9.4	9.4	18.4	95.7%	12.9	-29.9%	14.8	14.7%
Integrated Financial System/CORE Financial System (IFS)	Treasury-Financial	0.0	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Integrated Financial System/CORE Financial System (IFS)	Treasury-Financial	3.4	3.4	3.6	5.9%	3.7	2.8%	2.2	-40.5%
Integrated Submission and Remittance Processing System (ISRP)	Submission Processing	12.4	13.7	18.0	31.3%	16.6	-7.7%	17.0	2.2%
Interim Revenue Accounting Control System (IRACS)	Treasury-Financial	1.8	1.8	0.7	-61.1%	0.8	14.3%	0.8	0.0%
Modernized e-File (MeF)	**Submission Processing**	**69.2**	**69.2**	**69.9**	**1.0%**	**61.5**	**-12.0%**	**79.6**	**29.4%**
Modernized e-File (MeF)	Submission Processing	61.0	61.0	57.4	**-5.8%**	48.2	**-16.0%**	61.4	**27.4%**
Modernized e-File (MeF)	Submission Processing	6.4	6.4	11.7	**81.5%**	12.0	**2.7%**	12.3	**2.6%**
Modernized e-File (MeF)	Submission Processing	0.0	0.0	0.0	**0.0%**	0.5	**0.0%**	5.2	**940.0%**
Modernized e-File (MeF)	Submission Processing	1.8	1.8	0.8	**-54.7%**	0.8	**-3.5%**	0.7	**-12.5%**
Service Center Recognition/Image Processing System (SCRIPS)	Submission Processing	17.4	17.4	16.0	-8.1%	17.0	6.0%	17.4	2.5%
Tax Return Database (TRDB)	Submission Processing	4.6	4.6	6.9	50.0%	4.8	-30.4%	5.0	4.0%
Travel Reimbursement and Accounting System (TRAS)	Treasury-Financial	1.8	1.8	1.5	-16.7%	1.4	-6.7%	1.5	7.1%
IRS EA Investment		0.0	0.0	4.2	0.0%	4.4	4.8%	4.7	5.8%
Total		**407.1**	**405.1**	**468.6**	**15.7%**	**570.2**	**21.7%**	**531.8**	**-6.7%**

Summary of IT Resources Table

IT Investments Portfolio

Information Technology Investments (from Exhibit 53) (in $ Millions)		FY 2005		FY 2006		FY 2007		FY 2008	
Major IT Investments [1]	**Program Alignment**	**Operating Plan**	**Obligations**	**Operating Plan**	% Change from FY 05 Obligations to FY 06	**President's Budget**	% Change from FY 06 to FY 07	**President's Budget**	% Change from FY 07 to FY 08
Infrastructure Investments									
IRS Consolidated Infrastructure (Infrastructure)		**312.4**	**312.4**	**238.4**	**-23.7%**	**323.0**	**35.5%**	**380.3**	**17.7%**
IRS Consolidated Infrastructure (Infrastructure)		312.4	312.4	238.4	-23.7%	323.0	35.5%	346.5	7.3%
IRS Consolidated Infrastructure (Infrastructure) - BSM Portion		0.0	0.0	0.0	0.0%	0.0	0.0%	33.8	0.0%
IRS Consolidated Infrastructure (Common Services)		**0.0**	**0.0**	**8.8**	**0.0%**	**0.0**	**-100.0%**	**16.0**	**0.0%**
IRS Consolidated Infrastructure (ICommon Services)-Web Portal		0.0	0.0	8.8	0.0%	0.0	-100.0%	16.0	0.0%
IRS Consolidated Infrastructure (Office Automation)		**326.2**	**326.3**	**349.2**	**7.0%**	**259.9**	**-25.6%**	**300.3**	**15.5%**
IRS Consolidated Infrastructure (Office Automation)		326.2	326.3	349.2	7.0%	259.9	-25.6%	300.3	15.5%
IRS Consolidated Infrastructure (Office Automation) - BSM Portion		0.0	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
IRS Consolidated Infrastructure (Security)		**57.0**	**57.0**	**51.1**	**-10.4%**	**51.1**	**0.0%**	**77.3**	**51.3%**
IRS Consolidated Infrastructure (Security)		57.0	57.0	51.1	-10.4%	51.1	0.0%	72.9	42.7%
IRS Consolidated Infrastructure (Security) - BSM Portion		0.0	0.0	0.0	0.0%	0.0	0.0%	4.4	0.0%
IRS Consolidated Infrastructure (Telecommunications)		**288.5**	**288.5**	**245.5**	**-14.9%**	**213.3**	**-13.1%**	**258.4**	**21.1%**
IRS Consolidated Infrastructure (Telecommunications)		288.5	288.5	245.5	-14.9%	213.3	-13.1%	256.4	20.2%
IRS Consolidated Infrastructure (Telecom) - BSM Portion		0.0	0.0	0.0	0.0%	0.0	0.0%	1.0	0.0%
IRS Consolidated Infrastructure (Telecom) - EITC		0.0	0.0	0.0	0.0%	0.0	0.0%	1.0	0.0%
Total		**984.1**	**984.2**	**893.0**	**-9.3%**	**847.3**	**-5.1%**	**1032.3**	**21.8%**
Total Major Investments		**1391.2**	**1389.3**	**1361.6**	**-2.0%**	**1417.5**	**4.1%**	**1564.1**	**10.3%**
Non-Major IT Investments									
Program and Management Support Programs		170.5	167.5	185.5	10.7%	214.9	15.8%	236.2	9.9%
Information Technology Non-Major Systems/Programs		185.1	190.9	196.7	3.0%	98.1	-50.1%	101.6	3.6%
Improvement Project Systems (FY 07 and 08 based on MV&S)		49.3	49.3	56.7	15.0%	45.4	-19.9%	46.6	2.6%
Tier B Infrastructure		0.0	0.0	2.6	0.0%	7.3	182.6%	7.4	1.4%
Security Audit and Analysis System		0.0	0.0	6.6	0.0%	10.8	63.6%	11.0	1.4%
BSM Architecture & Integration		0.0	0.0	0.0	0.0%	27.6	0.0%	62.7	127.2%
BSM Management Reserve		5.8	5.8	13.0	124.1%	2.3	-82.3%	2.3	0.0%
Total		**410.7**	**413.5**	**461.1**	**11.5%**	**406.4**	**-11.9%**	**467.8**	**15.1%**
Total IT Investments		**1,801.9**	**1,802.8**	**1,822.7**	**1.1%**	**1,823.9**	**0.1%**	**2,031.9**	**11.4%**

[1] **Major IT projects include funding for the IRS' staffing associated with direct management of Business Systems Modernization projects.**

Program Assessment Rating Tool (PART) Evaluation Table

The IRS continues to provide full support and attention to the PART process and recommendations. The following are examples of how the IRS uses the PART process to make improvements:

- The Taxpayer Advocate Service (TAS) established teams charged with creating an application that will capture time spent on cases while in the system (Phase I) as well as the development of a front end application to allow capture of time spent on a case outside of the system (Phase II). The System Acceptability Testing (SAT) of Phase I was completed in mid-June and has been followed by a separate stress test to ensure the timekeeping component does not negatively impact Taxpayer Advocate Management Information System (TAMIS) response times. The Request for Information Services (RIS) has been submitted and TAS expects to have Phase 2 implemented before the close of 2007.

- The PART program improvements for the Earned Income Tax Program (EITC) program provide for the increased monitoring of the EITC examination and closure programs. These improvements support the President's Management Agenda (PMA) initiative for "Eliminating Improper Payments" and also provide a potential means to narrow the tax gap. In FY 2006, the IRS launched the second phase of its EITC return preparer strategy with emphasis on tracking and research. The IRS plans to further expand the program to include client audits of preparers penalized in FY 2005 for Reverse Preparer Action Case treatment.

- In May 2006, the IRS implemented its new Criminal Investigation (CI) information management system in compliance with a PART recommendation from FY 2005. This information management system will enhance program effectiveness by providing more timely information on investigative trends and issues that will increase casework accuracy.

Table 4.3

PART Evaluation

PART Name:	Tax Collection
Year PARTed:	FY 2002
Rating:	Results Not Demonstrated

This program collects tax debts from citizens and businesses. Agents contact taxpayers through notices, phone calls and personal visits to secure payments. If necessary, collection agents can use liens, levies or seizures, or refer delinquent taxpayers for criminal prosecution.

OMB Major Findings/Recommendations

1. IRS collection of unpaid taxes yields substantial revenue ($18 billion in 2001). However, IRS does not work enough collection cases with its current resources, work processes and technology to ensure fair tax enforcement. Each year billions of dollars of unpaid taxes goes uncollected.

2. IRS has been working to make management improvements in the last several years, including implementing good output measures. However, its financial management systems do not provide the information needed to make effective day to day management decisions.

3. IRS has a strong planning process closely linked to its budget process. IRS is currently developing improved collection outcome measures and goals.

Bureau Actions Planned or Underway

1. Implementing new tools in 2007 to segment collection workload according to risk to ensure IRS takes the right action to secure delinquent taxes.

2. Implementing legislation - including strong taxpayer rights protections - allowing IRS to hire private collection agents to help secure delinquent tax debt (full implementation by January 2008).

3. Reviewing the effectiveness of the revised collection performance measures of workload coverage and efficiency. Information from these measures will be used in the development of the 2008 budget.

Table 4.3

PART Evaluation

PART Name:	Earned Income Tax Credit
Year PARTed:	FY 2002
Rating:	Ineffective

This program administers the earned income tax credit (EITC) which rewards work and lifts families out of poverty. The program seeks to maximize participation of eligible taxpayers and reduce payments to ineligible taxpayers.

OMB Major Findings/Recommendations

1. The program has failed to reduce EITC erroneous payments to acceptable levels. While IRS prevents roughly $1 billion in erroneous EITC payments per year, 27 to 32 percent of all EITC payments were still made in error for 1999. The magnitude of this error rate is the reason for the rating of "ineffective".

2. IRS has a strong planning process closely linked to its budget process, but it has not yet used outcome information for this program to set performance targets that allow it to demonstrate results.

3. IRS has made numerous management improvements in recent years. However, its financial management systems do not provide the information needed to make effective day to day management decisions.

Bureau Actions Planned or Underway

1. Conducting 500,000 examinations of EITC returns per year based on enhanced case selection systems.

2. Preventing $270 million in incorrect refunds in 2006 by detecting and correcting errors during return processing.

3. Identifying paid tax return preparers with EITC error rates and using education and enforcement procedures to improve their performance.

Table 4.3

PART Evaluation

PART Name:	Submission Processing
Year PARTed:	FY 2003
Rating:	Moderately Effective

This program processes 224 million tax returns and one and a half billion information returns (such as bank reports on taxpayer's interest income) each year and issues 109 million refunds. In 2005, more than half of individual tax returns were submitted electronically.

OMB Major Findings/Recommendations

1. More Americans are electronically filing their taxes. Electronic filing is growing more than 10 percent per year. However, this growth is not sufficient for IRS to meet the legislative goal of 80 percent electronic filing by 2007. Congress has not yet acted on the Administration's proposals to accelerate the increase in electronic filing.

2. Every return converted from paper to electronic filing saves the IRS $2.15 in processing costs. More importantly, electronically filed returns have a less than one percent error rate compared to five percent for paper filed returns, saving taxpayers time and money. Finally, according to the annual American Customer Satisfaction Results report electronic filers have high satisfaction rates.

3. Based on IRS' recently completed tax gap study, approximately 13 percent of refund dollars (excluding earned income tax credit refunds) are paid in error. With current third party reporting and technology, IRS is unable to identify and prevent these errors during processing.

Bureau Actions Planned or Underway

1. Seeking legislative changes to promote electronic filing, including greater authority to require electronically-filed returns.

2. Setting goals by 2007 for reduced taxpayer filing burden resulting from the time and expense of preparing and filing their returns.

3. Using a single cost based efficiency measure by 2008 (cost per return processed).

Table 4.3

PART Evaluation

PART Name:	Taxpayer Service
Year PARTed:	FY 2004
Rating:	Adequate

This program reduces taxpayer burden by providing assistance on tax law and account issues in a professional and courteous manner. In 2005 the IRS answered 59 million calls, served 6.6 million taxpayers in walk-in offices, and had almost 116 million downloads from its forms, instructions and publications web site.

OMB Major Findings/Recommendations

1. IRS has significantly improved taxpayer service and maintained high levels of customer satisfaction in recent years. In 2001 IRS was able to answer only 62 percent of taxpayer calls. In 2005, IRS had improved this to 83 percent with a 94 percent customer satisfaction rate.
2. IRS continues to have trouble with the accuracy of answers. In 2004, IRS estimates only 80 percent of tax law calls were answered accurately (improved to 89 percent in 2005). Accuracy is a significant challenge given the complexity of the tax code.

3. IRS has developed a strong set of balanced measures (quality, customer satisfaction and results) to understand its taxpayer service performance. During the assessment IRS added an efficiency measure (customer contacts per staff year) for this program.

Bureau Actions Planned or Underway

1. Converting to cost based efficiency measures for the 2007 budget (e.g., cost per call answered) and adding efficiency measures for service processes for management. (Delayed until 2008)

2. Improving the accuracy of tax law telephone information provided to taxpayers to 90 percent accuracy by 2010.

3. Researching the impact of taxpayer service programs on voluntary compliance and reporting findings by 2007.

Table 4.3	
PART Evaluation	
PART Name:	Taxpayer Advocate Service
Year PARTed:	FY 2004
Rating:	Moderately Effective

This program helps taxpayers solve tax problems when normal IRS systems have failed to treat them fairly. It serves as an independent advocate within the IRS for individuals and proposes solutions to systemic problems.

OMB Major Findings/Recommendations

1. The quality of the Advocate's case work on behalf of taxpayers has improved from 71 percent with quality standards in 2001 to 90.5 percent in 2004.

2. Taxpayer hardship cases caused by flaws in IRS' business processes have declined from 217,081 in 2001 to 129,382 in 2004 as the Advocate has worked with IRS program managers to improve processes.

3. During the assessment, the program set goals and developed an efficiency measure. These include achieving a 100 percent closure-to-receipts ratio through 2010, 95 percent case quality score by 2009, and 4.53 (out of 5) customer satisfaction score by 2009. Efficiency is measured by counting the reduction in the quantity of taxpayer problems resulting from flaws in IRS' business processes.

Bureau Actions Planned or Underway

1. Developing a unit cost measure for its casework by 2006 (delayed to 2007).

2. Exploring other means to measure its effectiveness in solving systemic problems leading to taxpayer hardship. IRS will report its findings in 2006 for possible inclusion in its FY 2008 Budget.

3. Improving case quality to 91.5 percent by 2006, 93 percent by 2009, and 95 percent by 2014.

Table 4.3

PART Evaluation

PART Name:	Criminal Investigations
Year PARTed:	FY 2005
Rating:	Moderately Effective

This program ensures taxpayers comply with their tax obligations by investigating possible criminal violations of the tax code. Conviction of tax cheaters deters tax evasion among the general public and helps reassure taxpayers that the system is fair.

OMB Major Findings/Recommendations

1. The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be between $312 and $353 billion. Criminal Investigation is one of the major IRS programs intended to minimize this revenue loss.
2. Research suggests that higher levels of criminal sentences lead to higher tax compliance. IRS has succeeded in raising convictions in recent years. They rose from 1,926 in 2002 to 2,215 in 2005. However, they remain low by historical standards (in 1996 convictions totaled 2,915).
3. IRS has set long term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions.

Bureau Actions Planned or Underway

1. Exploring methods for measuring the impact of criminal investigations on tax compliance. IRS will report on its progress by the end of 2006.
2. Implementing a new information management system in 2006 to enhance investigative case tracking and improve efficiency.
3. Developing methods to improve case prioritization in 2006 to ensure that cases yield the greatest impact on compliance.

Table 4.3

PART Evaluation

PART Name:	Examinations
Year PARTed:	FY 2005
Rating:	Moderately Effective

This program ensures that citizens pay the correct tax by auditing returns at a high risk for non-compliance. Audits help ensure individuals comply with their tax obligations, deter tax evasion among the general public, and help reassure taxpayers that the system is fair.

OMB Major Findings/Recommendations

1. The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be between $312 and $353 billion. Examination is one of the major IRS programs intended to minimize this revenue loss.

2. After dropping substantially in the late 1990s, IRS' audit rates have begun to rise and will continue to increase, largely through productivity growth. IRS' audit rate has grown from a low of 1.49 percent (i.e., less than two returns in one hundred audited) in 2001 to 3.09 percent in 2005.

3. IRS has set long tern goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions. It also needs cost based efficiency measures.

Bureau Actions Planned or Underway

1. Researching tax compliance of S-corporations (a popular business form where profits are taxed only once passed through to the owners) based on a statistically valid sample of the filing population.

2. Improving tools for selecting the most productive audit cases by 2007 using the detailed compliance information gathered in the recent individual tax gap study.

3. Introducing cost based efficiency measures by 2008 (e.g., enforcement revenue/program budget).

Table 4.3

PART Evaluation

PART Name:	Retirement Savings Regulatory Program
Year PARTed:	FY 2006
Rating:	Adequate

This program ensures that tax breaks provided to encourage retirement savings are only allowed for retirement plans that follow minimum standards. The law requires that plans follow participation, funding and vesting standards and provide some protection for the surviving spouse of the plan participants.

OMB Major Findings/Recommendations

1. The Internal Revenue Service cooperates with the Department of Labor and the Pension Benefit Guarantee Corporation to protect retirement investors and to ensure that retirement related tax brakes are used for the intended purposes. Tax breaks to retirement plans to encourage savings total more than $100 billion per year.

2. Preliminary data from the program's compliance study shows that retirement plans are in compliance with legal standards 80 percent of the time. The IRS is working to improve this level by increasing enforcement efforts and improving targeting. This compliance study is a critical element in this effort because it gives the IRS better information on the sources of non-compliance.

3. IRS has had trouble processing requests for regulatory approval from retirement plans in a timely manner (less than 120 days). It is working to improve its performance in this area by implementing a new staggered schedule for retirement plan renewal requests and improving productivity.

Bureau Actions Planned or Underway

1. IRS will introduce cost based efficiency measures by 2008.

2. IRS will work to nearly double enforcement efforts by 2011 in order to improve retirement compliance to 82 percent.

3. IRS will improve efficiency, processing timeliness and case targeting through a new information management system and other inventory selection tools implemented in 2007.

Table 4.3

PART Evaluation

PART Name:	Health Care Tax Credit Administration
Year PARTed:	FY 2006
Rating:	Results Not Demonstrated

This program administers the Health Insurance Tax Credit which helps displaced workers and retirees afford health insurance. It is intended to benefit workers who have lost their jobs due to trade with countries which participate in free trade agreements (e.g., the North America Free Trade Agreement).

OMB Major Findings/Recommendations

1. The program's measures do not adequately capture the program's success in providing access to the credit to potential beneficiaries.

2. This credit has low participation. This can be attributed to the time it takes for other agencies to identify potentially eligible workers and for the Internal Revenue Service to enroll them. Another likely cause is the affordability of coverage to potential recipients. It is also possible that many of those identified as potentially eligible may ultimately not quality.

3. The IRS successfully implemented this unique tax credit in 2003. This required the creation of a new process outside of the normal tax filing system in a short timeframe. Since that time, in response to the low take up, the IRS has successfully reduced the cost of administering the credit by 50 percent.

Bureau Actions Planned or Underway

1. IRS will work with other participating federal agencies to develop long term goals by 2011 that capture the program's success to providing access to the tax credit to potential beneficiaries.

2. IRS will work with partner federal agencies to find ways to improve access to the tax credit for eligible workers.

3. IRS will continue to focus on administrative changes to lower program cost and improve taxpayer service.

IRS Performance Measures Summary Table and Data Dictionary Link

FY 2008 IRS Performance Measures Summary Table

Performance Measures	FY 2003	FY 2004	FY 2005	FY 2006 Planned	FY 2006 Actual	FY 2007 Planned[1]	FY 2008 Planned
Customer Service Representative (CSR) Level of Service Oe, L	80.1%	87.3%	82.6%	82.0%	82.0%	78.0%	81.0%
Customer Contacts Resolved per Staff Year E	8,318	8,015	7,585	7,477	7,414	7,702	7,880
Percent of Eligible Taxpayers Who File for EITC Oe	N/A	80.0%	80.0%	80.0%	*	80.0%	80.0%
Customer Accuracy - Tax Law Phones Oe	82.0%	80.0%	89.0%	90.0%	90.9%	91.0%	91.2%
Customer Accuracy - Accounts (Phones) Oe	88.2%	89.3%	91.5%	92.0%	93.2%	93.3%	93.4%
Timeliness of Critical Filing Season Tax Products to the Public Ot	N/A	76.0%	91.4%	92.0%	83.0%	85.2%	92.0%
Timeliness of Critical Other Tax Products to the Public Ot	N/A	76.0%	80.0%	85.0%	61.2%	79.6%	86.0%
Percent Individual Returns Processed Electronically Oe, L	40.0%	46.5%	51.1%	55.0%	54.1%	57.0%	61.6%
Percent of Business Returns Processed Electronically Oe, L	N/A	17.4%	17.8%	18.6%	16.6%	19.5%	21.2%
Refund Timeliness - Individual (paper) Oe	98.8%	98.3%	99.2%	99.2%	99.3%	99.2%	99.2%
Taxpayer Self Assistance Rate E, L	51.0%	46.4%	42.5%	45.7%	46.8%	48.6%	51.4%
Examination Coverage - Individual Oe, L	N/A	0.8%	0.9%	0.9%	1.0%	1.0%	1.0%
Field Exam Embedded Quality Oe, L	N/A	N/A	N/A	Baseline	85.9%	87.0%	87.0%
Office Exam Embedded Quality Oe, L	N/A	N/A	N/A	Baseline	88.2%	89.0%	89.0%
Examination Quality - Industry Oe, L	74.0%	74.0%	77.0%	80.0%	85.0%	88.0%	90.0%
Examination Quality - Coordinated Industry Oe, L	89.0%	87.0%	89.0%	92.0%	96.0%	97.0%	97.0%
Examination Coverage - Business Oe, L	N/A	7.5%	7.8%	7.5%	7.3%	8.2%	8.2%
Examination Efficiency - Individual E, L	N/A	N/A	121	121	128	136	136
Automated Underreporter Efficiency E, L	N/A	1,514	1,701	1,759	1,832	1,932	1,808
Automated Underreporter Coverage E, L	N/A	1.90%	2.2%	2.3%	2.4%	2.5%	2.7%
Collection Coverage - units Oe, L	N/A	N/A	53.0%	52.0%	54.0%	54.0%	54.0%
Collection Efficiency - units E, L	N/A	N/A	1,514	1,650	1,677	1,723	1,751
Field Collection Embedded Quality Oe, L	N/A	N/A	N/A	Baseline	84.2%	86.0%	86.0%
Automated Collection System Accuracy Oe	N/A	87.8%	88.5%	88.0%	91.0%	91.0%	92.0%
Criminal Investigations Completed Ot, L	3,766	4,387	4,104	3,945	4,157	4,000	4,025
Number of Convictions Ot, L	N/A	2,008	2,151	2,260	2,019	2,069	2,135
Conviction Rate E, L	N/A	91.2%	91.2%	92.0%	91.5%	92.0%	92.0%
Conviction Efficiency Rate($) E, L	N/A	362,849	295,316	339,565	328,750	314,008	314,560
TEGE Determination Case Closures Ot	171,812	143,877	126,481	112,400	108,462	118,200	109,500
BSM Project Cost Variance by Release/Subrelease E	N/A	N/A	N/A	Baseline	**	10.0%	10.0%
BSM Project Schedule Variance by Release/Subrelease E	N/A	N/A	N/A	Baseline	**	10.0%	10.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure and L - Long-Term Goal

and improvements resulting from program efficiencies.

* Data to estimate the eligibility rate will be available late in FY 2007..

** Cost and Schedule variance is based on +/- 10% and is reported on several project releases/subreleases.

Data Dictionary Link for Performance Measures:

For detailed information about each performance measure, including definition, verification and validation, please go to:

http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Treasury Forfeiture Fund

Mission Statement

To affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus participating in the Fund to disrupt and dismantle criminal enterprises.

Program Summary by Account

Dollars in Thousands

	FY 2006	FY 2007	FY 2008		
	Obligated	Estimated	Estimated	$ Change	% Change
Asset Forfeiture Fund	$313,957	$270,000	$270,000	$0	0.00%
Total Resources	**$313,957**	**$270,000**	**$270,000**	**$0**	**0.00%**

FY 2008 Priorities

A top priority of the Treasury Forfeiture Fund is to continue to cultivate and strengthen relationships at the federal, state, and local levels through the use of training and funding initiatives focusing on investigations that will have the greatest impact on disrupting and dismantling criminal enterprise. Additional priorities for FY 2008 include:

- Educate and focus stakeholders and others on the vision and mission of Treasury's multi-Departmental asset forfeiture program,

- Focus resources in a high-impact manner that enhances enforcement against: terrorist financing, illegal immigration, bulk cash smuggling, and money laundering, providing support to the National Money Laundering Strategy,

- Foster and support the investment of forfeiture resources in the needs of the participating law enforcement bureaus, including new technologies and data collection, in order to promote program excellence and strengthen the overall quality of high-impact criminal investigations,

- Reinforce relationships with member bureaus that extend across Departmental boundaries and with state, local and foreign law enforcement agencies that "extend the reach" of federal law enforcement, and

- Develop and modify forfeiture training and awareness programs that are responsive to today's needs and continually re-evaluate such training initiatives for best practices.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Forfeiture Fund (the Fund) is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by bureaus participating in the Treasury Forfeiture Fund. The member bureaus include the Internal Revenue Service's Criminal Investigation (IRS-CI), Customs and Border Protection (CBP), Immigration and Customs Enforcement (ICE), and the U.S. Secret Service (Secret Service.) The latter three bureaus are part of the Department of Homeland Security, transferred as part of the Homeland Security Act of 2002. These member bureaus are joined by the U.S. Coast Guard, Department of Homeland Security, as the result of a long-standing close law enforcement relationship with legacy Customs.

Vision: The focus of Fund management is on strategic cases and investigations that result in high-impact forfeitures. Management believes this approach will have the greatest impact on criminal organizations and thus will accomplish the ultimate mission of the Fund to disrupt and dismantle criminal enterprises. The enhancement of forfeiture activity requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fund large case initiatives, including the purchase of evidence and information, joint operations expenses, investigative expenses leading to seizure, and asset identification and removal teams. In addition, it is also a priority to fund revenue-enhancing projects such as major case funding, database development and computer forensics through the use of the Secretary's Enforcement Fund or Super Surplus funds when available.

Priorities: Asset seizure and forfeiture is a priority for the Fund's participating law enforcement organizations, as well as the Department of Treasury, and is linked directly to the National Money Laundering Strategies. In this regard, management has identified the following priorities for mission success:

- Continue to educate and focus stakeholders, and others, on the vision and mission of Treasury's multi-Departmental asset forfeiture program (i.e., affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus participating in the Treasury Forfeiture Fund to disrupt and dismantle criminal enterprises),
- Focus resources in a manner that enhances support of law enforcement's national money laundering strategy and anti-terrorism financing efforts, and
- Foster and support the investment of forfeiture resources in the needs of the participating law enforcement bureaus in order to promote program excellence and strengthen the overall quality of criminal investigations.

1B – Program History and Future Outlook

Program History: The Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2006, representing the forfeiture interests of the law enforcement components of the Departments of the Treasury and Homeland Security. In the midst of this period of growth and change, the Fund's law enforcement bureaus continued their hard work of federal law enforcement and the application of asset forfeiture as a sanction to bring criminals to justice. FY 2006 continued a pattern of robust revenue years with income from forfeitures and recoveries totaling nearly $306 million.

Program Outlook: Management forecasts a continued vigorous program for FY 2007 and FY 2008 with forfeiture revenue estimated at $270 million for each year.

1C – Industry Outlook

FY 2007***:*** Fund management remains focused on support for strategic investigative initiatives that will have the greatest impact on national and international criminal enterprise, including valuable training and investigative expense funding that emphasizes high impact cases.

FY 2008***:*** Fund management plans to: continue investment in technologies and data collection; encourage bureaus to pursue high-impact major cases and establish financial plans that reflect such priorities; further develop and modify forfeiture training and forfeiture awareness programs that are responsive to today's needs and designed to foster the understanding and application of asset forfeiture; and to continually re-evaluate the basic methods of operation to ensure that this methodology is the best one.

Fund management will continue its work to reinforce relationships with member bureaus that extend across Departmental boundaries to ensure that the vision, mission, and operating strategies and policies of the Treasury Forfeiture Fund continue to be recognized by the various Departments.

Section 2 – Budget Adjustments and Appropriations Language

2.2 – Operating Levels Table

Dollars in Thousands

Account Title: Treasury Forfeiture Fund	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
FTE	20	20	20
Object Classification:			
25.2 Other Services......................................	95,616	130,000	130,000
25.3 Purchase of Goods/Serv. from Govt. Ac	134,187	84,936	52,000
41.0 Grants, Subsidies..................................	84,154	88,000	88,000
Total Operating……………………………………	$313,957	$302,936	$270,000

2B – Appropriations Language

The Treasury Forfeiture Fund does not receive any discretionary appropriation authority from the Congress and, therefore, does not have appropriations language.

2C – Legislative Proposals

The Treasury Forfeiture Fund has no Legislative Proposals for FY 2008.

Section 3 – Budget and Performance Plan

3.1 – Resource Detail Table

Dollars in Thousands

	FY 2006 Actual AMOUNT	FY 2007 Estimated AMOUNT	FY 2008 Estimated AMOUNT	% Change FY 2007 to FY 2008 AMOUNT
Summary of Revenue and Expenses:				
Revenue:				
Carryover from prior year and recoveries	125,706	82,936	50,000	-39.71%
Current year forfeiture revenue	271,187	270,000	270,000	0.00%
Total Revenue	$396,893	$352,936	$320,000	-9.33%
Expenses:				
Permanent Authority	313,957	302,936	270,000	-10.87%
Subtotal Manufacturing and Sales	$313,957	$302,936	$270,000	-10.87%
Carryover to next year *	$82,936	$50,000	$50,000	0.00%

* The Fund incurs expenses at the start of the year for an array of property contacts, so a carryover is required every year.

3A – Asset Forfeiture Fund *($270,000,000 from reimbursable programs):* The function of the Treasury Forfeiture Fund is to ensure resources are managed to cover the costs of an effective asset seizure and forfeiture program, including the costs of seizing, evaluating, inventorying, maintaining, protecting, advertising, forfeiting and disposing of property. Asset forfeiture is used by federal law enforcement to disrupt and dismantle criminal enterprises.

Summary of Treasury Forfeiture Fund Authorities***:*** The Treasury Forfeiture Fund is a *special fund* with permanent, indefinite authority. *Special funds* are federal fund collections that are earmarked by law for a specific purpose, and which consist of separate receipt and expenditure accounts. The enabling legislation for the Treasury Forfeiture Fund (31 U.S.C. § 9703) defines those purposes for which Treasury forfeiture revenue may be used. The funds can be allocated and used without the enactment of an annual appropriation by Congress.

A forfeiture process begins once property or cash is seized. Upon forfeiture, seized currency, initially deposited into suspense, or holding account, is transferred to the Fund as forfeited revenue. Once forfeited, physical properties are sold and the proceeds are deposited into the Fund as forfeited revenue. It is forfeiture revenue that composes the budget authority for meeting expenses of running the Treasury Forfeiture Fund program.

Expenses of the Fund are set in a relative priority so that unavoidable or "mandatory" costs are met first. Expenses may not exceed revenue in the Fund.

Types of spending authority of the Fund:

The **mandatory authority** items are generally used to meet "business expenses" of the Fund, including expenses of storing and maintaining seized and forfeited assets; valid liens and mortgages; investigative expenses incurred in pursuing a seizure; information and inventory systems; and certain costs of local police agencies incurred in joint law enforcement operations. Following seizure, equitable shares are paid to state and local law enforcement agencies that contributed to the seizure activity at a level proportionate to their involvement.

Secretary's Enforcement Fund (SEF) is derived from equitable shares received from the Department of Justice or U.S. Postal Service (USPS) forfeitures. These shares represent Treasury's portion in the overall investigative effort that lead to a Justice or USPS forfeiture. SEF revenue is available for Federal law enforcement purposes of any law enforcement organization participating in the Treasury Forfeiture Fund.

Super Surplus represents the remaining unobligated balance at the close of the fiscal year after an amount is reserved for Fund operations in the next fiscal year. Super Surplus can be used for any federal law enforcement purpose.

3.2.1 – Asset Forfeiture Fund Budget and Performance Plan

Dollars in Thousands

Asset Forfeiture Fund Budget Activity					Includes Strategic Objective F3A
Resource Level	FY 2004 Obligated	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
Financial Resources					
Appropriated Resources	$0	$0	$0	$0	$0
Other Resources	315,597	340,583	313,957	270,000	270,000
Total Operating Level	**$315,597**	**$340,583**	**$313,957**	**$270,000**	**$270,000**
Human Resources					
Appropriated FTE	0	0	0	0	0
Other FTE	20	20	20	20	20
Total FTE (direct and reimbursable)	**20**	**20**	**20**	**20**	**20**

Asset Forfeiture Fund Budget Activity						Includes Strategic Objective F3A
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Percent of forfeited cash proceeds resulting from high-impact cases (%) (Oe)	Target	75%	75%	75%	75%	75%
	Actual	83.95%	81%	72.93%		
	Met	Yes	Yes	No		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance

For FY 2008, Fund management will measure the strategic performance of the participating law enforcement bureaus through the use of the performance measure: Percent of forfeited cash proceeds resulting from high-impact cases. This measures the percentage of forfeited cash proceeds resulting from high-impact cases; those with currency seizures in excess of $100,000. Fund management believes that focusing on strategic cases and investigations that result in high-impact seizures will do the greatest damage to criminal organizations while accomplishing the ultimate objective which is to disrupt and dismantle criminal activity.

Target**:** A target of 75 percent high-impact cases has been set for this performance measure. The target allows for those cases which may not be high-impact in nature but that are important to the exercise of law enforcement. The measure is calculated by dividing the total amount of forfeited cash proceeds from cases equal to or greater than $100,000 by the total amount of forfeited cash proceeds for all cases.

Performance Exceeds Target**:** Law enforcement bureaus participating in the Treasury Forfeiture Fund have exceeded the performance target in three of the last four fiscal years, only narrowly missing the target in FY 2006 as the result of forfeiture deposit timing. This achievement remains excellent given the extra demands placed on law enforcement personnel for anti-terrorism initiatives.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Reimbursable FTE	FY 2006	FY 2007	FY 2008
Fund Management	20	20	20

4A – Human Capital Strategy Description

The Treasury Forfeiture Fund is managed by the Executive Office for Asset Forfeiture (EOAF), a policy office that reports to the Assistant Secretary for Terrorist Financing. EOAF reimburses Departmental Offices (DO) for a total of 20 FTE annually.

4B – Information Technology Strategy

The Treasury Forfeiture Fund uses the Departmental Offices' systems, and is part of DO's information technology strategy.

4.3 – PART Evaluation Table

The scheduling of PART evaluation is done by the Department and the Treasury Forfeiture Fund is not scheduled to be PARTed at this time.

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

Working Capital Fund

Introduction

The Department of the Treasury Working Capital Fund (WCF) was established by the Excise, Estate, and Gift Tax Adjustment Act of 1970 (P.L. 91-614 § 401). As codified in 31 USC §322, "Amounts in the fund are available for expenses of operating and maintaining common administrative services of the Department that the Secretary of the Treasury, with the approval of the Director of the Office of Management and Budget, decides may be carried out more advantageously and more economically as central services."

Program Summary by Bureau Type

Dollars in Thousands

Funding Source	FY 2006 Enacted	FY 2007 Estimate	FY 2008 Estimate	$ Change FY 2007 To FY 2008	% Change FY 2007 To FY 2008
Treasury Appropriated Bureaus	$189,637	$242,754	$227,240	($15,514)	-6.39%
Treasury non-Appropriated Bureaus	$11,773	$15,156	$13,239	($1,917)	-12.65%
Non-Treasury	$19,614	$8,682	$8,916	$234	2.70%
Grand Total Financial Plan Requirements	$221,024	$266,592	$249,395	($17,196)	-6.45%

Operation of the Working Capital Fund

The following is the standard criteria used to determine whether a function should be financed through the Treasury Department's WCF: (1) promotes economies of scale, (2) reduces overhead costs, (3) promotes central management, (4) avoids duplication among those who might provide the service, (5) improves service quality, (6) makes available goods and services to those users who could not afford them except on a centralized basis, (7) provides flexibility in the timing of purchases, and (8) allows for replacement of equipment and other assets on a long-term basis through the use of depreciation charges to users, as a means of recovering those costs.

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Section 1 – Purpose

1.1 – Description of Service Providers

The majority of the service providers under the WCF program are organizational components of the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) in the Departmental Offices. The exception is the Security Program which is located in the Office of Terrorism and Financial Intelligence. The current programs in the WCF are as follows:

A – Intelligence and Security

1. Security Programs

Resource Level: $736,000 and 3 FTEs

Program Description: Security programs under the Assistant Secretary of Intelligence and Analysis, develops guidance and provides operational assistance and direction to WCF customers for:

- Information security (classified and sensitive information),
- Industrial security (access to and use of Treasury/U.S. Government classified and sensitive information by the private sector),
- Physical security (protection of personnel, property, facilities - including information),
- Personnel security (background investigations for sensitive and national security positions),
- Security education, training for persons authorized access to classified information,
- General guidance to un-cleared employees,
- Physical protection of critical infrastructure,
- Counter-intelligence awareness (including precautions during official foreign travel).

Billing Methodology: The charge assessed to each customer is based on the number of FTE in the current year enacted budget as a percent of the total. Bureau-specific orders are billed based on the cost of the service requested.

B – Deputy Assistant Secretary, Human Resources/Chief Human Capital Officer

1. Human Resources Strategy and Solutions

Resource Level: $851,000 and 4 FTEs

Program Description: The Human Resources Strategy and Solutions (HRSS) program provides critical, crosscutting human resource management services to the bureaus. HRSS provides a consolidated approach to programs and issues, including the President's Management Agenda, at the Department level which enhances the bureaus' ability to meet critical goals. This staff provides services in the following areas:

HR Program Efficiencies: HRSS develops efficiencies for the management of human resources programs that have Department-wide impact and enhance the bureaus ability to meet their missions. For example, the staff provides coordinated recruitment efforts; facilitates bureau efforts on meeting the 45 day hiring model; works with HR Connect on improving the effective use of CareerConnector; coordinates joint-bureau participation in career fairs; establishes contacts with a large number of higher-education institutions; and represents bureau interests in pursuing hiring flexibilities.

In addition, the staff identifies areas where bureaus need technical training or specialized guidance on a variety of complex HR issues and disseminates information through agency-wide workgroup meetings, written products, or arrange for it through Office of Personnel Management (OPM) or outside vendors (e.g., training on Fair Labor Standards Act, Career Transition Assistance Program/Reemployment Priority List, and new Human Resources flexibilities).

Federal Health Benefit Programs Management: The program staff manages the Federal Health Benefits Open Season contract which consolidates the handling of all materials for participating bureaus. In addition, the staff provides support on employee benefits programs including the centralized distribution of benefit materials (e.g., Federal Employee Health Benefits, Federal Employee Group Life Insurance, Thrift Savings Plan forms/brochures) and the dissemination of guidance and materials for bureau benefits specialists.

Crosscutting HR Products and Services: HRSS staff: leads the development and implementation of new programs; holds bureau work groups and meetings to resolve issues; assists bureaus by making suggestions to improve bureaus processes and heads-off potential problems; and provides training and technical guidance to bureau staffing contacts.

The staff assists bureaus with creating, developing, and implementing new pay systems and schedules under special pay authorities (e.g., police pay systems and pay bands.)

The staff works with bureaus on staffing issues. Example: After consolidating bureau concerns, HRSS wrote a 30-page report for OPM on behalf of all the bureaus, which identified specific barriers to effective/efficient recruitment, and recommended solutions. This effort was cited by OPM as particularly effective.

The staff also develops and publishes tools that assist bureaus in carrying out HR program responsibilities.

Department-level External Influence: HRSS represents Treasury bureaus' interests on OPM/interagency task forces (e.g., the Federal Career Intern Program, this office played a key role in the development of the program, and succeeded in inserting regulations that allowed for Treasury bureaus' preference on how to handle poor performers.)

The staff represents the interests of the bureaus in proposing, developing, or requesting changes in legislation, regulations, and other proposals.

They serve as the bureaus' advocate in getting Departmental, OPM, or other approvals pertaining to certain personnel authorities (e.g., request for authority to establish an extended probationary period for certain positions; changes in qualifications standards and approval of new competencies standards, and waivers of dual compensation.)

They assist bureaus with downsizing and restructuring by providing consultation and assistance on complex restructuring initiatives and gaining OPM approval of buyout and early-out (VERA/VSIP) authority.

Billing Methodology: The charge assessed to each customer is based on the number of FTE in the current year enacted budget as a percent of the total.

2. Equal Opportunity and Diversity

Resource Level: $1,301,000 and 9 FTEs

Program Description: The Equal Opportunity and Diversity (EOD) program ensures that Treasury employees, former employees, and applicants are protected from discrimination on the basis of race, color, religion, national origin, sex, age, disability, reprisal for engaging in protected activity, sexual orientation, parental status, and protected genetic information.

The EOD program supports the department-wide goals of providing diversity and equal opportunities; that people with disabilities have equal access to the Department's programs and facilities; that Treasury's federal financial assistance beneficiaries are not excluded from participation in, denied the benefits of, or otherwise subjected to discrimination under any program or activity funded by the Department.

Billing Methodology: The charge assessed to each customer is based on the number of actual complaints filed in the previous 12 month period as a percent of the total. Customers with no complaints are assessed one complaint charge for maintenance.

C – Deputy Assistant Secretary, Information Systems/Chief Information Officer

1. Associate Chief Information Officer HR Connect and National Finance Center/Employee Express

a. HR Connect

Resource Level: $24,393,000 and 30 FTEs

Program Description: HR Connect is a web-based, Treasury-wide human resources solution, based on Oracle/PeopleSoft commercial software. The software enables all HR-related processing to be performed in a totally web-based environment. The product also includes a robust suite of web-based, self-service applications for managers and employees.

HR Connect is designated as one of the Shared Service Center providers under the Office of Personnel Management's HR Line of Business (LoB) initiative. As an HR LoB, HR Connect is positioned to provide interoperable HR Information Technology (IT) solutions in support of Human Capital strategic management to other federal agencies. HR Connect services 148,000 employees within Treasury and other federal agencies.

Billing Methodology: The HR Connect charge assessed to each customer is based on the number of active accounts as a percent of the total.

b. NFC/Employee Express

Resource Level: $22,997,000 and 18 FTEs

Program Description: The National Finance Center (NFC) of the U.S. Department of Agriculture serves as Treasury's payroll provider responsible for payment of employees' salaries, W-2 processing, debt collection, and related payroll reporting and services.

Billing Methodology: The NFC/Payroll and Employee Express charge assessed to each customer is based on the actual number of W-2s issued as a percent of the total.

2. Chief Information Officer Executive Office

Resource Level: $1,336,000 and 1 FTEs

Program Description: The Office of the Chief Information Officer (OCIO) facilitates the mission, goals, and activities of the United States Department of the Treasury through leveraging information technology (IT), IT initiatives, products, and services for citizens, government, and industry. The OCIO provides direction, guidance, and oversight for all OCIO Working Capital Fund (WCF) programs and is dedicated to improving the performance of these programs for OCIO partners.

OCIO coordinates budget requests, supports Federal Chief Information Council (CIO) Initiatives, participates in workforce improvement activities, and provides operational direction and guidance for Treasury program areas in the OCIO organization.

In the IT Governance and Capital Planning area, the OCIO continues to manage a robust governance process that engages bureau heads and CIOs. An active and engaged Treasury CIO Council, Treasury Investment Review Board, and Executive Investment

Review Board provide executive oversight to the Treasury Department's investment planning and management of information and IT resources. OCIO completed the deployment of the "Select" and "Control" modules in the Treasury Department's enterprise portfolio management tool capital planning function.

As part of the capital planning and investment control process, the Treasury Department conducts regular quarterly "control" reviews evaluating the overall health of its IT investment portfolio. To strengthen leadership and to facilitate priority initiatives execution, four sub-councils were established and chartered under the direction and authority of the Treasury Department's CIO Council. The sub-councils are in the areas of cyber security, telecommunications, enterprise architecture, and capital planning.

Billing Methodology: The allocation percentage is derived by taking each customer's contribution to the various CIO programs and dividing it by the total contribution amount of all the customers who contributed to more than one program.

3. Resource Management Services

Resource Level: $2,100,000 and 8 FTEs

Program Description: Resource Management Services (RMS) is responsible for maintaining effective and efficient controls over the Office of the Chief Information Officer (OCIO) resources. RMS activities facilitate the achievement of operational objectives through assistance, advice, and analytical support to the Chief Information Officer (CIO) and other internal and external customers.

Working with the CIO, the Associate CIOs (ACIOs), and staff, RMS develops and executes the financial plans for the organization. The staff provides financial and programmatic support to the OCIO's executive management team, project mangers, and their staff. The staff coordinates requirements with customers and stakeholders, internal and external to the organization, and facilitates the efficient and effective operation and management of the organization, with respect to resource management activities.

Billing Methodology: The allocation percentage is derived by taking each customer's contribution to the various CIO programs and dividing it by the total contribution amount of all the customers who contributed to more than one program.

4. ACIO Telecommunications (Treasury-wide)

Resource Level: $137,500,000 and 33 FTEs

ACIO Telecommunications – Front Office:

Program Description: Within Office of the Chief Information Officer (OCIO), the Telecommunications Management program supports the Treasury Department's operations and business functions by providing a wide range of telecommunications and information technology (IT) services to the Department of the Treasury.

The program is responsible for developing telecommunications standards and guidance; provides and manages enterprise voice, video, and data services; and ensuring the security, resiliency, and redundancy of the Treasury Department's telecommunications and IT infrastructure.

Billing Methodology: The allocation percentage is derived by taking each customer's contribution to the various CIO Telecommunication's programs and dividing it by the total contribution amount of all the customers who contributed to more than one program.

a. Digital Telecommunications System

Program Description: The current Digital Telecommunications System (DTS) network provides telecommunications capabilities to Treasury Department sites in the Washington, D.C. metropolitan area, including sites in suburban Maryland and Northern Virginia, and physical interfaces to other telecommunications programs and contracts. The DTS program consists of DTS2, Local Access Transport Services, and Synchronous Optical Network Technologies (SONET). DTS2 is a performance based services contract that provides voice, data, and video services via Integrated Services Digital Network (ISDN) Basic Rate Interface, ISDN Primary Rate Interface, and analog service to the DTS2 user community. The DTS2 network is comprised of telecommunications infrastructure and physical interfaces in a star topology connecting bureau sites to a host switch. Optical Remote Modules, Remote Integrated Service Line Units, and NT-1 equipment are connected to the host switch via leased dark fiber from SONET, and standard copper wiring.

Billing Methodology: The charge assessed to each customer for this program is derived from three different methodologies. DTS2 uses the customer's seat count average for a three-month period divided by the average program total for the same three months. The voice mail services uses the number of each customer's mailboxes as a percentage of the total mailboxes. Bureau-specific orders are billed based on the cost of the service requested.

b. Treasury Communications System

Program Description: The Treasury Communications System (TCS) provides best-cost, secure, robust and reliable data telecommunications services to the Department of the Treasury and its associated bureaus and business partners.

The Department of the Treasury has long recognized the need to maintain a robust and highly-available, secure communications infrastructure to enable the provisioning and distribution of enterprise information and data services to and among its bureaus and external business partners, suppliers, and vendors. TCS offers a complete range of Information Technology (IT) services from a single Private Line, Frame Relay to

Asychronous Transfer Mode telecommunications services, business application development and system integration, Web hosting/housing, business application infrastructure platform hosting, telecommuting network access, and other enabling managed services as extensions to the Wide Area Network (WAN). TCS also offers a complete series of lifecycle services including Strategic Consulting, Network Engineering/Design, Installation, Security, Systems Integration, Financial Tracking, System Operations and Administration, and Field Maintenance.

The TCS network supports Treasury's vision and strategic direction to fulfill the Clinger-Cohen Act:

- TCS is a key element of the Treasury Department's enterprise architecture that allows for distribution of information and data among the Treasury Department.

- Create a Treasury Department enterprise architecture: TCS provides Treasury with a framework for providing a common, multi-purpose, and standards-based network infrastructure for optimizing the transport of information and data of Treasury Department business systems.

- Integrate information exchange across the Treasury Department's operating environment: TCS provides the Treasury Department with a common network infrastructure and uniform connectivity for enabling the coordination and exchange of information and data among the Treasury Department.

- Incorporate enterprise IT security: TCS is an essential element for employing a corporate IT security capability and ensuring the deployment of uniform security measures.

Billing Methodology: TCS services are billed under two fee structures: shared services and bureau-specific services. Shared services are services that are used across all bureaus (e.g., enterprise network operations center, key management, services provisioning). Shared service fees are based on a funding algorithm that is derived from different operational factors, such as service utilization. Bureau-specific services are utilized by a single customer.

The shared cost allocation methodology utilizes activity based accounting to allocate shared costs among the bureaus. The model places costs associated with "services" into agreed upon categories then uses specific drivers to allocate the costs. These drivers allocate approximately 29 percent of the total shared costs and are revalidated annually to obtain the most current and accurate measurements.

There are three methodologies used to distribute shared costs. They are 1) circuits/ maintenance (including Federal Telecommunications Systems) using the most recent invoice data available, 2) amounts of traffic coming in and out of email, using the most recent data, and 3) actual count of operational locations and the program management office.

The remaining shared costs are divided into three sub-categories. They are 1) overhead which includes costs representing contractor program management, network engineering base fee, and award fee, 2) government program management which represents cost for staff salaries, benefits, travel, training, IRS contracting staff, office supplies, and contractors, and 3) initiative costs which include costs for TCS transition to the Treasury Communication Enterprise (TCE), back up disaster recovery, industrial security, and intrusion detection. These shared costs are allocated to the customers by utilizing the CIO total cost allocation methodology.

The shared allocation is derived by taking the dollar amounts from the three drivers (using the percentages calculated from the data, then multiplying that by the total dollar amounts), adding the remaining three categories (using a flat rate, multiplying it by the total costs within the category), then dividing the total shared costs to obtain bureau-specific percentages.

Bureau-specific orders are billed based on the cost of the service requested.

c. Treasury Communications Services Follow On-- GSA Networx Transition

Program Description: The Treasury Communications Enterprise (TCE) program was cancelled in December 2006; Treasury will utilize the GSA Networx program to replace the Treasury Communications System during fiscal years 2007 and 2008. The same basic approach will be used. The service will be designed as an enterprise approach to the delivery of data services. Eventually, the contract will include components for voice and other services. The Networx vehicle will provide the ability to bundle all vendor offerings into a simplified service structure, which offers monthly service options for levels of bandwidth and class of service (COS).

Billing Methodology: The shared cost allocation is derived by taking the estimated TCE commercial circuit and maintenance charges per customer and dividing it by the total estimate for all customers. Bureau-specific orders are billed based on the cost of the service requested. Treasury is recalculating both the PMO and transition costs of this program.

d. Wireless Program

Program Description: The Wireless Program Office (WPO) was created as a centralized management entity to provide assistance with all wireless assets and spectrum usage across the Treasury Department. Wireless assets are defined as any telecommunications device that carries signal over radio frequency spectrum, in lieu of wire lines, over all or a portion of the communication path. Treasury recognizes wireless strategic importance in maintaining mission-critical tactical activities during emergencies.

The federal spectrum is managed by the Department of Commerce in the National Telecommunications and Information Administration (NTIA). NTIA provides Treasury with a consolidated spectrum bill.

Billing Methodology: Each customer is charged based on their percentage of two factors. The first factor relates to tactical wireless communications which is based on the number of frequencies identified in the Spectrum Government Master File account divided by the total frequencies of all customers. The second factor relates to non-tactical communications which the charge assessed to each customers is based on the number of FTE in the current year enacted budget as a percent of the total.

5. ACIO Cyber Security

Critical Infrastructure Protection and Information Security:

Resource Level: $1,005,000 and 6 FTEs

Program Description: The Cyber Security Program establishes and maintains best practices and awareness to ensure the confidentiality, integrity, and availability of information. The program goal is to assist the Bureaus in achieving a world-class information security capability that identifies, prioritizes, and protects information in accordance with federal requirements, including the Federal Information Security Management Act (FISMA), the Critical Infrastructure Protection (CIP) according to Homeland Security Presidential Directive 7 (HSPD 7) and the Treasury Department's mission needs.

Billing Methodology: The charge assessed to each customer is based on their contribution to various programs then dividing it by the total contributions from all customers who contributed to more than one program.

6. ACIO E-Government

Enterprise Architecture, Enterprise Solutions, Planning, and Payments

Resource Level: $15,988,000 and 15 FTEs

Program Description: The Department of the Treasury's E-Government program is dedicated to leveraging innovative Information Technology solutions to modernize and web-enable government services, increasing government responsiveness to citizens and business, and enhancing government-wide efficiency and effectiveness. The Department of the Treasury continues to identify and develop targeted Treasury Department E-Government initiatives to improve service delivery to citizens and businesses. The Treasury Department is a managing partner for IRS Free File and participates in several other Presidential E-Government initiatives. E-Government is also responsible for managing, coordinating and reporting on Presidential Management Agenda (PMA) E-Government Initiatives and Lines of Business.

a. Enterprise Architecture

Program Description: The Treasury Enterprise Architecture (TEA) office establishes a roadmap for the modernization and optimization of the Treasury Department's business processes and Information Technology (IT) environment. The TEA staff provides a framework that guides IT investment planning, streamline systems, and ensures that IT programs align with Treasury-wide business requirements and strategic goals. Through Enterprise Architecture, the Treasury Department can conduct enterprise-wide analysis and management of results, focus on lines of businesses to facilitate better alignment and cross-bureau collaboration in investments, and develop more robust business cases. Enterprise Architecture fulfills the requirement to capitalize on development opportunities of enterprise-wide solutions and E-Government participation and leadership.

Billing Methodology: The charge assessed to each customer is based on the number of FTE in the current year enacted budget as a percent of the total.

b. Enterprise Solutions

Program Description: The Department of the Treasury's E-Government program is dedicated to leveraging innovative IT solutions to modernize and web-enable government services in an effort to eliminate redundant IT investments. The Enterprise Solutions (ES) business model is to optimize cost-effective discovery and delivery of enterprise services through a small professional staff of senior project managers and, as required, contractor support. The ES Team works closely with Enterprise Architecture and Information Security staff to identify and implement common (multi-bureau) and enterprise (Treasury-wide) solutions that support efficient technology architecture that aligns with the rest of the federal government. The ES Team works closely with the bureaus to help them understand and take advantage of these solutions.

Billing Methodology:
Enterprise Solutions contains four different allocation methodologies for its services.

1. Webhosting applies the TCS allocation methodology based on usage of the Treasury website, public and private, hosting, and housing services.
2. Metis, Enterprise License & Consolidation Services, Secure Extranet Gateway, Public Key Infrastructure, and X.500 Directory/Treasury Enterprise Directory Services use the number of FTE in the current year enacted budget as a percent of the total.
3. Portfolio Management/ProSight is based on the number of licenses utilized by each bureau divided by the total number of licenses.
4. Enterprise Solutions Program Management's allocation is derived from each bureau's individual contribution for ES divided by the total amount contributed by all bureaus to ES, excluding the program management costs.

c. Planning

Program Description: The E-Government Program Office provides the critical leadership, coordination, and direction needed to achieve the Treasury Department's Presidential Management Agenda (PMA), Electronic Government, and the Clinger-Cohen goals. Utilizing an enterprise architecture approach, the program personnel identifies high payoff IT investment opportunities, enhances cross bureau collaboration, and establishes performance metrics which supports the Treasury Department's overall mission goals and objectives. The E-Government Planning Office sets goals, objectives, and strategies to guide enterprise-wide solutions.

Billing Methodology: The charge assessed to each customer is based on the number of FTE in the current year enacted budget as a percent of the total.

7. HSPD-12

Resource Level: $8,869,000 and 0 FTE

Program Description: Homeland Security Presidential Directive-12 (HSPD-12) was signed on August 27, 2004, mandating a common identification standard for federal employees and contractors. HSPD-12 requires a standardized Personal Identity Verification (PIV) process for the issuance and use of a common federal government identification card. The directive mandates that any identification card issued by a federal agency must be:

- Secure and reliable;
- Issued based upon sound criteria for verifying an individual's identity;
- Resistant to identity fraud, tampering, counterfeiting, and terrorist exploitation;
- Interoperable across federal agencies;
- Used to allow both physical access and logical access to federally-controlled facilities and information systems.

This initiative is being lead by the Internal Revenue Service (IRS) in an Executive Agent arrangement with Departmental Offices. The program is under the auspices of the Associate Chief Information Officer of E-Government.

Billing Methodology: Program costs are distributed across the Treasury Department's bureaus by percentages based on the customer's number of federal government and contractor personnel against the total Department of the Treasury government and contractor personnel. The data was submitted in the HSPD-12 Working Groups. The customer's enrollment and issuance stations were ordered based on their specific requirements.

8. ACIO Capital Planning and Information Management

Resource Level: $4,542,000 and 12 FTEs

a. Capital Planning

Program Description: The Clinger-Cohen Act of 1996 requires agencies to use a disciplined Capital Planning and Investment Control (CPIC) process to acquire, use, maintain, and dispose of information technology (IT). CPIC is a dynamic process where IT investments are selected, continually monitored, and evaluated. The process ensures each investment is well managed, cost effective, and supports the mission and strategic goals of the organization.

The Treasury Department's CPIC team is comprised of Treasury Chief Information Officer (CIO) personnel and is responsible for providing a service to monitor the Department of the Treasury's investment management process. The team develops bureau level IT portfolio expertise and provides input and recommendations to the bureaus, Treasury's CIO, and the Treasury Investment Review Board. Members of the CPIC team, known as Desk Officers, may be responsible for the monitoring of one or more bureaus, serve as the bureau CPIC coordinator's primary point of contact, are responsible for the scoring of the Exhibits 300, and coordinating information sharing with the Departmental Budget Office and other critical partners.

Exhibit 300s for each of the Treasury Department's IT investments can be found at http://www.treas.gov/exhibit300/ .

b. Information Management

Program Description: Information Management (IM) is the program area within the Office of the CIO which provides enterprise-wide direction for the legislative and regulatory mandates which are implemented by all federal departments and agencies. Through the promulgation of the Treasury Department's policy orders, directives, manuals, and procedures, the IM function generates the guidance vehicle fundamental to the implementation and oversight of every IT related program. The IM program staff manages Treasury-wide program responsibilities to implement statutory and regulatory provisions, especially for paperwork reduction/information collection purposes; manages a broad range of information resources management functions to include information dissemination, information privacy, accessibility, directives and forms management, information quality, data integrity board activities, IT workforce issues, information and public reporting requirements, and the IT standards and records management programs; conduct reviews of bureau programs to ensure compliance with statutory and regulatory mandates; coordinates the preparation and submission of information resources management reports to oversight agencies; and interprets and monitors the implementation of related policies emanating from legislative and regulatory bodies.

Information Management provides a basis for effective decision-making; supports administration of programs and services; provides a record of the Department's decisions and activity; supports evidential needs; addresses customers, partners, and stakeholders' inquiries; and provides a basis for proactive performance and customer satisfaction measurements. Minimizing the collection of information and maximizing its reuse is the foundation of Information Management.

Through the issuance of program specific guidance and directive, the IM function facilitates the implementation of legislative and regulatory mandates. This guidance results in a more standardize implementation of these programs and gives the OCIO a baseline from which to assess bureau and office efforts to complete these mandates.

The IM program identifies, schedules, and contracts for appropriate training for bureaus and office program managers and staff. This training facilitates the implementation of and compliance with the subject programs. The IM program also conducts and/or facilitates all employees training, including web-based training and assists bureaus with their specific training needs, e.g., staff will provide disaster recovery training to the Bureau of Public Debt staff in West Virginia.

Billing Methodology: The charge assessed to each customer is based on their contribution to various programs then dividing it by the total contribution from all customers who contributed to more than one program.

9. ACIO Telecommunications - Secure Communications Center

Resource Level: $6,455,000 and 18 FTEs

Program Description: The Secure Communications Center (SCC) provides secure handling of highly-classified, sensitive data for the Departmental Offices and the Treasury Department's bureaus and their senior management staffs. The SCC provides Communications Security support for the Treasury Department, including site surveys and distribution of encrypted keys.

Billing Methodology: The charge assessed to each customer is based upon the number of messages received as a percentage of the total number of message traffic.

10. ACIO Telecommunications - VAX Computer Usage

Resource Level: $288,000 and 1 FTE

Program Description: The Open Virtual Memory System Alpha cluster provides powerful, streamlined data management capabilities that support and benefit the administration of financial information technology data for the Federal Financing Bank.

Billing Methodology: The charge assessed to the customer is based upon the actual use of the services the Computer Data Center provides on the VAX computer.

D – Assistant Secretary Management & Chief Financial Officer

1. Emergency Programs

Resource Level: $1,623,000 and 4 FTEs

Program Description: The Office of Emergency Programs ensures continuity of the Treasury Department's essential functions during disasters. The focus of the WCF funded component is the maintenance of facilities and communications between the Department of the Treasury's bureaus and senior officials in a state of emergency.

The program provides operational activities associated with implementing National Security Emergency Preparedness (NSEP) goals and objectives that are identified in:

- The National Strategy for Pandemic Influenza;
- The Implementation Plan for the National Strategy for Pandemic Influenza;
- Executive Order 12656;
- Presidential Decision Directive 67;
- Homeland Security Presidential Directives 5, 8, 9, 10, and 12;
- The National Response Plan; and
- Federal Preparedness Circulars 65-67 (FPC 65).

The staff administers and maintains the Treasury Emergency Management program, codified in the Treasury Security Manual - TDP-71-10. The program ensures that the Department of the Treasury is fully prepared for natural and man-made disasters by executing major operational items contained in FPC 60 and 65 during White House or Department of Homeland Security sponsored Continuity of Operations activation and training scenarios.

Billing Methodology: The charge assessed to each customer is based on the number of FTE in the current year enacted budget as a percentage of the total.

2. Small and Disadvantaged Business Utilization

Resource Level: $725,000 and 4 FTEs

Program Description: The Small and Disadvantaged Business Utilization program facilitates acquisitions from the business community of veteran-owned, service-disabled veteran-owned, Historically Underutilized Business Zone, small disadvantaged, and women-owned small businesses for all of the Department of the Treasury.

This program:

- Disseminates information through the maintenance of a robust small business procurement assistance website - www.treas.gov/sba;

- Generates “Small Business Marketing Publications” such as “Forecast of Contract Opportunities”, “Historical Top 25 Data”, and “Subcontracting Opportunities Directory”. This material is available electronically, in hard copy, or mini marketing disks and contains information on each individual bureau;
- Provides outreach to small businesses through monthly Vendor Outreach Sessions, Annual Office of Small and Disadvantaged Business Utilization Directors’ Conference, and other external outreach events;
- Provides small business program training to bureaus. The staff presents on a variety of small business topics such as new developments, refresher training, and training for new employees;
- Develops and manages Mentor-Protégé Program where experienced firms are teamed with less experienced firms to compete more effectively for Treasury Department contracts. The staff reviews business applications for participation in the program and provide follow-up reviews on an annual basis;
- Updates the “Small Business Handbook” to provide guidance, tips, and best practices to the Treasury Department’s bureaus through Acquisition Bulletins.
- Establishes department-wide “Annual Small Business Goals” in compliance with the Small Business Act, Executive Orders, and the Office of Federal Procurement Policy guidelines; and.
- Assists the bureaus in identifying qualified small businesses for match-making to increase procurement opportunities whereby the staff works with individual bureaus to develop acquisition strategies, and small business friendly contract vehicles.

Billing Methodology: The charge assessed to each customer is based on their percentage of procurement dollars as a percent of the total procurement dollars for the Department of the Treasury.

3. Procurement Programs

Resource Level: $766,000 and 2 FTEs

Program Description: The Procurement Program provides services to the Treasury Department’s bureaus for the following:

- Purchase Card Program: The program provides coordination and best practices for the Department of the Treasury’s purchase card program. The goals are to ensure proper usage, maximize rebates and to develop and maintain a quality Treasury-wide purchase card program.
- Integrated Acquisition Environment (IAE) Implementation & Liaison: This office acts as the Treasury Department’s liaison for the various IAE service providers. This office disseminates implementation information, and tracks Treasury-wide use of IAE systems. The staff is the IAE System Administrator for

the bureaus, and operates as the focal point for any Treasury Department issues to be raised with service providers. IAE systems streamline service delivery to customers, reduce paperwork, and apply best commercial practices to improve operational efficiency. The IAE facilitates purchasing office interaction with customers and businesses while saving resources and streamlining the acquisition process. This results in improved efficiency and effectiveness of the Treasury Department's acquisition systems.

- Acquisition/Business Career Management Fulfillment Program and Federal Certification in Contracting Program: The staff provides a formal process for GS-1102 employees to equate their past education, experience, and acquisition training to the mandatory 1102 series curriculum for civilian agency employees. The Treasury Acquisition Career Manager reviews and recommends certification of acceptable fulfillment requests and contracting certification requests submitted by employees. The Senior Procurement Executive makes decisions on requests and signs a certificate for each successful applicant.
- E-Government – Integrated Acquisition Environment (IAE): IAE is one of the 24 E-Government initiatives which support the President's Management Agenda. The IAE provides a common, secure business environment, which facilitates and supports cost effective acquisition of goods and services and will interoperate with multiple E-Government initiatives. Federal agencies receive the benefit of shared use of the IAE in the conduct of their acquisition functions. The General Services Administration (GSA), the Managing Partner of the IAE project, is reimbursed for the cost of managing, operating and maintaining the IAE architecture by the federal agencies that use the IAE. Agencies share the expense. To reimburse GSA, the Department of the Treasury collects funds from participating bureaus and transfers the aggregated funds to GSA in accordance with the Memorandum of Agreement between GSA and the Department of the Treasury. The IAE provides the Treasury Department's bureaus with access to the following systems:
    - Central Contract Registration,
    - FedBizOpps,
    - Acquisition Career Management Information System,
    - Federal Procurement Common Architecture,
    - Federal Acquisition Information System,
    - Public Key Infrastructure Digital Certificates,
    - Federal Technical Engineering Drawings Online,
    - Government Wide Acquisition Contract/Multiple Agency Contracts Portal,
    - Contractor Performance System, and
    - Federal Procurement Data System – Next Generation.

Billing Methodology: The charge assessed to each customer is based on their percentage of procurement dollars as a percent of total Treasury Department procurement dollars.

4. Government-wide Council Payments

Resource Level: $397,000 and 0 FTE

Program Description: The Government-wide Council Payments support Treasury's participation in Government-wide Councils. These councils are: Chief Financial Officer's Council, Chief Information Officer's Council, Chief Acquisitions Officer's Council, Chief Human Capital Officer's Council and President's Management Council.

Billing Methodology: The bureaus' contributions are based on the percentages derived from their funding against the Treasury Department's total funding. This information was obtained from the FY 2006 column of the FY 2007 President's budget.

G – Deputy Chief Financial Officer

1. Financial Systems Integration

Resource Level: $2,411,000 and 2 FTEs

Program Description: The Office of the Deputy Chief Financial Officer, Financial Systems Integration (FSI) program provides systems and program support to produce the Treasury Department's financial statements and management reports. These monthly and quarterly reports are distributed to the Office of Management and Budget (OMB), Financial Management Service (FMS), and bureau Chief Financial Officers. Programs covered by FSI include financial analysis and reporting, audit follow-up and performance management. Bureaus submit data to the Financial Analysis and Reporting System (FARS) to meet program, legislative and OMB requirements.

Billing Methodology: Treasury Information Executive Repository (TIER) & CFO Vision charge is based 80 percent on funding and 20 percent on the average number of records submitted to TIER as a percentage of the total. The Joint Audit Management Enterprise System (JAMES) is based on the number of audit recommendations and planned corrective actions as a percent of the total. Performance reporting is based 80 percent on the current year enacted budget and 20 percent on the number of performance measures as a percent of the total.

H – DAS, Headquarters Operations

1. Environment, Safety, and Health

Resource Level: $1,153,000 and 1 FTE

Program Description: Environmental, Safety, and Health Management Office provides support for safety and environmental health issues that affect most bureaus. This program also maintains the Safety and Health Information Management System (SHIMS).

SHIMS is a department-wide "web" enabled electronic system that records and tracks occupational injuries and illnesses. The system allows data manipulation by individual organizations and data consolidation providing department-wide mandatory reporting to the Department of Labor's Office of Workers' Compensation system. SHIMS identifies trends in accident experiences and causes which can provide assistance in injury reduction and the reduction in lost work days. The system generates the annual incidents summary as required by the "Annual Safety and Health Program" and in performance reporting.

Billing Methodology: The charge assessed to each customer is based on the number of Safety and Health Information Management System claims filed by each customer as a percent of the total.

2. Printing and Graphics Services

Resource Level: $4,793,000 and 27 FTEs

Program Description: The mission of the Printing and Graphics Division is to provide quality graphics, design, printing (both offset and digital printing), duplicating, and electronic services and to be the provider of choice for the effective, economical, and quality presentation of information for the Department of the Treasury. The Printing and Graphics Division uses a variety of methods and alternative strategies that draw upon their collective expertise.

The Printing and Graphics Division is organizationally divided into three branches: the Printing Procurement Branch; the Departmental Printing Branch; and the Graphics Branch.

Products are numerous and range from internal routing slips, posters, brochures, and full color presentations, to the commercial procurement of large quantities of complicated and expensive printed pieces and presentation materials used by the Secretary and/or the President for press and Congressional briefings.

Services include:

- A full range of visual services with design consulting/production;
- High-resolution scans and low-resolution scans for web application;
- Prepress requirements and preparing the electronic files for printing and/or web position to ensure our customer files are prepared correctly, i.e., checking for printability with correct fonts, formats, setups for color separations;
- Security printing to protect against fraud;

- Electronic publishing on-demand digital printing and duplicating;
- On-site high speed digital black and white and color printing;
- High-quality process/multi-color printing;
- Variable data printing;
- Coordination with the Government Printing Office (GPO) and contractors;
- Ensure adherence to Treasury Department policy and government statutes and regulations governing printing and binding;
- A full line of specialized binding;
- Printing procurement acquisition services outside GPO;
- Quality assurance follow up and problem resolution between the customers and the printers;
- Internet job submission;
- Government Printing Office printing costs for publications, forms and various documents that benefits all the Treasury Department's bureaus; and
- Blank paper and other supplies procured through the Government Printing Office for the printing of publications, forms, and various documents.

Billing Methodology: The charge assessed to each customer is based on their previous year (PY) usage of the various programs then divided by the total PY usage from all customers.

3. Communications, Information, and Locator Center

Resource Level: $711,000 and 8 FTEs

Program Description: The Communications Information and Locator Center staff provides Treasury with operator telephone answering and personnel locator services when calls are received on the Department of the Treasury's published number. The service operates Monday through Friday from 6 a.m. to 7:30 p.m.

Billing Methodology: The charge assessed to each customer is based on the number of calls received and services provided as a percent of the total.

I – Support Services

Resource Level: $8,071,000 and 27 FTEs

Program Description: The WCF Support Services cost center captures centralized administrative support costs for all WCF funded personnel that is not reflected in each WCF program's budget. It also captures the costs of the administrative personnel who directly serve the WCF programs.

Centralized Administrative Support Costs are paid by the Treasury Department through centralized bills. Examples include security programs, health benefits open season information, trash removal, mail, moving, copiers, industrial hygienist, Equal Employment Opportunity complaint center, child care, worker's compensation, health exams, nursing services, electricity, steam, gas, water and sewer, parking, accounting system, Digital Telecommunications System, Treasury Communications System, and transit subsidy.

Administrative personnel costs are for services that are used by all WCF programs. They are:

- Legal Services: Legal services, such as legal advice and guidance;
- Information Technology Support Services: Information technology support services include infrastructure support, applications development and planning activities;
- Human Resources Services: Human resources personnel services such as position classification, hiring, performance management, and pay/benefits;
- WCF Corporate Office - Fund Management, Communication, and Customer Advocates Service: Policy, guidance, and overall management of the WCF is provided through the Fund Manager;
- Accounting, Budgeting, and Procurement Services: Accounting, budget formulation, budget execution, day-to-day financial operations of requisition fund certification, Memorandum of Understanding creation, operation of the integrated financial system for WCF invoice payments, and procurement services are provided to the WCF;
- Facilities and Support Services: Facilities and support services such as space and mail and messenger services.

Billing Methodology: The charge assessed to each customer is based on the total dollar value of WCF services received as a percent of the total.

Section 2 – Budget and Performance Plan

2.1 – Funding Detail by Program

Dollars in Thousands

Resources Available for Obligation	FY 2006 Initial Plan	FY 2007 Initial Plan Estimate	FY 2008 Budget Estimate
INTELLIGENCE & SECURITY			
Security Programs	$1,303	$718	$736
Emergency Programs 1/	$1,656	N/A	N/A
Intelligence & Security (Total)	$2,959	$718	$736
DAS, HUMAN RESOURCES/CHCO			
Human Resources Strategy and Solutions	$767	$831	$851
Equal Opportunity and Diversity	$853	$1,270	$1,301
Human Resources (Total)	$1,620	$2,101	$2,152
DAS, INFORMATION SYSTEMS & CIO			
ACIO HRConnect Operations & Maintenance	$23,736	$23,821	$24,393
ACIO NFC Payroll/Employee Express	$21,856	$22,458	$22,997
HR Connect (Subtotal)	$45,592	$46,279	$47,390
CIO Executive Office	$1,310	$1,304	$1,336
CIO Resource Management	$1,983	$2,060	$2,110
ACIO Telecommunications	$124,826	$134,278	$137,500
ACIO Cyber Security	$926	$981	$1,005
ACIO E-Government	$13,674	$15,614	$15,988
ACIO E-Government Payments	$978	$0	$0
HSPD-12	$0	$31,688	$8,869
ACIO Capital Planning & Information Management	$4,327	$4,436	$4,542
DO Information Technology:			
ACIO Telecommunications - Secure Comm. Center	$4,938	$6,304	$6,455
ACIO Telecommunications - Secure Comm. Equip Res.	$362	$367	$376
ACIO Telecommunications - VAX Computer	$265	$282	$288
Information Systems (Subtotal)	$153,588	$197,315	$178,470
Information Systems (Total)	$199,180	$243,594	$225,859
		$0	
AS MANAGEMENT & CFO			
Emergency Programs 1/	N/A	$1,585	$1,623
Small & Disadvantaged Business Utilization	$667	$708	$725
Procurement Program	$469	$761	$766
Government-wide Council Payments	$185	$387	$397
AS, Management & CFO (Total)	$1,321	$3,441	$3,510
Deputy Chief Financial Officer (DCFO)			
Financial Systems Integration	$2,445	$2,355	$2,411
DAS, HEADQUARTERS OPERATIONS (DASHO)			
Facilities & Support Services:			
Environment, Safety, & Health	$1,075	$1,126	$1,153
Printing Procurement, Reproduction & Graphics Services	$4,440	$4,681	$4,793
Printing & Graphics Equipment Reserve	$0	$0	$0
Communications, Information, & Locator Center	$629	$695	$711
Headquarters Operations (Total)	$6,144	$6,501	$6,657
Centralized Support Services	$7,355	$7,882	$8,071
Grand Total	$221,024	$266,592	$249,395

1/ Emergency Programs was requested in the ASM & CFO activity in FY 2007.

2.2 – Full-Time Equivalents by Program

Dollars in Thousands

Federal & Contractor Staff	FY 2006 Initial Plan		FY 2007 Initial Plan Estimate		FY 2008 Budget Estimate	
	Fed.	Cont.	Fed.	Cont.	Fed.	Cont.
Intelligency & Security						
Security Programs	8	-	3	-	3	-
Emergency Programs 1/	4	-	N/A	N/A	N/A	N/A
Intelligence & Security (Total)	12	-	3	-	3	-
DAS, HUMAN RESOURCES/CHCO						
Human Resources Strategy and Solutions	4	-	4	-	4	-
Equal Opportunity and Diversity	7	-	9	-	9	-
Human Resources (Total)	11	-	13	-	13	-
DAS, INFORMATION SYSTEMS & CIO						
ACIO HRConnect Operations & Maintenance	24	42	30	34	30	34
ACIO NFC Payroll/Employee Express	18	2	18	2	18	2
HR Connect (Subtotal)	42	44	48	36	48	36
CIO Executive Office	1	2	1	2	1	2
CIO Resource Management	8	4	8	4	8	4
ACIO Telecommunications	28	307	33	306	33	306
ACIO Cyber Security - Information Security	6	-	6	-	6	-
ACIO E-Government - Management	14	15	15	15	15	15
ACIO E-Government - Payments	-	-	-	-	-	-
HSPD-12	-	-	-	-	-	-
ACIO Capital Planning & Information Management	8	7	12	7	12	7
DO Information Technology:						
ACIO Telecommunications - Secure Comm. Center	18	6	18	6	18	6
ACIO Telecommunications - Secure Com. Equip. Res.	-	-	-	-	-	-
ACIO Telecommunications - VAX Computer	1	-	1	-	1	-
Information Systems (Subtotal)	84	341	94	340	94	340
CIO/Information Systems (Total)	126	385	142	376	142	376
AS MANAGEMENT & CFO						
Emergency Programs 1/	N/A	N/A	4	-	4	-
Small & Disadvantaged Business Utilization	4	-	4	-	4	-
Procurement Program	2	-	2	-	2	-
Government-wide Council Payments	-	-	-	-	-	-
AS, Management & CFO (Total)	6	-	10	-	10	-
Deputy Chief Financial Officer (DCFO)						
Financial Systems Integration	2	8	2	8	2	8
DAS, Headquarters Operations (DASHO)						
Facilities & Support Services:						
Environment, Safety, & Health	1	2	1	2	1	2
Printing Procurement, Reproduction, & Graphics	27	1	27	1	27	1
Printing & Graphics Equipment Reserve	-	-	-	-	-	-
Communications, Information, & Locator Center	8	-	8	-	8	-
Headquarters Operations (Total)	36	3	36	3	36	3
Centralized Support Services	27	-	27	-	27	-
Grand Total	220	396	233	387	233	387

1/ Emergency Programs was requested in the ASM & CFO activity in FY 2007.

The Terms "Fed" and "Cont" in the column headers refers to "Federal Employees" and "Contractors," respectively.

2.3 – Funding Detail by Bureau

Dollars in Thousands

Resources Available for Obligation	FY 2006 Initial Plan	FY 2007 Initial Plan Estimate	FY 2008 Budget Estimate
ALCOHOL & TOBACCO TAX & TRADE BUREAU	$2,864	$2,929	$2,920
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND	$331	$371	$364
DEPARTMENTAL OFFICES (OTA)	$69	$85	$87
DEPARTMENTAL OFFICES (S&E)	$15,774	$17,634	$17,819
FINANCIAL CRIMES ENFORCEMENT NETWORK	$654	$717	$605
FINANCIAL MANAGEMENT SERVICE	$5,871	$7,562	$7,022
INTERNAL REVENUE SERVICE	$161,402	$209,424	$194,831
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION	$983	$1,339	$1,206
OFFICE OF INSPECTOR GENERAL	$358	$455	$437
PUBLIC DEBT	$1,332	$2,238	$1,949
Subtotal (Treasury Appropriated Bureaus)	$189,637	$242,754	$227,240
COMPTROLLER OF THE CURRENCY	$3,453	$4,365	$3,795
DC PENSION	$70	$79	$76
DEPARTMENTAL OFFICES (WCF)	$311	$222	$197
ENGRAVING & PRINTING	$4,494	$5,296	$4,772
EXECUTIVE OFFICE FOR ASSET FORFEITURE	$167	$255	$257
FEDERAL FINANCING BANK	$292	$333	$338
OFFICE OF THRIFT SUPERVISION	$466	$950	$642
FF - FMS TREASURY AGENCY SERVICES (TAS)	$39	$2	$2
FF - BPD ADMINISTRATIVE RESOURCE CENTER (ARC)	$495	$334	$342
FF - DO FEDERAL CONSULTING GROUP	$5	$3	$3
FF - DO FED SOURCE	$77	$195	$198
U.S. MINT	$1,907	$3,122	$2,616
Subtotal (Treasury non-Appropriated Bureaus)	$11,773	$15,156	$13,239
ALCOHOL, TOBACCO, FIREARMS, & EXPLOSIVES	$11,920	$3,278	$3,367
ALCOHOL, TOBACCO, FIREARMS, & EXPLOSIVES (NIBIN)	$2,531	$301	$310
DHS - FLETC	$0	$2	$2
DHS - HEADQUARTERS	$702	$387	$397
DHS - OFFICE OF INSPECTOR GENERAL	$1,361	$1,647	$1,692
DHS - U.S. SECRET SERVICE	$1,555	$1,600	$1,644
HOUSING AND URBAN DEVELOPMENT	$1,510	$1,466	$1,505
U.S. TAX COURT	$35	$0	$0
Subtotal (Non-Treasury)	$19,614	$8,682	$8,916
Grand Total Financial Plan Requirements	$221,024	$266,592	$249,395

Note: Non-Treasury customers purchase services from: HR Connect, Telecommunications, E-Government, Financial Systems Integration, and Enfironment, Safety, & Health.

2.4 – Funding Detail by Operating Levels

Dollars in Thousands

Resources Available for Obligation	FY 2006 Initial Plan	FY 2007 Initial Plan Estimate	FY 2008 Budget Estimate
Object Classification:			
11.1 Full-Time Permanent Positions	$19,283	$22,021	$22,550
11.1 Other than Full-Time Permanent Positions	0	0	0
11.5 Other Personnel Compensation	379	334	342
11.8 Special Personal Services Payments	0	0	0
11.9 Personnel Compensation (Total)	$19,663	$22,355	$22,892
12.0 Personnel Benefits	4,403	5,202	5,327
13.0 Benefits to Former Personnel	0	0	0
21.0 Travel	482	517	529
22.0 Transportation of Things	465	0	0
23.1 Rental Payments to GSA	0	0	0
23.2 Rent Payments to Others	0	0	0
23.3 Communications, Utilities, & Misc	20,121	5,535	5,668
24.0 Printing and Reproduction	422	422	432
25.1 Advisory & Assistance Services	0	0	0
25.2 Other Services	167,824	228,136	210,017
25.3 Purchase of Goods/Serv. from Govt. Accts	0	0	0
25.4 Operation & Maintenance of Facilities	0	0	0
25.5 Research & Development Contracts	0	0	0
25.6 Medical Care	0	0	0
25.7 Operation & Maintenance of Equipment	0	0	0
25.8 Subsistence & Support of Persons	0	0	0
26.0 Supplies and Materials	1,036	812	831
31.0 Equipment	6,608	3,613	3,699
32.0 Lands and Structures	0	0	0
33.0 Investments & Loans	0	0	0
41.0 Grants, Subsidies	0	0	0
42.0 Insurance Claims & Indemn	0	0	0
43.0 Interest and Dividends	0	0	0
44.0 Refunds	0	0	0
Total Budget Authority	$221,024	$266,592	$249,395

Treasury Franchise Fund

Mission Statement

To offer world-class administrative solutions that provide value to federal customers while allowing them to concentrate on their core missions.

Program Summary by Account

Dollars in Thousands

	FY 2006	FY 2007	FY 2008		
	Obligated	Estimated	Estimated	$ Change	% Change
Consolidated/Integrated Administrative Management	$540,586	$595,160	$689,460	$94,300	15.84%
Financial Management Administrative Support Services	88,735	90,861	98,685	7,824	8.61%
Financial Systems, Consulting and Training	13,133	8,650	9,167	517	5.98%
Total Cost of Operations	**$642,454**	**$694,671**	**$797,312**	**$102,641**	**14.78%**

FY 2008 Priorities

- Increase efficiency and effectiveness of administrative business processes.
- Enhance the system environment of administrative operations.
- Create a stronger shared services structure for Treasury.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The vision of the Treasury Franchise Fund is to transform the administrative support arena in the federal government by energizing a shared services business model that can offer marketplace success through competition.

The Franchise Fund businesses have been leaders in redefining the processes and methods for delivering administrative products and services that combine streamlined processes, simplified rules, full accountability, competitive costing, timely completion, and one-stop shopping for customers. Franchise Fund efforts have resulted in significant dollar savings throughout the federal government primarily through the following franchising objectives:

- Promote efficiencies in the delivery of administrative products and services
- Reduce duplication of effort
- Foster competition
- Achieve full cost/self sufficiency
- Enhance customer satisfaction

The Treasury Franchise Fund is made up of four individual franchise businesses that are rolled into three budget activities that group their offerings into similar services.

Consolidated/Integrated Administrative Management – Includes FedSource

The mission of FedSource is to provide entrepreneurial business solutions for the acquisition and financial management of common administrative services and products in support of agency missions and objectives. FedSource focuses on support services and copier/printer management.

Financial Management Administrative Support Services – Includes the Administrative Resources Center (ARC)

ARC has been providing federal government agencies with common administrative support in the areas of Accounting, Travel, Human Resources and Procurement with a focus on excellence and superior service. ARC's mission is to aid in improving overall government effectiveness by delivering responsive and cost effective administrative support to its customers, thereby improving the customers' ability to effective discharge their mission.

Financial Systems, Consulting and Training – Includes Treasury Agency Services (TAS) and Federal Consulting Group (FCG)

Treasury Agency Services (TAS) helps agencies improve the quality of government financial management by providing information, advice, assistance, and training that is customized to meet today's environment and client agencies' requirements.

The mission of the Federal Consulting Group (FCG) is to consult with other federal government agencies to support their transformation efforts to become more efficient, effective, citizen-centric, and results-oriented. The Federal Consulting Group's three business lines--consulting, executive coaching, and measuring performance and customer satisfaction--provide federal agencies with innovative solutions using the latest management and information technology tools, techniques, and best practices.

1B – Program History and Future Outlook

Demonstrated Success – Eliminating Duplication

Shared Platform & Services

The Administrative Resource Center (ARC) has reduced the number of federal administrative systems by providing access to an integrated system platform for accounting, travel, procurement, and personnel functions. In addition, ARC acts as a shared service provider for many customers providing full-service transaction processing and reporting. ARC, a Center of Excellence for Financial Management, now provides:

- 31 organizations with administrative accounting services
- 38 organizations with travel services
- 30 organizations with procurement services
- 25 organizations with personnel services

The consolidation of these federal customers onto a shared systems platform has provided substantial savings to the federal government. These organizations now get better system license costs because the vendors offer large volume discounts. These organizations also share the costs associated with operations and maintenance. In addition to the cost savings, these organizations are upgraded to the latest version of the software simultaneously as opposed to each organization managing their upgrade independently.

In the past, the Department of the Treasury had a decentralized administrative service environment. There were 14 different bureaus and organizations within Treasury running their own accounting, procurement, and travel systems on various platforms. Each organization trained separate staffs to manage their systems and process their transactions. With the evolution of the Administrative Resource Center (ARC), Treasury has now moved to a shared services environment where 11 of the 14 entities share systems on a single integrated platform. In addition, many of the bureaus take advantage of ARC's experienced staff to process their transactions and provide their reporting.

Consolidating Agency Needs

FedSource has consolidated multiple requirements from several offices within the same agency into one procurement vehicle. For example, FedSource has combined copier equipment, software for the copy center, and placements to run the copy center– all for one price. They were able to give the customer one agreement for multiple services eliminating the need for the agency to seek several vendors. FedSource became “one-stop” shopping. In another example, FedSource established a single “master agreement” for one of its customers that eliminated the need for separate agreements for each of its customer’s offices. That alone saved the customer agency time and reduced its administrative burden significantly. This not only proved to be a time saver, it also facilitated cost savings for the customer.

Demonstrated success – timeliness & accuracy

Timely Financial Information

The Administrative Resource Center has always been among Treasury's best in quality and timeliness of financial reporting. ARC continues to strive to set the example for efficiency and quality in the area of financial reporting. With Oracle’s reporting tool (Discoverer), federal managers have real-time data at their fingertips any day of the month. By closing their customer’s books by the third business day following each month, timely financial data (such as unobligated balances) is quickly in the hands of federal mangers for decision-making. By closing the year-end books five business days after year-end, federal managers have the data necessary to provide year-end reporting well ahead of their counterparts in other agencies.

There is no better test for the accuracy and quality of financial data than an annual financial statement audit. Externally, ARC has helped its customers receive over 87 consecutive clean audit opinions. ARC also maintains an exceptional internal control structure. Each year ARC undergoes a SAS 70 audit that verifies the entire control structure from disbursement processing to financial reporting. Each agency saves money on its annual financial statement audits because their auditors can rely on the work done during ARC’s SAS 70 Audit.

Demonstrated Success – Efficiency

Efficiency is the ability to perform well or achieve a result without wasting energy, resources, effort, time or money. Competition, a cornerstone of the franchising concept, has been the impetus behind improving government efficiency. Competition has increased the focus of service providers on the needs of the customer, introduced the need for market solutions (instead of administrative bureaucracy), decentralized authority, and improved efficiency by delivering better services at lower costs in the most effective manner.

Reducing Overhead Costs

Many customers have realized reduced pricing, rebates, and volume discounts as a result of the economies of scale and improved efficiency of FedSource’s services. In order to remain competitive, FedSource continues to find ways to reduce its operating (overhead) costs. FedSource is able to give a price reduction when obtaining large orders because in most instances its operating costs remain fairly constant. This is best illustrated by looking at its operating percentage, which quantifies operating costs as percentage of total revenue. The increase in revenue has outpaced the increase in operating costs. As a result, FedSource's operating percentage has steadily decreased from 7 percent in FY 1998 to 3.7 percent in FY 2006 representing a 47 percent reduction.

Private Sector Accountability

FedSource worked with two of its largest vendors to enhance the methods in which they invoice the government. This enabled FedSource to easily review each invoice for accuracy, which saved more than ten days of staff time each month. In addition FedSource receives many invoices electronically, which allows their system to automatically check it against the contract for errors. As a result, FedSource is able to provide its customers with a more timely and accurate bill. In this case, the government and the private sector have become more efficient.

Awards and Public Recognition

- In 2005 the Administrative Resource Center was recognized as a Center of Excellence in the Financial Management Line of Business.
- The Administrative Resource Center received the Certificate of Achievement for a Government Travel Management Program from the Society of Government Travel Professionals (SGTP) for implementing the commercial, off-the-shelf software to automate the relocation process as part of the e-Travel implementation

Future Outlook

Through FY 2008 the Fund will maintain its commitment to excellence and will continue to meet or exceed all strategic goals and benchmarks. Additionally, the Fund should continue to see controlled growth.

Creating Opportunities through Innovation

Government business has significant needs when it comes to information. Making information actionable is central to an entity's performance. The ability to collaborate and share ideas, to make better-informed decisions, and to connect with customers relies on effectively managing information. At the same time, reducing costs remains a long-term priority. For these reasons, the importance of information technology as a strategic asset has never been greater. Franchise Fund is collaborating with its private sector partners to create high-impact solutions that integrate across the organization, such as using technology to give its customers desktop access to critical information. Focusing on its customer's needs fuels its passion for innovation. Franchise Fund believes innovative technology has the power to eliminate obstacles and create opportunities. As such, Franchise Fund will focus much of its efforts in FY 2007 and beyond to further developing its on-line offerings.

Raising the Bar

Although Franchise Fund is proud of its marketplace success and track record of delivering innovation, quality and results to its clients, the time has come for us to raise the bar in the industry once again. The designation of the Treasury Franchise Fund as a "Center of Excellence" in Financial Management will open new doors. Not only will this designation help expand the Fund's Administrative Resource Center's current target audience of small to mid-level agencies but it should provide the pathway to compete for the business of large cabinet level agencies. To ensure the Fund can meet these new opportunities the Fund has been making substantial investments today to enhance the power and value of its integrated system platform. The Franchise Fund is optimistic about its long-term growth opportunities.

1C – Industry Outlook

There is a positive outlook for the shared services sector in the federal government. The success of the Treasury Franchise Fund and its private sector counterparts is providing government leaders with a basis for looking at shared services providers to supply administrative resources. The Fund anticipates further growth in this sector due to the development of the Financial Management Line of Business and the Fund's status as a Center of Excellence.

Section 2 – Budget Adjustments and Appropriations Language

2.2 – Operating Levels Table

Dollars in Thousands

Treasury Franchise Fund	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
FTE	645	827	909
Object Classification:			
11 Personnel Compensation………………………………..	$39,310	$43,158	$48,625
12 Personnel Benefits...	11,107	14,864	16,777
13 Ben. Former Personnel...	109	0	0
21 Travel and Transportation of Persons………………….	1,522	1,255	1,308
22 Transportation of Things...	195	163	165
23 Rents Communications, Utilities, and Misc. Charges..........	3,790	2,486	2,544
24 Printing and Reproduction………………………………….	247	93	95
25 Other Services...	574,093	620,914	716,896
26 Supplies and Materials………………………………….	1,215	2,092	2,143
31 Equipment……………………………………………….	12,451	9,534	8,676
32 Land and Structures……………………………………..	(1,652)	106	78
42 Insurance Claims and Indemnities……………………..	0	0	0
43 Interest………………………………………………….	66	5	5
Total……………………………………………………………….	$642,454	$694,671	$797,312
Budget Activities:			
Consolidated/Integrated Administrative Management………..	$540,586	$595,160	$689,460
Financial Management Administrative Support Services……	88,735	90,861	98,685
Financial Systems, Consulting and Training…………………..	13,133	8,650	9,167
Total……………………………………………………………….	$642,454	$694,671	$797,312

2B – Appropriations Language

The Treasury Franchise Fund receives no appropriated funds from Congress.

2C – Legislative Proposals

The Treasury Franchise Fund has no legislative proposals for FY 2008.

Section 3 – Budget and Performance Plan

3.1 – Resource Detail Table

Dollars in Thousands

Description	FY 2006 Actual *	FY 2007 Estimated	FY 2008 Estimated	% Change FY 2007 to FY 2008
	AMOUNT	AMOUNT	AMOUNT	AMOUNT
Summary of Revenue and Expenses:				
Revenue:				
Consolidated / Integrated Administrative Mgt.	$517,315	$600,000	$700,000	16.67%
Financial Management Administrative Support	83,966	91,000	97,800	7.47%
Financial Systems, Consulting & Training	12,226	8,700	9,400	8.05%
Total Revenue	$613,507	$699,700	$807,200	15.36%
Expenses:				
Consolidated / Integrated Administrative Mgt.	$509,185	$595,160	$689,460	15.84%
Financial Management Administrative Support	90,516	90,861	98,685	8.61%
Financial Systems, Consulting & Training	10,254	8,650	9,167	5.98%
Total Expenses	$609,955	$694,671	$797,312	14.78%
Net Results	$3,552	$5,029	$9,888	96.59%
Customer Growth				
Consolidated / Integrated Administrative Mgt.	2,870	2,870	3,000	4.53%
Financial Management Administrative Support	59	61	63	3.28%
Financial Systems, Consulting & Training	239	263	290	10.27%
Total Customer Growth	3,168	3,194	3,353	4.98%

* Data is from the FY 2006 Statement of Net Cost. That data is on the accrual basis instead of the cash basis presentation in the President's Budget.

3A – Consolidated/Integrated Administrative Management *($689,460,000 from reimbursable programs):* The purpose of the Consolidated/Integrated Administrative Management budget activity is to provide government customers with entrepreneurial business solutions for the acquisition and financial management of common administrative services and products in support of agency missions and objectives. The Consolidated/Integrated Administrative Management activity includes FedSource which offers a "first choice" option or alternate source for the acquisition of these services and products in a fast, cost effective manner while continuing to assure quality and customer service.

FedSource uses numerous cost saving vehicles to generate or enhance efficiency and effectiveness in agency customer programs. FedSource consolidates multiple requirements from several offices within the same agency into one procurement vehicle, providing the customer one agreement for multiple services, and eliminating the need for the agency to seek several vendors. FedSource can establish a single "master agreement" for its customers that eliminate the need for separate agreements for each of its customer's offices, saving the customer agency time and significantly lowering administrative burden.

FedSource customers realize reduced pricing, rebates, and volume discounts as a result of economies of scale and improved efficiency of FedSource's services. FedSource is able to give a price reduction to customers obtaining large orders because in most instances operating costs remain fairly constant. In order to remain competitive, FedSource continues to find ways to reduce operating (overhead) costs. FedSource has consolidated its Acquisition Center to help ensure compliance with the numerous procurement rules and regulations, and continues to adapt its organization structure and product and service lines to enhance delivery of administrative services. FedSource expects to continue to be one of the most efficient and effective procurement options for the federal government. Continued growth will enable FedSource to demand even lower prices from their vendors based on increased buying power derived from all their customers.

3.2.1 – Consolidated/Integrated Administrative Management Budget and Performance Plan

Dollars in Thousands

Consolidated/Integrated Administrative Management Budget Activity	Includes Strategic Objectives F3A and M5B				
Resource Level	**FY 2004 Obligated**	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Estimated**	**FY 2008 Estimated**
Financial Resources					
Appropriated Resources	$0	$0	$0	$0	$0
Other Resources	480,478	701,150	540,586	595,160	689,460
Total Operating Level	**$480,478**	**$701,150**	**$540,586**	**$595,160**	**$689,460**
Human Resources					
Appropriated FTE	0	0	0	0	0
Other FTE	80	80	111	150	150
Total FTE (direct and reimbursable)	**80**	**80**	**111**	**150**	**150**

Consolidated/Integrated Administrative Management Budget Activity		Includes Strategic Objectives F3A and M5B				
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Customer Satisfaction Index - Consolidated/Integrated Administrative Mngmnt (%)(Oe)	Target		Baseline	71%	80%	80%
	Actual		71%	51%		
	Met		Yes	No		
Operating expenses as a percentage of revenue--Consolidated/Integrated Administrative Management (%)(E)	Target	Baseline	4%	12%	12%	12%
	Actual	4%	4%	4%		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

3B – Financial Management Administrative Support Services *($98,685,000 from reimbursable programs):* The purpose of the Financial Management Administrative Support activity is to offer value to its customers through cost savings (system acquisitions and operations and maintenance) and quality services. The Financial Management Administrative Support Services activity includes the Administrative Resources Center (ARC). ARC provides traditional administrative support functions with a focus on accounting, procurement, travel, and human resources (HR) services. This program has been very successful in meeting its mission goals as evidenced by the increasing demands for and satisfaction from their services.

ARC has reduced the number of federal administrative systems by providing access to an integrated system platform for accounting, travel, procurement, and personnel functions. In addition, ARC acts as a shared service provider for many customers providing full-service transaction processing and reporting.

The consolidation of these federal customers onto a shared systems platform has provided substantial savings to the federal government. These organizations now get better license costs because the vendors offer large volume discounts. These organizations also share the costs associated with operations and maintenance. In addition to the cost savings, these organizations are upgraded to the latest version of the software simultaneously as opposed to each organization managing its upgrade independently.

ARC already has agreements in place to add customers through FY 2008. ARC is in discussions with several agencies (small and large) to ensure work beyond FY 2008. ARC will generate substantial cost savings to these new customers through the year-one conversion phase. Customers will receive a compliant system platform at a fraction of the cost of the agency implementing their own new system. Customers also receive cost savings in out years by sharing system upgrade costs with ARC's other customers. Operations and maintenance costs are also lowered because ARC can negotiate much better system license costs with their vendors. As a result of the projected business, ARC hopes to help customers eliminate 15-20 duplicate financial related systems by FY 2008.

ARC can use the solutions that are implemented by one customer to help similar issues encountered by other customers. This "economies of scale" could not be obtained if the agencies performed their own work. ARC has also begun to re-look at their processes to streamline their procedures to gain new efficiencies.

3.2.2 – Financial Management Administrative Support Services Budget and Performance Plan

Dollars in Thousands

Financial Management Administrative Support Services Budget Activity					**Includes Strategic Objective M5B**
Resource Level	**FY 2004 Obligated**	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Estimated**	**FY 2008 Estimated**
Financial Resources					
Appropriated Resources	$0	$0	$0	$0	$0
Other Resources	64,450	74,850	88,735	90,861	98,685
Total Operating Level	**$64,450**	**$74,850**	**$88,735**	**$90,861**	**$98,685**
Human Resources					
Appropriated FTE	0	0	0	0	0
Other FTE	531	580	504	667	747
Total FTE (direct and reimbursable)	**531**	**580**	**504**	**667**	**747**

Financial Management Administrative Support Services Budget Activity				Includes Strategic Objective M5B		
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Customer Satisfaction Index - Financial Mgmt Admin Support Services (%) (Oe)	Target		Baseline	71%	80%	80%
	Actual		71%	75%		
	Met		Yes	Yes		
Operating expenses as a percentage of revenue--Financial Management Administrative Support (%) (E)	Target	Baseline	11%	12%	12%	12%
	Actual	9%	9%	17%		
	Met	Yes	Yes	No		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

3C – Financial Systems, Consulting and Training *($9,167,000 from reimbursable programs):* The purpose of the Financial Systems, Consulting, and Training activity is to offer value to customers by proving solutions through consulting and training. The Financial Systems, Consulting and Training activity consists of Treasury Agency Services and the Federal Consulting Group.

Treasury Agency Services shares one common purpose with their host bureau Financial Management Service (FMS)—help agencies improve the quality of government financial management. TAS is a reimbursable provider of information, advice, assistance, and training that is customized to meet today's environment and client agencies' requirements. These services provide the venue for linking program objectives and services with best financial management practices. TAS' vision is to be the partner of choice for federal managers seeking financial management improvements and success. Its strength is FMS expertise combined with entrepreneurial initiative.

The mission of the Federal Consulting Group (FCG) is to consult with other federal government agencies to support their transformation efforts to become more efficient, effective, citizen-centric, and results-oriented. The Federal Consulting Group's three business lines--consulting, executive coaching, and measuring performance and customer satisfaction--provide federal agencies with innovative solutions using the latest management and information technology tools, techniques, and best practices.

The Consulting Business Line focuses on assisting federal agencies in achieving organizational effectiveness through strategic planning, organizational development, process improvement, and workforce planning. FCG provides guidance to meet the requirements of the President's Management Agenda and the Program Assessment Rating Tool. Other services include conducting Baldrige and various types of program assessments. The Executive Coaching Business Line focuses on leadership development, team building, appreciative inquiry, executive coaching/mentoring, personal leadership skills and feedback coaching. The Performance Measurement and Customer Satisfaction Business Line focuses on aiding federal agencies in understanding what internal and external customers think of their efforts and improving overall customer satisfaction. This is accomplished through the use of the American Customer Satisfaction Index (ACSI), which is the world's leading metric for assessing and improving customer satisfaction and other measures of customer and employee satisfaction.

The FCG serves as one of the most cutting edge consulting and performance measurement service providers to the federal government. As the pressure grows for federal agencies to achieve results, measure performance, increase trust and confidence in government and prepare the next generation of leaders, the demand for and value of the services provided to client agencies continues to grow. FCG's mantra of "experience meeting government's challenges" is clearly demonstrated by its team of experienced, forward looking federal executives who can help agencies focus their efforts and become high performing.

3.2.3 – Financial Systems, Consulting and Training Budget and Performance Plan

Dollars in Thousands

Financial Systems, Consulting and Training Budget Activity					Includes Strategic Objective M5B
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Resource Level	**Obligated**	**Obligated**	**Obligated**	**Estimated**	**Estimated**
Financial Resources					
Appropriated Resources	$0	$0	$0	$0	$0
Other Resources	12,920	12,250	13,133	8,650	9,167
Total Operating Level	**$12,920**	**$12,250**	**$13,133**	**$8,650**	**$9,167**
Human Resources					
Appropriated FTE	0	0	0	0	0
Other FTE	50	50	30	10	12
Total FTE (direct and reimbursable)	**50**	**50**	**30**	**10**	**12**

Financial Systems, Consulting and Training Budget Activity						Includes Strategic Objective M5B
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Customer Satisfaction Index - Financial System, Consulting & Training	Target		Baseline	71%	80%	80%
	Actual		71%	81%		
	Met		Yes	Yes		
Operating expenses as a percentage of revenue--Financial Systems, Consulting and Training (%) (E)	Target	Baseline	12%	12%	12%	12%
	Actual	14%	11%	10%		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Customer Satisfaction

It is imperative that the Franchise Fund customers are satisfied with all aspects of the services provided. In the past the Fund used an 80% benchmark because of the scales used by the businesses to assess customer satisfaction. In FY 2005 and FY 2006, the Franchise Fund used the American Customer Satisfaction Index (ACSI). As a result, the Fund's base-line measures have changed.

Operating Expenses as a Percentage of Revenue

The Franchise Fund will either maintain or decrease the cost of goods sold as a percentage of revenue year to year. Cost of goods sold is defined as the costs actually incurred in producing the product or service. It is the direct cost of production or service.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents

Reimbursable		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		686	645	827
Increases:				
Reason #1:	Business growth	156	182	82
Subtotal, Increases		156	182	82
Decreases:				
Reason #1:	Normal Attrition	-17		
Reason #2:	Office closures/transfers	-26		
Reason #3:	Move Off. Of Mgmt Services back to BPD	-154		
Subtotal, Decreases		-197	0	0
Year-end Actual/Estimated FTEs		645	827	909
Net Change from prior year SOY to budget year EOY				264

4A – Human Capital Strategy Description

The Fund relies heavily on its host Bureaus (Bureau of Public Debt (BPD), FMS, and Departmental Offices) to provide the basis of its human capital strategy. Each bureau has done significant work in this area. The Fund, in a supplemental role, continues to improve recruitment, retention, professional development and evaluation strategies. The Fund makes full use of special hiring authorities, such as the Federal Career Intern, Outstanding Scholar and Student Career Experience Programs. With a significant portion of the Fund's FTE's located in Parkersburg, WV, the Fund has had a great deal of success recruiting highly qualified personnel. For example, the Fund's core business line – ARC's Financial Management Services – has been able attract over 38 certified public accountants making up roughly 21 percent of its total accounting staff.

The Treasury Franchise Fund has implemented its "EthicSmart" initiative that has increased awareness of ethical dilemmas that are heightened in a service business environment. This initiative helps support one of the Fund's goals of complying with relevant laws and regulations. The program is designed to help convey management's desire to create an environment where employees can make the right decision and take the right course.

4B – Information Technology Strategy

The Treasury Franchise Fund (TFF) determines what IT investments should be added to its portfolio using an Investment Review Board (IRB). The Fund's Advisory Board acts as the IRB and looks at investment activity monthly. All IT investments must be supported by a business need and the investment must add value to the services TFF provides its customers. When reviewing investments, the TFF IRB considers/addresses these questions:

- Does the IT investment support core/priority mission functions that need to be performed by the Treasury Franchise Fund?
- Does the project have to be undertaken by the Franchise Fund because no alternative private sector or government source can more efficiently support the function?
- Does the investment support work processes that have been simplified or otherwise redesigned to reduce costs, improve effectiveness, and make maximum use of commercial, off-the-shelf technology?
- Does the investment eliminate redundant systems and centralize core functions?

The Administrative Resource Center's IT portfolio is managed by the BPD, while Treasury Agency Service's portfolio is managed by the FMS. FedSource and FCG's IT portfolio is managed by the Treasury Franchise Fund's IRB. The Treasury Franchise Fund does not have any IT or Non-IT investments in their current portfolio.

4.3 – PART Evaluation Table

The Treasury Franchise Fund is not scheduled to be PARTed.

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

Bureau of Engraving and Printing

Mission Statement
To design and manufacture high quality security documents that meet customer requirements for quality, quantity and performance, including counterfeit deterrence.

Program Summary by Account
Dollars in Thousands

	FY 2006	FY 2007	FY 2008		
	Obligated	Estimated	Estimated	$ Change	% Change
Manufacturing	$445,000	$493,000	$537,000	$44,000	8.92%
Protection and Accountability of Assets	61,000	63,000	65,000	2,000	3.17%
Total Resources	**$506,000**	**$556,000**	**$602,000**	**$46,000**	**8.27%**

FY 2008 Priorities

- Produce and deliver the most secure currency for the nation in the most cost effective manner possible. BEP expects to produce and deliver 9.7 billion notes to the Federal Reserve System in 2008, an increase of nearly 7 percent over the 2007 program.

- Redesign the $5 and $100 notes. The redesigned $5 note will begin circulating in spring 2008; the new $100 note should begin circulating in FY 2009. The new notes are part of the current multi-year initiative to implement the most ambitious currency redesign in United States history.

- Continue process improvements as required of an ISO 9001 certified organization, a designation that indicates to current and prospective customers that the Bureau employs a rigorous quality management program.

- Continue to work with the Advanced Counterfeit Deterrent Committee to research and develop state-of-the-art counterfeit deterrent features for use in future currency notes that will enhance and protect future notes.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that deter counterfeiting and meet customer requirements for quality, quantity and performance.

The Bureau of Engraving and Printing began printing currency in 1862. The Bureau operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a) (4) to engrave and print currency and other security documents. Operations are financed by a means of a revolving fund established in 1950 in accordance with Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products. This eliminated the need for appropriations from Congress.

The Bureau's vision is to maintain its position as a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation. It strives to produce U.S. currency of the highest quality, as well as many other security documents issued by the federal government. Other activities at the Bureau include engraving plates and dies; manufacturing inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with the requirements of customers. In addition, the Bureau provides technical assistance and advice to other federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence.

In line with BEP's vision, the Bureau's top priorities for FY 2008 to achieve it's mission are the introduction of a new $5 note into circulation in spring 2008, and a new $100 note should begin circulating in 2009. The new notes will contain enhanced security features including subtle background colors. Background colors help consumers, particularly those who are visually impaired, to tell the denominations apart. However, in addition to background colors, BEP is developing and testing several new overt counterfeit deterrent features for inclusion in the new $100 note. The Bureau is continuing its work with the Advanced Counterfeit Deterrent Committee to research and develop future currency designs that will enhance and protect future notes.

Manufacturing – The Bureau of Engraving and Printing manufactures high quality security documents that deter counterfeiting. These products are grouped into two programs: Federal Reserve notes and other security documents.

Protection and Accountability of Assets – Because of the value of the products manufactured, the Bureau must maintain an accurate and cost effective system of accountability for all Bureau products, which will ensure that products are accounted for while in production and that customers receive the correct quantity of the product ordered. The protection and accountability of assets is a joint effort crossing many divisions within the Bureau; products are tracked and accounted for at every step of the production process. The primary mission of the Bureau's Office of Security is to preserve the integrity of and safeguard critical Bureau resources and assets such as personnel, products, facilities and equipment.

1B – Program History and Future Outlook

Redesigned Federal Reserve Notes: The Bureau of Engraving and Printing has a long term commitment to develop state-of-the-art counterfeit deterrent features for use in future currency notes through new, more innovative technologies. The Bureau expects to redesign United States currency every seven to ten years in an effort to stay ahead of counterfeiters as advances in technology make counterfeiting of currency less difficult. The Advanced Counterfeit Deterrent Steering Committee, which includes members from BEP, other Department of the Treasury officials, the United States Secret Service, and the Federal Reserve Board, is continually researching counterfeit deterrent features for possible use in future currency designs that will enhance and protect future notes from counterfeiting.

Recent redesigned notes retained three important counterfeit deterrent features that were first introduced in the late 1990's and are easy for consumers and merchants to authenticate.

- The watermark: The faint image similar to the large portrait, which is part of the paper itself, is visible from both sides when the note is held up to light.

- The security thread: This is visible from both sides when held up to light, this vertical strip of plastic is embedded in the paper and spells out "USA" as well as the denomination.

- The color-shifting ink: The numeral in the lower-right corner on the face of the note changes from copper to green when the note is tilted. The color shift is more dramatic and easier to see on the new design notes.

Counterfeiting has been kept at low levels through a combination of improvements in security features, aggressive law enforcement and education efforts to inform the public about how to authenticate their currency. The most recent redesigned note, the $10, entered into circulation in March 2006. The redesigned $10 was the third denomination in the new currency series that incorporates enhanced security features, as well as subtle background colors and symbols of freedom into the designs. A redesigned $5 note is scheduled to be introduced into circulation in spring 2008, and a new $100 note will begin circulating in 2009.

Public Education: Because the improved security features in the redesigned currency are most effective when the public knows about and uses the features to authenticate their currency, a broad, public education program is crucial to the anti-counterfeiting effort. In cooperation with the Federal Reserve, BEP administers a public education program to support the introduction of new currency designs. The goal of this program is to build an adequate threshold of awareness to ensure seamless, "business as usual" transitions as new currency designs are introduced to the public.

An education campaign will be conducted for the new $5 and $100 notes following the successful campaigns for the redesigned $20, $50 and $10 notes. No domestic paid advertising will be used to introduce the new notes, but it is possible that paid media of some nature may prove necessary in certain foreign markets for the $100 note. $100 notes comprise roughly 65 percent of the estimated $789 billion of outstanding United States currency, an estimated two-thirds which is held outside the United States borders. This education program ensures that people all over the world accept, recognize and use the enhanced security features of the new currency.

Quality: Along with innovative, cutting-edge designs, BEP will maintain its focus on producing high quality security products in the most cost effective manner possible. It will continue to pursue process improvements as required of an ISO 9001 certified organization, a designation that indicates to current and prospective customers that the Bureau employs a rigorous quality management program. Continuous process improvements will be the catalyst for world class quality and improved cost performance through streamlined processes and low spoilage. In 2007, the BEP plans to attain ISO 14001 certification for its environmental management systems to institutionalize its commitment to sound environmental stewardship.

Cost Reduction Efforts: The Bureau strives to provide its customers with superior products for the lowest possible price. The BEP continuously looks for ways to cut costs without compromising quality. During 2006, performance on key program performance measures relating to cost was favorable. In addition, direct manufacturing costs for the currency program were below established standards in 2006. To best position the Bureau of Engraving and Printing for the future, during 2006 it undertook a functional review of its organizational structure. The goal of the review was to streamline the organization by grouping similar functions to benefit from synergies, improve efficiency costs, reduce response time and facilitate currency redesign efforts. The Bureau expects to complete this functional realignment in early FY 2007.

Recent developments in Optical Character Recognition and image inspection software have led to the availability of commercial inspection systems that BEP can use in its currency manufacturing processes. These PC-based systems use commercially available hardware along with a proprietary software package to provide real time inspection of printed work. The Bureau’s investment in an automated inspection system has proven to be more cost effective than the system it replaced. It has also afforded BEP some flexibility in redeploying resources to other areas while enhancing it’s capability of delivering a high quality product.

BEP’s success would not be possible without the contributions of its people. The Bureau remains strongly committed to the development of its workforce through an array of career development programs tailored to the demand and skill requirements of a high-technology workplace. Strategic investment in people and technology will continue to be critical factors in maintaining the Bureau’s status as a world class securities manufacturer.

Section 2 – Budget Adjustments and Appropriations Language

2.2 – Operating Levels Table

Dollars in Thousands

Account Title: Bureau of Engraving and Printing		FY 2006 Obligated		FY 2007 Estimated		FY 2008 Estimated
FTE		2,190		2,300		2,250
Object Classification						
11.1 Full-Time Permanent Positions....................................	$	167,000	$	170,000	$	175,000
11.1 Other than Full-Time Permanent Positions.............		1,500		1,500		2,000
11.5 Other Personnel Compensation..................................		8,000		11,000		12,000
11.8 Special Personal Services Payments....................		2,000		2,000		2,000
11.9 Personnel Compensation (Total)............................		-		-		-
12.0 Personnel Benefits..		178,500		184,500		191,000
13.0 Benefits to Former Personnel..		43,500		46,000		48,000
21.0 Travel...		-		-		-
22.0 Transportation of Things..		1,750		1,750		1,750
23.1 Rental Payments to GSA..		100		150		150
23.2 Rent Payments to Others..		2,000		2,000		2,000
23.3 Communications, Utilities, & Misc.................................		1,000		1,000		1,000
24.0 Printing and Reproduction..		13,000		14,000		14,000
25.1 Advisory & Assistance Services....................................		850		800		800
25.2 Other Services...		4,000		5,000		5,000
25.3 Purchase of Goods/Serv. from Govt. Accts……		50,000		51,000		53,000
25.4 Operation & Maintenance of Facilities..................		-		-		-
25.5 Research & Development Contracts............................		8,200		8,200		8,200
25.6 Medical Care..		3,000		3,000		3,000
25.7 Operation & Maintenance of Equipment.....................		-		-		-
25.8 Subsistence & Support of Persons...............................		6,000		7,000		7,000
26.0 Supplies and Materials..		-		-		-
26.0 Metal and Fabrication..		134,000		184,000		207,000
31.0 Non-Capital Equipment..		60,000		50,000		60,000
33.0 Investments & Loans...		-		-		-
41.0 Grants, Subsidies...		-		-		-
42.0 Insurance Claims & Indemn..		-		-		-
43.0 Interest and Dividends……………………………………		100		100		100
44.0 Refunds...		-		-		-
Depreciation		-		-		-
Total Operating…………………………………………	$	506,000	$	558,500	$	602,000
Budget Activities:						
Manufacturing	$	445,000	$	493,000	$	537,000
Protection and Accountability of Assets		61,000		63,000		65,000
Total Budget Authority………………………………	$	506,000	$	556,000	$	602,000

2B – Appropriations Language

BEP receives no appropriated funds from Congress.

2C – Legislative Proposals

BEP has no Legislative Proposals for FY 2008.

Section 3 – Budget and Performance Plan

3.1 – Resource Detail Table

Dollars in Thousands

Description	FTE	FY 2006 Obligated	FTE	FY 2007 Estimated	FTE	FY 2008 Estimated	FTE	% Change FY 2007 to FY 2008
Revenue:								
Federal Reserve Notes	2,175	$500,000	2,285	$550,000	2,235	$596,000	-2.2%	8.4%
Postage Stamps		0		0		0		0.0%
Other Security Products	15	6,000	15	6,000	15	6,000	0.0%	0.0%
Total Revenue	2,190	$506,000	2,300	$556,000	2,250	$602,000	-2.2%	8.3%
Expenses:								
Direct Manufacturing								
Paper and Ink		$125,000		$175,000		$207,000		18.3%
Direct Labor		32,000		33,000		34,500		4.5%
Other Direct Mfg Costs		6,000		7,000		7,500		7.1%
Subtotal Direct Manufacturing Costs		163,000		215,000		249,000		15.8%
Indirect Manufacturing Support		282,000		278,000		288,000		3.6%
Total Manufacturing Activity Costs		445,000		493,000		537,000		8.9%
Total Protection & Accountability of Assets Activity Costs		61,000		63,000		65,000		3.2%
Total Expenses		$506,000		$556,000		$602,000		8.3%
Net Results		0.0		0.0		0.0		0.0%
Federal Reserve Notes Manufactured (in Billions)		8.2		9.1		9.7		6.6%

3A – Manufacturing *($537,000,000 from reimbursable programs):* BEP manufactures high quality security documents that deter counterfeiting. These manufactured products are grouped into two programs: Federal Reserve notes and other security documents. The Bureau's Manufacturing Activity supports Treasury's strategic objective, Increase the Reliability of the United States Financial System.

BEP uses the latest technologies for security printing and processing, including automated inspection equipment used in the production of the nation's currency. The manufacturing of state-of-the-art currency deters counterfeiting, contributes to public confidence, and facilitates daily commerce. The Bureau's production equipment is operated by highly skilled craft personnel that have developed their unique skills through multi-year apprenticeship programs.

In 2006, the Bureau delivered 8.2 billion Federal Reserve Notes to the Federal Reserve Banks. The currency order was fulfilled on schedule, at lower cost and spoilage than anticipated. The Federal Reserve has ordered 9.1 billion notes for delivery in FY 2007 and their order is estimated at 9.7 billion notes for FY 2008.

3.2.1 – Manufacturing Budget and Performance Plan

Manufacturing Budget Activity				Includes Strategic Objective F3C	
Resource Level	FY 2004 Obligated	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
Financial Resources					
Appropriated Resources	$0	$0	$0	$0	$0
Other Resources	481,000	436,000	445,000	493,000	537,000
Total Operating Level	**$481,000**	**$436,000**	**$445,000**	**$493,000**	**$537,000**
Human Resources					
Appropriated FTE	0	0	0	0	0
Other FTE	1,841	1,787	1,800	1,800	1,750
Total FTE (direct and reimbursable)	**1,841**	**1,787**	**1,800**	**1,800**	**1,750**

Manufacturing Budget Activity				Includes Strategic Objective F3C		
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Manufacturing costs for currency (dollar costs per thousand notes produced) ($) (E)	Target	$35	$31	$28.5	$30.0	$33.0
	Actual	$28.06	$28.83	$27.49		
	Met	Yes	Yes	Yes		
Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements (%) (Oe)	Target	99.9%	99.9%	99.9%	99.9%	99.9%
	Actual	100%	99.9%	99.9%		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: Manufacturing Costs for Currency (dollar cost per 1,000 notes produced) is an indicator of manufacturing efficiency and effectiveness of program management. This measure is based on contracted price factors, and anticipated productivity improvements. Actual performance against standard depends on BEP's ability to meet annual spoilage, efficiency, and capacity utilization goals. Performance against this measure has been favorable for the past six years.

3B – Protection and Accountability of Assets *($65,000,000 from reimbursable programs):* The Bureau's Protection and Accountability of Assets Activity also supports Treasury's strategic objective, Increase the Reliability of the United States Financial System. BEP's ability to provide effective and efficient product security and accountability during the manufacture and delivery of currency notes to the Federal Reserve preserves the integrity of the nation's currency.

Because of the value of the products manufactured, the Bureau must maintain an accurate and cost effective system of accountability for all Bureau products which will ensure that products are accounted for while in production and that our customers receive the correct quantity of the product ordered. The protection and accountability of assets is a joint effort crossing many divisions within the Bureau; products are tracked and accounted for at every step of the production process.

The Bureau's annual financial statement audit represents an assessment by an independent, certified public accounting firm of the integrity of the Bureau's revolving fund and the reliability of the financial data used for managerial decision making. Successful financial reporting at the Bureau is a joint effort that requires coordination between financial management, operations, and information technology personnel, as well as close coordination with the independent, certified public accounting firm contracted to perform the annual audit and the Office of Inspector General, which oversees their work. In addition, the Bureau's Office of Security's primary mission is to preserve the integrity of and safeguard critical Bureau resources and assets such as personnel, products, plant facilities and equipment.

3.2.2 – Protection and Accountability of Assets Budget and Performance Plan

Protection and Accountability of Assets Budget Activity					Includes Strategic Objective F3C
Resource Level	**FY 2004 Obligated**	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Estimated**	**FY 2008 Estimated**
Financial Resources					
Appropriated Resources	$0	$0	$0	$0	$0
Other Resources	58,000	56,000	61,000	63,000	65,000
Total Operating Level	**$58,000**	**$56,000**	**$61,000**	**$63,000**	**$65,000**
Human Resources					
Appropriated FTE	0	0	0	0	0
Other FTE	490	495	500	500	500
Total FTE (direct and reimbursable)	**490**	**495**	**500**	**500**	**500**

Protection and Accountability of Assets Budget Activity						Includes Strategic Objective F3C
Measure		**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Currency shipment discrepancies per million notes ($) (Oe)	Target	0.01	0.01	0.01	0.01	0.01
	Actual	0.01	0	0.01		
	Met	Yes	Yes	Yes		
Security costs per 1000 notes delivered ($) (E)	Target	Baseline	$5.95	$6.25	$6	$5.65
	Actual	$5.95	$5.75	$6		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: Currency Shipment Discrepancies are an indicator of the Bureau's ability to provide effective product security and accountability. This measure refers to product overages or underages of as little as a single currency note in shipments of finished notes to the Federal Reserve Banks. For several years, this measure has had an annual target of .01 percent. The Bureau has been able to meet or exceed this target on a regular basis. BEP continually strives to meet its long term goal of 0 percent, and has been able to do so several times.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents

Reimbursable FTE		FY 2006	FY 2007	FY 2008
BASE: Year-end Actual from Prior Year		2,282	2,190	2,300
Increases:				
Reason #1:	Production of Redesign $100 (possible additional production Step)	0	110	0
Subtotal, Increases		0	110	0
Decreases:				
Reason #1	Realignment efforts/Technology upgrades	0	0	-50
Reason #2	End of postage stamp program (attrition)	-55	0	0
Reason #3	Competitive Sourcing- Security Screening (non-add, reflects overtime FTE savings)	-10	0	0
Reason #4	FY 2005 Buyouts	-27	0	0
Subtotal, Decreases		-92	0	-50
Year end Actual/Estimated FTEs		2,190	2,300	2,250
	Budgeted FTE's	2300	2300	2250
Net Change from prior year SOY to budget year EOY				60

4A – Human Capital Strategy Description

To best position the Bureau of Engraving and Printing for the future, the bureau undertook a functional review of its organizational structure. The goal was to streamline organization and group similar functions to benefit from synergies. Elements of the Bureau's strategy include:

- Implementation of realignment to be completed in early FY 2007.
- Mission critical training for all Bureau employees is documented in the "BEP Master Training Plan." In collaboration with management, mission critical training is identified and made available to all Bureau employees.
- Management's annual performance goals and accomplishment of strategic goals are directly linked to the achievement of organizational goals.
- All employee performance plans include core elements directly linked to organizational goals.

- BEP's Senior Management Service (SES) Candidate Development Program (CDP) reflects the Bureaus' commitment to provide equal opportunities at the highest management levels and improve succession planning. Four CDP graduates were appointed to back-fill retired SES appointees with no interruption in leadership. BEP made seven selections for its second SES CDP program in 2005.

- Successfully used pay incentive flexibilities to retain unique expertise that enabled the Bureau to meet its goals, for example to fully implement a $1 million dollar automation application.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments Major IT Investments (In millions)	Budget Activity	Identify program that system is aligned to	FY 2005 Operating Plan	FY 2005 Obligations	FY 2006 Operating Plan	% Change from FY05 Obligations to FY06	FY 2007 President's Budget	% Change from FY06 to FY07	FY 2008 Request	% Change from FY07 to FY08
	N/A		0	0	0	0%	0	0%	0	0%
Total			0	0	0	0%	0	0%	0	0%
Non-Major IT Investments Technology[1]	N/A									
Manufacturing Support Systems			0	0	1.1	100%	1.3	18%	1.4	8%
Public Sales System			0	0	0.78	100%	0.78	0%	0.78	0%
WebTA			0	0	0.35	100%	0.05	-86%	0.07	40%
Total			0	0	0	0%	0	0%	0	0%
Infrastructure Investments[2]			0	0	0	0%	0	0%	0	0%
BEP Infrastructure (for Consolidation)	Manufacturing		5.1	5.4	3	-44%	3	0%	3.4	13%
BEP Office Automation (for Consolidation)	Manufacturing		4.7	4.4	4.3	-2%	3.7	-14%	3.8	2%
BEP Telecommunications (for Consolidation)	Manufacturing		0.61	0.61	0.64	5%	0.67	5%	0.7	4%
BEP Infrastructure Security (for Consolidation)	Manufacturing		0.75	0.91	1.3	38%	1.8	38%	1.8	0%
Total			0	0	0	0%	0	0%	0	0%
Enterprise Architecture	N/A		2.3	2.3	1.2	-48%	1.3	8%	0.04	-100%
Total IT Investments			0	0	0	0%	0	0%	0	0%

Note[1]: In FY 2005 and prior years, costs for these systems were included in BEP's Infrastructure and Office Automation programs.

Note[2]: Infrastructure funding is consolidated into the Treasury Departmental Integrated IT Infrastructure Exhibit 300.

4B – Information Technology Strategy

Information Technology (IT) and IT-Embedded Investments are fully aligned with BEP's Strategic Plan and support the capture, analysis, validation and reporting of key product quality and resource measures to include: product quality, product spoilage, ink mileage, production costs.

Major Investments: BEP has no planned independent major investments. BEP participates as a partner in significant Treasury-wide enterprise level investments such as Treasury Communication System/Treasury Communication Enterprise, Homeland Security Presidential Directive -12, Internet Protocol version six and the Treasury Consolidated Infrastructure.

Non-Major Investments: BEP is partnering with Treasury's Capital Planning and Investment Control organization to breakout and align non-major investments in line with Federal Information Management Systems Management Act system designations. Limited additional non-major investments are planned to garner savings in administrative costs and to further automate supply chain management functions

Infrastructure Investments: Appropriately categorized as part of Treasury Consolidated Infrastructure Investment.

Enterprise Architecture: It is the policy of the Bureau of Engraving & Printing to implement and comply with the precepts and requirements of the Clinger-Cohen Act, the Government Performance and Results Act (GPRA), the Federal Information Security Reform Act (FISMA), OMB Circular A-130, "Management of Federal Information Resources," OMB Circular A-11, Part 7, and associated Capital Programming Guide, and all applicable Federal Enterprise Architecture guidance issued by OMB, to include both the Federal Enterprise Architecture and associated reference models.

4.3 – PART Evaluation Table

PART Name:	New Currency Manufacturing
Year PARTed:	2003
Rating:	Effective
OMB Major Findings/Recommendations	
1. Monitor design and overhead costs related to the manufacture of New Currency to ensure the most effective production and distribution of future denominations.	
2. Continue to work with Federal partners to asess the impact of New Currency on counterfiting performance measures across government.	
Bureau Actions Planned or Underway	
1. BEP works closely with the Advanced Counterfit Deterrent Steering Committee to identify and evaluate future counterfeit deterrent designs.	
2. BEP/Treasury Department/Federal Reserve Board/United States Secret Service work together within the Advanced Counterfeit Deterrent Steering Committee to assess impacts The Bureau participates jointly with these federal agencies to determine the effectiveness of current counterfeit deterrence features. The focus of the program is on both reliability of the manufacturing process and incorporating advanced counterfeit deterrent features in bank notes and the effectiveness of these features through the course of daily cash transactions.	

BEP's Protection and Accountability program reviewed in FY 2006 received an Effective rating from the Office of Management and Budget.

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

United States Mint

Mission Statement

To apply world-class business practices in making, selling and protecting our nation's coinage and assets.

Program Summary by Account

Dollars in Thousands

	FY 2006	FY 2007	FY 2008		
	Obligated	**Estimated**	**Estimated**	**$ Change**	**% Change**
Manufacturing	$1,469,100	$1,911,439	$1,859,892	($51,547)	-2.70%
Protection	36,917	38,121	39,143	1,022	2.68%
Total Cost of Operations	**$1,506,017**	**$1,949,560**	**$1,899,035**	**($50,525)**	**-2.59%**
Capital Investments (Not Included in Total Cost of Operations Above)	$21,284	$38,484	$38,469	($1,015)	2.6%

FY 2008 Priorities

- Efficiently and effectively produce and distribute approximately 15.1 billion coins to meet demand for circulation during FY 2008.

- Continue to produce and ship Presidential $1 Coin Act products, including Presidential $1 coins for circulation, Sacagawea $1 coins for circulation, 24-karat First Spouse Gold coins and 24-karat Gold Bullion coins.

- Produce and distribute required numismatic products and sets, as well as other numismatic items, in quantities sufficient to make them available and affordable to Americans who chose to purchase them.

- Produce coins for the final year of the United States Mint 50 State Quarters® Program to honor the following states: Oklahoma, New Mexico, Arizona, Alaska, and Hawaii. These five states conclude the 50 State Quarters Program.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The United States Mint is the world's largest coin manufacturer with operations in California, Colorado, Kentucky, New York, Pennsylvania, and Washington, D.C. Its mission is to apply world-class business practices in manufacturing, selling, and protecting the nation's coinage and assets. The United States Mint's vision is "together, we will provide value to the American people, ensure integrity in our commitments and communications, and achieve world-class performance." The United States Mint remains committed to holding down costs, streamlining operations, and providing value to the American people.

The following priorities have been established toward achieving the mission in line with this vision:

- Increase in Efficiency
- Increase accessibility and awareness of United States Mint products and programs.
- Commitment to Its workforce.

1B – Program History and Future Outlook

Since FY 1996, the United States Mint has been operating under the United States Mint's Public Enterprise Fund (PEF). As authorized by Public Law 104-52 (31 U.S.C. § 5136), the PEF eliminates the need for appropriations. Proceeds from the sales of circulating coins to the Federal Reserve Banks and numismatic items to the public are the source of funding for operations. Both operating expenses and capital investments are associated with the production of circulating and numismatic coins and coin-related products, and protective services. Revenues in excess of amounts required by the PEF are transferred to the United States Treasury General Fund.

The United States Mint's consolidated earned revenue, plus other financing sources (seigniorage), increased to $2,323.5 million in FY 2006 from FY 2005 consolidated earned revenue plus other financing sources, totaling $1,771.0 million. These results reflect increases in the demand for both circulating and numismatic products. As a result of operations, the United States Mint transferred $750 million to the Treasury General Fund in FY 2006.

During FY 2006, the United States Mint's circulating coinage operations faced a challenging environment of rising metal prices. The face value of circulating coins shipped to the Federal Reserve was $1,271.9 million, slightly higher than $1,144.8

million in FY 2005. The average market prices through September 2006 for copper, nickel, and zinc increased 83 percent, 27 percent, and 111 percent, respectively, from FY 2005. Rising metal prices had a significant effect on circulating coinage results and are causing the one-cent and five-cent coins to cost more than their face value to manufacture on a per-unit basis. The United States Mint is working with the Department of the Treasury and Congress to keep the public informed and to examine alternatives that could mitigate the impact that current metal prices are having on the circulating coinage. Ultimately, the metal content of all coins is specified by laws passed by Congress. The Constitution gives Congress the power to coin money and to regulate its value.

The United States Mint's numismatic and bullion operations performed strongly in FY 2006, as sales to the public increased to $1,051.6 million from $626.1 million in FY 2005. This included sales of the nation's first 24-Karat American Buffalo Gold Coins, introduced to the public six months after enactment of Public Law 109-145 (December 22, 2005).

These successes could not have been possible without the contributions of the workforce. The United States Mint has begun planning for a future environment that is anticipated to bring new challenges and opportunities. Future success depends on further developing coin production expertise, increasing organizational flexibility, and implementing new production technology. To achieve this, the United States Mint is looking into exciting new technologies and materials to increase capability and agility in the design and manufacture of new products and to streamline administrative and related support services.

1C – Industry Outlook

United States Mint operations face key challenges. The increased use of electronic transactions, coin counting machines, and improvements to coin distribution channels will likely affect demand for newly minted circulating coins. However, this new environment provides an opportunity for growth in numismatic products. The new products legislated by the Presidential $1 Coin Act of 2005, coupled with efforts for the core recurring numismatic products, will offer the public many new opportunities for collections, gifts, or investments. Some of the key challenges expected in the coming years are:

- <u>Rising Prices of Metal Leading to Higher Production Costs</u> – Steady and dramatic increases in the prices of zinc, copper, and nickel have raised the cost of producing circulating coinage. This is causing the one-cent and five-cent coins to cost more than their face value on a per-unit basis. The impact this is having is being addressed with the Department of the Treasury and with Congress to explore alternatives to mitigate the impact of high metals prices. Ultimately, the metal content of all coins is specified by laws passed by Congress.

- <u>Potential Downward Trend in Demand for Circulating Coins</u> – Over the past five years, the public's use of credit and debit cards, and other forms of electronic transactions, has increased substantially. This transformation toward more cash-free transactions could have significant implications for the nation's future demand for circulating coins.

- Conclusion of the 50 State Quarters® Program – In recent years, there has been an increased demand for numismatic products – much of it because of the popularity of the 50 State Quarters products. However, this numismatic product line will cease when the 50 State Quarters Program ends in December 2008.

- Volatility in Short-Term Coin Production Requirements – With the introduction of the 24-Karat gold bullion program in 2006 and the upcoming Presidential $1 Coin Program in 2007, the United States Mint is investing in production and packaging equipment in its coin production facilities. However, these production increases will likely be followed by a decline in 2009 – when the 50 State Quarters Program ends.

Plans for FY 2007 and FY 2008 include items that address these challenges:

Increases in Efficiency

The United States Mint continually tries to improve production and administrative efficiencies. Also, with new product designs such as the Presidential $1 Coin products, it is necessary to have a quick timeframe to take a product from authorizing legislation to finished product for sale. This also maximizes the availability of products for purchase by the public.

- The United States Mint is researching and developing new technologies and new materials to achieve greater capabilities and efficiencies in the design and manufacturing processes. Initiatives include establishing a technology center at the United States Mint at Philadelphia, assessing new technologies in digital engraving, and developing a plan to improve the response and capability of die manufacturing operations.

- In FY 2006, the United States Mint transferred some of its human resource, procurement, and e-travel functions to the Bureau of the Public Debt's Administrative Resource Center (ARC). This takes advantage of economies of scale and other business improvements resulting from increased standardization and transparencies of a shared services environment. In FY 2007, many of the finance and accounting functions will be transferred to ARC along with the operation of its Enterprise Resource Planning system.

Increase Accessibility and Awareness of United States Mint Products and Programs

The United States Mint sees a future in which the demand for circulating coinage is flat to declining. However, there is opportunity with numismatic coins, as evidenced by the popularity of circulating commemorative programs such as the 50 State Quarters Program and the Westward Journey Nickel Series™. To position operations to accommodate new designs and new products, it is necessary to analyze the market and communicate with the public, in addition to developing the production techniques and capacity.

- In FY 2007, the United States Mint will introduce a Presidential $1 Coin. This program will increase dollar coin production and result in the production of additional numismatic products. A public awareness and educational outreach effort, consistent with the statutory requirements, will be conducted.

- Investments in equipment during FY 2007 and FY 2008 will allow for new coin designs and new product capabilities, paving the way for growth in revenue by offering new products for the numismatic community. Examples of equipment related to these needs are edge-lettering equipment to comply with certain provisions in the Presidential $1 Coin Act and to develop other new products; automated packaging equipment; digital engraving to shorten the design process time; die coating equipment to improve die life and meet environmental goals; and laser frosting and automated die polishing equipment to develop new products.

A Commitment To Its Workforce

In 2006, the United States Mint began to plan to better position itself to meet future challenges. Underlying the challenges and efforts listed above, a transition will be necessary to achieve an organization that can handle the circulating coinage needs efficiently, while offering new products and the capability to grow the numismatic operations. As part of this effort, workforce plans began to be developed to successfully position the organization for the future.

- The United States Mint remains committed to communicating with all employees to ensure that employees are treated fairly and with respect during this time of transformation. Included in plans for FY 2007 and FY 2008 are initiatives to address skill gaps and training needs within functional units and to organize the approach to address any identified changes.

- The United States Mint has had success in focusing the organization on safety and health improvements. This is shown by the reduction in the Lost Time Accident rate per 200,000 hours worked, which improved to 0.79 through September 2006, compared with 0.94 during FY 2005 and 1.36 during FY 2004.

Projected Full Time Equivalent (FTE) levels for both FY 2007 and FY 2008 are increasing slightly to 1,975 from actual usage of 1,927 in FY 2006. This reflects a reduction at Headquarters, which is offset by increases at the manufacturing plants to keep up with increased demand, especially for numismatic products and the new Presidential $1 coins.

2.2 – Operating Levels Table

Dollars in Thousands

Account Title: United States Mint		FY 2006 Obligated		FY 2007 Estimated		FY 2008 Estimated
FTE		1,927		1,975		1,975
Object Classification:						
11.1 Full-Time Permanent Positions......................	$	119,009	$	125,587	$	129,274
11.1 Other than Full-Time Permanent Positions....		1,447		55		55
11.5 Other Personnel Compensation....................		11,966		15,098		15,416
11.8 Special Personal Services Payments............		-		-		-
11.9 Personnel Compensation (Total)...................		-		-		-
12.0 Personnel Benefits..		36,525		43,233		44,290
13.0 Benefits to Former Personnel........................		137		1,581		956
21.0 Travel...		1,276		4,583		3,772
22.0 Transportation of Things...............................		42,364		28,169		28,072
23.1 Rental Payments to GSA..............................		802		30		28
23.2 Rent Payments to Others..............................		19,077		28,169		25,070
23.3 Communications, Utilities, & Misc.................		15,636		26,050		24,569
24.0 Printing and Reproduction.............................		2,504		7,774		7,121
25.1 Advisory & Assistance Services....................		60,949		84,954		65,419
25.2 Other Services..		63,215		93,077		39,264
25.3 Purchase of Goods/Serv. from Govt. Accts…		-		-		-
25.4 Operation & Maintenance of Facilities...........		-		-		-
25.5 Research & Development Contracts.............		-		-		-
25.6 Medical Care...		-		-		-
25.7 Operation & Maintenance of Equipment.........		15,321		28,989		64,021
25.8 Subsistence & Support of Persons................		-		-		-
26.0 Supplies and Materials..................................		40,885		58,550		54,398
26.0 Metal and Fabrication....................................		1,072,665		1,401,707		1,395,521
31.0 Non-Capital Equipment.................................		2,219		1,798		1,646
33.0 Investments & Loans.....................................		-		-		-
41.0 Grants, Subsidies..		-		-		-
42.0 Insurance Claims & Indemn..........................		20		156		143
43.0 Interest and Dividends…………………………		-		-		-
44.0 Refunds...		-		-		-
Depreciation		0		0		0
Total Operating………………………………………		$1,506,017		$1,949,560		$1,899,035
Object Classification						
31.0 Capital Equipment...		16,249		25,296		26,734
32.0 Land and Structures......................................		5,035		14,188		11,735
Total Capital…………………………………………		$21,284		$39,484		$38,469
Budget Activities:						
Manufacturing and Sales		1,469,100		1,911,439		1,859,892
Protection		36,917		38,121		39,143
Total Budget Authority………………………………		$1,506,017		$1,949,560		$1,899,035

2B – Appropriations Language

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY UNITED STATES MINT PUBLIC ENTERPRISE FUND Federal Funds *Pursuant to section 5136 of title 31, United States Code, the United States Mint is provided funding through the United States Mint Public Enterprise Fund for costs associated with the production of circulating coins, numismatic coins, and protective services, including both operating expenses and capital investments. The aggregate amount of new liabilities and obligations incurred during fiscal year 2008 under such section 5136 for circulating coinage and protective service capital investments of the United States Mint shall not exceed $33,200,000.*	

2C – Legislative Proposals

The United States Mint has no legislative proposals for FY 2008.

Section 3 – Budget and Performance Plan

3.1 – Resource Detail Table

Dollars in Thousands

	FTE	FY 2006 Actual	FTE	FY 2007 Estimated	FTE	FY 2008 Estimated		% Change FY 2007 to FY 2008 %
Revenue:								
Circulating		520,102		980,016		837,587		-14.53%
Comm. Quarters		751,756		680,225		686,575		0.93%
Numismatic		1,051,593		1,050,000		1,050,000		0.00%
Total Revenue		$2,323,451		$2,710,241		$2,574,162		-5.02%
Expenses:								
Manufacturing and Sales								
Circulating		326,463		453,642		408,145		-10.03%
Comm. Quarters		269,206		413,771		410,441		-0.80%
Numismatic		873,431		1,044,026		1,041,306		-0.26%
Subtotal Manufacturing and Sales	1,547	$1,469,100	1,592	$1,911,439	1,592	$1,859,892	0.00%	-2.70%
Protection	380	36,917	383	38,121	383	39,143	0.00%	2.68%
Capital Investments		21,284		39,484		38,469		-2.57%
Total Operating Expenses + Capital	1,927	$1,527,301	1,975	$1,989,044	1,975	$1,937,504	0.00%	-2.59%
Net Results		$796,150		$721,197		$636,658		-11.72%
Coin Shipments (in Millions)								
Circulating:								
Pennies		8,553		7,658		7,599		-0.77%
Nickels		1,461		1,558		1,541		-1.09%
Dimes		3,023		2,754		2,850		3.49%
Quarters		3,007		2,721		2,746		0.92%
Half Dollars		2		-		-		0.00%
Dollars		60		550		400		-27.27%
Total Circulating		16,106		15,241		15,136		-22.87%
Numismatic		13		13		13		0.00%
Bullion		11		11		11		0.00%

3A – Manufacturing *($1,859,892,000 from reimbursable programs):* The United States Mint manufactures and sells coin products. For budget reporting purposes, these products are grouped into three programs: Circulating Coinage, 50 State Quarters, and Numismatic.

Circulating Coinage includes the one-cent coin, five-cent coin, dime, half-dollar and dollar used to conduct trade and commerce. The focus of this program is to produce and deliver coins for circulation to meet the needs of the United States in a cost efficient and safe manner with state-of-the-art manufacturing technology and equipment. The United States Mint delivers the circulating coinage to the Federal Reserve Banks for distribution as demanded by commerce.

The Resource Detail Table includes metal and manufacturing costs for the forecasted units plus administrative overhead and other non-production costs. These estimates are revised accordingly as economic conditions change and the plan year approaches. The current FY 2008 budget estimate includes resource needs of $408 million to produce and ship 12.4 billion coins and generate $838 million in face value.

By spending $408 million on circulating coinage in FY 2008, the United States Mint will produce and ship approximately:

- 7.6 billion one-cent coins, generating face value of $76 million.
- 1.5 billion five-cent coins generating face value of $77 million.
- 2.8 billion dimes, generating face value of $285 million.
- 400 million dollar coins, generating face value of $400 million.

In FY 2007, the United States Mint will introduce the Presidential $1 Coin program which commemorates the service of former Presidents of the United States in the order in which they served the nation. Four different coin designs will be minted each year. The year 2007 will feature Presidents Washington, Adams, Jefferson and Madison. The year 2008 will feature Presidents Monroe, (John Quincy) Adams, Jackson and Van Buren.

50 State Quarters Program

The 50 State Quarters Program began in 1999 to commemorate and honor each of the 50 states over a ten-year period. Five new commemorative quarter-dollar coins are produced each year. Each quarter's reverse celebrates one of the 50 states with a design honoring that state's unique history, traditions, and symbols. The quarters are released in the same order that the states ratified the United States Constitution or were admitted into the Union. The releases for 2007 are Montana, Washington, Idaho, Wyoming, and Utah. The 2008 quarters will depict designs for Oklahoma, New Mexico, Arizona, Alaska and Hawaii. The quarters are circulating coins; however, by statute, the revenue from this program is considered numismatic for budgetary reporting purposes. The program is displayed separately in the narrative and the financial schedules to present a clearer picture of its impact. The United States Mint plans to spend $410 million to produce and ship approximately 2.7 billion quarters, generating revenues of $687 million in FY 2008.

Numismatic Program

The Numismatic Program includes six types of coin products, which the United States Mint markets and sells to the public, including: 1) Bullion Coins, 2) American Eagle Proof Coins, 3) 24-karat Proof Program, 4) Recurring Coin Programs, 5) Commemorative Coins, and 6) Medals. The program focuses on providing quality products and services, expanding markets and supporting the long-term objectives. The current FY 2008 budget estimate includes resource needs of $1,041 million to generate $1,050 million in revenues from the sale of these products.

Bullion coins are largely bought by precious metal dealers and sold to consumers who desire precious metals as part of an investment portfolio. Gold and platinum bullion coins are issued with one-tenth, one-quarter, one-half or one ounce precious metal content. Silver bullion coins are issued with one ounce of silver metal content. The demand for bullion coins can be greatly affected by the performance of other investment options such as equities or currency markets, and therefore is highly unpredictable. As required by law in 2006, new 24-karat gold bullion coins were introduced, the American Buffalo Gold Coin Program, which complement the popular 22-karat gold bullion coins. 24-karat (99.99 percent fineness) has become the global standard for gold investment coins. The new coins give investors a second option backed by the United States Government in the global precious metal market.

American Eagle Proof coins are the United States Mint's premier collectible products. These coins contain platinum, gold, and silver and are issued in proof quality. Gold and platinum proof coins are issued with one-tenth, one-quarter, one-half or one ounce precious metal content. Silver proof coins are issued with one ounce of silver metal content. The proof quality coins are considered numismatic products and are sold directly to consumers from the United States Mint, either as individual coins or in sets.

Recurring products are circulating-derived products, such as proof sets; uncirculated sets; silver proof sets; and rolls and bags of quarter-dollars, half-dollars, and dollars designed for mass appeal.

Commemorative coins are authorized by Congress to celebrate and honor American people, places, events, and institutions. Each commemorative program is produced by the United States Mint in limited quantity and is available only for a limited time. Included in the price of commemorative coins is a surcharge that is authorized to be paid to the designated recipient organizations for projects that benefit the community. In FY 2007, the United States Mint will offer the Jamestown 400th Anniversary Commemorative Coin and the Little Rock Central High School Desegregation 50th Anniversary Commemorative Coin Program. Public Law 108-289, dated August 6, 2004, authorizes the production of a gold $5 coin and a silver $1 coin for the Jamestown Commemorative Coin. Public Law 108-146, dated December 22, 2005, authorizes the production of a silver dollar coin for the Little Rock Central High School Desegregation 50th Anniversary Commemorative Coin Program. In FY 2008, the United States Mint will offer the American Bald Eagle Recovery and National Emblem Commemorative Coin Program. Public Law 108-486, dated December 23, 2004, authorizes the production of three coins for this program, one gold, one silver and one clad coin.

3.2.1 – Manufacturing Budget and Performance Plan

Manufacturing Budget Activity			Includes Strategic Objective F3C		
Resource Level	FY 2004 Obligated	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
Financial Resources					
Appropriated Resources	$0	$0	$0	$0	$0
Other Resources	956,173	979,159	1,469,100	1,911,439	1,859,892
Total Operating Level	**$956,173**	**$979,159**	**$1,469,100**	**$1,911,439**	**$1,859,892**
Human Resources					
Appropriated FTE	0	0	0	0	0
Other FTE	1,764	1,681	1,547	1,592	1,592
Total FTE (direct and reimbursable)	**1,764**	**1,681**	**1,547**	**1,592**	**1,592**

Manufacturing Budget Activity				Includes Strategic Objective F3C		
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Cost per 1,000 Coin Equivalents ($)(E)	Target	$9.78	$7.03	$6.62	$7.27	$7.15
	Actual	$7.93	$7.42	$7.55		
	Met	Yes	No	No		
Cycle Time	Target	53	53	67	75	67
	Actual	85	69	72		
	Met	No	No	No		
Order Fulfillment (%)(Oe)	Target	Baseline	0%	95%	96%	96%
	Actual	0%	94%	95%		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Cost per 1000 Coin Equivalents

The United States Mint's costs vary by product, and the product mix has been variable over time. This makes it difficult to compare operating results from year to year. The coin equivalent calculation converts the production output to a common denominator based on the circulating quarter. Production costs, excluding metal and fabrication, are then divided by this standardized production level, thus resulting in "conversion costs per 1,000 coin equivalents." This allows comparison of performance over time by negating the effects of changes in the product mix. The Cost per 1,000 Coin Equivalents for FY 2006 is 7.55, a slight increase from $7.42 in FY 2005. The performance did not meet the target of $6.62. This ambitious target was a stretch goal, an 11 percent drop from the FY 2005 actual result, and was set based upon forecasted volume, product mix, and cost estimates. Differences in the actual volumes or the product mix from forecast affects the achievement of specific targets in any given year.

3B – Protection *($39,143,000 from reimbursable programs):* The United States Mint secures over $100 billion in market value of the nation's gold reserves, silver, and other assets. The United States Mint Police protects assets while safeguarding United States Mint employees against potential threats at its facilities across the country. The United States Mint Police addresses possible threats by ensuring good perimeter security at all sites, and increasing coordination with various federal, state and local law enforcement agencies. It also ensures that proper policies are in place, and procedures followed, in handling the assets used to produce and transport coinage.

Plans include efforts to leverage new technology to automate entry and exit procedures at United States Mint facilities. Innovative threat assessment strategies will continue to be pursued to effectively prevent and counteract any security threats against its operations.

3.2.2 – Protection Budget and Performance Plan

Protection Budget Activity	Includes Strategic Objective F3C				
Resource Level	FY 2004 Obligated	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
Financial Resources					
Appropriated Resources	$0	$0	$0	$0	$0
Other Resources	38,975	34,984	36,917	38,121	39,143
Total Operating Level	**$38,975**	**$34,984**	**$36,917**	**$38,121**	**$39,143**
Human Resources					
Appropriated FTE	0	0	0	0	0
Other FTE	351	335	380	383	383
Total FTE (direct and reimbursable)	**351**	**335**	**380**	**383**	**383**

Protection Budget Activity		Includes Strategic Objective F3C				
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Protection Cost Per Square Foot ($) (E)	Target	Baseline	$31.86	$32	$32.99	$32.5
	Actual	$32.51	$32.43	$32.49		
	Met	Yes	No	No		
Total Losses ($) (Oe)	Target	Baseline	$250,000	$15,000	$10,000	$5,000
	Actual	$3,109	$1,135	$0		
	Met	Yes	Yes	Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance: Total losses through the third quarter FY 2006 were $0 (zero) compared with $1,135 in FY 2005. This exceeds the target of $15,000. This measures the results of fraud cases (e.g., credit card fraud during the purchase of United States Mint products by the public), theft cases, or intrusions that cause damage to the bureau's property. Cases that have been investigated and closed during the fiscal year are measured.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents

Reimbursable FTE		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		2,015	1,927	1,975
Increases:				
Reason #1:	New Numismatic Production		48	
Subtotal, Increases		0	48	0
Decreases:				
Reason #1:	Normal Attrition	-88	0	0
Subtotal, Decreases		-88	0	0
Year-end Actual/Estimated FTEs		1,927	1,975	1,975
Budgeted FTEs		1,927	1,975	1,975
Net Change from prior year SOY to budget year EOY				48

4A – Human Capital Strategy Description

To best position the United States Mint for the future, it created a Workforce Planning Steering Committee which led a major workforce planning effort that included senior leaders and managers to identify human capital needs and workforce levels over the next five years. Workforce planning is on-going, however, the initial results include:

- Identification of human capital needs and workforce levels over the next five years in the context of the strategic plan and projected business environment and direction.
- Comparison of current skill profile to future skill needs and identified skill gaps.
- Recommended strategies to overcome identified skill gaps.
- A forward-looking analysis of factors and expected trends impacting United States Mint specific occupations and the likely affect on employee recruitment, development and retention.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments		FY 2005		FY 2006	% Change from FY05 Actuals to FY06	FY 2007	% Change from FY06 to FY07	FY 2008	% Change from FY07 to FY08
Major IT Investments	Budget Activity	Operating Plan	Obligations	Operating Plan		Operating Plan		Request	
RS2 (ESPII - Electronic Commerce)	Manufacturing and Sales	11.6	10.5	4.8	-54.3%	4.8	0.0%	4.9	2.1%
Total Major IT Investments		$11.6	$10.5	$4.8	-54.3%	$4.8	0.0%	4.9	2.1%
Non-Major IT Investments		$4.2	$3.8	$4.6	21.1%	5.5	19.0%	5.8	5.6%
Infrastructure Investments		$36.3	$33.8	$37.0	9.5%	$38.7	4.4%	37.2	-3.8%
Enterprise Architecture		$1.0	$1.0	$1.6	60.0%	$1.3	-18.8%	1.3	1.5%
Total IT Investments		$53.1	$49.1	$48.0	-2.2%	$50.2	4.6%	49.2	-2.0%

4B – Information Technology Strategy

The United States Mint's capital projects are focused on improving processes, developing new coin design capabilities, and expanding information handling. These investments are planned to reduce costs, shorten the overall time from product concept to production, and achieve greater flexibility to respond to shifts in market demands. The following major IT investment is planned for 2008:

Retail Sales System

The Retail Sales System (RS2), formerly reported as the e-Business Solution Project (eSP), was developed in response to a growing need to meet the rapidly expanding numismatic market and to take advantage of new technology that would better support business requirements. RS2 was designed to meet high public demand for E-Government services and provide an easy and secure way for customers to order products directly from the United States Mint. An integrated mail order and cataloging system supports both the United States Mint's core mission.

Major Investments	FY 2006 Obligations	FY 2007 Estimated	FY 2008 Estimated
Circulating & Protection Capital Investments			
Circulating Information Technology	$1.722	2.215	1.264
Circulating Building Improvements	$1.669	7.080	6.196
Circulating Equipment	$2.621	7.670	8.555
Protection	$3.070	9.555	8.940
Total Circulating and Protection	$9.082	26.520	24.955
Numismatic Capital Investments			
Numismatic Information Technology	$0.458	2.215	1.264
Numismatic Building Improvements	$0.478	2.153	2.050
Numismatic Equipment	$11.266	8.596	10.200
Total Numismatic	$12.202	12.964	13.514
Total Capital Investments	$21.284	39.484	38.469

The above FY 2006 totals by budget activity are different than those reflected in the President's Budget due to a data entry error in the MAX system (numbers were transposed). The capital investment obligations reflected in this table are correct.

The United States Mint's FY 2008 total circulating and protection capital estimate is $25.0 million, which is $8.2 million below the total projected circulation and protection depreciation (capital limit) amount of $33.2 million. Therefore, no additional budget authority for capital investments is needed in FY 2008.

Each year, the United States Mint commits funds for capital projects to maintain, upgrade or acquire physical structures, equipment, physical security, and information technology systems. Total capital projects are estimated to be $38.5 million in FY 2008. This includes approximately $16.1 million for circulating projects, $8.9 million for security improvement projects, and $13.5 million for numismatic projects.

4.3 – PART Evaluation Table

PART Name: Coin Production	
Year PARTed:	2002
Rating:	Effective
OMB Major Findings/Recommendations	
1. The Mint has established performance measures focused on customer satisfaction and improving cost efficiencies. For instance, the Mint reports the results of a Federal Reserve Board Customer Satisfaction survey.	
2. The Mint needs to improve customer satisfaction survey scores.	
3. The Mint has shown some efficiency improvements in achieving reduced manufacturing costs. The Mint has achieved a 19 percent reduction in manufacturing costs since 1997.	
Bureau Actions Planned or Underway	
1. Reducing the maintenance down time of coin manufacturing machinery.	
2. Competing customer service and order mailing staff to determine if contractors could handle these functions more efficiently.	
3. Establishing a performance target to reduce the time rquired to process raw materials into produce coins.	

PART Name: Numismatic Program	
Year PARTed:	2004
Rating:	Effective
OMB Major Findings/Recommendations	
1. The program has made enormous strides over the past several years to streamline the production of numismatic products. Between 1999 and 2003, the Mint reduced costs by 38 percent and reduced workforce by 50 percent. During that same time period, production levels increased by 46 percent.	
2. The Mint has an excellent internal management structure that is able to receive and analyze real-time financial, production, and other operating data on a daily basis. This enables the Mint to respond quickly to changing production and customer demand.	
3. The Mint is making significant progress toward meeting its inventory turnover target of 4.2 in 2005, which reflects the number of times per year the Mint works through its inventory. This measure improved 27 percent from 1.96 in 2003 to 2.48 in 2004. By improving performance, the Mint reduces costs associated with inventory and the production planning process runs more efficiently.	
Bureau Actions Planned or Underway	
1. Continuing substantial progress toward reaching the Mint's target goal for inventory turnover.	
2. Continuing to streamline the production of numismatic products in order to reduce costs and improve efficiency.	

PART Name: Protection Program	
Year PARTed:	2005
Rating:	Effective
OMB Major Findings/Recommendations	
1. The United States Mint has developed adequate long-term measures with ambitous targets and timeframes. The target for total losses is $250,000 in 2005 and $0 in 2010	
2. The United States Mint's Protection program has a clear purpose, is well planned, and managed effectively. However, it is somewhat duplicative of other Federal efforts aimed at protecting money, such as the Bureau of Engraving and Printing, and the Federal Reserve Police forces.	
3. The United States Mint regularly achieves its annual performance goals and works with other law enforcement partners to assess threat levels and assist in achieving future goals. The United States Mint is a participant in the multi-agency Counter-Terrorism Program.	
Bureau Actions Planned or Underway	
1. Continue to assess and implement ways in which the cost of protection per square foot can be	
2. Continue to improve employee confidence in the United States Mint protection program.	

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

Office of Comptroller of the Currency

Mission Statement

To charter national banks, to oversee a nationwide system of banking institutions, and to assure that national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.

Program Summary by Account

Dollars in Thousands

	FY 2006	FY 2007	FY 2008		
	Obligated	Estimated	Estimated	$ Change	% Change
Supervise	$471,882	$569,137	$597,600	$28,463	5.00%
Regulate	70,992	81,508	87,000	5,492	6.74%
Charter	13,952	20,544	21,200	656	3.19%
Total Resources	**$556,826**	**$671,189**	**$705,800**	**$34,611**	**5.16%**
Capital Investments (Included in Total Resources above)	$6,360	$7,389	$6,137	($1,252)	(16.9%)

FY 2007 Priorities

- Regulate and supervise approximately 1,830 institutions with national bank charters and 49 federal branches of foreign banks with total assets of approximately $6.5 trillion;
- Conduct examinations based on the risk profile of individual national banks to ensure they are safe and sound, sufficiently capitalized, and comply with consumer protection laws and regulations;
- Address potential adverse changes in national bank asset quality and risk profiles;
- Fill key experienced and specialty examiner and bank supervision policy analyst positions; enhance retention of entry-level examiners at the critical three/four year point of their careers; develop the next generation of bank supervision leadership;
- Work with other federal banking regulators on proposed revisions to the banking agencies' risk-based capital standards (often referred to as the Basel II and Basel IA proposals);
- Combat fraud and money laundering and protect the integrity of the financial system through national banks' compliance with the Bank Secrecy Act, anti-money laundering, and USA PATRIOT Act laws and regulations;
- Address sound underwriting, risk management systems, and consumer issues presented in connection with retail banking products offered by national banks; and
- Continue to support and defend the attributes and benefits of the national bank charter.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Office of the Comptroller of the Currency (OCC) was created by Congress to charter national banks, to oversee a nationwide system of banking institutions, and to assure that national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.

The OCC supervises approximately 1,830 institutions with national bank charters and 49 federal branches of foreign banks in the United States (U.S.). Total assets under OCC supervision are nearly $6.5 trillion or 67 percent of total U.S. commercial banking assets. The average size and complexity of the institutions in the national banking system continue to grow, creating increasing and diverse challenges for the OCC.

The OCC has its headquarters in Washington, DC, and operates four district offices in Chicago, Dallas, Denver, and New York, and field and satellite offices throughout the U.S. Resident examiner teams are located in the largest banking companies, and there is an examining office in London, England.

The OCC's operations are funded primarily (more than 96 percent) from semiannual assessments levied on national banks. Revenue from investments in U.S. Treasury securities and licensing and other fees comprises the remaining three percent of the OCC's funding. The OCC does not receive congressional appropriations to fund any portion of its operations.

As the regulator of national banks, the OCC has established four strategic goals that help to 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. The OCC organizes its activities under three programs: Supervise, Regulate, and Charter, to achieve the goals and objectives outlined in its strategic plan.

The OCC's FY 2007 priorities include supervisory issues related to potential adverse changes in national bank asset quality and risk profiles, continued work on proposed revisions to the federal banking agencies' risk-based capital standards, compliance with Bank Secrecy Act/anti-money laundering (BSA/AML) and USA PATRIOT Act (USAPA) requirements, and addressing issues raised by the range of retail banking products offered by national banks. Critical issues concerning national bank powers and preemption of state laws will continue to be significant for the agency and the industry. Filling key experienced and specialty examiner and bank supervision policy analyst positions, enhancing retention of entry-level examiners at the critical three/four year point of their careers, and developing the next generation of bank supervision leadership are also critical initiatives for the OCC.

1B – Program History and Future Outlook

Demands on OCC resources, especially those created by large, highly complex national banks, require that OCC set priorities that maximize the efficient use and allocation of those resources. OCC bank supervision needs to be flexible and proactive in nature to adapt to changing priorities and unexpected supervisory issues. Uncertainties in the financial and commodities markets and in the global political landscape are likely to continue and may result in a more volatile operating environment for the banking industry. Risks facing the banking industry and the OCC are increasingly interdependent, cutting across traditional disciplines and business lines. Operational and compliance risks are becoming more prominent; traditional distinctions between credit and capital markets activities are eroding. Corporate governance, accounting, compliance, and customer information security continue to be high visibility issues for the banking industry. The rapid pace of financial innovation and growing concentrations, both within bank's portfolios and across industry segments, pose additional challenges and require improved risk management and information systems. Quantitative risk measurement systems will continue to become more prominent in banks' risk management processes. The following are highlights of OCC FY 2006 accomplishments and specific FY 2007 challenges.

Supervisory Activities

The OCC continously supervises banks in its community bank, midsize and credit card bank, and large bank programs. A supervisory strategy is developed based on each banking institution's risk profile and condition. The strategy includes a variety of supervisory activities, including examinations and off-site analyses, to be completed during a supervisory cycle. Examination activities focus on safety and soundness, consumer compliance, BSA/AML/USAPA, fair lending, asset management, bank information technology, and the Community Reinvestment Act (CRA).

Areas of emphasis during the OCC's FY 2006 supervisory strategies included compliance with the BSA/AML (as discussed more fully below), follow up on Home Mortgage Disclosure Act (HMDA) data, asset quality, risk management practices, audit and internal controls, integrity of financial statements and conformance with accounting changes/practices, reliance on noninterest income, outsourcing and vendor activities, interest rate risk models and controls, liquidity and investment portfolio practices and holdings, concentration risk, Basel II implementation, allowance for loan and lease loss methodology and adequacy, and corporate governance. Credit quality and the risk management of concentrations will continue to be areas of emphasis in FY 2007 strategies.

Throughout FY 2006, the OCC continued to help bankers and their customers and communities respond to the aftermath of Hurricane Katrina. These efforts included public service announcements in major U.S. media markets to encourage individuals adversely affected by the hurricane to contact their lenders to discuss options that may be available to assist them. In March 2006, the OCC and other federal banking agencies hosted a forum in New Orleans that brought together financial institutions from within and outside the Gulf Coast region to discuss the challenges facing financial institutions in areas affected by the hurricane and on ways of helping to meet the needs of the local affected communities. In June 2006, *OCC Bulletin 2006-26* transmitted the booklet *Lessons Learned from Hurricane Katrina: Preparing Your Institution for a Catastrophic Event*, developed by the Federal Financial Institutions Examination Council (FFIEC) and the Conference of State Bank Supervisors, to assist institutions in evaluating their readiness for a catastrophic event.

The OCC also monitors and responds to systemic trends and emerging risks in the banking industry. During FY 2006, the OCC worked with other federal bank regulators to develop and issue for comment, proposed risk management guidance on non-traditional mortgage products, concentrations in commercial real estate lending, and complex structured finance transactions. Final action on these guidelines is expected in the coming months.

Basel II and Basel IA

The OCC continues its efforts, along with the other federal bank and thrift regulators, with respect to the U.S. implementation of the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework," generally known as Basel II. The major focus in FY 2006 was the development of the notice of proposed rulemaking (NPR) that will provide the industry and others with detailed information about the U.S. implementation of Basel II. The OCC received clearance from OMB in June 2006 to publish the NPR, which will provide a formal 120-day comment period. In addition to the NPR, the agencies have been working on a package of related supervisory reporting templates and supervisory guidance that also will be published for comment. During FY 2007, the OCC will continue to work with the other federal banking agencies on the Basel II proposals and consult with banks on their implementation efforts.

Work also continues on potential revisions to the risk-based capital standards that would apply to non-Basel II banks (referred to as Basel IA). In December 2006, OCC and other federal banking agencies issued an NPR built upon the evaluation of comments obtained from the advanced notice of proposed rulemaking issued in October of 2005.

As in previous years, the goal is that any changes to capital adequacy rules are consistent with safety and soundness, good risk management practices, and the continued competitive strength of the U.S. banking system.

Bank Secrecy Act/Anti-Money Laundering

During the first part of FY 2006 the OCC incorporated a set of comprehensive initiatives to strengthen OCC BSA/AML examinations, to enhance OCC resources and expertise devoted to BSA/AML supervision, and to provide clear and consistent expectations about

BSA/AML supervision to the industry. The OCC continued, throughout FY 2006, to address BSA/AML compliance, identified as one of the five challenges facing the Treasury Department by the Treasury Office of Inspector General in October 2005, as follows: publication of the revised FFIEC BSA/AML Examination Manual in the summer of 2006; completion of compliance exams for all large banks, 100 percent completion in midsize and high risk community banks, and 90 percent completion for the remaining community banks by the end of FY 2006; and, development of a national pool of BSA/AML examiners, including 20 OCC employees, who as of June 2006, have attained the Certified Anti-Money Laundering Specialist certification, delivery of BSA/AML training to Large Bank Supervision (LBS) Examiners-in-Charge and compliance specialists and an increase in the number of AML schools from four in 2005 to eight in 2006.

OCC will commit to ongoing BSA/AML challenges by ensuring, via FY 2007 bank supervision examination strategies, that banks have adequate and effective BSA/AML programs in place, and by conducting OCC BSA/AML supervisory actions in a fair and consistent manner.

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, CRA, 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. The OCC also conducts 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 FY 2006, the OCC and other federal banking agencies issued interagency questions and answers that address topics related to changes made in the agencies' 2005 revisions to their CRA regulations; updated lists of distressed or underserved non-metropolitan middle-income geographies in which bank revitalization or stabilization activities will receive CRA consideration; and updated median family income levels that are used in CRA performance evaluations. Updated examination procedures for large, small, limited purpose or wholesale banks that incorporate the 2005 CRA regulatory revisions were also published by the agencies.

The OCC, other federal banking agencies and the U.S. Department of Housing and Urban Development released updated answers to frequently asked questions to aid in the interpretation of 2005 home loan data to be disclosed under HMDA. The OCC also issued an updated version of its consumer compliance booklet, *Fair Lending Examination*

Procedures, also published to incorporate several changes in Regulation B (123 CFR 202) and the "Interagency Fair Lending Procedures" issued in 2004.

The OCC actively supports the efforts of national banks to engage in sound and successful community development activities. To assist in these efforts, the OCC publishes periodic *Community Development Insights* papers on products, services, and initiatives that are relevant to community development and consumer banking activities. During FY 2006, papers on commercial lending in Indian Country and on the Small Business Administration's 504 loan programs were published. In June 2006, the Comptroller of the Currency urged Congress to provide increased authority, via Part 24 legislation revisions, for banks and thrifts to invest in low- and moderate-income communities.

During FY 2006, the OCC continued its work with the other federal banking agencies to improve financial disclosures to consumers. The proposed risk management guidance on non-traditional mortgage products issued in late 2005 extensively discussed consumer protection concerns that may be raised by these products in addition to addressing the traditional areas of safety and soundness. In March 2006, the agencies released *Evolution of a Prototype Financial Privacy Notice,* a report summarizing consumer research contributing to improved financial privacy notices. In August 2006, the OCC issued guidance on disclosure and marketing issues associated with gift cards, which focused on the need for national banks that issue gift cards to do so in a manner in which both purchasers and recipients are fully informed of the product's terms and conditions. This work will continue in FY 2007.

Supervision Staffing

OCC designated recruitment activities in the Chief National Bank Examiner's (CNBE) office and LBS examiner positions as high priorities during FY 2006. To attract internal candidates to these positions, the OCC implemented rotational assignments, pay, and relocation and transitional cost of living incentives. Simultaneously, the OCC focused its external recruitment on candidates with expertise in compliance, complex capital market activities, and mortgage banking and authorized referral bonuses to current employees to attract externally hired examiners. During 2006, LBS exceeded expectations by hiring more than 30 individuals from outside the OCC, including nine with compliance expertise. In addition, CNBE filled six critical managerial and group leader positions and hired two individuals from outside the OCC with accounting expertise. The OCC also continued its nationwide recruitment and training program for entry-level bank examiners. Since the program's inception in FY 2003, approximately 430 examiners have been hired, including over 160 in FY 2006.

To ensure that OCC's bank supervision organizations have a steady and deep pipeline of qualified employees to meet future leadership needs, the OCC introduced the LeaderTRACK initiative. The program, which will be piloted for 18 months beginning in FY 2007, offers participants three six-month assignments, with significant managerial and supervisory roles, that will develop leadership rather than prepare them for a specific position.

<u>Customer Assistance</u>

The OCC's Customer Assistance Group (CAG) assists consumers who have questions or complaints about national banks and their operating subsidiaries. During the last twelve months, the CAG received nearly 70,000 telephone calls and also published an informational brochure to assist those who are Spanish-speaking. Also, during FY 2006 the OCC achieved resource efficiencies by outsourcing initial calls. The Government Accountability Office (GAO) released a favorable report in 2006 regarding CAG.

CAG goals for FY 2007 include a CAG customer survey, CAG outreach with state regulators, and expanded CAG hours of operation.

<u>Regulation</u>

During FY 2006, the OCC, with other federal banking agencies, conducted the regulatory burden reduction review process, as required by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA). In FY 2007 OCC is planning to propose an NPR that eliminates or streamlines existing requirements or procedures and enhances national banks' flexibility in conducting authorized activities, either by revising provisions currently contained in OCC regulations or by codifying, and thus making generally applicable, conclusions that the OCC has reached in case-by-case determinations. In addition, the OCC will continue to 1) provide legal analysis of and support for federal preemption and agency visitorial authority under national bank law, in order for national banks to operate efficiently under uniform national standards, and 2) develop and communicate additional guidance regarding principles determining the application of state consumer protection laws to national banks.

<u>SNC Modernization</u>

The Shared National Credit (SNC) is a collaborative review and assessment by the OCC, Federal Reserve System, Federal Deposit Insurance Corporation and Office of Thrift Supervision of the largest and most complex credits that are held by multiple financial institutions. The OCC assumed the lead in FY 2006 of an interagency initiative, which will continue throughout FY 2007, to improve SNC data collection/analysis.

OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A
In FY 2006, the OCC undertook a risk assessment of all business processes related to financial reporting in compliance with OMB Circular A-123, Appendix A. Based on this assessment, the OCC documented 81 business processes and developed and carried out 36 test plans, including coverage of the information systems that support financial reporting. The testing showed no material internal control weaknesses. During FY 2007,

another risk assessment will be conducted, documentation will be developed or revised as needed, and test plans will be carried out to support the FY 2007 assessment over financial reporting.

Homeland Security Presidential Directive 12 (HSPD-12) and Federal Information Security Management Act (FISMA)

During the first quarter of FY 2006, the OCC successfully implemented an integrated Personal Identity Verification (PIV) process which ensured compliance with the PIV-1 requirements of HSPD-12. The OCC implementation strategy included utilizing new technology such as digital fingerprinting machines, document verification software and several new applications providing a secure means of exchanging information on a real time basis with the Office of Personnel Management. In FY 2007 the primary focus under HSPD-12 will be designing, developing and implementing the systems necessary to create and use smartcard IDs which control both physical access to Treasury facilities and logical access to Treasury information systems. The challenge for the OCC will be developing a strategy for enrolling over 3000 existing employees and contractors into a new identity management system and conducting the required identity proofing without adversely impacting the day-to-day operations of the OCC. The challenges will continue with adapting existing processes, procedures and IT infrastructure to work with the new smartcard IDs. The wide geographical distribution of OCC offices and the unique mission of the OCC will require an innovative approach to implementing any HSPD-12 PIV-2 solutions.

The OCC has also made improvements in computer security via policy and technical changes. New rules instituted in FY 2006 on the use of OCC computer equipment and networks include: prohibiting the attachment of unauthorized non-OCC equipment to the OCC network, clarifying procedures for reporting lost or stolen IT equipment, and prohibiting all use of "instant messaging". Technical changes include: encrypting all OCC network traffic among sites, implementing firewall and intrusion detection software on all laptops and workstations, implementing additional technical controls on all BlackBerry devices, enhancing network intrusion detection, and upgrading both server and workstation/laptop operating systems to versions with better security capabilities. On the compliance side, the OCC continues to refine its approach to documentation, training, and certification and accreditation activities required by the FISMA as well as evolving Treasury and government-wide standards. Employees and contractors in the OCC's Chief Information Officer's and Acquisitions Management offices with special security responsibility took additional training to underscore and reinforce their security duties.

1C – Industry Outlook

Bank earnings have been strong for the last 15 years, and strong earnings have in turn contributed to healthy capital ratios. Banks have successfully expanded their product range, and this expansion has been an important factor in maintaining robust earnings growth. Along with the greater range of products has come the growing importance of off-balance sheet income, and noninterest income. These have been especially important at the largest banks, and are now becoming important for smaller institutions as well. These trends are expected to continue. There is more uncertainty about banks' ability to continue to rely on the real estate sector to drive asset and earnings growth.

In the following projections, bank assets are assumed to grow 1.5 percentage points faster than nominal GDP each year over the next five years, consistent with experience of the recent past. Assuming annual real GDP growth at 3 percent, and inflation at 2 percent, this gives nominal GDP growth of 5 percent and growth of bank assets at 6.5 percent.

Banking system assets: 2005 and 2010 projected

	Commercial banks Assets ($tr)	National banks Assets ($tr)	Share of total system assets in banks over $10 billion
2005	9.04	6.00	75.1
2010e	12.39	8.22	75.1

The number of banks has fallen steadily for at least two decades. The projection assumes that the long-term trend of banks consolidation will continue, both for national banks and all commercial banks, and that for all but the largest banks, the rate of decline over the next five years will equal the rate of decline experienced over the last five years. In 2005, 84 commercial banks had assets exceeding $10 billion, while about 3,400 banks had assets under $100 million. By 2010, the number of banks over $10 billion is expected to remain about the same, while the number of banks under $100 million is expected to continue to decline, to around 2,500.

Large banks will continue to dominate the industry. Banks with over $10 billion in assets now account for 75.1 percent of system assets, and should be able to maintain if not increase that share.

Until about five years ago, national banks consistently accounted for about 57 percent of all commercial bank assets. Since then, a series of mergers has increased the national bank share to about 67 percent of commercial bank assets.

Risks to the banking system include an economic slowdown, and deterioration in real estate markets, which as noted above have accounted for much of the growth in bank income and assets over the last several years.

Section 2 – Budget Adjustments and Appropriations Language

2.2 – Operating Levels Table

Dollars in Thousands

	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
FTE	2,812	2,977	3,041
Object Classification:			
11.1 Full-Time Permanent Positions......................	$274,159	$320,750	$342,900
11.1 Other than Full-Time Permanent Positions....	7,130	7,974	8,500
11.5 Other Personnel Compensation....................	949	1,813	1,800
11.8 Special Personal Services Payments............	0	0	0
11.9 Personnel Compensation (Total)...................	282,238	330,537	353,200
12.0 Personnel Benefits.......................................	95,182	106,356	115,150
13.0 Benefits to Former Personnel........................	215	169	200
21.0 Travel..	35,619	42,259	45,600
22.0 Transportation of Things..............................	2,319	2,603	1,800
23.1 Rental Payments to GSA.............................	196	2,360	2,700
23.2 Rent Payments to Others..............................	24,284	28,873	30,400
23.3 Communications, Utilities, & Misc.................	8,922	12,572	13,300
24.0 Printing and Reproduction.............................	1,158	1,188	1,100
25.1 Advisory & Assistance Services....................	70,018	105,737	101,900
25.2 Other Services...	0	0	0
25.3 Purchase of Goods/Serv. from Govt. Accts…	0	0	0
25.4 Operation & Maintenance of Facilities...........	0	0	0
25.5 Research & Development Contracts.............	0	0	0
25.6 Medical Care..	0	0	0
25.7 Operation & Maintenance of Equipment........	0	0	0
25.8 Subsistence & Support of Persons................	0	0	0
26.0 Supplies and Materials.................................	5,139	6,301	6,300
26.0 Metal and Fabrication...................................	0	0	0
31.0 Non-Capital Equipment................................	27,221	14,030	15,300
32.0 Land and Structures.....................................	3,893	18,154	18,800
41.0 Grants, Subsidies...	0	0	0
42.0 Insurance Claims & Indemn..........................	422	50	50
43.0 Interest and Dividends…………………………	0	0	0
44.0 Refunds..	0	0	0
Total Operating………………………………………	$556,826	$671,189	$705,800
Budget Activities:			
Supervision	$471,882	$569,137	$597,600
Regulate	70,992	81,508	87,000
Charter	13,952	20,544	21,200
Total Budget Authority………………………………	$556,826	$671,189	$705,800

2B – Appropriations Language

OCC receives no appropriated funds from Congress.

2C – Legislative Proposals

OCC currently has no legislative proposals.

Section 3 – Budget and Performance Plan

3.1 – Resource Detail Table

Dollars in Thousands

Description	FY 2006 Actual		FY 2007 Estimated		FY 2008 Estimated		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Revenue:								
Assessments		$622,278		$661,900		$703,900		6.35%
Interest		21,938		22,300		23,900		7.17%
Other Income		3,759		3,000		3,100		3.33%
Total Revenue		$647,975		$687,200		$730,900		6.36%
Obligations Incurred:								
Supervision	2,375	$471,882	2,545	$569,137	2,603	$597,600	2.28%	5.00%
Regulate	364	70,992	344	81,508	350	87,000	1.74%	6.74%
Charter	73	13,952	88	20,544	88	21,200	0.00%	3.19%
Total Obligations Incurred	2,812	$556,826	2,977	$671,189	3,041	$705,800	2.15%	5.16%
Total Reserve Contribution		$91,149		$16,011		$25,100		56.77%

3A – Supervise *($569,137,000):* The Supervise program consists of those ongoing supervision and enforcement activities undertaken to assure that each national bank is operating in a safe and sound manner and is complying with applicable laws, rules, and regulations relative to the bank and the customers and communities it serves. This program includes bank examinations and enforcement activities; resolution of disputes through the National Bank Appeals process; ongoing monitoring of banks; and analysis of systemic risks and market trends in the national banking system or groups of national banks, the financial services industry, and the economic and regulatory environment.

3.2.1 – Supervise Budget and Performance Plan

Dollars in Thousands

Supervise Budget Activity			**Includes Strategic Objective F3C**		
Resource Level	**FY 2004 Obligated**	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Estimated**	**FY 2008 Estimated**
Financial Resources					
Other Resources	371,252	408,091	471,882	569,137	597,600
Total Operating Level	**$371,252**	**$408,091**	**$471,882**	**$569,137**	**$597,600**
Human Resources					
Other FTE	2,212	2,250	2,375	2,545	2,603
Total FTE (reimbursable)	**2,212**	**2,250**	**2,375**	**2,545**	**2,603**

Supervise Budget Activity				Includes Strategic Objective F3C		
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Percentage of national banks that are well capitalized (%) (Oe)	Target	95%	95%	95%	95%	95%
	Actual	99%	99%	99%		
	Met	Yes	Yes	Yes		
Percentage of national banks with composite CAMELS rating 1 or 2 (%) (Oe)	Target	90%	90%	90%	90%	90%
	Actual	94%	94%	95%		
	Met	Yes	Yes	Yes		
Percentage of national banks with consumer compliance rating of 1 or 2 (%) (Oe)	Target	94%	94%	94%	94%	94%
	Actual	96%	94%	94%		
	Met	Yes	Yes	Yes		
Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4 or 5) (%) (Oe)	Target	40%	40%	40%	40%	40%
	Actual	40%	44%	46%		
	Met	Yes	Yes	Yes		
Total OCC costs relative to every $100,000 in bank assets regulated ($) (E)	Target			Baseline	$9.55	$9.55
	Actual			$8.84		
	Met			Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance:

Well Capitalized National Banks

The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their capital levels relative to their risks. At the fiscal year-end, 99 percent of national banks were classified as well capitalized. National banks' capital has remained at this consistently high level for the past several years.

National Banks with Composite CAMELS Rating of 1 or 2

The composite CAMELS rating reflects the overall condition of a bank. Bank regulatory agencies use the Uniform Financial Institutions Rating System, CAMELS, to provide a general framework for evaluating all significant financial, operational and compliance factors inherent in a bank. Evaluations are made on: **C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market risk. The rating scale is 1 through 5 where 1 is the highest rating granted. CAMELS ratings are assigned at the completion of every supervisory cycle or when there is a significant event leading to a change in CAMELS. In FY 2006, 95 percent of national banks earned a composite CAMELS rating of either 1 or 2, signifying an overall safe and sound national banking system and a foundation for a strong U.S. economy.

Rehabilitated National Banks

Problem banks can ultimately reach a point where rehabilitation is no longer feasible. OCC's early identification of, and intervention with, problem banks can lead to successful remediation of these banks. The OCC recommends corrective actions to problem banks for improving their operations and as a result, 46 percent of banks with composite CAMELS rating of 3, 4 or 5 one year ago have improved their ratings to either 1 or 2 this year. This is an improvement from 44 percent achieved in FY 2005 and the 40 percent achieved in FY 2004.

National Banks with Consumer Compliance Rating of 1 or 2

To ensure fair access to financial services and fair treatment of bank customers, the OCC evaluates a bank's compliance with consumer laws and regulations. Bank regulatory agencies use the Uniform Financial Institutions Rating System, Interagency Consumer Compliance Rating, to provide a general framework for assimilating and evaluating significant consumer compliance factors inherent in a bank. Each bank is assigned a consumer compliance rating based on an evaluation of its present compliance with consumer protection and civil rights statutes and regulations, and the adequacy of its operating systems designed to ensure continuing compliance. Ratings are on a scale of 1 through 5 in increasing order of supervisory concern. National banks continue to show strong compliance with consumer protection regulations with 94 percent earning a consumer compliance rating of either 1 or 2.

Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated

Beginning in FY 2006, the OCC implemented a performance measure—Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated—that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex national banking system. OCC costs are those reported as total program costs on the annual audited Statement of Net Cost. Bank assets are those reported quarterly by national banks on their Reports of Condition and Income. Total bank assets represent the growth and complexity of the national banking system. This measure supports the OCC's strategic goal of efficient use of agency resources. The OCC's ability to control its costs while ensuring the safety and soundness of the banking system benefits all national bank customers.

3B – Regulate *($81,508,000):* The Regulate program consists of those ongoing activities that result in the establishment of regulations, policies, operating guidance, and interpretations of general applicability to national banks. These regulations, policies, and interpretations may establish system-wide standards, define acceptable banking practices, provide guidance on risks and responsibilities facing national banks, or prohibit (or restrict) banking practices deemed to be imprudent or unsafe. The program also provides analysis and legal opinions on federal preemption of state law. This program includes the establishment of examination policies, handbooks, and interpretations for examiners as well as representing the OCC's regulatory authorities and interpretations in administrative, judicial, and congressional hearings.

3.2.2 – Regulate Budget and Performance Plan

Dollars in Thousands

Regulate Budget Activity				Includes Strategic Objective E1B	
Resource Level	FY 2004 Obligated	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
Financial Resources					
Other Resources	61,763	64,011	70,992	81,508	87,000
Total Operating Level	**$61,763**	**$64,011**	**$70,992**	**$81,508**	**$87,000**
Human Resources					
Other FTE	368	353	364	344	350
Total FTE (reimbursable)	**368**	**353**	**364**	**344**	**350**

3C – Charter *($20,544,000):* The Charter program involves those ongoing activities that result in the chartering of national banks as well as the evaluation of the permissibility of structures and activities of national banks and their subsidiaries. This includes the review and approval of new national bank charters, federal branches and agencies, mergers, acquisitions, conversions, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations, and subordinated debt issues.

3.2.3 – Charter Budget and Performance Plan

Dollars in Thousands

Charter Budget Activity				Includes Strategic Objective E1B	
Resource Level	FY 2004 Obligated	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
Financial Resources					
Other Resources	16,448	15,011	13,952	20,544	21,200
Total Operating Level	**$16,448**	**$15,011**	**$13,952**	**$20,544**	**$21,200**
Human Resources					
Other FTE	98	83	73	88	88
Total FTE (reimbursable)	**98**	**83**	**73**	**88**	**88**

Charter Budget Activity					Includes Strategic Objective E1B	
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Percentage of licensing applications and notices completed within established timeframes. (%) (Oe)	Target	95%	95%	95%	95%	95%
	Actual	96%	96%	94%		
	Met	Yes	Yes	No		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

Description of Performance:

Licensing Applications and Notices Completed within Time Frames
The OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks to complete various corporate transactions and introduce new financial products and services. Delays in providing prompt decisions on applications and notices can deprive a bank of a competitive or business opportunity, create business uncertainties, or diminish financial results. Time frames have been established for completing each type of application and notice. The OCC completed 94 percent of applications and notices within the time standard during FY 2006. The target of 95 percent wasn't met as the result of several applications that initially appeared to be routine in nature requiring additional time due to unique circumstances. Institutions receiving decisions on their corporate applications and notices rated the OCC's overall licensing services an average of 1.2. The licensing survey is based on a five-point rating scale, in which 1 indicates outstanding and 5 indicates significantly deficient.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents Direct and Reimbursable		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		2,686	2,812	2,977
Increases:				
Hiring:	Recruitment for supervision for large banks subject to increasing complexity, maintaining community bank oversight, and replacement of losses in other areas due to normal turnover.	366	355	254
Subtotal, Increases		366	355	254
Decreases:				
Normal Attrition:	Separations anticipated as a result of resignations or retirements of permanent staff and termination of temporary appointments.	-240	-190	-190
Subtotal, Decreases		-240	-190	-190
Year-end Actual/Estimated FTEs		2,812	2,977	3,041
Budgeted FTEs		2,812	2,977	3,041
Actual FTEs Utilized				
Net Change from prior year SOY to budget year EOY				229

4A – Human Capital Strategy Description

The OCC has developed bureau-specific human capital goals to meet its overall strategic goal of maintaining an expert, highly motivated, and diverse workforce. The first is to align and employ OCC workforce resources consistent with current and projected agency priorities. To help achieve this goal, on an annual basis, OCC will identify high priority recruitment needs and approve incentives specifically designed to address those priorities. Other strategies include: 1) using all qualified personnel on priority assignments, realizing the increasing dependence and need for "fungibility" among and within various disciplines; 2) using the midsize/community banks area as the primary entry-level recruitment, training, and development vehicle to provide a diverse bank examiner selection pool for many departments and divisions in the bureau; 3) continuing to implement OCC's Strategic Plan for Active Recruitment, Retention, and Career

Development (SPARC); 4) building a more inclusive, accepting environment for differences and better assist employees in effectively navigating in OCC's work environment; and 5) identifying skill gaps and using them to establish recruitment and training priorities as part of OCC's ongoing strategic planning process.

SPARC is the bureau's five-year diversity strategy that includes goals, objectives, and activities for the recruitment, hiring, and development of all OCC employees, including women, minorities, and individuals with disabilities. It has been used successfully to attract, hire, and retain a diverse pool of applicants with superior qualifications. Recruiting has been very successful in meeting the OCC's targeted hiring numbers and diversity objectives. Since June 2003, OCC has hired 430 new entry-level examiners, of which 54.7 percent are women and 38.1 percent are minorities.

A second human capital goal is to develop current and future leaders who demonstrate strong strategic, people management, and technical skills. To achieve this goal, the OCC is piloting a leadership development program based upon identified competencies. The OCC also will focus on aligning leadership performance expectations with organizational goals; preparing leaders to create and sustain a productive work environment and assume responsibility for developing staff. The implementation of five new internal leadership courses will take place in FY 2007.

A third human capital goal is to maintain strategic compensation/benefit programs and performance systems that link with organizational goals and mission accomplishment, enable the OCC to recruit and retain critical positions, and reward high performers. To accomplish this goal, the OCC regularly reviews and adjusts compensation and benefits and performance management programs to ensure that they continue to support OCC objectives. The OCC operates under a merit-based performance system. Annual across-the-board increases are not granted; rather salary increases are awarded based on merit to reward employee performance, employee development that is relevant to OCC needs and employee contributions to OCC's priorities. The OCC continually evaluates its programs to ensure that there is an appropriate correlation between pay and performance.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments (in $ Millions) Major IT Investments	Budget Activity/Funding Source	FY 2005 Operating Plan	FY 2005 Obligations	FY 2006 Operating Plan	% Change from FY05 Obligations to FY06	FY 2007 Estimated Budget	% Change from FY06 to FY07	FY 2008 Estimated Budget	% Change from FY07 to FY08
SIS	OCC - Supervise	$6.295	$6.295	$1.000					
LIS	OCC - Charter	3.036	3.036	3.732					
Management and Accountability Reporting Tools ($MART)	OCC - Supervise	1.668	1.668	1.628					
Total - Major		$10.999	$10.999	$6.360	-42.2%				
Non-Major IT Investments									
CAR & FINDRS Redesign Requirements	OCC - Supervise	$0.000		$0.117					
Conference Office Scheduling and Booking System	OCC - Manage	0.029		0.024					
Core Knowledge Datamart - 03	OCC - Supervise	0.042		0.004					
Enforcement Action Metasearch	OCC - Charter, Supervise, Regulate	0.207		0.000					
E-Time	OCC - Manage	0.993		0.384					
Examination Survey Program	OCC - Supervise	0.058		0.012					
Large Bank Datamart	OCC - Supervise	0.089		0.004					
Manager Data Mart Enhancement	OCC - Manage	0.071		0.004					
Next Gen CAG Reports/Reporting and Application Migration	OCC - Supervise	0.190		0.000					
OCC - CCORe	OCC - Charter, Supervise, Regulate	0.000		0.350					
OCC - ePublishing	OCC - Charter, Supervise, Regulate, Manage	0.000		0.350					
OCC - SIS-DM	OCC - Supervise	0.000		0.500					
Operational Data Store - 03	OCC - Manage	0.344		0.234					
Supervisory Reports Repository	OCC - Supervise	0.000		0.050					
Suspicious Activity Reports (SARS)	OCC - Supervise	0.193		0.201					
Total - Non-Major		$2.216		$2.234					
Infrastructure Investments									
OCC - FY06 Infrastructure		$8.161		$8.182		$11.267			
OCC - FY06 Office Automation		13.822		22.135		18.637			
OCC - FY06 Security		2.772		2.916		4.096			
OCC - FY06 Telecommunications		8.199		11.299		15.071			
Total - Infrastructure Investments		$32.954		$44.532		$49.071	10.2%		
Enterprise Architecture		$0.323		$0.329		$0.335	1.8%		
Sub-total - OCC IT Investments		$46.492		$53.455		$49.406	-7.6%		
FY07 OCC FISMA/CPIC PORTFOLIO									
FISMA Major Investments									
Chief Counsel	OCC - Charter, Supervise, Regulate					$0.750		$0.704	
Enterprise Services	OCC - Charter, Supervise, Regulate, Manage		$4.177			1.909		1.056	
Examinations	OCC - Supervise					4.730		4.177	
Fiscal Management	OCC - Manage					N/A		$0.200	
Total - FISMA Major Investments			$4.177			$7.389		$6.137	-16.9%
FISMA Non-Major IT Investments									
Employee Security	OCC - Manage					$0.565		$0.000	
International Economic	OCC - Supervise					0.050		0.000	
Ombudsman	OCC - Supervise					0.796		0.000	
Workforce Operations	OCC - Manage					0.005		0.000	
Total - FISMA Non-Major Investments						$1.416		$0.000	-100.0%
TOTAL OCC IT INVESTMENTS		$46.492	$4.177	$53.455		$58.211		$6.137	-89.5%

4B – Information Technology Strategy

At the end of FY 2005, the OCC's Investment Review Board (IRB) and Technology and Systems Subcommittee (TSS), which is comprised of executive level members and chaired by the Chief Information Officer (CIO), moved from an annual selection process to a year round process in which new projects could be selected to the portfolio quarterly or monthly (emergency request). All new investments are subject to business case scoring, enterprise architecture and security alignment, and appropriate systems development lifecycle documentation. New investments are funded through the IRB Portfolio Reserve account which acts as a discretionary account managed by the IRB to fund new or provide additional funding to existing investments.

Linkage to OCC programs and strategic goals are documented in each project business case and prioritized by the IRB and TSS. Performance metrics are linked to the delivery, alignment, and achievement of OCC strategic program objectives. Investments are monitored on a quarterly basis by the IRB and TSS. OCC's IT investments are also subject to Quarterly Control reviews conducted by Treasury's CIO Council. OCC is in the process of developing an IT strategic plan. The plan will link IT strategic goals and objectives with OCC strategic business goals and objectives. Publication of the plan is scheduled for the end of calendar year 2006. The plan will contain measurable objectives for each goal identified in the strategic plan.

4.3 – PART Evaluation Table

PART Name: Bank Supervision	
Strategic Goals:	Preserve the integrity of financial systems (F3) Promote prosperous U.S. and World economies (E1)
Rating:	Effective

OMB Major Findings/Recommendations

1. The FY 2003 assessment of the OCC's Bank Supervision found that the program purpose is clear, goals are outcome-oriented, program measurements are clear, program is efficiently and effectively managed, but the program is not unique in that other agencies perform similar types of regulatory functions in the banking industry.

2. Federal banking regulatory agencies, including the OCC, the Office of Thrift Supervision (OTS), the National Credit Union Administration (NCUA), the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC), should work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.

Bureau Actions Planned or Underway

1. Regulatory agencies that include the OCC, OTS, NCUA, FDIC, Federal Reserve, Office of Federal Housing Enterprise Oversight (OFHEO), Securities and Exchange Commission (SEC), and the Federal Housing Finance Board (FHFB) continue to share their strategic plans, performance plans, and performance measures on a regular basis. This allows each agency to consider the approaches used by the other agencies when developing or revising their goals and measures. The OCC and OTS, as bureaus in the Department of the Treasury, continue to work together to maintain alignment of their performance measures.

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

Office of Thrift Supervision

Mission Statement
To supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws and to encourage a competitive industry that meets America's financial services needs.

Program Summary by Account
Dollars in Thousands

	FY 2006	FY 2007	FY 2008		
	Obligated	Estimated	Estimated	$ Change	% Change
Supervision of the Thrift Industry	$199,497	$232,500	$238,313	$5,813	2.50%
Total Resources	**$199,497**	**$232,500**	**$238,313**	**$5,813**	**2.50%**

FY 2007 Priorities

OTS's FY 2007 Priorities are set forth below:

- Examine, supervise, and regulate 853 savings associations with total assets of $1.63 trillion,
- Examine and regulate 481 registered holding company enterprises with total assets of $7.7 trillion,
- Tailor examinations to the risk profile of the institution and streamline the examination of smaller institutions,
- Conduct safety and soundness examinations of savings associations every 12-18 months that also incorporate an assessment of compliance with consumer protection laws and regulations,
- Promote the reduction of regulatory burden,
- Coordinate supervisory and policy development activities with relevant domestic and foreign financial regulators,
- Abate money laundering and terrorist financing by examining savings associations for compliance with the Bank Secrecy Act, the USA PATRIOT Act, and other anti-money laundering laws,
- Promote the benefits of the thrift charter and the important role of community-based thrifts,
- Continue efforts to implement the international Basel II risk-based capital framework, and
- Address succession planning.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

Established by Congress as a bureau of the Department of the Treasury on August 9, 1989, the Office of Thrift Supervision (OTS) charters, examines, supervises, and regulates federal savings associations insured by the Federal Deposit Insurance Corporation (FDIC). OTS's primary statutory authority is the Home Owners' Loan Act originally enacted in 1933. OTS also examines, supervises, and regulates state-chartered savings associations insured by the FDIC and provides for the registration, examination, and regulation of savings and loan holding companies (SLHCs) and other affiliates.

The thrift charter has several unique characteristics including nationwide branching under a single charter; a holding company structure offering a single regulator for the holding company and its subsidiary depository institution; and preemption authority. OTS is the only federal-banking agency that both charters depository institutions and supervises their holding companies. The holding companies are diverse, ranging from large, multinational corporations to small companies with few assets other than their thrift charter.

The thrift industry is strong and operating safely. As of September 2006, OTS regulated 853 savings associations with total assets of $1.63 trillion. Savings associations operate in a safe and sound manner with 93 percent achieving an overall composite CAMELS rating of 1 or 2. The CAMELS rating reflects OTS's evaluation of an institution's Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to market risk. The industry's capital position remains strong with over 99 percent of savings associations meeting the well-capitalized standards.

As of September 2006, OTS supervised 481 holding company enterprises with approximately $7.7 trillion in consolidated assets. Over half of all savings associations and 78 percent of total savings association assets are owned by OTS-regulated holding companies.

OTS is headquartered in Washington, D.C. with four regional offices located in Jersey City, Atlanta, Dallas, and San Francisco. The headquarters office develops nationwide policies and programs for the agency and coordinates the operations of OTS. The regional offices examine and supervise institutions and process most applications. Approximately 75 percent of OTS's staff of 965 employees work in regional offices.

The President, with Senate confirmation, appoints OTS's Director for a 5-year term. OTS's Director also serves as a member of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC), a member of the Federal Financial Institutions Examination Council (FFIEC), and a director of NeighborWorks® America.

OTS Strategic Goals and Vision

For this year's budget submission, OTS used the four strategic goals outlined in its 2003-2008 Strategic Plan.

- A safe and sound thrift industry,
- A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services,
- Fair access to financial services and fair treatment of thrift customers, and
- A professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.

OTS's Strategic Plan will be updated during FY 2007 to incorporate revised strategies and goals. OTS adopted the following vision statement as its initial step for the new plan:

To perform, and to be recognized, as the premier regulator of financial institutions and holding companies.

OTS Strategic Priorities

OTS's FY 2007 budget of $232.5 million supports OTS's strategic and performance goals that provide for proactive supervision of the industry, reduced regulatory burden, and improved credit availability. The FY 2007 budget enables OTS to tailor supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

OTS's budget supports the supervision program. OTS receives no appropriated funds from Congress; the income of the bureau is derived principally from assessments on savings associations and savings and loan holding companies.

OTS's FY 2007 budget finances OTS's efforts to address these key strategic issues and challenges:

- Comprehensive and Risk-Focused Examinations,
- Interest Rate and Credit Risks,
- Compliance Risks, Financial Crimes, and Data Breaches,
- Disaster and Emergency Preparedness,
- Global Financial Services,
- Regulatory Burden Reduction,
- Promotion of the Thrift Charter, and
- Succession Planning and Management of OTS Resources.

1B – Program History and Future Outlook

OTS examines savings associations every 12-18 months for safety and soundness and compliance with consumer protection laws and regulations. During these exams, the association's ability to identify, measure, monitor, and control risk is evaluated, including the risk posed by other entities within the corporate structure. When weaknesses are identified, supervisory action is taken.

The following activities highlight FY 2006 OTS accomplishments and strategic FY 2007 challenges.

Comprehensive Examination Approach

OTS conducts a comprehensive examination combining safety and soundness and compliance reviews to eliminate multiple reviews of the same area for different purposes. OTS examination teams issue one report of examination that covers both compliance and safety and soundness. This approach allows OTS to comprehensively assess an institution's risk management programs, business strategy, and operations. OTS is also able to evaluate compliance management programs and compliance with the Bank Secrecy Act, Fair Lending, and other requirements on a more frequent basis.

OTS is more efficient and has reduced regulatory burden due to its comprehensive examination approach. It issues one information request package at the start of each examination and examines lending portfolios from both compliance and safety and soundness perspectives at the same time. OTS also prepares one comprehensive examination report that details all examination findings. Over time, OTS expects this comprehensive approach will reduce savings association cost and burden while promoting efficient, risk-focused examinations. The majority of OTS-regulated institutions indicate a favorable response to the comprehensive examination approach.

To maintain its rigorous staff accreditation standards, OTS requires that its examiners: 1) undergo formal, informal, and independent training, 2) pass proficiency tests, 3) receive on-the-job training to become proficient in both disciplines and 4) serve as examiner-in-charge of at least two comprehensive examinations prior to accreditation. OTS also recognizes that there are very complex and highly technical issues that arise in connection with our comprehensive examination approach. For this reason, OTS continues to maintain compliance, lending, capital markets, trust, and information technology specialists to assist examiners in addressing these matters.

Interest Rate and Credit Risks

As community-based lenders, thrifts remain focused on residential mortgage lending, with 55 percent of assets invested in 1-4 family mortgage loans as of September 30, 2006. Direct loans to consumers, including single-family mortgages, made up 60 percent of thrift assets. Given this concentration, thrift asset quality is dependent on stable real estate values and consumers' continued employment and ability to service their debt.

The thrift industry's current sound financial condition permits it to address potential credit quality problems from a position of strength. Due to the resilience of the housing market, single-family residential loan delinquencies and charge-offs remained at low levels through much of 2006.

OTS closely monitors interest rate risk due to the thrift industry's natural concentration in longer-term mortgage loans, which are generally funded with shorter-term deposits and borrowings. OTS maintains an interest rate risk sensitivity model that stress-tests savings association portfolios to evaluate potential exposure to changing interest rates. OTS remains cautious of the potential impact of a rapid increase in market interest rates and will remain vigilant in monitoring savings associations for adverse trends. On November 6, 2006, OTS announced that it is enhancing its state of the art Net Portfolio Value (NPV) Model. The Enhanced NPV Model will expand OTS's off-site interest rate risk monitoring capability and improve the efficiency and effectiveness of on-site examinations. It will also improve the agency's unique ability to provide OTS regulated institutions with quarterly estimates of their interest rate risk exposures.

Alternative or nontraditional mortgage lending products present a unique hybrid of credit and interest rate risks. Credit risk in mortgage lending, typically managed by sound underwriting criteria, is more complex with nontraditional lending products. Aggressive pricing and variable underwriting standards may heighten risks. On September 29, 2006, the federal financial regulatory agencies issued final guidance to address the risks posed by these types of loans, recommending that management recognize these products require strong risk management standards, capital levels commensurate with the risk, and a loan loss allowance reflective of the portfolio collectibility. OTS expects its institutions to approach innovation in the mortgage market with caution and due diligence.

OTS sponsored a National Housing Forum on December 11, 2006. The forum provided an opportunity for industry, government, and community leaders to discuss the national outlook for housing, including the challenges of lending in today's housing market and key consumer protection issues. Speakers included the Secretary of the Treasury, the Chairman of the House Financial Services Committee, the Ranking Member of the House Financial Services Committee, and the Director of OTS.

Compliance Risks

An OTS-regulated institution is required to have an effective compliance management program that is commensurate with its size, complexity, and risk profile. OTS examiners assess whether an institution is ensuring the privacy and security of consumer financial information, guarding against money laundering and terrorist financing, and ensuring fair and equal access to credit for all Americans.

OTS examines for Bank Secrecy (BSA), the USA PATRIOT Act, and other Anti-money Laundering (AML) compliance. Between January 2005 and September 2006, OTS conducted 1,272 BSA examinations and cited over 262 institutions for violations. Most violations were remedied during the examination process and resulted in no further action. The others resulted in OTS initiating 40 formal and informal enforcement actions.

The Federal Financial Institutions Examination Council (FFIEC) released the revised BSA/AML Examination Manual on July 28, 2006. The revised manual reflects the ongoing commitment of the federal banking agencies and the Financial Crimes Enforcement Network (FinCEN) to provide current and consistent guidance on risk-based policies, procedures, and processes for banking organizations to comply with the BSA and safeguard operations from money laundering and terrorist financing. The manual was updated to further clarify supervisory expectations and incorporate regulatory changes since the manual's 2005 release.

OTS hosted a teleconference on July 31, 2006, that provided informative briefings by senior OTS staff on BSA/AML compliance issues, including best practices, avoiding common violations, and the consequences of noncompliance. There were over 1,400 registrants for the event. The teleconference provided a valuable opportunity for compliance officers, risk managers, auditors, attorneys, and senior bank and thrift managers to interact directly with OTS experts.

Data security is reviewed at thrifts and third party technology service providers. The Gramm-Leach-Bliley Act requires that all financial institutions establish a program to protect their customer's personal information. OTS, with the other financial banking agencies, issued guidance regarding data security, security breach notification requirements, and electronic authentication. A major focus of OTS's compliance program is to ensure that its institutions keep credit information confidential, fight identity theft, and ensure the accuracy of consumers' credit reports.

Compliance reviews help to ensure fair and equal access to credit for all Americans. Thrifts provide services that encourage home ownership and affordable housing and contribute to economic growth. Thrifts hold over $1 trillion in housing-related loans and securities. On November 24, 2006, OTS published a Notice of Proposed Rulemaking (NPR) to revise its Community Reinvestment Act (CRA) rule to align with the rules adopted by the other federal banking agencies. The alignment would best serve the interests of insured depository institutions and their communities by providing for consistency in regulation and compliance. The vast majority of OTS institutions are in compliance with the Community Reinvestment Act.

Emergency and Disaster Preparedness

OTS is actively involved in initiatives to address emergency and disaster preparedness. The 2005 hurricane devastation in the Gulf Coast states demonstrates how quickly external factors can reprioritize the support that OTS and the thrift industry must provide to preserve the integrity of financial systems and promote a prosperous economy. The needs and issues resulting from the 2005 hurricanes are unprecedented and will take a long time to resolve. To assist affected savings associations and their customers, OTS provides a toll-free hotline number on its internet site for hurricane-related questions and information from government sponsored enterprises and trade groups, community service groups, and information from state agencies.

During June 2006, the FFIEC member agencies and the Conference of State Bank Supervisors jointly issued "Lessons Learned From Hurricane Katrina: Preparing Your Institution for a Catastrophic Event." The document shares experiences and lessons learned by financial institutions affected by Hurricane Katrina and provides institutions with helpful insights for planning and improving disaster recovery and business continuity plans.

For the past 20 years, OTS, in conjunction with the other FFIEC agencies, has issued guidance to the industry with regard to Disaster Recovery and Business Continuity Planning. During examinations, OTS reviews each institution's plans for continuity of operations and emergency preparedness. OTS participates on the Financial and Banking Information Infrastructure Committee to improve the reliability and security of the financial industry's infrastructure. In March 2006, OTS, along with the other FFIEC agencies, issued an Interagency Advisory on Influenza Pandemic Preparedness to alert institutions to the unique challenges a pandemic event could pose and to update their business continuity plans appropriately.

Global Financial Services

OTS's Complex and International Organization program oversees OTS's global services. The European Union (EU) seeks to ensure that financial conglomerates domiciled outside EU member countries are subject to an equivalent level of supervision by foreign supervisors and to enhance coordination among relevant supervisors. OTS is the supervisor for U.S. thrift holding companies, including a number of financial conglomerates active in the EU. OTS was the first regulatory authority to be designated a consolidated coordinating regulator of a holding company with operations in the EU. The EU designation was received in December 2004 for OTS's oversight of GE Capital Services and in September 2006 for Ameriprise. The equivalency designation process is currently underway for the American International Group, Inc. (AIG). The supervision and examination of GE, AIG, and Ameriprise are managed by a group solely dedicated to that task in Supervision.

OTS executed supervisory information sharing agreements with Australia, Canada, France, Germany, the United Kingdom, the Netherlands and Poland. OTS is also a signatory to an existing framework agreement for sharing supervisory information between the EU and U.S. Federal banking agencies. OTS is discussing supervisory information sharing agreements with banking and insurance authorities in China, Mexico, Brazil, and France.

The federal banking agencies are continuing efforts to implement the international Basel II risk-based capital framework. They collaborated on the Basel IA and Basel II proposed capital rules and are evaluating issues to ensure that the new framework results in a safe and sound capital allocation and fair competition among all financial institutions. OTS is supportive of the Basel IA efforts to increase risk sensitivity in the existing Basel I capital rules and to mitigate competitive inequities that may arise with the implementation of Basel II. OTS believes that Basel II warrants close scrutiny and refinement as the process continues. OTS is a leader among the four federal banking agencies in developing capital modifications to Basel I for the considerable majority of financial institutions that will not adopt Basel II.

Regulatory Burden Reduction

Under the Economic Growth and Regulatory Paperwork Reduction Act, enacted by Congress in 1996, federal banking agencies are required to review all of their regulations at least once every 10 years. The agencies must complete the first review under this law by 2006. In 2003, the agencies began a joint effort to categorize the regulations, publish the categories for comment, report to Congress on any significant issues raised by the comments, and eliminate unnecessary regulations. The review was completed in 2006.

OTS and the other banking agencies published notices categorizing and identifying over 125 regulations for comment and received more than 1,000 comment letters with suggestions for change. Banker and consumer group outreach sessions were held around the country and the OTS Director provided Congressional testimony. Along with the other federal banking agencies, OTS simplified application and reporting requirements, streamlined examination processes, and made changes to its regulations and internal procedures to reduce burden. Every new regulation, process, or procedure now includes a discussion among the Federal Financial Institutions Examination Council (FFIEC) principals about burden and how to accomplish regulatory objectives while minimizing regulatory burden.

The federal banking agencies identified burdens that would require legislative changes to the underlying statutes before changes could be made to the regulations. These changes were presented to Congress as a list of consensus items that the national bank and thrift industries support. Congress passed the "Financial Services Regulatory Relief Act of 2006" on September 30, 2006, and President Bush signed it into law on October 13. This law provides regulatory burden relief for the financial services, banking, and thrift industries. The law allows regulators to adjust exam cycles of healthy institutions for greater efficiency, modernizes record keeping requirements for regulators, and requires the federal banking agencies to propose within six months a simple, uniform privacy notice to comply with the Gramm-Leach-Bliley Act of 1999.

Promotion of Thrift Charter

During 2006 strategic planning meetings, OTS management decided to actively promote the features of the thrift charter. The charter provides advantages in the delivery of financial services and continues to flourish as institutions change and adapt their business strategies and focus. OTS has a unique supervisory role in that it monitors and regulates all aspects of an institution's operations and holding company affiliate activities. OTS regularly attends financial services industry conferences and has developed a booth that highlights aspects of its oversight program and details aspects of the thrift charter that set it apart from other charter options.

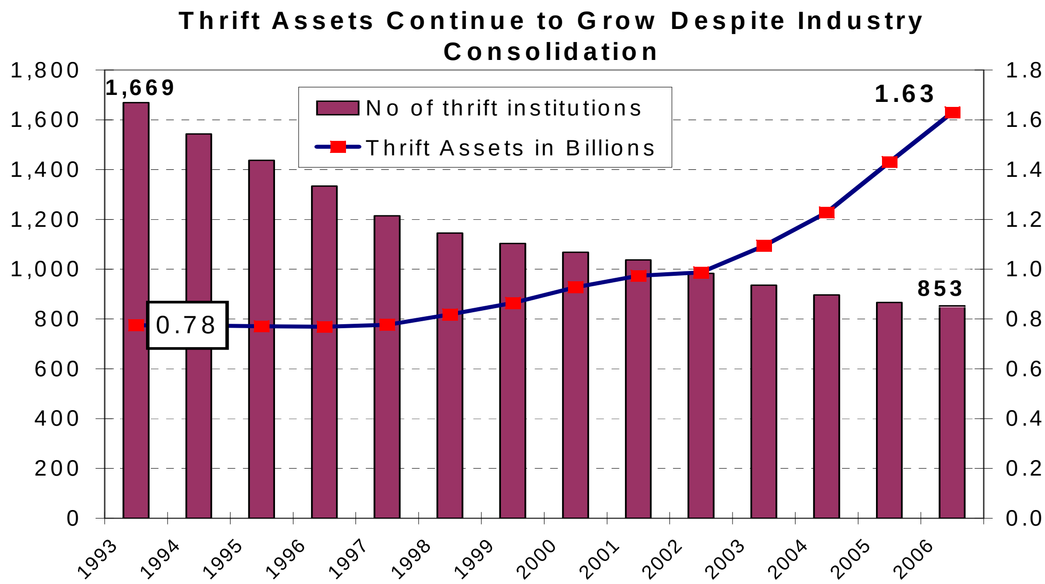
Staffing and Succession Planning

Fifty-five percent of OTS's current staff will reach retirement eligibility by 2010 year-end. OTS is actively addressing succession planning and the corresponding training needs. Over 80 new examiners were hired in 2006.

1C – Industry Outlook

Due to favorable economic conditions, a stable industry, and the regulatory oversight that OTS provides, the thrift industry is operating in a safe and sound manner and performing extremely well. Net income for the industry was $4.29 billion during the quarter ending September 30 2006, the second highest on record, just below the record $4.32 billion earned in the fourth quarter of 2005. In addition, thrift asset quality remains strong and the overall level of credit quality in the industry remains good. The number of problem thrifts decreased from 6 to 5 from September 2005 to September 2006. Assets of problem thrifts decreased from $1.9 billion to $180 million during this same time period. Problem thrifts are defined as those with a composite examination rating of 4 or 5.

Financial services consolidation has reduced the overall number of savings institutions, but industry asset growth remains strong. OTS expects this trend to continue. While industry consolidation can create pressure on assessment revenue, thrift asset growth and new charter interest has mitigated this affect. OTS has worked closely with the industry to maintain the profitability, integrity, and viability of the thrift charter, as the industry continues to adapt to the evolving nature of the financial services business and the demands of its customers.



Section 2 – Budget Adjustments and Appropriations Language

2.2 – Operating Levels Table

Dollars in Thousands

	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
FTE	918	1,046	1,046
Object Classification:			
11.1 Full-Time Permanent Positions....................................	$105,997	$115,224	$118,105
11.1 Other than Full-Time Permanent Positions.............	1,001	2,217	2,272
11.5 Other Personnel Compensation..................................	0	0	0
11.8 Special Personal Services Payments....................	0	0	0
11.9 Personnel Compensation (Total)............................	$106,998	$117,441	$120,377
12.0 Personnel Benefits...	55,799	67,085	68,762
13.0 Benefits to Former Personnel...	217	300	308
21.0 Travel..	12,925	13,984	14,334
22.0 Transportation of Things..	213	241	247
23.1 Rental Payments to GSA...	0	0	0
23.2 Rent Payments to Others...	3,605	3,944	4,043
23.3 Communications, Utilities, & Misc..	3,133	3,582	3,672
24.0 Printing and Reproduction...	241	216	221
25.1 Advisory & Assistance Services...	1,081	2,161	2,215
25.2 Other Services...	3,303	5,623	5,764
25.3 Purchase of Goods/Serv. from Govt. Accts……	3,229	3,923	4,021
25.4 Operation & Maintenance of Facilities..................	3,251	5,220	5,351
25.5 Research & Development Contracts..............................	0	0	0
25.6 Medical Care...	0	0	0
25.7 Operation & Maintenance of Equipment.....................	134	328	336
25.8 Subsistence & Support of Persons..................................	0	0	0
26.0 Supplies and Materials..	1,214	1,669	1,711
31.0 Equipment...	2,767	5,544	5,683
32.0 Lands and Structures..	1,343	1,239	1,270
33.0 Investments & Loans..	0	0	0
41.0 Grants, Subsidies...	0	0	0
42.0 Insurance Claims & Indemn..	44	0	0
43.0 Interest and Dividends……………………………………………	0	0	0
44.0 Refunds...	0	0	0
Total Budget Authority………………………………………	$199,497	$232,500	$238,313
Budget Activities:			
Supervision of the thrift industry	$199,497	$232,500	$238,313
Total Budget Authority………………………………………	$199,497	$232,500	$238,313

2B – Appropriations Language

OTS receives no appropriated funds from Congress.

2C – Legislative Proposals

OTS currently has no legislative proposals.

Section 3 – Budget and Performance Plan

3.1 – Resource Detail Table

Dollars in Thousands

Description	FY 2006 Obligated		FY 2007 Estimated		FY 2008 Estimated		% Change FY 2007 to FY 2008	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Revenue:								
Supervision								
Assessments		212,290		218,100		223,553		2.50%
Rental Income		4,818		5,070		5,197		2.50%
Interest		8,841		8,500		8,713		2.50%
Fees & Other		10,599		7,330		7,513		2.50%
Total Revenue		$236,548		$239,000		$244,976		2.50%
Expenses:								
Supervision								
Compensation & Benefits		$163,014		$184,825		$189,446		2.50%
Travel & Transportation		13,138		14,225		14,581		2.50%
Facilities		10,848		14,310		14,668		2.50%
Other Services & Supplies		12,497		19,140		19,619		2.50%
Total Expenses	918	$199,497	1,046	$232,500	1,046	$238,313	0.00%	2.50%
Net Results		$37,051		$6,500		$6,663		2.50%

3A – Supervision of the Thrift Industry *($232,500,000):* OTS's budget supports its supervision program. OTS receives no appropriated funds from Congress; the income of the bureau is derived principally from assessments on savings associations and savings and loan holding companies. OTS's four strategic goals guide the annual budget activity.

Strategic Goal 1: A safe and sound thrift industry.

Through the examination process, OTS assesses the financial condition and risk profile of savings associations, including their ownership structure, and identifies and addresses unsafe and unsound practices and violations of law and regulation. Through the off-site monitoring process, OTS regularly monitors the financial performance of individual savings associations and the industry. Such monitoring enables early identification of emerging trends or problems.

Strategic Goal 2: A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.

OTS strives to reduce the regulatory burden on savings associations while maintaining effective supervision. To achieve this goal, OTS is improving the application process, limiting assessment rate increases and reviewing statutes and regulations of other governmental entities that may be burdensome. OTS reduced the amount of on-site examination time, redesigned regulations to make them easier to understand, and eliminated unnecessary restrictions. OTS tailors examinations to the risk profile of the individual institutions. This ensures that the examination process is responsive and enables the thrift industry to provide competitive financial services.

OTS strives to manage operations to ensure that assessment rate increases do not exceed the inflation rate. Without compromising responsibilities, the assessment rate increases have not exceeded the inflation rate for the past four years.

Strategic Goal 3: Fair access to financial services and fair treatment of thrift customers.

OTS's Community Affairs Program supports the thrift industry's efforts to meet the convenience and needs of the communities they are chartered to serve; fulfill their CRA obligations; and provide safe and sound loans, investments and financial services for low and moderate income individuals, communities and other areas of greatest need. OTS's Community Affairs staff works with savings associations, community-based organizations, government officials and others to promote partnerships and other initiatives with savings associations at the local level to address and respond to community and economic development needs. In addition, OTS promotes industry adoption of comprehensive compliance management programs and encourages associations to strategically develop the diverse opportunities presented by the communities they are chartered to serve.

Strategic Goal 4: A professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.

OTS strives to maintain a workforce that is professional and well trained to regulate the thrift industry and to deal with the public in a professional, informed, and responsive manner. OTS will continue to cross-train its examiners to fully accredit them in both the safety and soundness and compliance disciplines. OTS provides the public with statistical reports, securities filings of OTS registrants, chartering records and other public information. OTS assists savings association customers with inquiries and complaints concerning savings associations.

In line with the President's Management Agenda, OTS is committed to the effective, efficient, and economic management of its resources. OTS analyzes new enterprise initiatives for best value.

3.2.1 – Supervision of the Thrift Industry Budget and Performance Plan

Dollars in Thousands

Supervision of the Thrift Industry Budget Activity	Includes Strategic Objectives E1B and F3C				
Resource Level	FY 2004 Obligated	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Estimated	FY 2008 Estimated
Financial Resources					
Other Resources	178,713	187,434	199,497	232,500	238,313
Total Operating Level	**$178,713**	**$187,434**	**$199,497**	**$232,500**	**$238,313**
Human Resources					
Other FTE	886	885	918	1,046	1,046
Total FTE (reimbursable)	**886**	**885**	**918**	**1,046**	**1,046**

Supervision of the Thrift Industry Budget Activity		Includes Strategic Objectives E1B and F3C				
Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Difference between the inflation rate and the OTS assessment rate increase (%) (E)	Target	0%	0%	0%	0%	0%
	Actual	0%	0%	0%		
	Met	Yes	Yes	Yes		
Percent of safety and soundness exams started as scheduled (%) (Ot)	Target	90%	90%	90%	90%	90%
	Actual	94%	93%	94%		
	Met	Yes	Yes	Yes		
Percent of thrifts that are well capitalized (%) (Oe)	Target	95%	95%	95%	95%	95%
	Actual	99.4%	99.5%	99.9%		
	Met	Yes	Yes	Yes		
Percent of thrifts with compliance examination ratings of 1 or 2 (%) (Oe)	Target	90%	90%	90%	90%	90%
	Actual	94%	94%	93%		
	Met	Yes	Yes	Yes		
Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) (Oe)	Target	90%	90%	90%	90%	90%
	Actual	93%	94%	93%		
	Met	Yes	Yes	Yes		
Total OTS costs relative to every $100,000 in savings association assets regulated ($) (E)	Target			Baseline	$14.33	$14.33
	Actual			$13.46		
	Met			Yes		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

As highlighted in the charts, OTS met all of its performance measures in 2006. Following is a brief description of each performance measure:

Percent of safety and soundness exams started as scheduled

OTS examines savings associations every 12-18 months for safety and soundness, compliance and consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with the requirements in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) as amended by the Riegle Community Development and Regulatory Improvement Act of 1994. When safety and soundness or compliance issues are identified during its risk-focused examinations, OTS acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS staff often meets with the savings association's board of directors after delivery of the Report of Examination to discuss findings and recommendations.

Total OTS Costs Relative to Every $100,000 in Savings Association Assets Regulated

Beginning in FY 2006, OTS included a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex thrift industry. This measure supports OTS's ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. Approximately 60 percent of all savings associations have total assets of less than $250 million and are generally community-based organizations that provide retail financial services in their local markets. The measure does not include over $7 trillion in assets of holding company enterprises regulated by OTS.

Percent of thrifts with composite CAMELS ratings of 1 or 2.

On December 9, 1996, the Federal Financial Institutions Examination Council (FFIEC) adopted the CAMELS rating system as the internal rating system to be used by the federal and state regulators for assessing the safety and soundness of financial institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. "CAMELS" stands for Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk. OTS assigns a composite CAMELS rating to savings associations at each examination. OTS adjusts the level of supervisory resources devoted to an association based on the composite rating. The CAMELS rating is based upon a scale of 1 through 5 in increasing order of supervisory concern.

Percent of thrifts with compliance examination ratings of 1 or 2.

A uniform, interagency compliance rating system was first approved by the FFIEC in 1980. The FFIEC rating system was designed to reflect, in a comprehensive and uniform fashion, the nature and extent of a savings association's compliance with consumer protection statutes, regulations and requirements. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern.

OTS began to combine safety and soundness and compliance examinations in 2002 to attain exam efficiencies and to improve risk assessment. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process.

Percent of thrifts that are well capitalized.

Capital absorbs losses, promotes public confidence and provides protection to depositors and the FDIC insurance fund. It provides a financial cushion that can allow a savings association to continue operating during periods of loss or other adverse conditions. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

Difference between the inflation rate and the OTS assessment rate increase.

Without compromising responsibilities and the risk-based examination approach, OTS strives to efficiently manage its operations and budget to ensure that assessment rate increases do not exceed the inflation rate. However, if OTS believes that events require more personnel or other expenditures, OTS may increase assessments to raise the required resources. Annually, OTS analyzes its operating costs and compares them to the assessments it charges savings associations and holding companies in order to achieve a structure that keeps assessment rates as low as possible while providing OTS with the resources necessary for effective supervision.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf

Section 4 – Supporting Materials

4.1 – Human Resources Table

Changes in Full Time Equivalents

		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		885	918	1,046
Increases:				
Reason #1	Continued recruitment priority in the examiner ranks for succession palnning as well as to address increasing holding company needs.			
Subtotal, Increases		33	128	0
Decreases:				
Subtotal, Decreases		0	0	0
Year-end Actual/Estimated FTEs		918	1,046	1,046
Net Change from prior year SOY to budget year EOY		33	128	0

4A – Human Capital Strategy Description

Human capital represents OTS's primary resource to meet its strategic objectives. Sustaining and nurturing human capital resources requires a blend of competitive compensation, strategic and innovative training, and a supportive work environment.

OTS developed its Human Capital Strategic Plan in response to the President's Management Agenda. The Plan follows the Department of the Treasury's Human Capital Strategic Plan for Fiscal Years 2004-2008 and incorporates strategies and practices to ensure that OTS has sufficient staff with the right skills to accomplish its mission presently and in the future. The Plan consists of four main strategic goals: Organizational Effectiveness, Recruitment and Diversity, Employee Retention and Satisfaction, and Technology Skills.

Fifty-five percent of OTS's current staff will reach retirement eligibility by year-end 2010. OTS is developing a revitalized succession planning program to analyze specific positions and categories of positions, identify internal and external pools of available and projected candidates, and design professional development programs to match these needs. Over 80 new examiners were hired during 2006. OTS's compensation program enables OTS to attract, retain, and reward staff comparable to the other federal banking agencies.

OTS is working to cross train its examination staff to create a work force capable of performing multiple examination types (e.g., safety and soundness examinations and compliance examinations), as well as designing training programs to meet the challenges OTS faces with anticipated retirements as part of its overall succession planning program.

To meet the needs of a thriving thrift industry, OTS seeks qualified experienced and entry level candidates with diverse backgrounds. OTS is developing recruiting materials, attending job fairs including events targeting minority and women's groups, and working to provide both centralized and regional recruitment support to meet its various recruitment needs.

4.2 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments (in $ Millions) Major IT Investments	Budget Activity/Funding Source	FY 2005 Operating Plan	FY 2005 Obligations	FY 2006 Operating Plan	% Change from FY05 Obligations to FY06	FY 2007 Estimated Budget	% Change from FY06 to FY07	FY 2008 Estimated Budget	% Change from FY07 to FY08
Total - Major		$0.0	$0.0	$0.0		$0.0		$0.0	
Non-Major IT Investments									
Administrative - Mixed	Supervision	$1.0	$0.8	$0.9	8.5%	$0.9	-3.1%	$0.9	2.5%
Examinations	Supervision	1.8	1.7	2.2	30.2%	1.9	-11.1%	2.0	2.5%
Thrift Financial Data	Supervision	2.8	2.5	2.8	12.8%	3.9	38.6%	4.0	2.5%
TFR Validation	Supervision	1.6	1.5	1.8	20.5%	1.6	-12.8%	1.6	2.5%
Industry Structure and Tracking	Supervision	1.8	1.7	2.0	19.3%	1.6	-20.7%	1.6	2.5%
CIO Planning	Supervision	1.8	1.9	2.5	36.7%	2.5	0.7%	2.6	2.5%
Total - Non-Major		$10.7	$10.0	$12.2	22.0%	$12.4	1.5%	$12.7	2.5%
Infrastructure Investments									
Treasury Consolidated Infrastructure		$3.6	$2.9	$4.0	37.5%	$4.4	10.6%	$4.5	2.5%
Treasury Consolidated Telecommunications		1.4	1.1	1.5	41.4%	1.1	-27.5%	1.1	2.5%
Treasury Consolidated Office Automation		2.7	2.7	3.1	15.9%	2.8	-11.1%	2.8	2.5%
Treasury Consolidated Security		0.6	0.5	0.6	17.5%	1.8	194.8%	1.9	2.5%
Total - Infrastructure Investments		$8.2	$7.2	$9.2	28.6%	$10.1	9.4%	$10.4	2.5%
Enterprise Architecture		$0.2	$0.2	$0.2	8.5%	$0.2	-3.1%	$0.2	2.5%
TOTAL IT INVESTMENTS		$19.1	$17.4	$21.6	24.6%	$22.7	4.9%	$23.3	2.5%

4B – Information Technology Strategy

The OTS Information Technology Investment Review Board (IRB) provides overall direction and vision for how OTS's information technology should contribute to OTS's goals and objectives. It serves as the forum for senior OTS executives to make decisions regarding IT expenditures and investments.

OTS's Chief Information Officer is responsible for the policy, oversight and improvement of all information systems, information management and data communications used by OTS to carry out its mission; he serves as the Executive Director of the IRB. OTS's Director serves as the IRB Chair.

The IRB meetings are incorporated into the Regional Managers meetings to ensure that all senior staff participates in the discussion of the IT program, its budget, projects, strategies, and priorities. Projects are evaluated annually during the budget cycle and can be terminated or funded for further development.

OTS successfully implemented the Personal Identity Verification (PIV) process in 2006 to comply with the PIV-1 requirements of Homeland Security Presidential Directive 12 (HSPD-12). In FY 2007, OTS will work with Treasury's team to implement a new identity management program and to issue new smartcard badges.

OTS continues to implement encryption and information protection controls across its environment. During 2005, OTS implemented the use of an encrypted folder to store sensitive documents on all client machines. In the fall of 2006, OTS implemented full disk encryption on all regional client machines. During FY 2007, OTS plans to address and conform with new OMB standards for two-factor authentication and the encryption of all mobile media including notebook computers, personal digital assistants, diskettes, compact discs, DVDs, flash memory devices, or other mobile media leaving physical government locations.

OTS is working to develop a security program that adequately addresses the National Institute of Standards and Technology (NIST) requirements while being manageable for a small agency. OTS strengthened its IT Security program during FY 2006 and hired five new security professionals who are dedicated to addressing operational and regulatory security requirements. OTS also separated Operational Security into a distinct team to address day-to-day security concerns and activities. During FY 2007, OTS will strive to improve the Federal Information Security Management Act (FISMA) posture by implementing new processes compliant with the NIST standards and by recertifying its national systems.

OTS has no major IT investments planned for FY 2007.

4.3 – PART Evaluation Table

PART Name: Thrift Supervision

Strategic Goal: Increase the reliability of the U.S. financial system (F3)

Rating: Effective

OMB Major Findings

1. The program purpose is clear.
2. The program developed new goals that are outcome-oriented and program measurements which are clear.
3. The program is efficiently and effectively managed.

OMB Recommendations

1. Federal banking regulatory agencies, including the OTS, the OCC, the NCUA, and the FDIC, work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.
2. The OTS evaluates the efficiency and effectiveness of a single examination for both Safety and Soundness and Compliance functions.
3. The OTS take steps to examine long-term systemic risks in the industry.

OTS Actions Taken

1. OCC and OTS worked together throughout the strategic and performance planning efforts to ensure that their strategic goals were closely aligned. The banking regulatory agencies share their strategic and performance plans with each other and meet quarterly to discuss strategic and performance planning.
2. Based on feedback received over the past two years, the vast majority of the industry prefers the efficiency and effectiveness of a joint examination. OTS eliminated much of the redundancy of two separate exams. OTS will fulfill its statutory examination responsibilities with less FTEs as a result of this change.
3. During the 2004 strategic planning process, systemic risks were examined and addressed in the Plan.

OTS Actions Planned or Underway

1. OTS will continue to work with the OCC to ensure that strategic goals are closely aligned. OTS will continue to share its strategic and performance plans with the other banking regulatory agencies and meet to discuss strategic and performance planning.
2. OTS will continue to perform a joint examination.
3. OTS will continue to examine and address systemic risks.

For a complete list of PART results visit the following website:
http://www.whitehouse.gov/omb/expectmore/all.html

INTERNATIONAL PROGRAMS

The Department of the Treasury's FY 2008 budget request for International Programs is included in the State, Foreign Operations, and Other Related Programs Appropriation.

E-Government Initiatives

Introduction

The primary purpose of the E-Government and Line of Business initiatives are to improve services to U.S. citizens and promote increases in the efficiency and effectiveness of government operations so that they provide savings to the taxpayer. The U.S. Department of the Treasury has made significant progress toward these goals by providing funding for 12 of the 25 E-Government initiatives and six of the nine E-Government Lines of Business. By facilitating discussions between Departmental E-Government representatives and the federal Managing Partners, the Department of the Treasury has improved the efficiency of many of its activities and has begun to identify and eliminate duplicative systems. For example, as managing partner of the Internal Revenue Service Free File program, the Department of the Treasury made it possible for 3.97 million tax payers to file electronically in tax year 2005, producing a cost savings for the government of $9.9 million. The Treasury Department's participation in the E-Travel initiative allowed the Department to save $340,000 in travel management fees in FY 2006. In addition to these examples, the Treasury Department also saved $161,000 in FY 2005 by retiring an acquisition data system as result of its work with the Integrated Acquisition Environment effort. Further specifics on the benefits, level of funding, and source of funding for each of Department of the Treasury's E-Government initiatives are laid out in this chapter.

Program Summary by Funding Source
Dollars in Thousands

Funding Source	FY 2007	FY 2008	$ Change FY 2007 To FY 2008	% Change FY 2007 To FY 2008
Working Capital Fund (WCF)	$19,446	$19,925	$480	2.47%
Department-wide Systems and Capital Investment Program (DSCIP)	$2,366	$2,074	($292)	-12.33%
Bureau Specific Funding	$5,623	$5,695	$72	1.28%
Grand Total Financial Plan Requirements	$27,434	$27,695	$260	0.95%

Table of Contents

Section 1 – Program Benefits

1.1 – Description and Benefits of E-Government Initiatives

Government to Citizen..**$383,799**
IRS Free File $70,000 The Internal Revenue Service's (IRS) Free File program allows eligible taxpayers to prepare and electronically file their tax returns over the Internet using commercial software for free. This free filing service is available at www.irs.gov and is made possible through a partnership between the government and the Free File Alliance, a coalition of tax preparation software manufacturers. For the 2005 tax year, the IRS reached out to 70 percent of the tax filing public and received 3.97 million e-filed tax returns through Free File services representing a cost-savings to the government of approximately $9.9 million. Since inception in 2003, IRS Free File has realized cost savings of $38 million.

Gov Benefits.gov $313,799 GovBenefits.gov supports the Department of the Treasury's mission by increasing public awareness of valuable tax benefit programs that allow businesses and individuals to grow and prosper without being limited by unnecessary or obsolete rules and regulations. For the year ending September 2006, over 93,000 citizens viewed Treasury Department benefit program pages which generated over 9,800 referrals to Department of the Treasury program pages.

Government to Business……………………………………………………...…**$970,000**
Business Gateway $435,000 Business Gateway (BG) is a convenient portal for businesses to access a wide range of applicable forms online. BG reduces costs associated with forms printing, duplication, and distribution through the www.business.gov website and benefits the Department of the Treasury by supporting the Treasury Department's desire to help businesses succeed. BG supports the Alcohol and Tobacco Tax and Trade Bureau (TTB) by providing citizens greater access to compliance tools and documents including 59 links to guidance resources/forms. BG also benefits the IRS by providing links to 674 tax guidance resources/forms/tools and provides a centralized location for sharing changes in tax regulations or in the tax code and providing a forum to solicit feedback on such issues.

E-Rulemaking $535,000 The Department of the Treasury is scheduled to migrate all of its rulemaking processes to the Federal Docket Management System (FDMS), E-Rulemaking's government-wide solution by the end of the second quarter of Fiscal Year (FY) 2007. The Treasury Department currently uses a manual process to publish approximately 200 proposed federal regulations on an annual basis. This initiative will enable the Treasury Department to streamline and automate the rulemaking process, improve citizen participation in the comment phases, and enhance information management processes within the Department of the Treasury.

Government to Government…………………………………….……...……..**$77,250**
Grants.gov $77,250 Grants.gov benefits the Department of the Treasury by providing a

single location for citizens to find and apply for Treasury Department grant opportunities. The Department of the Treasury uses government-wide forms in 100 percent of its grant application packages. The Treasury Department has three grant-making programs: IRS Low Income Taxpayer Clinic, IRS Tax Counseling for the Elderly, and Community Development Financial Institutions (CDFI) Fund. The Department of the Treasury is meeting its targeted goals regarding posting of grant opportunities and applications on the Grants.gov portal. The Treasury Department has posted five funding opportunities and five application packages on Grants.gov. The Department of the Treasury received 293 electronic applications and expects to report a total cost avoidance of $95,000 in FY 2007.

Internal Efficiency and Effectiveness……………………………………….$25,573,473
Recruitment One-Stop $738,830 The USAJOBS.GOV web-portal allows the Treasury Department to announce position openings and attract qualified candidates from a larger and diversified pool. This expedites the Department of the Treasury's ability to fill mission critical positions and reduce paper applications and processing time, thus improving access to top candidates and the efficiency of the hiring process. The Treasury Department also leverages the USAJOBS resume function by uploading into its automated system, CareerConnector.

E-Payroll $18,014,954 As a participant in the E-Payroll initiative, the Department of the Treasury leverages economies of scale through the use of the National Finance Center (NFC). E-Payroll creates standardized services and provides full payroll services to the Treasury Department.

E-Travel $5,472,652 The Department of the Treasury is in the process of migrating all of its travel services to GovTrip, one of the designated E-Travel Service (ETS) providers. Eleven of 14 Treasury Department bureaus have fully deployed GovTrip and are realizing the following benefits. Through a combination of advantageous Travel Management Center (TMC) pricing and a substantially higher degree of On-Line Booking Engine (OBE) usage (80 percent), the Treasury Department saved over $340,000 in travel management service fees for reservations in FY 2006. By utilizing ETS, the Department of the Treasury reduced manual post travel audit by 30 percent. The Treasury Department continues to process vouchers through the ETS and processed over 4,000 in September 2006. The Department of the Treasury decommissioned costly stovepipe legacy systems further supporting the Presidential Management Agenda (PMA) goals and objectives.

Enterprise Human Recourses Integration $241,119 Enterprise Human Recourses Integration (EHRI) provides a standard Department-wide approach to gathering, maintaining, and analyzing personnel data across its 11 bureaus. Data warehouse and data-mining tools assist with forecast projections for strategic hiring, trend analysis, and succession planning.

E-Training $750,000 The Department of the Treasury currently has five separate Learning Management Systems (LMS) servicing over 110,000 employees and is consolidating these disparate LMSs to one system by the third quarter of Fiscal Year 2007. This consolidation will eliminate redundant software and hardware, thereby decreasing maintenance costs. Additionally, the Treasury Department will leverage its buying power to lower the cost of future upgrades and enhancements. Upon completion, the Department of the Treasury will electronically collect, maintain, and report training information and monitor professional development Department-wide.

Integrated Acquisition Environment $355,918 Through adoption of Integrated Acquisition Environment (IAE) tools and services, the Department of the Treasury is improving its ability to make informed and efficient purchasing decisions and automate manual processes. IAE will provide a common data warehouse to facilitate trend analysis and provide acquisition information across the Treasury Department. IAE has allowed the Department of the Treasury to automate manual and paper-based processes as well as retire legacy systems. For example, the Treasury Department retired an acquisition data system in FY 2005 for a savings of $161,000.

Lines of Business……………………………………………………………$624,780

Case Management $0 The Case Management (CM) Line of Business (LoB) is defined as activities associated with the collection, qualification, analysis, and use of information for law enforcement purposes to prevent acts of terrorism or to defend the government (including its officers and agents) against legal challenges. CM LoB helped Treasury move their case management programs forward. The Treasury Department will use the Department of Justice's business case to build the case for its own Enterprise Content Management (ECM) consolidation efforts. CM LoB shares best practices/lessons learned with the Department of the Treasury. The Department has no dedicated funding for this initiative in 2008.

Human Resources Management $260,870 The Department of the Treasury operates HR Connect, an approved HR LoB service provider. This initiative allows the Treasury Department to spread the cost of managing HR systems and processes across a larger customer base, reducing agency costs to operate these systems and processes.

Financial Management $75,000 The Treasury Department's Bureau of Public Debt is one of four Financial Management (FM) LoB shared service providers. The Department of the Treasury hosts financial systems and business operations for over 30 Government organizations, including most Treasury Department bureaus and 15 non-Treasury Department related organizations. The increased customer base reduces duplicative financial management systems within the Department of the Treasury and lowers overall operation and maintenance costs. The Treasury Department leverages its IT and financial processing expertise to realize cost savings and avoidance through the standardization of business processes and a common business language at the agency and bureau levels.

Grants Management $28,460 By relying on shared service centers for the processing of grants, the Department of the Treasury will benefit from improved delivery of services to grant recipients, improved decision-making and decreased costs associated with building and maintaining grants management IT systems. IRS, one of two grant making entities within the Treasury Department, will continue to rely on the Department of Health and Human Services (HHS) for grants processing. CDFI, the second grant making entity within the Treasury Department, has signed an Interagency Agreement (IAA) to migrate its grants processing functions to HHS and expects to report cost savings/avoidance as these functions migrate.

Budget Formulation and Execution $85,000 The Budget Formulation and Execution (BFE) LoB is a cross-agency effort to find common solutions that produce efficiencies in budget formulation and execution activities across the federal government. In working toward this goal, the BFE LoB developed seven technology-based capabilities solutions. One of these solutions includes "Agency Budgeting Tools," which is intended to make software applications already developed by some agencies available to the overall federal budget community. The Department of the Treasury volunteered to head this effort by working to make the Budget Formulation and Execution Manager (BFEM) available to any agency who wishes to use the tool. Using funds provided by the BFE LoB, the Treasury Department is standing up a BFEM service that other agencies may subscribe to and is also creating a compact disk and developing system administrator guides that will allow agencies to install the software on their own systems. Aside from benefiting the overall federal government by eliminating costs agencies must incur for independent development efforts, this effort has a direct benefit for the Treasury Department since it spreads the cost of future BFEM development work. By creating a pool of funds contributed to by a wide range of agencies, the Treasury Department no longer has to fund BFEM development itself and can share those costs with other agencies.

Geospatial $15,450 The Department of the Treasury uses geospatial data to assist enforcement efforts and financial forecasting. The Geospatial LoB identifies opportunities for optimizing and consolidating federal geospatial-related investments to reduce the cost of government and improve services to citizens. The LoB also facilitates a more coordinated approach to producing, maintaining, and using geospatial data, and will ensure sustainable participation from federal partners to establish a collaborative model for geospatial-related activities and investments.

Information Technology Infrastructure $160,000 The Information Technology Infrastructure LoB will complement and greatly advance the Treasury Department's ongoing efforts to consolidate and optimize its IT infrastructure assets at the enterprise level. In FY 2007, the Department of the Treasury expects to make great strides in establishing solid baselines and targets with standard and defensible metrics, identifying optimization opportunities, and implementing plans.

Cross-Cutting……………………………………………………………………..$65,217
E-Authentication $65,217 The E-Authentication initiative allows the Department of the

Treasury and its bureaus to use identity credentials issued and managed by organizations internal and external to the federal government, thereby relieving the Treasury Department of the cost of providing its own identity management solutions.

Exhibit 300s for each of the E-Government initiatives can be found at http://www.treas.gov/exhibit300/ .

Section 2 – Budget

2.1 – Funding by Program

Funding by Program	Managing Agency	Funding Source	FY 2007	FY 2008
Government to Citizen				
IRS Free File	Department of the Treasury	Bureau Specific Funding	$70,000	$70,000
GovBenefits.gov	Department of Labor	WCF	$315,000	$313,799
Government to Citizen (Total)			$385,000	$383,799
Government to Business				
Business Gateway	Small Business Administration	DSCIP	$720,767	$435,000
E-Rulemaking	Environmental Protection Agency	DSCIP	$615,000	$535,000
Government to Business (Total)			$1,335,767	$970,000
Government to Government				
Grants.gov	Health and Human Services	Bureau Specific Funding	$75,000	$77,250
Government to Government (Total)			$75,000	$77,250
Internal Efficiency and Effectiveness				
Recruitment One-Stop	Office of Personnel Management	WCF	$717,311	$738,830
E-Payroll	Office of Personnel Management	WCF	$17,490,247	$18,014,954
E-Travel	General Services Administration	Bureau Specific Funding	$5,394,392	$5,472,652
EHRI	Office of Personnel Management	WCF	$231,623	$241,119
E-Training	Office of Personnel Management	DSCIP	$750,000	$750,000
Integrated Acquisition Environment	General Services Administration	WCF	$430,840	$355,918
Internal Efficiency and Effectiveness (Total)			$25,014,413	$25,573,473
Lines of Business				
Case Management	Department of Justice		$0	$0
Human Resources	Office of Personnel Management	WCF	$260,870	$260,870
Financial Management	Department of Energy / Department of Labor	Bureau Specific Funding	$83,333	$75,000
Grants Management	National Science Foundation / Department of Energy	DSCIP	$30,074	$28,460
Budget Formulation and Execution	Department of Education	DSCIP	$75,000	$85,000
Geospatial	Department of Interior	DSCIP	$15,000	$15,450
Information Technology Infrastructure Optimization Initiative	General Services Administration	DSCIP	$160,000	$160,000
Lines of Business (Total)			$624,277	$624,780
Cross-Cutting				
E-Authentication	General Services Administration	DSCIP	$0	$65,217
Cross Cutting (Total)			$0	$65,217
Grand Total			$27,434,457	$27,694,519