FY 2012 DEPARTMENTAL SUMMARY

FY 2012 President's Budget by Function

(Dollars in Thousands)

	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	FY2010 to FY2012 $ Change	% Change
Management & Financial	890,192	903,192	369,383	(533,809)	-59.1%
Departmental Offices Salaries and Expenses	304,888	304,888	324,889	20,001	6.6%
Dept-wide Systems & Capital Invest. Programs	9,544	9,544	0	(9,544)	-100.0%
Office of Inspector General	29,700	29,700	29,855	155	0.5%
Treasury IG for Tax Administration	152,000	152,000	157,831	5,831	3.8%
Special IG for TARP	23,300	36,300	47,374	11,074	30.5%
Community Development Financial Institutions Fund	246,750	246,750	227,259	(19,491)	-7.9%
Financial Crimes Enforcement Network	111,010	111,010	84,297	(26,713)	-24.1%
Transfer from Forfeiture Fund			30,000		
Net, Financial Crimes Enforcement Network	111,010	111,010	114,297	3,287	3.0%
Alcohol & Tobacco Tax and Trade Bureau	103,000	103,000	97,878	(5,122)	-5.0%
Treasury Forfeiture Fund [1/]	(90,000)	(90,000)	(630,000)	(540,000)	600.0%
Fiscal Service Operations	426,376	426,376	384,440	(41,936)	-9.8%
Financial Management Service	244,132	244,132	218,805	(25,327)	-10.4%
Bureau of the Public Debt	192,244	192,244	173,635	(18,609)	-9.7%
Less Offsetting Fees	*(10,000)*	*(10,000)*	*(8,000)*	*2,000*	
Net, BPD	182,244	182,244	165,635	(16,609)	-9.1%
Tax Administration	12,146,123	12,146,123	13,283,907	1,137,784	9.4%
IRS Taxpayer Services	2,278,830	2,278,830	2,345,133	66,303	2.9%
IRS Enforcement	5,504,000	5,504,000	5,966,619	462,619	8.4%
IRS Operations Support	4,083,884	4,083,884	4,620,526	536,642	13.1%
IRS Business Systems Modernization	263,897	263,897	333,600	69,703	26.4%
IRS Health Insurance Tax Credit Administration	15,512	15,512	18,029	2,517	16.2%
Total, Treasury Appropriations Committee	13,462,691	13,475,691	14,037,730	562,039	4.2%
Treasury International Programs	2,128,670	2,128,670	3,363,934	1,235,264	58.0%
Poverty Reduction and Economic Growth (MDBs)	1,552,170	1,552,170	2,072,564	520,394	33.5%
Food Security	30,000	30,000	338,000	308,000	1026.7%
Combating Climate Change and Environmental Degradation	481,500	481,500	748,750	267,250	55.5%
Debt Relief	40,000	40,000	174,500	134,500	336.3%
Technical Assistance	25,000	25,000	30,120	5,120	20.5%
Total [2/]	15,591,361	15,604,361	17,401,664	1,797,303	11.5%

[1/] Includes a $600 million permanent cancellation and a $30 million transfer to FinCEN.

[2/] FY 2010 Enacted excludes supplementals and transfers.

Overview

The Department of the Treasury serves the American people by strengthening the U.S. economy, supporting job creation, and restoring confidence in the financial system. As stewards of the economy, the Department's

FY 2012 Budget (the Budget) reflects Treasury's commitment to the significant challenges that face our economy while ensuring every dollar spent addresses the nation's economic challenges.

The Budget requests $14.038 billion to fund priority functions at the Department's ten appropriated bureaus. The Budget also proposes $3.364 billion to fund Treasury International Programs. The International Programs request includes investments for reducing poverty and increasing economic stability around the world and addressing critical global challenges such as climate change and food security. Our request affirms the Department's commitment to controlling spending with $336 million in cost savings and program reductions, $630 million in proposed cancellations and transfers of Forfeiture Fund balances, and requests well below the FY 2010 enacted level in five of our bureaus.

The Budget has been developed in order to make significant progress towards the Department's three high priority performance goals:

- Repair and Reform the Financial System;
- Increase Voluntary Tax Compliance; and
- Significantly Increase the Number of Paperless Transactions with the Public.

Goal 1: Repair and Reform the Financial System

Regulatory Reform Support – Treasury played a prominent role in developing and promoting sweeping financial reform legislation, culminating in the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in July 2010. Implementation of the historic reforms contained in the Dodd-Frank Act is an important area of focus for the Department. Treasury is working to ensure that the new rules provide necessary protections against the financial excess that contributed to the recent financial crisis, while preserving the benefits of financial innovation.

The Department is engaged in a broad array of programs to stabilize the financial system and develop long-term, comprehensive solutions to avoid future economic crises. The Department is currently spearheading the standup of new independent regulatory bodies created by the Dodd-Frank Act, including the Consumer Financial Protection Bureau (CFPB) and the Financial Stability Oversight Council. Under the Act, the Department is also creating the Office of Financial Research, and the Federal Insurance Office. Reform efforts include the closure of the Office of Thrift Supervision and its integration into Office of the Comptroller of the Currency and other existing government functions. Treasury will continue working with other government agencies to develop new market regulations and guidance to more effectively respond to current and future financial challenges. The Budget provides resources to support the successful implementation of new offices and activities authorized by the Dodd-Frank Act, including the new Federal Insurance Office and Office of Minority and Women Inclusion.

Supporting America's Small Businesses – To help small businesses, Treasury is implementing two new programs as part of the Small Business Jobs Act of 2010 (the Jobs Act): the Small Business Lending Fund (SBLF), and the State Small Business Credit Initiative (SSBCI). SBLF will increase the availability of credit to small businesses by providing up to $30 billion in capital to community and smaller banks with assets under $10 billion, the banks that provide the most amount of lending to small businesses. SSBCI provides $1.5 billion to strengthen state programs that support lending to small businesses and small manufacturers. Under the Jobs Act, Treasury will continue to increase support for America's small businesses, as they play a critical role in the U.S. economy and are central to creating jobs and restoring our economic prosperity.

Housing Government Sponsored Enterprise (GSE) Programs – Using authority granted under the Housing and Economic Recovery Act of 2008 (HERA), the Department has sought to stabilize the two largest GSEs, the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), as well as the Federal Home Loan Banks (FHLB). Under the Preferred Stock Purchase Agreements (PSPAs), Treasury has helped to ensure the viability of the GSEs by providing $131 billion of investment, net of dividends the GSEs paid to Treasury. In addition, Treasury has helped stabilize the market by purchasing over $200 billion in GSE mortgage-backed securities and has helped state and local housing finance agencies obtain needed financing to aid low- and moderate-income Americans.

The Obama Administration is strongly committed to reforming our nation's housing finance system in order to protect taxpayers, institute tough oversight, restore the long-term health of our housing market, and strengthen our nation's economic recovery. The Administration is transmitting to Congress a framework and principles for making the transition to a new housing finance system that will end the model of private gains and public losses, repair the broken housing finance market, and minimize taxpayer exposure to financial risks. The framework will also seek to make sure that the market provides stable and widely available mortgage credit, affordable housing options for low and middle-income homeowners and renters, and has stronger protections for consumers and better disclosure as mandated by the financial regulatory reform that passed last year.

Community Development Financial Institutions (CDFI) Fund – The Budget promotes economic and community development through investments in and assistance to community development banks, credit unions, loan funds, and venture capital funds through the CDFI Fund's merit-based grant programs. These programs expand the availability of financial services and affordable credit to underserved populations, including distressed urban, rural, Native American, Native Hawaiian, and Alaska Native communities. The Healthy Food Financing Initiative (HFFI) provides grants to CDFIs to expand the availability of healthy food options in distressed communities. Bank on USA promotes access to affordable and appropriate financial services and basic consumer credit products for households without access to such products and services.

Troubled Asset Relief Program (TARP) – As a result of improved financial conditions and careful stewardship of the TARP, the ultimate cost to the taxpayer of TARP investments is significantly lower than previously estimated. The TARP has allowed participating institutions to stabilize their balance sheets and avoid further losses, leaving the nation's financial system in a much stronger position than it was before the crisis. TARP included various consumer and business programs to help recapitalize the financial system, restart the credit markets, restore confidence, and lower borrowing costs for businesses and families. The Department's calculations estimate the lifetime cost of the program to be $48 billion.

Goal 2: Increase Voluntary Tax Compliance

In 2006, the IRS estimated that the tax gap, or difference between the amount owed under tax law and the amount paid on time, was $345 billion in 2001. Addressing this gap through improved voluntary compliance is a top priority of the Department. The Department proposes to improve compliance through targeted changes to the tax code and further investment in tax enforcement, taxpayer services, and IRS systems modernization. Furthermore, the Budget includes funding for new initiatives critical to the IRS in implementing the Affordable Care Act (ACA).

Tax Compliance – The Budget includes a number of legislative proposals to improve tax collection and increase collections with minimum additional burden on taxpayers. These proposals expand information reporting, improve compliance by businesses, and strengthen tax administration. In total, these proposals are expected to increase collections by more than $10 billion over the next ten years. Further information on these proposals can be found in the Treasury 2010 Green Book (http://www.treasury.gov/resource-center/tax-policy/).

Taxpayer Service – Quality taxpayer service is an important complement to enforcement efforts. Recent legislation has increased the volume of calls to toll-free service lines at the IRS, leading to longer wait times and unanswered calls. The Budget provides funding to improve the level of service for the toll-free service lines to 80 percent, up from the FY 2011 projection of 71 percent. The Budget also includes funding to improve IRS.gov to meet the growing demand for more electronic services. This multi-year project will improve self-service, reduce taxpayer burden, increase compliance, reduce costs, and continue to position IRS.gov as the preferred choice for taxpayer service.

Tax Enforcement – The Budget includes new enforcement initiatives to improve compliance. These initiatives are expected to produce $1.332 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2014. In FY 2012, IRS will implement enacted legislation such as the Foreign Account Tax Compliance Act (FATCA), information reporting on merchant payment card and third party reimbursements, basis reporting on security sales; increase compliance by addressing offshore tax evasion; expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers; and enforce return preparer compliance.

Goal 3: Significantly Increase the Number of Paperless Transactions with the Public

The Department is committed to moving to paperless transactions, including increasing the number of payments and collections made electronically. The effort to dramatically increase the number of electronic transactions is expected to save $524 million and 12 million pounds of paper in the first five years.

The Department has begun implementing a three-pronged initiative to increase electronic transactions. Individuals receiving Social Security, Supplemental Security Income, Veterans Administration, Railroad Retirement Board, Office of Personnel Management and Department of Labor – Black Lung benefits will be required to receive these payments electronically, either through direct deposit into a bank account or Treasury's Direct Express debit card; other non-tax payments are also required to be made electronically. Second, most businesses currently permitted to use paper Federal Tax Deposit coupons will have to make those deposits electronically beginning in 2011. Finally, Treasury will be ending all issuances of paper savings bonds no later than December 31, 2011 and instead focus on electronic means to issue bonds.

Increased use of e-Filing for tax returns is saving the IRS tens of millions of dollars each year. In FY 2012 Treasury Tax and Trade

Bureau will realize savings gained through efficiencies from its Permits Online electronic filing system due to processing time reduction and the streamlining of business processes.

In addition to greatly reducing costs, enhancing customer service and minimizing Treasury's environmental impact, the move from paper to electronic transactions will increase reliability, safety and security for benefit recipients and taxpayers. The benefits of electronic transactions are well documented. Aside from the large cost savings, electronic transactions provide safety, convenience and control for payment recipients, taxpayers and savings bond holders. These initiatives do not require new legislation and can be accomplished by changes to Treasury's existing regulations.

International Programs

The Department's request includes $3.364 billion in total funding for International Programs to provide resources to sustain global economic development, aid impoverished countries, address climate change, and support our national security objectives by strengthening the economies of fragile nations. Of the total, $2.073 billion is requested for scheduled annual U.S. contributions to the multilateral development banks (MDBs), including two new replenishments to the International Development Association and the African Development Fund and General Capital Increases (GCIs) to the MDBs which faced capital depletions after their aggressive and necessary response to the global financial crisis. Another $175 million will fund the U.S. share of the Multilateral Debt Relief Initiative at the International Development Association (IDA) and the African Development Fund (AfDF).

The Department is also requesting $338 million for multilateral food security initiatives, including the Global Agriculture and Food Security Program (GAFSP) which will leverage U.S. resources to provide increased agriculture investments in poor countries. To combat climate change and environmental degradation, the request includes $749 million for contributions to the Clean Technology Fund (CTF), the Strategic Climate Funds (SCF), the Global Environment Facility (GEF) and Tropical Forest Conservation Act. Finally, $30.1 million is requested for the Office of Technical Assistance (OTA), to strengthen economic and financial governance in fragile and developing countries around the world

Terrorism and Financial Intelligence

The Budget includes $92.6 million in direct appropriations for the Office of Terrorism and Financial Intelligence (TFI) in FY 2012. This investment will implement targeted financial sanctions with the goal of stopping the flow of money to terrorist organizations, drug traffickers, money launderers, weapons proliferators, rogue regimes, and their support networks that constitute a threat to the United States to keep the world's financial systems accessible to legitimate users, while excluding those who wish to exploit the systems for illegal purposes.

Fiscal Prudence

In recognition of the current fiscal outlook and in order to partially offset the cost of high priority investments, the Budget includes savings of $336 million in Department discretionary funding and additional savings in mandatory programs. The request also focuses on improving tax administration and debt collection. The Department is using the many employee ideas submitted through the

Administration's SAVE initiative to explore means to reduce costs.

Administrative and other Efficiency Savings – The Budget proposes efficiency savings and program reductions at all Treasury bureaus, including nearly $200 million of administrative savings as part of the President's Accountable Government Initiative, and savings from a variety of program reforms. Examples include $190 million in process improvement savings for the IRS, $10.1 million in administrative and data center consolidation savings for the Financial Management Service (FMS) and $6.6 million in savings for BPD. The Budget also identifies $2.6 million in savings from certification and accreditation consolidation, data center consolidation and managing FTE lapses for the Treasury Inspector General for Tax Administration and $2.1 million in Financial Crimes Enforcement Network (FinCEN) staffing efficiency reductions and information technology savings. Finally, $15.4 million in efficiency savings is included for the Departmental Offices (DO). Through these efforts, the Department will achieve savings, while creating a more agile and innovative Treasury.

Paperless Treasury – As discussed above, the Department will significantly increase the number of paperless transactions with the public and anticipates saving of $524 million through this effort over the next five years.

Freedom of Information Act – The Department's current process for responding to Freedom of Information Act (FOIA) requests is inefficient and outdated and has resulted in a significant backlog in request fulfillment at the agency. To address this issue, Treasury is creating a new FOIA tool using existing funding. With this tool, Treasury will process FOIA requests rapidly and accurately with less cost by leveraging modern electronic storage and web based application technology to prevent redundant work and automate process steps where possible. In addition to improvements to how FOIA requests are handled internally, the tool will feature a public facing component that allows citizens to initiate FOIA requests online.

IT Consolidation – The Department proposes to consolidate information technology resources at the Bureau of Public Debt (BPD) and Financial Management Service (FMS). As part of Treasury's broader IT strategy to achieve efficiencies, BPD and FMS will partner to consolidate certain IT resources. During 2011, the bureaus are consolidating five data centers into two shared data centers. This will result in a more sustainable approach to IT services and further savings may be demonstrated by considering reductions in carbon emissions. Further IT consolidation efforts include moving from 42 data centers in FY 2010 to 29 in FY 2015.

Debt Collection Legislation – Treasury and OMB are improving the management of the Federal debt portfolio, which could increase collection of delinquent tax and non-tax debt by more than $5 billion over the next ten years. The Budget incorporates a number of these improvements, including debt collection legislative proposals to increase levy authority to 100 percent for Medicare payments and vendor payments, offset tax refunds to collect delinquent state income taxes from out-of-state residents, and other administrative improvements, such as expanding the use of Administrative Wage Garnishment and improving the Treasury Offset Program match process.

Do Not Pay Portal – In June 2010, a Presidential Memorandum (Enhancing Payment Accuracy Through a "Do Not Pay List") established the creation of a comprehensive Do Not Pay List against which agency payments could be cross-checked to prevent ineligible recipients from receiving payments from the federal government. To make this list more beneficial, the Administration created VerifyPayment.Gov to serve as a one-stop-shop for agencies. The Bureau of the Public Debt will expand and maintain this portal. Additionally, Public Debt will work with the Recovery Accountability and Transparency Board, to support an operations center to analyze fraud patterns and refer potential issues to agency management.

Offsetting Cancellations and Transfers – The Budget includes a $600 million proposed permanent cancellation and a $30 million transfer to FinCEN from the unobligated balances of the Treasury Forfeiture Fund.

FY 2012 President's Budget by Goal/Objective (Dollars in Thousands)	Effectively Managed US Government Finances		U.S. and World Economies Perform at Full Economic Potential		Prevented Terrorism & Promoted Nation's Security		Management and Organizational Excellence		Total	
	Disc $	Reimb./ Mand $	Disc $	Reimb./ Mand $	Disc $	Reimb./ Mand $	Disc $	Reimb./ Mand $	Disc $	Reimb./ Mand $
Management & Financial	$115,092	$23,884	$382,456	$24,763	$210,214	$13,894	$291,651	$46,457	$999,413	$108,998
Departmental Offices Salaries and Expenses	66,153	23,884	106,258	24,763	95,917	10,894	56,561	31,957	324,889	91,498
Dept-wide Systems & Capital Invest. Program									0	0
Office of Inspector General							29,885	13,200	29,885	13,200
Treasury IG for Tax Administration							157,831	1,300	157,831	1,300
Special Inspector General for TARP							47,374		47,374	0
CDFI Fund			227,259						227,259	0
Financial Crimes Enforcement Network					114,297	3,000			114,297	3,000
Alcohol & Tobacco Tax and Trade Bureau	48,939		48,939						97,878	0
Fiscal Service Operations	$384,440	$255,623	$0	$0	$0	$0	$0	$0	$384,440	$255,623
Financial Management Service	218,805	231,223							218,805	231,223
Bureau of the Public Debt	165,635	24,400							165,635	24,400
Tax Administration	$13,025,396	$118,169	$0	$0	$258,511	$20,103	$0	$0	$13,283,907	$138,272
IRS Taxpayer Services	2,345,133	22,924							2,345,133	22,924
IRS Enforcement	5,769,388	55,799			197,231	20,103			5,966,619	75,902
IRS Operations Support	4,559,246	39,446			61,280				4,620,526	39,446
Business Systems Modernization	333,600								333,600	0
Health Insurance Tax Credit Administration	18,029								18,029	0
Total, Treasury Appropriations Committee [1/]	$13,524,928	$397,676	$382,456	$24,763	$468,725	$33,997	$291,651	$46,457	$14,667,760	$502,893
Treasury International Programs			3,363,934						3,363,934	0
Total, Appropriated Level	$13,524,928	$397,676	$3,746,390	$24,763	$468,725	$33,997	$291,651	$46,457	$18,031,694	$502,893
Non Appropriated Bureaus	$0	$0	$0	$4,642,375	$0	$0	$0	$0	$0	$4,642,375
Office of Financial Stability				311,240					0	311,240
Bureau of Engraving and Printing				582,050					0	582,050
U.S. Mint				2,545,885					0	2,545,885
Office of the Comptroller of the Currency				1,040,756					0	1,040,756
Small Business Lending Fund Administration				72,603					0	72,603
OFR and Financial Services Oversight Council				82,353					0	82,353
SSBCI Administration				7,488					0	7,488
Subtotal, Direct $	$13,524,928		$3,746,390		$468,725		$291,651		$18,031,694	
Subtotal, Reimbursable $		$397,676		$4,667,138		$33,997		$46,457		$5,145,268
Total, Treasury Level	$13,922,604		$8,413,528		$502,722		$338,108		$23,176,962	

[1/] Total does not include the proposed $600 million Forfeiture Fund permanent cancellation and the reduction in the Fund's spending resulting from the proposed $30 million transfer to FinCEN.

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

Appropriation	FY 2010 Actual			FY 2011 Annualized CR Level			FY 2012 President's Budget		
	Direct	Reimb.	Total	Direct	Reimb.	Total	Direct	Reimb.	Total
Departmental Offices Salaries and Expenses	1,166	150	1,316	1,266	137	1,403	1,341	137	1,478
Administrative Expenses, Recovery Act	1,200	0	1,200	65	0	65	0	0	0
Office of Inspector General	172	0	172	172	0	172	172	0	172
Treasury IG for Tax Administration	817	3	820	835	3	838	864	3	867
Special Inspector General for the TARP	112	0	112	192	0	192	192	0	192
Community Development Financial Institutions Fund	71	0	71	84	0	84	90	0	90
Financial Crimes Enforcement Network	328	1	329	327	1	328	304	1	305
Alcohol & Tobacco Tax and Trade Bureau	502	10	512	535	15	550	502	15	517
Financial Management Service	1,583	248	1,831	1,566	269	1,835	1,492	269	1,761
Bureau of the Public Debt	956	0	956	1,042	0	1,042	987	0	987
Internal Revenue Service	94,766	752	95,518	94,766	659	95,425	99,878	659	100,537
Subtotal, Treasury Appropriated Level	101,640	1,164	102,804	100,832	1,084	101,916	105,822	1,084	106,906
Office of Financial Stability	210	0	210	251	0	251	270	0	270
Small Business Lending Fund Administration	0	0	0	41	0	41	55	0	55
State Small Business Credit Initiative Administration	0	0	0	9	0	9	12	0	12
Financial Stability Oversight Council and Office of Financial Research	0	0	0	50	0	50	192	0	192
Working Capital Fund	0	195	195	0	200	200	0	222	222
Treasury Franchise Fund	0	973	973	0	1,012	1,012	0	1,190	1,190
Bureau of Engraving and Printing	0	1,889	1,889	0	1,950	1,950	0	1,925	1,925
U.S. Mint	0	1,778	1,778	0	1,873	1,873	0	1,873	1,873
Office of the Comptroller of the Currency	0	3,101	3,101	0	3,140	3,140	0	3,976	3,976
Office of Thrift Supervision [1/]	0	1,016	1,016	0	1,021	1,021	0	0	0
Terrorism Insurance Program	11	0	11	10	0	10	10	0	10
Total	101,861	10,116	111,977	101,193	10,280	111,473	106,361	10,270	116,631

[1/] The Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203 (Dodd-Frank Act), abolishes and transfers the functions of the Office of Thrift Supervision in Fiscal Year 2011.

Summary of FY 2012 Increases and Decreases

(Dollars in Thousands)

	DO	DSCIP	OIG	TIGTA	SIGTARP	CDFI	FINCEN	TTB	TEOAF	FMS	BPD	IRS	Total
FY 2011 Annualized CR Level	$304,888	$9,544	$29,700	$152,000	$36,300	$246,750	$111,010	$103,000	($90,000)	$244,132	$182,244	$12,146,123	$13,475,691
Adjustment to Meet FY 2011 President's Policy Level	39,707	12,456	351	2,266	13,068	3,144	(11,038)	2,571	0	(10,537)	(7,458)	401,665	446,195
FY 2011 President's Policy Level	$344,595	$22,000	$30,051	$154,266	$49,368	$249,894	$99,972	$105,571	($90,000)	$233,595	$174,786	$12,547,788	$13,921,886
Maintaining Current Levels	$3,215	$0	$183	$1,391	$454	$201	$897	$832	$0	$2,000	$1,234	$85,754	$96,161
Cancellation/Transfer of Balances	0	0	0	0	0	0	30,000	0	(540,000)	0	0	0	(510,000)
Above Base Savings	(28,946)	(22,000)	(392)	(3,474)	(2,448)	(1,830)	(13,570)	(8,525)	0	(11,690)	(20,385)	(189,957)	(303,217)
Adjustments to Base	$10,761	($9,544)	($41)	($1,208)	$10,620	$1,314	$5,392	($5,954)	($540,000)	($22,227)	($27,843)	$211,708	($367,022)
FY 2012 Base	$318,864	$0	$29,842	$152,183	$47,374	$248,265	$117,299	$97,878	($630,000)	$223,905	$155,635	$12,443,585	$13,204,830
Program Decreases	0	0	0	0	0	(22,706)	(3,002)	0	0	(5,100)	(2,000)	0	(32,808)
Program Reinvestments	0	0	0	0	0	1,700	0	0	0	0	0	1,486	3,186
Program Increases	6,025	0	13	5,648	0	0		0	0	0	10,000	838,836	860,522
Changes to Offsetting Fees	0	0	0	0	0	0	0	0	0	0	2,000	0	2,000
FY 2012 President's Budget	$324,889	$0	$29,855	$157,831	$47,374	$227,259	$114,297	$97,878	($630,000)	$218,805	$165,635	$13,283,907	$14,037,730

Overview

Mission Statement

Maintain a strong economy and create economic and job opportunities by promoting the conditions that enable economic growth and stability at home and abroad, strengthen national security by combating threats and protecting the integrity of the financial system, and manage the U.S. Government's finances and resources effectively.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2010 Enacted*	FY 2011 Annualized CR Level**	FY 2012 Request**	FY 2010 to FY 2012	
				$ Change**	% Change**
Executive Direction	$21,983	$33,465	$38,098	$16,115	73.3%
International Affairs and Economic Policy	$47,249	$70,037	$68,349	$21,100	44.7%
Domestic Finance and Tax Policy	$48,580	$71,738	$84,562	$35,982	74.1%
Terrorism and Financial Intelligence	$64,611	$96,386	$92,605	$27,994	43.3%
Treasury-wide Management and Programs	$22,679	$33,262	$41,275	$18,596	82.0%
Administration Programs	$99,786	$0	$0	($99,786)	(100%)
Total Appropriated Resources	**$304,888**	**$304,888**	**$324,889**	**$20,001**	**6.6%**
Total FTE	**1,266**	**1,266**	**1,341**	**75**	**5.9%**

*This does not include funding provided by Public Law 111-212 nor transfers.

**FY 2011/2012, numbers and percentage changes reflect the reallocation of the Administration Programs dollars to their respective budget activities, resulting in across-the-board increases to other budget activities.

FY 2012 Priorities

In developing the FY 2011 budget and performance plan, the Department of the Treasury identified high priority performance goals that continue to be the focus in FY 2011 and FY 2012.

Goal 1: Repair and reform the financial system

Measures and milestones:

- Implement strong, comprehensive regulatory reform to restore stability and accountability to the financial system.

Goal 2: Increase voluntary tax compliance

Measures and milestones:

- Make progress against the Tax Gap through improved service and enhanced enforcement of the tax laws
- Assist Americans in voluntarily meeting their tax obligations

Goal 3: Significantly increase the number of paperless transactions with the public

Measures and milestones:

- Increase electronic payment, collections, and savings bonds transactions by 33 percent by the end of FY 2011.
- Increase individual E-file rate to 80 percent.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

Departmental Offices (DO), as the headquarters bureau for the Department of the Treasury, provides leadership in economic and financial policy, terrorism and financial intelligence, financial crimes, and general management. The Secretary of the Treasury has the primary role of formulating and managing the domestic and international tax and financial policies of the federal government. Through effective management, policies, and leadership, the Treasury Department enables the use of financial tools in the war on terror, promotes the stability of the nation's financial markets, and ensures the government's ability to collect revenue.

The FY 2012 budget request supports DO's leading role in accomplishing key objectives:

• ***Managing the Government's Finances*** – The Department of Treasury will improve the effectiveness, reliability, security, and transparency of the U.S. financial system. DO forecasts receipts and payments, determines borrowing needs, and executes the borrowing strategy to meet the financial needs of the federal government.

• ***Securing America's Economic and Financial Future*** – The Departmental Offices will continue to develop and implement policies that promote economic growth as well strengthen global financial stability in order to maintain America's economic strength and prosperity. These policies foster innovation, enabling a growth in productivity that will raise America's standard of living.

• ***Strengthening National Security*** – The Departmental Offices leads the U.S. Government's effort to keep the world's financial systems accessible to legitimate users, while excluding those who wish to exploit the systems for illegal purposes. The Department is integral to countering terrorist organizations' financing networks. The Departmental Offices implements targeted financial measures in the form of sanctions with the goal of stopping the flow of money to terrorist organizations, drug traffickers, money launderers, weapons proliferators, rogue regimes, and their support networks that constitute a threat to the United States.

• ***Producing Effective Results*** – The Department is committed to creating the conditions that allow its programs and activities to perform efficiently and effectively, while continuing to drive results through performance and cost-based decision-making and through ownership of administrative costs.

1B – Program History and Future Outlook

Securing America's Economic and Financial Future and Managing the Government's Finances

Domestic Finance

The Office of Domestic Finance covers policy issues in the U.S. banking and financial systems, financial stability, federal government financing, fiscal affairs, and related economic and financial matters. The office was at the center of Treasury's response to the financial crisis, and led the effort for financial regulatory reform legislation. Key priorities for Domestic Finance include the implementation of that legislation, including the creation of the Federal Insurance Office, and the reform of the nation's housing finance system.

Office of Financial Institutions

Key areas of recent work and future priorities include:

Reforming the U.S. financial regulatory system. Treasury took the lead in developing and promoting sweeping financial regulatory reform legislation, culminating in the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010. Implementation of that legislation is now an important focus of the office, including the establishment of a Federal Insurance Office within the Office of Financial Institutions; a Financial Stability Oversight Council; and the independent Consumer Financial Protection Bureau.

Managing diverse financial institution regulatory issues. The Office of Financial Institutions has led Treasury efforts in a diverse range of other financial regulatory matters, including amending the Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac, supporting the Secretary as a board member on the Pension Benefit Guaranty Corporation, and representing Treasury on the board of the Securities Investor Protection Corporation.

Supporting small business and community development, addressing the foreclosure crisis, and ensuring strong housing policies going forward. The Office of Small Business, Community Development, and Affordable Housing Policy was established in 2010. It focused on legislation that would encourage job creation by providing small businesses with access to credit through the Small Business Lending Fund and the State Small Business Credit Initiative and will play an important part in shaping housing finance policy. The office also coordinates Treasury's involvement in the design and implementation of community development initiatives. Recently, the office has helped lead Treasury's response to reports of errors in foreclosure processing and mortgage servicing, including Treasury's role on the interagency foreclosure task force.

Promoting financial education and access to financial services. The Office of Financial Education and Financial Access serves a key leadership role with respect to the President's Advisory Council on Financial Capability and the Financial Literacy and Education Commission. The office is helping prepare for the implementation of the Bank on USA Initiative, and in partnership with Domestic Finance's Fiscal Service and the Internal Revenue Service, is piloting a program to use the tax refund process to further Treasury's all electronic payment effort and provide financial access to the unbanked.

Office of Financial Markets

The Office of Financial Markets is responsible for a broad array of critical national policy functions related to financial markets. Key highlights of its work include:

Financing the federal debt. For FY 2010, the Office of Debt Management conducted 293 auctions, issuing over $8.3 trillion in marketable securities and raising nearly $1.5 trillion in new cash. New cash in FY 2010 was below the record of $1.8 trillion in FY 2009 but still substantially above the $760 billion in FY 2008. Treasury auctions in FY 2010 witnessed unprecedented demand, and Treasury extended the average maturity of the debt out to its historical average.

Reforming the U.S. housing finance system. In FY 2010, the Administration engaged in a policy process aimed at reform of the housing finance system and the Government Sponsored Enterprises. This process will continue into FY 2011, when the Administration plans to release its proposal for housing finance reform.

Promoting interagency coordination. The Office of Financial Markets plays a critical role in setting the agenda and managing processes around inter-agency projects on financial markets. Recently, the office has undertaken projects on the securitization market, repossession market, equity market structure, over-the-counter (OTC) derivatives, credit rating issues, and private advisers. With the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the office will continue to work closely with other agencies and organizations on regulatory, infrastructure, and market structure issues, while coordinating with the Financial Stability Oversight Council.

Modernizing Treasury's lending and investments. The Office of Policy and Legislative Review is working with the Bureau of the Public Debt and federal agency borrowers on new, comprehensive Treasury lending agreements with agency borrowers.

Office of Research and Quantitative Studies

The Office of Research and Quantitative Studies was created to enhance Treasury's capacity to provide high-quality, time-sensitive research and analysis to inform financial policy development and to produce significant long-term, policy-related research. In FY 2011, the office will focus on a range of financial research issues, including capital requirements for the financial system, public debt management, housing finance reform, and systemic risk.

Office of Fiscal Service

Key areas of recent work and future priorities for the Office of the Fiscal Assistant Secretary include:

All-Electronic Treasury. The Fiscal Service is making significant changes to increase the use of electronic transactions in Treasury operations. This initiative will save more than $500 million over five years. Treasury will make many more of its payments electronically, will discontinue payroll paper savings bonds, and will eliminate paper coupons as an option for some businesses to pay taxes.

Promoting financial stability and supporting housing finance. Throughout FY 2010 and early FY 2011, the Fiscal Service continued to enhance the infrastructure and operating capability needed to support investments under the Emergency Economic Stabilization Act. Financial agents were employed to conduct auctions for the sale of equity warrants, dispose of large equity investments, advise on initial public offerings and corporate restructurings, and to support other capital markets transactions to return investment funds to the Treasury. In addition, the Fiscal Service implemented a restructuring of the Housing Finance Agency (HFA) Initiative under the Housing and Economic Recovery Act, to ensure state and local HFAs could make use of over $14 billion in financing for new mortgages to first time homebuyers over the course of 2012.

Implementing programs under the American Recovery and Reinvestment Act (ARRA). The Fiscal Service has implemented two programs of cash payments in lieu of tax credits under ARRA. Treasury has made cash awards totaling nearly $5.7 billion to 55 state housing agencies for low-income housing, and nearly $6 billion to help fund over 5,300 renewable energy projects.

Consumer protection. In FY 2010, the Fiscal Service led an interagency work group to publish proposed regulations to solve the growing problem of garnishment of exempt federal benefits. The final rulemaking will be published with an effective date of May 1, 2011.

Office of Financial Innovations and Transformation. The Office of Financial Innovation and Transformation (OFIT) was developed and expanded to share, government-wide financial solutions to lower overall financial transaction processing costs, facilitate the resolution of audit issues, and increase transparency of financial information. In FY 2011, the first two OFIT products will be implemented. They include a portal for the electronic submission of vendor invoices and an automated way to settle intra-governmental transactions. OFIT has also identified a myriad of actions which could be implemented over the next five years with the potential to lower overall financial operational cost up to 20 percent.

Tax Policy

The Office of Tax Policy develops and implements tax policies and programs, reviews regulations and rulings to administer the Internal Revenue Code and the tariff laws, negotiates tax treaties, and provides economic and legal policy analysis for domestic and international tax policy decisions. Tax Policy also provides revenue estimates for the President's Budget.

The Office of Tax Policy continues to provide critical support in implementing the Administration's and Congressional economic recovery programs. Providing policy oversight and conducting a review of regulations regarding the American Recovery and Reinvestment Act was a major FY 2010 project for the Office. Also, during FY 2010, the Office devoted significant resources to support the Administration's successful efforts to enact the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. The Office anticipates substantial work in FY 2011 developing and reviewing regulations and administrative guidance regarding this legislation.

Economic Policy
The Office of Economic Policy monitors economic developments and trends in the United States and assists in the development of policies to stimulate economic growth and job creation. Analysis performed by Economic Policy staff enhances policymakers' understanding of key economic issues so that they are better able to formulate policies that will benefit the U.S. economy. In the past 18 months the office has concentrated significant resources on policy development and implementation related to financial stability, initiatives to create and maintain jobs, and health care.

Key areas of recent work and future priorities for the Office of Economic Policy include:

Participating in the design and implementation of housing policies. Economic Policy continues to participate in the implementation of the Making Home Affordable program, which helps at-risk, responsible homeowners stay in their homes by obtaining affordable loan modifications and refinancing. The Office will continue to remain active in the development of housing policies.

Assisting in the development, evaluation, and tracking of numerous government economic incentive programs, including: the development and evaluation of programs to assist small business financing; evaluating and tracking the American Recovery and Investment Act Build America Bonds; supporting the implementation of the Affordable Care Act through research and evaluation; the development and evaluation of initiatives to encourage and support job creation; and monitoring and analyzing critical trends and economic developments including the housing market and bank lending.

The Office has also provided expertise on policy development in the areas of climate change, energy and infrastructure. The Office produces the corporate bond yield curve as mandated by the Pension Protection Act of 2006. In addition, the office will continue to carry out its traditional responsibilities in the preparation of the Administration's budget and supporting the Secretary of the Treasury in his roles as Chairman and Managing Trustee of the Social Security and Medicare Boards of Trustees.

International Affairs
Treasury's Office of International Affairs protects and supports U.S. economic prosperity by strengthening the external environment for U.S. growth and exports, preventing and mitigating global financial instability, and managing key global financial challenges. To advance this mission, International Affairs has focused on the following five policy priorities.

Supporting the Global Recovery to Help Promote U.S. Growth.
Treasury has led global efforts to mitigate the impact of the global financial crisis and avert a more serious economic depression. Treasury secured strong multilateral support at the G-20 meetings and ensured a robust, coordinated policy response to reverse the global economic slide and take all necessary steps to restore public confidence, economic growth, and job creation for the U.S. economy. Treasury worked closely with the International Financial Institutions (IFIs) and other U.S. agencies via Treasury's technical assistance program, to rapidly respond to the global crisis, encouraging the IFIs to respond quickly with assistance and ensuring that they have adequate resources to do so. Treasury also led efforts to strengthen international financial

regulation through the Financial Stability Board to ensure high-quality standards around the globe.

Deepening U.S. Engagement with Key Emerging Markets and Priority Countries. Treasury led efforts to encourage emerging market economies to pursue more balanced and sustainable growth patterns, open markets for U.S. exports, and create new job and economic opportunities for American workers. To this end, Treasury has expanded strategic dialogues with China, India, Russia, Afghanistan, Pakistan, and Iraq. Treasury has focused closely on currency adjustment and expanding export opportunities for American businesses to strengthen the U.S. economy, specifically working closely with China and other leading emerging markets. These engagements will continue in bilateral, regional, and multilateral channels.

Maintaining Attractiveness of the U.S. Investment and Trade Environment. Through a number of priority initiatives and responsibilities, Treasury promotes and reinforces open and transparent international trade and investment regimes at home and abroad. As Chair of the Interagency Committee on Foreign Investment in the United States (CFIUS), Treasury helps maintain an open investment environment by focusing CFIUS reviews of foreign investments solely and rigorously on protecting U.S. national security, consistent with statutory authority. Treasury also supports trade liberalization and budget discipline through its role in negotiating, implementing, and policing international agreements to reduce official export subsidies. Treasury has drastically reduced the subsidies that member governments of the Organization for Economic Co-operation and Development provide when financing national exports, saving U.S. taxpayers $800 million annually. Treasury actively fights to keep markets open by supporting efforts by the G-20 leaders to refrain from new protectionist measures during the global economic crisis.

Supporting Poverty Reduction, Fragile States and Global Public Goods. Treasury is actively engaged in managing key global challenges and development objectives, specifically supporting multilateral development efforts to help the world's poorest, combating climate change, and strengthening food security.

The Multilateral Development Banks have been "first responders" in the global response to the financial crisis. At the same time, these institutions are responding to increasing calls that they deliver public goods, such as intervention in fragile states and efforts to help developing countries mitigate or adapt to climate change.

Treasury, as part of the President's commitment to address global hunger and food insecurity, is working with the World Bank, interested donors, and potential recipient countries to establish a new multi-donor trust fund that would provide financial support for poor countries committed to addressing their internal food security needs. The fund, which will complement our increased bilateral spending on agricultural development and food security, will leverage the expertise and experience of the multilateral development banks as well as the financial resources of other donors to increase the impact of U.S. food security investments.

Additionally, Treasury technical assistance helps aid recipients build financial management capacity, which improves the likelihood that funding will be used effectively.

<u>Supporting Efforts to Confront Global Climate Change</u>. Treasury leads U.S. environment and energy finance efforts in the G-20, assists the U.S. negotiating team on finance issues at United Nations climate negotiations, and manages U.S. interests and obligations in multilateral financial mechanisms that support environmental goals, including the Climate Investment Funds at the World Bank and the Global Environmental Facility, as well as the Tropical Forest Conservation Act. The Department also works to develop efficient and effective environmental and energy policies at the national level.

Strengthening National Security

<u>Terrorism and Financial Intelligence</u>

The Treasury Department, through its Office of Terrorism and Financial Intelligence (TFI), leads the U.S. Government's effort to keep the world's financial systems free and open to legitimate users, while excluding those who use the financial systems for illegal purposes.

In FY 2010, in keeping with its efforts to strengthen national security and protect the world's financial system, the Office of Foreign Assets Control (OFAC) engaged in more than 100 outreach events in the financial, trade, insurance, and securities industries to raise awareness of U.S. sanctions and to ensure compliance with those sanctions by U.S. persons. As part of its enforcement activities, the office imposed 18 separate civil penalties totaling nearly $780 million for violations of the International Emergency Economic Powers and Trading with the Enemy Acts. These penalties fell across financial, international shipping, telecommunication, hospitality, chemical, maritime, aviation, manufacturing, electrical power, travel, insurance, construction, Internet, medical device, and general export industries. Several of these penalties involved joint investigations and settlements with other state, federal, and international regulatory and investigative authorities. A substantial percentage (in terms of dollar value) of these penalties were levied against two foreign financial institutions for egregious violations of these sanction programs.

OFAC continued its goal to stem the flow of resources to weapons of mass destruction (WMD) proliferators, terrorists, narcotics traffickers, persons contributing to regional violence in Africa and those who support these individuals and groups. In FY 2010, Treasury designated 38 entities and individuals under Executive Order 13382 -- an authority aimed at freezing the assets of weapons of mass destruction proliferators and their supporters. These included designations against front companies for the Islamic Republic of Iran Shipping Lines (IRISL), Iran's national shipping line, and three Iranian-owned financial institutions. Treasury also targeted six individuals pursuant to Executive Order 13413 targeting political or military leaders of foreign armed groups operating in African continent. Executive Order 13551 was issued to address the situation in North Korea, including an annex that resulted in the designation of one individual and three entities. Executive Order 13536 was issued to address the situation in Somalia. It included an annex that resulted in the designation of 11 individuals and one entity. Additionally, Treasury identified 43 entities were identified as Government of Iran pursuant to the Iran Transaction Regulations.

In FY 2010, Treasury designated 23 entities and individuals as Specially Designated Global Terrorists pursuant to Executive Order 13224. These actions included the designation of Anwar

Al-Aulaqi, a leader of Al-Qaida in the Arabian Peninsula (AQAP) who was responsible for focusing AQAP's attention on planning attacks on U.S. interests and two Gaza-based entities who provided direct support to Hezbollah.

Under its counter-narcotics sanctions programs, the office identified numerous individuals and their organizations as drug kingpins under the Foreign Narcotics Kingpin Designation Act. OFAC designated 98 individuals and 20 entities in Mexico under the Kingpin Act, including key leaders, operatives and fronts of Mexico’s Sinaloa, La Familia, Tijuana, and Gulf and Los Zetas drug cartels, as well as a drug trafficking network based out of Guatemala. Treasury also designated under the Kingpin Act three leaders of the PKK in Turkey as drug traffickers, as well as FARC (Revolutionary Armed Forces of Colombia) trafficking associates in Colombia, and a major trafficker and associated entities based out of Africa. Additionally, Treasury designated 42 individuals and 54 entities pursuant to Executive Order 12978 targeting drug trafficking centered in Colombia, including a Colombian money service business and a drug trafficking organization centered in Medellin, Colombia.

During FY 2010, financial and other institutions examined by supervisors demonstrated a high level of awareness of and compliance with OFAC sanctions programs. In support of this claim, OFAC notes that 9,643 items were blocked or rejected involving over $970 million in United States dollars.

Several European banking regulators cooperated with investigations by OFAC and other U.S. Government law enforcement offices to ensure that systemic U.S. sanctions evasion efforts by foreign financial institutions were addressed. The cooperation led to more than $750 million in civil penalties against foreign financial institutions for violations of U.S. sanctions, increased compliance with U.S. sanctions in several jurisdictions outside of the United States and resulted in ongoing monitoring by the institutions’ foreign regulators.

The Office of Terrorist Financing and Financial Crimes (TFFC) serves as the lead or co-chair on several international working groups within the Financial Action Task Force (FATF) and FATF-style regional bodies (FSRB). These working groups have produced valuable guidance and reports for identifying and addressing vulnerabilities in the international financial system. This international outreach effort promotes financial system standards and safeguards through bilateral relationships and multilateral organizations. In FY 2010, TFFC participated in or reviewed over 65 mutual evaluations or assessments of jurisdictions’ compliance with international anti-money laundering, terrorist financing, and counter-terrorist financing (AML/CFT) standards. In FY 2011, TFFC is planning to evaluate or review 40 or more mutual evaluations or assessments – FATF and FSRB evaluations and assessments are cyclical in nature, thus the fluctuation in the norm. Additionally, the office offered training and other technical assistance to counterparts abroad working to create effective anti-money laundering frameworks and financial regulation and oversight capable of combating terrorist finance. Further, the office promulgates policy related to money laundering and related financial crimes, including addressing emerging value transfer mechanisms and other challenges to financial transparency. Throughout the year and continuing this effort in the next fiscal year, the office will develop conduct-based sanctions and executive orders to target illicit actors and will work closely with the private sector, both individuals and financial institutions, to amplify these targeted measures.

Staff also worked with counterparts in foreign governments to extend U.S. sanctions efforts through corresponding sanctions in foreign jurisdictions. In FY 2011, TFFC plans to continue to work with foreign counterparts to influence the enactment of AML/CFT laws and craft strategies to jointly attack terrorist financing both globally and within specific regions.

The Office of Intelligence and Analysis (OIA) continues to enhance its efforts to provide timely, accurate, actionable, and policy-relevant intelligence analysis by reinforcing its core mission areas to keep pace with foreign national and transnational threats and challenges. To confront these and other security issues, OIA instituted the Global Finance Initiative (GFI), advancing financial intelligence as part of a comprehensive approach to these challenges. The GFI promotes international financial stability and protects the integrity of the financial system by enhancing intelligence community efforts to address four areas:

- the financial underpinnings of national security threats
- foreign leadership's and adversaries' plans, intentions, and financial vulnerabilities;
- the impact of targeted financial measures and other instruments of national power; and
- threats to the international financial system.

As the Treasury Department's national security role has grown, so has its potential as a target for foreign intelligence services and non-state actors such as terrorists and criminal groups – requiring OIA to step up its efforts to address this counterintelligence threat. In meeting its customers' needs, OIA supports the *National Intelligence Strategy* mission objectives, such as combating violent extremism, countering weapons of mass destruction proliferation, and integrating counterintelligence.

Producing Effective Results

Management and Administration

Departmental Offices continues to provide effective management tools necessary to execute its mission. Essential components required for achieving the Departmental Offices mission include human resources, emergency planning, information technology, financial services, disclosure services, and procurement.

Treasury Procurement exceeded its FY 2010 goals for competition, performance-based acquisitions, and socioeconomic categories of small, woman-owned, service disabled veteran-owned and disadvantaged businesses. The Administration issued July 29, 2009 guidance that required achieving acquisition-related savings in FY 2010 and 2011 (3.5 and 7 percent per year) and 10 percent reduction in high risk contracting obligations in FY 2010. Treasury exceeded both goals in FY 2010, documenting $237 million in savings versus the goal of $158 million, and achieving $129 million in high risk contracting reductions versus the goal of $48 million. Institutionalization of efficiency efforts, particularly strategic sourcing of commodities and services, is critical to Treasury's leveraging of cross-Departmental resources to ensure mission accomplishment in more restrictive budgetary environments. Treasury has committed to a multi-faceted approach to deep integration of the right processes and capabilities required for a comprehensive strategic sourcing program.

In April 2010, the Office of the Deputy Assistant Secretary for Privacy, Transparency, and Records released the Department's Open Government plan, in response to OMB guidance requiring each major agency to publish an Open Government Plan to include a Flagship Initiative. Each plan and Flagship Initiative is unique to the agency that developed it. Treasury's plan provides insight and steps on how the Department would participate, collaborate, and move toward transparency both internally and externally and communicate better with the American public. An Open Government webpage was also launched and the office is working with all Treasury bureaus to proactively post data sets that are of interest to the American public. Part of the Treasury Open Government plan included the Flagship initiative "Moving to a Paperless Treasury". Efforts toward a paperless Treasury include Treasury Library Digitization for historical and legislative documents and improving the public's experiences when interacting with Treasury to obtain publically available information. In partnership with the Office of the Chief Information Officer, the office launched a Treasury-wide Enterprise Content Management (ECM) project to begin electronic management of digitally created documents, routing, correspondence tracking, and Freedom of Information Act requests.

The Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR/CHCO) has functional responsibility for Human Capital Strategic Management, Diversity and Civil Rights, and Training and Development Department-wide. During FY 2010, DASHR/CHCO led a number of Treasury-wide strategic initiatives to implement the Administration's hiring reform agenda, including simplifying the vacancy announcement process, ensuring applicant notification of status at the four "touch points", improving veterans' hiring, and developing a closer partnership with Treasury's labor unions. The Department continued working strategies to improve the hiring of individuals with disabilities, and rolled out a Treasury-wide exit survey, based on the results of a pilot survey, to identify systemic causes of employee attrition. The Department also focused on leadership by developing a Treasury-wide Firstline Leadership Development course for supervisors in concert with the Office of Personnel Management, and assessing the succession risk of all key leadership positions Department-wide. Leadership, and improving leadership scores, was a major focus of the Department and its bureaus in FY 2010. The Department increased its best places to work ranking significantly in FY 2010, being the second most improved agency across the government. Planned improvements include further implementation of hiring reform, increasing hiring of veterans and veterans with disabilities, Treasury-wide program administration and cross-bureau action and resolution of low scoring workplace/worklife issues, ensuring effective recruitment, selection, hiring, , implementing a Department-wide 360° executive leadership feedback program to improve leadership skills across the Department, and support stand-up of the Bureau of Consumer Financial Protection and other offices included in the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The Treasury Office of the Chief Information Officer (OCIO) is at the forefront of the federal government in implementing cloud solutions. The Department's flagship site, Treasury.gov, recently relaunched on a commercial public-cloud platform, a first for a cabinet-level federal agency. Treasury's decision to move its flagship site to a public cloud infrastructure reflects the Administration's commitment to closing the IT gap between the public and private sectors by leveraging the power of technology. Use of cloud computing increases cost effectiveness, improves efficiency, and provides greater flexibility, as the private industry sector has proven.

The new Treasury.gov website is a major step forward in the Department's efforts to improve the way citizens access the wealth of data and information Treasury produces on a day-to-day basis.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Departmental Offices - S & E	FTE	Amount
FY 2010 Enacted Budget	**1,266**	**$304,888**
FY 2011 Continuing Resolution	**1,266**	**$304,888**
Changes to Base		
Adjustment to Reach Policy Level		
Adjustment to Reach FY 2011 President's Policy	76	$39,707
Subtotal, Adjustment to Reach Policy Level	**76**	**$39,707**
Maintaining Current Levels (MCLs)		
Non-Pay, Pay & Benefits and Pay Annualizations	0	$3,215
Subtotal, Maintaining Current Levels (MCLs)	**0**	**$3,215**
Transfers Out		
Procurement Transfer to IRS	(9)	$0
Subtotal, Transfers Out	**(9)**	**$0**
Efficiencies, Savings & Base Reductions		
Streamlining Management	(23)	($6,400)
Administrative Efficiency Savings	0	($2,635)
Non-recur of Alpha Computers	0	($2,750)
Non-recur of Domestic Finance Contracts	0	($1,596)
Federalizing the IT Workforce	20	($1,000)
Multilateral Meeting Support Savings	0	($1,974)
Summit Support Representation Funds	0	($200)
Non-Recur of ODM Information Technology	0	($1,550)
Non-recur of Program Evaluation	0	($5,292)
Terrorism and Financial Institutions (TFI) Office Efficiency Savings	0	($4,349)
TFIN Savings	0	($1,200)
Subtotal, Efficiencies, Savings & Base Reductions	**(3)**	**($28,946)**
Subtotal, Changes to Base	**64**	**$13,976**
Total, FY 2012 Base	**1,330**	**$318,864**
Program Changes		
Program Increases		
Dodd-Frank Implementation	11	$5,525
Domestic Finance (DF) Recovery Act	0	$500
Subtotal, Program Increases	**11**	**$6,025**
Subtotal, Program Changes	**11**	**$6,025**
Total, FY 2012 Request	**1,341**	**$324,889**

2A – Budget Increases and Decreases Description

Adjustment to Reach FY 2011 President's Policy Level .... +$39,707,000 / +76 FTE
Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

Maintaining Current Levels (MCLs) .... +$3,215,000 / +0 FTE
Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Transfers Out .... +$0 / -9 FTE
Procurement Transfer to IRS +$0 / -9 FTE
Transfer the functions of the Departmental Offices Procurement Services Division to the Internal Revenue Service.

Efficiencies, Savings & Base Reductions .... -$28,946,000 / -3 FTE

Streamlining Management -$6,400,000 / -23 FTE
Savings will be achieved through a number of management initiatives, including the non-recur of FY 2011 one-time initiative support costs, consolidation of IT contractor services, reduction of overtime, and other services.

Administrative Efficiency Savings -$2,635,000 / +0 FTE
Savings will be achieved through a more efficient use of administrative activities and through non-recur of one-time costs.

Non-recur of Alpha Computers -$2,750,000 / +0 FTE
Non-recur of one-time FY 2011 funds to upgrade the Department's Alpha computers. Funds were requested in FY 2011 to upgrade these computers to replace old servers with 64 bit blade processors. These computers support several critical modeling systems, and FY 2011 funds should be sufficient to complete the upgrade.

Non-Recur of Domestic Finance Contracts -$1,596,000 / +0 FTE
Non-recur $1.596 million of a $3.5 million FY 2011 increase to support research activities to allow Domestic Finance to obtain high-quality, time-sensitive research, data, and analysis to inform policy development.

Federalizing the IT Workforce -$1,000,000 / +20 FTE
Net contract savings from converting IT contractors into federal employees while improving accountability, efficiency, and customer service within the department.

IA Multilateral Meeting Support Savings -$1,974,000 / +0 FTE
Non-recur of FY 2011 funds to host international meetings, including G-8 meetings, a G-20 Ministerial and an Asia-Pacific Economic Cooperation (APEC) meeting, plus numerous other related meetings and workshops leading up to these events. It is expected that the United States will not be the primary host in FY 2012 for APEC or the G-20 meetings, resulting in savings from the FY 2011 request for funding.

Summit Support Representation Funds -$200,000 / +0 FTE
Reduction in the increased FY 2011 financial support for attending annual economic summits with the G-7 and G-20 nations.

Non-Recur of Office of Debt Management (ODM) Information Technology -$1,550,000 / +0 FTE
Non-recur $1.550 million of program funds used to develop and modernize ODM's information technology system. The remaining $1.450 million in the base will cover operations and maintenance.

Non-recur of Program Evaluations -$5,292,000 / +0 FTE
Non-recur of FY 2011 requested in a government-wide competition to measure program effectiveness. Funding was one-time for specifically chosen studies.

Office of Terrorism and Financial Intelligence (TFI) Efficiency Savings -$4,349,000 / +0 FTE
TFI will realize savings through the prioritization of staff travel; elimination of overseas support for its Brussels liaison; targeted procurement spending to save on contracts, IT licenses, subscriptions, and supplies; and by eliminating funding for its now completed responsibilities under United Nations Security Council Resolution 1822 which required agencies to address discrepancies in the terrorist financing designation list.

Treasury Foreign Intelligence Network -$1,200,000 / +0 FTE
Remaining base funding will be used to support operations and maintenance expenses in FY 2012 and beyond.

Program Increases .... +$6,025,000 / +11 FTE

Dodd-Frank Wall Street Reform Act +$5,525,000 / +11 FTE
Departmental Offices (DO) requests funds in FY 2012 to support Dodd–Frank Wall Street Reform and Consumer Protection Act activities. Treasury has taken the lead within the Administration in developing and promoting sweeping financial regulatory reform legislation, culminating in the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. In FY 2011, Treasury's request focused on its immediate implementation needs under the Act. Since passage, the Department has been coordinating with other affected agencies to establish timelines for moving forward to set up new offices and begin work on the many studies, regulations, and other regulatory actions required by the Dodd-Frank Act. On all fronts, the Department is committed to move with speed, transparency, and commitment to ensure that the United States financial system remains the most competitive and fair financial system in the world. By FY 2012, the work of the new offices will be well underway, and many of the new regulations and required studies will have been written. Accordingly, the FY 2012 request is

focused on building the expertise necessary to fulfill Treasury's ongoing responsibilities under the Act and to monitor and develop policy in the areas where regulation was greatly expanded under the Act. Under the Dodd-Frank Act, the Department will create the Federal Insurance Office (FIO). The request includes FIO personnel and contract funding to provide Treasury leadership with the expertise needed to support the office in its industry oversight. In addition, the initiative includes resources for the build-out of IT systems and for data sources and market analysis regarding risks facing the insurance system. Resources are also requested to serve the expanded policy needs of Treasury's Office of Domestic Finance, in particular by expanding its capacity to analyze policy questions related to supervision of complex financial institutions, over the counter derivatives markets, capital standards, risk management, and accounting policy, and to coordinate Treasury responsibilities under the Dodd-Frank Act. This request also includes FTE dedicated to the Banking and Finance Office within the Office of General Counsel to provide paralegal support required by the expanded work of the Domestic Finance team. The Department is also requesting resources to establish the Office of Minority and Women Inclusion for Departmental Offices consistent Section 342 of the Dodd-Frank Act.

DF Recovery Act +$500,000 / +0 FTE

Resources are requested to support Domestic Finance's implementation of the American Recovery and Reinvestment Act (ARRA) Cash Payments for Specified Energy Property in Lieu of Tax Credits. Funding will be used to maintain staffing levels for the program and pay the contract costs between Treasury and the National Renewable Energy Research Lab for processing the applications. Payments under this program continue through 2017.

2.2 – Operating Levels Table

Dollars in Thousands

Departmental Offices - S & E	FY 2010 Enacted	FY 2011 Annualized CR Level	Proposed Reprogram-mings	FY 2011 Proposed Operating Level	FY 2012 Request
FTE	1,266	1,266	0	1,266	1,341
Object Classification:					
11.1 Full-Time Permanent Positions	$145,562	$145,562	$0	$145,562	$153,116
11.3 Other than Full-Time Permanent Positions	$2,781	$2,781	$0	$2,781	$3,104
11.5 Other Personnel Compensation	$197	$197	$0	$197	$757
11.8 Special Personal Services Payments	$0	$0	$0	$0	$1,162
Personnel Compensation (Total)	**$148,540**	**$148,540**	**$0**	**$148,540**	**$158,139**
12.0 Personnel Benefits	$28,861	$28,861	$0	$28,861	$39,939
13.0 Benefits to Former Personnel	$0	$0	$0	$0	$253
Pay	**$177,401**	**$177,401**	**$0**	**$177,401**	**$198,331**
21.0 Travel	$5,286	$5,286	$0	$5,286	$9,671
22.0 Transportation of Things	$0	$0	$0	$0	$308
23.1 Rental Payments to GSA	$5,427	$5,427	$0	$5,427	$4,161
23.2 Rent Payments to Others	$0	$0	$0	$0	$174
23.3 Communications, Utilities, & Misc	$14,889	$14,889	$0	$14,889	$8,466
24.0 Printing and Reproduction	$2,715	$2,715	$0	$2,715	$2,737
25.1 Advisory & Assistance Services	$47,213	$47,213	$0	$47,213	$37,531
25.2 Other Services	$19,229	$19,229	$0	$19,229	$19,891
25.3 Purchase of Goods/Serv. from Govt. Accts	$24,749	$24,749	$0	$24,749	$26,675
25.4 Operation & Maintenance of Facilities	$900	$900	$0	$900	$1,233
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	$1,000	$1,000	$0	$1,000	$2,915
25.8 Subsistence & Support of Persons	$0	$0	$0	$0	$0
26.0 Supplies and Materials	$3,498	$3,498	$0	$3,498	$10,492
31.0 Equipment	$2,581	$2,581	$0	$2,581	$2,303
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 & Indemnities	$0	$0	$0	$0	$0
43.0 Interest and Dividends	$0	$0	$0	$0	$0
44.0 Refunds	$0	$0	$0	$0	$0
Non-Pay	**$127,487**	**$127,487**	**$0**	**$127,487**	**$126,558**
Total Budget Authority	**$304,888**	**$304,888**	**$0**	**$304,888**	**$324,889**
Budget Activities:					
Executive Direction	$21,983	$33,465	$0	$33,465	$38,098
International Affairs and Economic Policy	$47,249	$70,037	$0	$70,037	$68,349
Domestic Finance and Tax Policy	$48,580	$71,738	$0	$71,738	$84,562
Terrorism and Financial Intelligence	$64,611	$96,386	$0	$96,386	$92,605
Treasury-wide Management and Programs	$22,679	$33,262	$0	$33,262	$41,275
Administration Programs	$99,786	$0	$0	$0	$0
Total Budget Authority	**$304,888**	**$304,888**	**$0**	**$304,888**	**$324,889**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted*		FY 2011 Annualized CR Level**		FY 2012 Request**		% Change FY 2010 to FY 2012**	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Appropriated Resources:										
Executive Direction	132	$24,709	132	$21,983	154	$33,465	164	$38,098	24.2%	73.3%
International Affairs and Economic Policy	243	$47,539	243	$47,249	287	$70,037	275	$68,349	13.2%	44.7%
Domestic Finance and Tax Policy	244	$44,373	244	$48,580	289	$71,738	315	$84,562	29.1%	74.1%
Terrorism and Financial Intelligence	346	$63,601	346	$64,611	407	$96,386	431	$92,605	24.6%	43.3%
Treasury-wide Management and Programs	109	$27,193	109	$22,679	129	$33,262	156	$41,275	43.1%	82%
Administration Programs	192	$93,590	192	$99,786	0	$0	0	$0	(100%)	(100%)
Subtotal New Appropriated Resources	**1,266**	**$301,005**	**1,266**	**$304,888**	**1,266**	**$304,888**	**1,341**	**$324,889**	**5.9%**	**6.6%**
Other Resources:										
Offsetting Collections - Reimbursable	150	$66,045	150	$66,045	137	$91,498	137	$91,498	(8.7%)	38.5%
Available multi-year/no-year funds										
Transfers In/Out										
Recoveries										
Subtotal Other Resources	**150**	**$66,045**	**150**	**$66,045**	**137**	**$91,498**	**137**	**$91,498**	**(8.7%)**	**38.5%**
Total Resources Available for Obligation	**1,416**	**$367,050**	**1,416**	**$370,933**	**1,403**	**$396,386**	**1,478**	**$416,387**	**4.4%**	**12.3%**

*This does not include funding provided by Public Law 111-212 nor transfers.

**FY 2011/2012, numbers and percentage changes reflect the reallocation of the Administration Programs dollars to their respective budget activities, resulting in across-the-board increases to other budget activities.

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENTAL OFFICES ***Federal Funds*** SALARIES AND EXPENSES (INCLUDING TRANSFERS OF FUNDS) *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, $324,889,000: Provided, That notwithstanding any other provision of law, of the amount appropriated under this heading, up to $1,000,000, may be contributed to the Global Forum on Transparency and Exchange of Information for Tax Purposes, a Part II Program of the Organization for Economic Cooperation and Development, to cover the cost assessed by that organization for Treasury's participation therein: Provided further, That of the amount appropriated under this heading, not to exceed $3,000,000, to remain available until September 30, 2013, is for information technology modernization*	

requirements; not to exceed $200,000 is for official reception and representation expenses; $200,000 is to support international representation commitments of the Secretary; and not to exceed $258,000 is 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, $6,787,000, to remain available until September 30, 2013, is for the Treasury-wide Financial Statement Audit and Internal Control Program, of which such amounts as may be necessary may be transferred to 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, $500,000, to remain available until September 30, 2013, is for secure space requirements: Provided further, That of the amount appropriated under this heading, up to $3,400,000, to remain available until September 30, 2014, is to develop and implement programs within the Office of Critical Infrastructure Protection and Compliance Policy, including entering into cooperative agreements : Provided further, That of the funds made available under this heading, $2,500,000 is for strengthening the Department's acquisition workforce capacity and capabilities: Provided further, That with respect to the previous proviso, such funds shall be available for training, recruitment, retention, and hiring members of the acquisition workforce as defined by the Office of Federal Procurement Policy Act, as amended (41 U.S.C. 401 et seq.): Provided further, That with respect to the seventh proviso, such funds shall be available for information technology in support of acquisition workforce effectiveness or for management solutions to improve acquisition management.	

2C – Legislative Proposals

There are no legislative proposals for the Departmental Offices

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to:
http://www.treasury.gov/about/budget-performance/strategic-plan

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	% Change FY 2010 to FY 2012
Effectively Managed U.S. Government Finances	$68,082	$81,410	$90,037	32.2%
U.S. and World Economies Perform at Full Economic Potential	$115,100	$126,586	$131,021	13.8%
Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems	$119,688	$109,934	$106,811	(10.8%)
Management and Organizational Excellence	$68,063	$78,456	$88,518	30.1%
Total	**$370,933**	**$396,386**	**$416,387**	**12.3%**

3A - Executive Direction *($38,098,000 from direct appropriations, and $3,134,000 from reimbursable programs):* The Executive Direction program area provides direction and policy formulation to the Department and Departmental Offices and interacts with Congress and the public on Departmental policy matters. These offices include: Secretary/Deputy Secretary, Chief of Staff, Executive Secretariat, General Counsel, Legislative Affairs, Public Affairs, and the Treasurer of the United States.

3.2.1 Executive Direction Budget and Performance Plan

Dollars in Thousands

Executive Direction Budget Activity					
Resource Level	FY2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level*	FY 2012 Request*
Appropriated Resources	$20,273	$21,170	$21,983	$33,465	$38,098
Reimbursable Resources	$599	$1,188	$1,656	$3,049	$3,134
Total Resources	**$20,872**	**$22,358**	**$23,639**	**$36,514**	**$41,232**
Budget Activity Total	**$20,872**	**$22,358**	**$23,639**	**$36,514**	**$41,232**

*FY 2011/2012, Appropriated and Reimbursable Resources reflect the reallocation of the Administration Programs dollars to their respective budget activities, resulting in across-the-board increases to other budget activities.

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.

3B – International Affairs and Economic Policy *($68,349,000 from direct appropriations, and $10,883,000 from reimbursable programs):* A major mission of these offices is to promote economic growth and security. The Offices pursue this mission by providing economic guidance and support to the Secretary in his role as the President's chief economic adviser. These offices play a key role in supporting the Secretary by providing technical analysis, economic forecasting, and policy guidance on issues ranging from changes in entitlement policy to responding to international financial crises. They provide economic intelligence and support by analyzing and reporting on current and prospective economic developments in the U.S. and world economies, assisting in the determination of appropriate economic policies, and evaluating policy ideas. The offices review and analyze domestic and international economic issues and developments in the financial markets.

<u>Office of International Affairs (IA)</u>
The Office of International Affairs' (IA) mission is to protect and support U.S. economic prosperity by strengthening the external environment for U.S. growth, preventing and mitigating global financial instability, and managing key global challenges.

IA leads the Treasury Department effort in the development of policies and guidance related to international monetary affairs, trade and investment policy, international development and debt strategy, and the United States participation in international financial institutions. IA also coordinates the United States economic policies with the finance ministers of other G-7 and G-20 nations and prepares the President for annual economic summits.

<u>Office of Economic Policy (EP)</u>
The Office of Economic Policy (EP) plays a key role in supporting the Secretary by providing technical analysis, economic forecasting, and policy guidance. The office provides economic intelligence through the analysis and reporting of current and prospective economic developments in the U.S. and world economies. EP also provides assistance in the evaluation and determination of the appropriate economic approach.

Economic Policy supports the Secretary of the Treasury in his roles as Chairman and Managing Trustee of the Social Security and Medicare Boards of Trustees. EP has proposed and implemented significant changes in the Trustees Reports, including perpetuity estimates of unfunded liabilities in the Social Security and Medicare reports. EP has developed a set of criteria and associated metrics to allow evaluations and analysis of options related to Social Security reform.

Economic Policy also produces the corporate bond yield curve that is mandated by the Pension Protection Act of 2006. This yield curve is used to calculate the present values of pension liabilities and lump sum distributions. EP has developed the methodology for this curve and supplies data every month to the Internal Revenue Service for distribution to the public.

3.2.2 International Affairs and Economic Policy Budget and Performance Plan

Dollars in Thousands

International Affairs and Economic Policy Budget Activity					
Resource Level	FY2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level*	FY 2012 Request*
Appropriated Resources	$41,852	$42,714	$47,249	$70,037	$68,349
Reimbursable Resources	$4,073	$5,277	$5,233	$10,503	$10,883
Total Resources	**$45,925**	**$47,991**	**$52,482**	**$80,540**	**$79,232**
Budget Activity Total	**$45,925**	**$47,991**	**$52,482**	**$80,540**	**$79,232**

*FY 2011/2012, Appropriated and Reimbursable Resources reflect the reallocation of the Administration Programs dollars to their respective budget activities, resulting in across-the-board increases to other budget activities.

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Number of New Trade and Investment Negotiations Underway or Completed (Oe)	14.0	15.0	13.0	6.0	6.0
Number of Specific New Trade Actions Involving Treasury Interagency Participation in Order to Enact, Implement, and Enforce U.S. Trade Law and International Agreements (Oe)	N/A	98.0	83.0	50.0	50.0
Percentage of Grant and Loan Proposals Containing Satisfactory Frameworks for Results Measurement (Oe)	94.0	94.0	92.5	90.0	90.0
Scope and Intensity of Engagement (Traction) (Oe)	3.6	3.7	3.5	3.6	3.6

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, M - Management/Cust. Satisfaction, and DISC - Discontinued, and B – Baseline

Description of Performance: Managing the economic crisis, instability in financial markets, trade flows, climate change, and aid for developing economies can only be accomplished in a global context. Rising protectionism and insularity associated with weakened international economies have in recent years heightened the challenges associated with managing international partnerships. Expanding and improving these partnerships is critical to pursuing U.S. global economic objectives, including expanded trade and investment opportunities, and increased job opportunities for all Americans.

Treasury's Office of International Affairs (IA) advises and assists in the formulation and execution of U.S. international economic and financial policy. In FY 2009 and FY 2010, the office exceeded its targets for all of its performance measures related to trade and investment.

To help ensure accountability in the lending of the multilateral development banks (MDBs), Treasury monitors the percentage of grant and loan proposals containing satisfactory results measurement frameworks. Over the past several years, most of the MDBs have made substantial progress towards developing frameworks to measure the results of their development assistance. For FY 2010, 92.5 percent of grant and loan proposals contained satisfactory results measurement frameworks, exceeding the Department's target of 90 percent. The Department will continue to encourage the development of robust, transparent performance measurement systems at the MDBs to ensure accountability for the resources they utilize.

The Department is currently engaged in a rigorous effort to re-develop metrics for its International Affairs programs that better reflect the mission and goals of the office.

3C – Domestic Finance and Tax Policy *($84,562,000 from direct appropriations, and $36,160,000 from reimbursable programs):* Offices within Domestic Finance and Tax Policy monitor and provide advice and assistance to the Secretary in the areas of tax policy, domestic finance, financial markets, and the regulation of financial institutions.

Office of Domestic Finance (DF)
The mission of the Office of Domestic Finance is to advise and assist the Secretary on the domestic financial system and fiscal operations, as well as governmental assets and liabilities. The office advises the Secretary on regulations and legislation for financial institutions and markets, to ensure a resilient and healthy financial sector. The Office of Domestic Finance includes the Office of Financial Markets, the Office of Fiscal Service, the Office of Financial Institutions, the Office of Financial Stability, and the Office of Research and Quantitative Studies.

Office of Tax Policy (TP)
The Office of Tax Policy supports the Secretary of the Treasury through the provision of technical analysis, economic forecasting, and policy guidance on issues relating to Federal tax policy. The office's analysis also supports the Department's management of Federal revenues, collection of tax revenues due the United States, and Federal debt management; all essential for ensuring the integrity of the American financial system.

The Office of Tax Policy has supported the Administration's health care initiatives through significant and timely analysis of taxation and employee benefits issues underlying many health and Medicare reform proposals. The Office is facing two significant, ongoing challenges: to improve its analytical capabilities by expanding its data systems and economic modeling capabilities and to provide policy oversight for the IRS efforts to maximize voluntary tax compliance.

3.2.3 Domestic Finance and Tax Policy Budget and Performance Plan

Dollars in Thousands

Domestic Finance and Tax Policy Budget Activity Resource Level	FY2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level*	FY 2012 Request*
Appropriated Resources	$29,134	$29,942	$48,580	$71,738	$84,562
Reimbursable Resources	$4,261	$4,204	$10,889	$37,029	$36,160
Total Resources	**$33,395**	**$34,146**	**$59,469**	**$108,767**	**$120,722**
Budget Activity Total	**$33,395**	**$34,146**	**$59,469**	**$108,767**	**$120,722**

*FY 2011/2012, Appropriated and Reimbursable Resources reflect the reallocation of the Administration Programs dollars to their respective budget activities, resulting in across-the-board increases to other budget activities.

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Variance between estimated and actual receipts (annual forecast)(%)(Oe)	4.6	5.5	5.8	5.0	5.0

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, M - Management/Cust. Satisfaction, and DISC - Discontinued, and B – Baseline

Description of Performance: As part of managing the government's central operating account and cash position, the Office of Fiscal Projections forecasts federal receipts, outlays, and debt transactions to ensure that funds are available on a daily basis to cover federal payments. To determine its overall effectiveness, the office measures the variance between actual and projected government receipts. The actual variance for FY 2010 was 5.8 percent, higher than the 5.0 percent target for FY 2010. FY 2010 proved very challenging to forecast due to the heavy influence of changes in tax law throughout 2009 that affected FY 2010 receipts, and due to lingering uncertainty concerning the pace of the economic recovery, including projections of GDP and employment. The targets for FY 2011 and FY 2012 remain at 5.0 percent.

3D - Terrorism and Financial Intelligence *($92,605,000 from direct appropriations, and $10,621,000 from reimbursable programs):* The Office of Terrorism and Financial Intelligence (TFI) oversees the Department's functions that strengthen national security with the twin aims of safeguarding financial systems against illicit use and combating rogue nations, terrorist facilitators, money launderers, drug kingpins, proliferators of weapons of mass destruction, and other national security threats.

The Office of Foreign Assets Control (OFAC)

The Office of Foreign Assets Control (OFAC) is dedicated to carrying out the complex mission of administering and enforcing economic and trade sanctions based on U.S. foreign policy and national security goals. OFAC administers approximately 30 economic sanctions programs against foreign countries, targeted regimes, and entities and individuals. Although these many programs differ in terms of their scope and application, they all involve the exercise of the President's constitutional and statutory wartime and national emergency powers to impose controls on transactions and trade and to freeze foreign assets that come within the jurisdiction of the United States.

Office of Intelligence and Analysis (OIA)
The Office of Intelligence and Analysis (OIA) is responsible for the receipt, analysis, and dissemination of foreign intelligence and foreign counterintelligence information related to the operation and responsibilities of the Department of the Treasury. Specifically, OIA (1) supports the formulation of Treasury policy and execution of Departmental authorities by providing expert intelligence analysis and production on financial and other support networks for terrorist groups, proliferators, and other key national security threats; (2) provides timely, accurate, and focused intelligence support on the full range of economic, political, and security issues; and (3) protects the personnel, programs, and information of the Treasury Department from information security and counterintelligence threats.

The Office of Terrorist Financing and Financial Crimes (TFFC)
The Office of Terrorist Financing and Financial Crimes (TFFC) is the policy and outreach apparatus for the Office of Terrorism and Financial Intelligence (TFI) on terrorist financing, money laundering, and other threats to the international financial system. It develops and implements strategies, policies, and initiatives to identify and address vulnerabilities in the U.S. and the international financial system and to disrupt and dismantle terrorist and weapons of mass destruction proliferation financial networks. TFFC collaborates with the other elements of TFI and other Treasury offices and works closely with the federal law enforcement community – in particular, IRS criminal investigators – as well as with the regulatory community, the private sector, and its counterparts abroad to identify and address terrorist financing and weapons of mass destruction proliferation threats.

More specifically, TFFC leads and coordinates the United States representation at international bodies dedicated to fighting terrorist financing and financial crime, such as the Financial Action Task Force (FATF), and increases our multilateral and bilateral efforts in this field. The office advances international standards, conducts assessments, and applies protective countermeasures against high-risk foreign jurisdictions and financial institutions. Bilaterally, TFFC works with foreign counterparts to craft strategies to jointly attack terrorist financing both globally and within specific regions.

3.2.4 Terrorism and Financial Intelligence Budget and Performance Plan

Dollars in Thousands

Terrorism and Financial Intelligence Budget Activity Resource Level	FY2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level*	FY 2012 Request*
Appropriated Resources	$51,904	$58,026	$64,611	$96,386	$92,605
Reimbursable Resources	$3,866	$4,684	$6,209	$10,373	$10,621
Total Resources	**$55,770**	**$62,710**	**$70,820**	**$106,759**	**$103,226**
Budget Activity Total	**$55,770**	**$62,710**	**$70,820**	**$106,759**	**$103,226**

*FY 2011/2012, Appropriated and Reimbursable Resources reflect the reallocation of the Administration Programs dollars to their respective budget activities, resulting in across-the-board increases to other budget activities.

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Impact of TFI programs and activities	N/A	7.8	8.1	7.4	7.6

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, M - Management/Cust. Satisfaction, and DISC - Discontinued, and B – Baseline

Description of Performance: In FY 2009, the Department discontinued using all of its performance measures that were previously reported. These measures are now used as indicators for the new composite measure that was developed. TFI introduced and began to apply a composite performance measure in FY 2009 to improve the assessment of its impact. There are separate components known as performance goals within the composite measure that align to each office within TFI -- each component is linked to its overall performance goals and the Department's strategic outcomes.

Two TFI offices, OFAC and TFFC, share a combined performance goal. OFAC's mission is to administer and enforce economic and trade sanctions based on U.S. foreign policy and national security goals and TFFC serves as the policy and outreach apparatus for TFI on terrorist financing, money laundering, financial crime, and sanctions issues. Performance for both of these offices is linked to the following performance goal by focusing on the impact of policy making, outreach and diplomacy, and the impact of economic sanctions: TFI effectively employed tools and authorities to further USG policy objectives and mitigate national security threats.

OIA, TFI's intelligence office, supports the formulation of policy and execution of Treasury authorities by producing expert intelligence analysis and driving collection on support networks of terrorists, weapons of mass destruction proliferators, and other key national security threats. OIA has two separate performance goals that focus upon the impact of information, intelligence, and analysis on senior leadership and the intelligence community. User data surveys are conducted with financial intelligence users routinely internally and externally to Treasury to gauge the impact and influence OIA has upon those which use their information. Performance for this office is linked to the following two performance goals: 1) Support the formulation of Treasury policy and the execution of departmental authorities through all-source analysis of the global financial network and 2) Provide Treasury Department decision makers with timely, accurate, and relevant intelligence support on the full range of economic, political, and security issues.

Each of these performance goals are a segment of the overall performance measure and determine the overall score for TFI as a whole. As mentioned earlier, this performance measure was baselined in FY 2009 with a value of 7.8, or medium impact, and achieved results of 8.1 in excess of its target of 7.4 for FY 2010. The targets have been set at 7.4 for FY 2011 and 7.6 for FY 2012. TFI and the Department will continue to refine how the measure is rated and scored.

3E - Treasury-wide Management and Programs *($41,275,000 from direct appropriations, and $30,700,000 from reimbursable programs):* The primary mission of Treasury-wide Management (TWM) is to provide effective and efficient management of the Department's resources. The vision is to be the office that Treasury turns to for excellent analysis of program effectiveness and stewardship of the taxpayer resources. TWM provides strategic planning and develops policy direction in the areas of: human resources, emergency management, privacy, records management, disclosure services, civil liberties, information technology security, procurement, and financial administration (such as the formulation and management of Treasury's budget). The Department develops integrated plans to align policy and operations in order to produce maximum value for the American people.

3.2.5 Treasury-wide Management and Programs Budget and Performance Plan

Dollars in Thousands

Treasury-wide Management and Programs Budget Activity					
Resource Level	FY2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level*	FY 2012 Request*
Appropriated Resources	$16,384	$20,157	$22,679	$33,262	$41,275
Reimbursable Resources	$4,295	$13,838	$18,653	$30,544	$30,700
Total Resources	**$20,679**	**$33,995**	**$41,332**	**$63,806**	**$71,975**
Budget Activity Total	**$20,679**	**$33,995**	**$41,332**	**$63,806**	**$71,975**

*FY 2011/2012, Appropriated and Reimbursable Resources reflect the reallocation of the Administration Programs dollars to their respective budget activities, resulting in across-the-board increases to other budget activities.

Description of Performance: In FY 2010, and continuing into FY 2011, Treasury-wide Management will be revising all of its prior year performance metrics to better reflect the performance of the office. In FY 2010, the office created a new vision, mission, and strategic goals. It will work over the next few months with each office in Treasury-wide Management, including Management and Budget, the Deputy CFO, OCIO, Procurement, Human Resources, Privacy, Transparency, and Records, and Departmental Operations to development meaningful and impactful performance measures. Some of the primary results of these efforts within the Office of the Procurement Executive (OPE) and the Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR/CHCO) are outlined below.

The Office of the Procurement Executive (OPE) promotes and measures Treasury's procurement operations through a broad suite of performance metrics designed to facilitate success in acquisition. FY 2011 Treasury Acquisition Goals include a seven percent acquisition savings, a 10 percent high risk contract reduction and 50 percent performance-based acquisitions (PBA). Socio-Economic Program Goals include ensuring 28.5 percent of bureau dollars go to small business, 5 percent of bureau dollars go to small disadvantaged businesses, five percent to women-owned businesses, 3 percent to HUBZone businesses, and three percent to service disabled veteran-owned small businesses. Customer Satisfaction goals including establishing, managing and reporting the percentage of transactions completed for procurement lead time. Acquisition Workforce Management Goals include a target of 70 percent of procurement staff with Federal Acquisition Certification in Contracting and exceeding the government-wide retention average for employees.

The Office of Management and Budget (OMB) issued in July 2009 a mandate that agencies achieve cumulative 3.5 percent acquisition-related savings in Fiscal Year 2010 and seven percent savings in 2011 as well as 10 percent reduction in high risk contracting obligations in FY 2010. The OPE established and facilitated Treasury's Acquisition Improvement Program to ensure compliance with OMB requirements. Treasury exceeded both goals in FY 2010, documenting $237 million in savings vs. the goal of $158 million, and $129 million in high risk contracting reduction versus the goal of $48 million. For FY 2011, the Department is actively working to achieve a savings goal of $316 million, while maintaining a 10 percent high risk contracting reduction goal compared with FY 2010.

With base resources for FY 2011 and FY 2012, OPE will have the ability to continue oversight and facilitation of Treasury's savings and high risk reduction achievements. While the OMB mandates end in FY 2011, Treasury will aggressively continue the initiatives through FY 2012 and beyond. OPE has initiated action to lead Treasury efforts toward sustainable, structural efficiencies within the acquisition environment and is committed to continuance of the effort.

Treasury fully supports the federal socio economic program and places great emphasis on achievement of corresponding statutory goals. The Senior Procurement Executive (SPE) is responsible for Treasury's compliance with assigned goals. Treasury's Office of Small and Disadvantaged Business Utilization (OSDBU), separate from OPE, provides advice and assistance in support of program utilization and conducts extensive outreach services to facilitate identification and utilization of businesses qualifying for the various socio economic preferences. The OPE reports goal achievement based on funding activity to be commensurate with the OSDBU reporting methodology. Both the SPE and the OSDBU are making a concerted effort to facilitate full goal achievement in FY 2011.

The Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR/CHCO) has functional responsibility for Human Capital Strategic Management (HCSM), Diversity and Civil Rights, and Training and Development Department-wide. Current performance efforts include continued hiring reform initiatives; veteran's employment; making Treasury a great place to work; achieving greater accountability through assessment; integrating and automating many human capital responsibilities such as individual and organizational performance management, succession planning, compensation management, with workforce planning; and establishing labor-management forums, and supporting Treasury in standing up the Consumer Financial Protection Bureau.

Both strategic and tactical efforts supporting hiring reform will continue in FY 2012 as a result of the need to modify or establish new processes, technology, and messaging to ensure alignment with anticipated changes relating to hiring reform. Hiring reform improvements will be monitored by OPM & OMB through OPM-led reviews, results from Manager Satisfaction Survey and Applicant Survey, and DASHR/CHCO sponsored human resource program reviews.

OPM and OMB will give Treasury, as well as other Federal agencies, a specific numeric goal to increase their Veteran new hires in FY 2011, and most likely issue a similar numeric goal for FY 2012. Measures of performance include the number of new hires of Veterans; turnover rate; results from Treasury's exit survey, and new hire survey.

Federal Employment ViewPoint Survey: HCSM annually disseminates survey results to the bureaus and provides technical guidance, including providing training for bureau representatives and/or identifying additional resources to assist bureaus with addressing low scoring areas. Measures of performance include Employee Viewpoint Survey Results and the Partnership for Public Service Best Places to Work ranking.

Labor-Management Forums – HCSM is facilitating Department success of Executive Order 13522-Creating Labor Management Forums to Improve Delivery of Government Service by providing bureau management and labor representatives with training, technical guidance, and ongoing monitoring to ensure labor-management forums are active and meeting the "spirit" of the Executive Order.

3F - Administration Programs *(Direct appropriations and reimbursable program funding have been allocated to operational budget activities):* Administration Programs provides operational support and shared services to all offices within DO, including activities such as accounting, budgeting, human resource management, information technology services, procurement services, facilities support, and travel services. Approximately one-third of this budget activity is dedicated 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, human resources support, and financial system support. The final third consists of employee salaries, routine building maintenance, and custodial services.

3.2.6 Administration Programs Budget and Performance Plan

Dollars in Thousands

Administration Programs Budget Activity					
Resource Level	FY2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level*	FY 2012 Request*
Appropriated Resources	$82,630	$93,421	$99,786	$0	$0
Reimbursable Resources	$3,837	$22,793	$23,405	$0	$0
Total Resources	**$86,467**	**$116,214**	**$123,191**	**$0**	**$0**
Budget Activity Total	**$86,467**	**$116,214**	**$123,191**	**$0**	**$0**

*FY 2011/2012, Appropriated and Reimbursable Resources were reallocated to their respective budget activities, resulting in across-the-board increases to other budget activities.

For FY 2011, Treasury made the decision to allocate administrative expenses for Departmental Offices by operational budget activity, instead of maintaining a separate budget activity just for administrative expenses. The change will result in a level increase in the funding allocated to each budget activity, with this higher level sustained through future years. The administrative expenses have been allocated across operational budget activities of the Departmental Office budget utilizing various cost-allocation methodologies based upon the type of service which is being allocated.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The Departmental Offices (DO), Office of Human Resources (OHR) supports the accomplishment of DO's strategic goals through the delivery of Human Resource support to Treasury Headquarters' offices through critical technical and consultative services and policy development. Additionally, OHR oversees the delivery of transactional hiring and payroll services through a contract with the Bureau of Public Debt's Administrative Resource Center (BPD-ARC). This office provides sound advice and guidance to managers related to EEO, employment, retention, recognition, employee and labor relations, benefits, performance management and development.

Fiscal Year 2010 Accomplishments

Hiring Reform

- In January, 2010 the Deputy Assistant Secretary and Chief Human Capital Officer created a new office (Human Capital Services) comprised of the Offices of Equal Employment Opportunity, Human Resources, and Training to ensure collaboration, coordination and maximum utilization of recruitment and hiring resources. The goal of this office is to create a professional pipeline of qualified, diverse candidates for the consideration of DO Policy and Assistant Secretary for Management offices.
- The Office of Human Capital Services has worked with BPD/ARC (under contract with OHR for hiring transactions) to ensure that time lines and processes are aligned with the eighty day (80) day hiring model; that there is a transition to category rating of all applications; and that KSAs and Essays are no longer required.
- Outreach sessions with Departmental Offices managers have been held on Hiring Reform and the role of the hiring official in ensuring successful recruitment/hiring of qualified candidates. These sessions provide in-depth discussion on the importance of crediting plans and clear, concise articulation of critical technical qualifications.

Veterans' Employment

- Provided direct assistance to the Office of Domestic Finance's hiring initiative and enabled a broad recruitment for critical financial analysts, financial economists, and economic research skills. Additionally, ensured that print recruitment ads were placed in professional journals and newspapers with circulation in highly diverse geographic areas and among professional organizations with diverse professional affiliations. There was an intensive outreach conducted, including providing the Department's Veterans' Office Manager with listings of core skills needed.
- Created a "manager's desk guide" that includes a listing of tools that can be used by managers to bring on qualified Veterans into the Departmental Offices workplace.

Employee Engagement

- Designed a new employee orientation including actions to review materials, presenters and information that is provided. This design will be complemented with instructions to managers concerning the importance of job orientation, tying the Treasury mission to the unique job duties and assignments, and assistance in adapting to the Treasury culture.
- Refocused the traditional retirement seminar to better reflect today's workforce profile. The Human Capital Services office now offers four seminars each year: two that focus upon retirement counseling; one that provides benefits counseling and in-depth discussion of the Thrift Savings Plan and FERS to those who are new to government service; and one that provides mid-career counseling so employees can assess decisions made and project retirement savings and decisions made years earlier.
- Implemented a series of outreach sessions for managers and supervisors that provide basic skills and knowledge on: Merit Principles, Employee and Labor Relations, Performance Management, Employee Development, the EEO process, Alternative Dispute Resolution and Reasonable Accommodation. This series will be expanded to provide advanced information and encourage problem solving discussions for each session.

Women and Girls

- The Associate CHCO and the DO/OHR were strategic business partners in Treasury leadership's strategic discussions on Domestic Finance's critical hiring initiative. Members of the OHR staff remain engaged in all aspects of position management and hiring discussions. One area of focus was the need to increase gender representation in hiring economists, financial analysts, and other finance related job series.
- Reinstated meetings with Policy Office liaisons to ensure that OHR, EEO and Training aligned their goals and objectives to meet mission critical initiatives.
- Initiated "workforce trends" discussions with the Assistant Secretary for Management (ASM) and many of the policy offices. These trends analyses included disaggregation of current workforce by gender, race and national origin (RNO); grade; skill concentration and retirement eligibility (providing a sense of future opportunities for hiring).

Labor Management Forums

- OHR is currently working with local bargaining unit representatives to finalize forum ground rules to begin meetings with the first priority to develop meaningful metrics for performance.
- OHR Business Partners (to the policy offices) provided focused attention on Human Resource functions from Labor/Employee Relations to position management and consultation on employee development.
- Ensured that the local bargaining unit representatives had a "seat at the table" for discussions on hiring initiatives, re-organization and other issues.

Hiring of Individuals with Disabilities

- Appointed Special Emphasis Program managers to assist the EEO staff with the outreach of Women, Persons with Disability, Hispanic, Veterans, Black, American Indian/Alaska Native, and Asian/Pacific Islander employees.

- Focused two manager outreach sessions on the hiring of qualified individuals with Disabilities and Reasonable Accommodation; EEO has partnered with HCO to ensure that qualified candidates are referred to hiring officials.
- Funded, managed and proactively marketed intern programs that draw participants from the Hispanic Association of Colleges and Universities, Universities National Internship Program, Gallaudet University and the Washington Center Internships for Native American Students.

Wellness:

- Initiated new seminars that promote heath and well being, provided information on eye protection; vitamins; and life style choices. Ensured broad communication on OPM's efforts and programs on health and wellness. Additionally, OHR sponsored a Health Benefits Fair for DO employees.
- Worked with HR Connect Project staff in the automation of on-boarding processes for new employees. This tool provides new hires with links to information on Treasury; federal service; and benefit choices.

Fiscal year 2012 Challenges

A. **An overriding challenge is the ability to recruit and retain core, scarce skill sets for mission critical positions (economists, intelligence community staff, information technology professionals).** OHR will focus upon building relationships and a presence with local universities and to make Treasury the "employer of choice" for graduates. Additionally, HCS will develop a manual that contains a listing of professional organizations with large and diverse memberships to encourage attendance at career fairs, and HCS will conduct targeted recruitment campaigns in order to build the foundation that establishes a pipeline of diverse professionals.

B. **The ongoing loss of institutional knowledge and key leadership through retirement – the challenge is OHR's ability to address and support the closing of competency gaps.** Succession planning activities and identification of key leadership positions and skill/competency gaps will be completed in FY 2011. Subsequent steps will be to ensure that staff who are designated as key leaders receive the training and developmental support to be successful.

C. **Agility in supporting the Regulatory Reform Implementation.** HCS support to staff implementing the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act will continue throughout the next few fiscal year cycles. The challenge is to realign resources within the office to support the stand up of those offices that will reside within the Departmental Office structure as well as support the ASM entities with Department-wide portfolios that provide direct assistance to the Consumer Financial Protection Bureau. HCS will address this challenge by cross training, ensuring enhanced (and expedited) technical training of staff, and leverage/enhance the use of automated tools.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Major IT Investments / Funding Source	Budget Activity	FY 2009 Enacted	FY 2010 Enacted	% Change from FY 2009 to FY 2010	FY 2011 Annualized CR Level /2	% Change from FY 2010 to FY 2011	FY 2012 Request	% Change from FY 2010 to FY 2012
Treasury Foreign Intelligence Network (TFIN) /1								
Departmental Offices Salaries and Expenses	Terrorism and Financial Intelligence	$3,060	$4,337	41.7%	$4,337	0.0%	$3,272	-24.6%
Department-wide Systems Capital Investments Program (DSCIP)		$0	$2,000	0.0%	$2,000	0.0%	$0	-100.0%
Alpha Computers Modeling Systems		$0	$0	0.0%	$0		$0	0.0%
Enterprise Content Management								
Department-wide Systems Capital Investments Program (DSCIP)		$6,000	$0	-100.0%	$0	0.0%	$0	0.0%
Federal Financial Transformation Program								
Department-wide Systems Capital Investments Program (DSCIP)		$0	$0	0.0%	$0	0.0%	$0	0.0%
Subtotal, Major IT Investments		**$9,060**	**$6,337**	**-30.1%**	**$6,337**	**0%**	**$3,272**	**-48.4%**
Non-Major IT Investments		**$9,018**	**$7,514**	**-16.7%**	**$7,514**	**0.0%**	**$9,510**	**26.6%**
Infrastructure Investments		**$0**	**$0**	**0.0%**	**$0**	**0.0%**	**$0**	**0.0%**
Enterprise Architecture		**$1,000**	**$0**	**-100.0%**	**$0**	**0.0%**	**$70**	**0.0%**
Enterprise Identity and Access Management		**0**	**0**	**0.0%**	**0**	**0.0%**	**$0**	**0.0%**
Total IT Investments		**$19,078**	**$13,851**	**-27.4%**	**$13,851**	**0.0%**	**$12,852**	**-7.2%**

1/ TFIN Includes funding of $3,000 plus $60 (MCLs) in FY2009; funding of $4,200 plus and $137 (MCLs) in FY2010/FY2011 CR;
FY2012 reflects ($1,200) savings and $75 (MCLs) from request of $4,397

2/ FY 2011 IT Resources previously reported by DO in the FY 2011 PB have been adjusted (under the FY 2011 Annualized CR) to FY 2010 levels

4B – Information Technology Strategy

Information technology (IT) is an essential facilitator of Treasury's business functions. Whether managing the nation's debt, collecting revenue, executing our nation's financial transactions, establishing economic policy, regulating our nation's banks, manufacturing coin and currency, or working with the intelligence community to combat financial crime, Treasury continuously leverages information technology. While that pervasiveness is indicative of the value information technology provides in support of the Department's mission, it is also representative of the underlying scope, scale and complexity within which those platforms operate today. With an annual IT budget of well over $3 billion dollars, the Department's IT Strategy is focused on enabling much greater innovation in support of the Department's expanding financial and economic missions while also increasing the operational efficiency and effectiveness of the IT assets.

Background

Treasury's primary focus is on ensuring our nation's overall economic stability and future prosperity. As the economic events of the past 18 months have shown, Treasury must adopt new tools to address emerging economic issues and opportunities. In light of the dynamic environment within which Treasury operates, Treasury's IT Strategy is focused on the following six goals:

1. Enable an Information Centric Organization

   Whether for the purposes of establishing policy, processing financial transactions or identifying nefarious financial activity, information is at the core of Treasury's mission. Cornerstones of Treasury's IT strategy are to develop greater competency and capabilities in the analysis and usage of large scale data sets, and leverage Internet-based platforms like Data.Gov, Treasury.Gov and FinancialStability.Gov to ensure all of our public data feeds are readily accessible and in machine readable formats.

2. Pursue an IT organization that is agile and delivery focused

   Information Technology is only as good as the business capabilities it enables. To improve the ability to deliver timely and effective solutions, Treasury intends to better leverage the IT service capabilities across all bureaus and put into place technical capabilities to enable our workforce to be more collaborative and productive. Examples of this include Treasury's efforts to consolidate data centers as well as investments being made in collaborative portal platforms for the purposes of bringing together skills and talent from across the enterprise.

3. Control and protect Treasury information assets

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

4. Provide reliable and robust computing, information and communication services

   Treasury's operates one of the largest civilian wide area networks in the United States, and with a significant percentage of the workforce that is mobile, Treasury demands a ubiquitous, full featured and cost effective communications service. Treasury will continue to provide high performance, elastic, data agnostic services by building on our successes in migrating in FY 2010 to a common, more cost effective, MPLS based wide area network.

5. Demonstrate measurable excellence in IT Leadership

   The rapid pace of innovation in information technology demands a high degree of management rigor if IT investments are to be leveraged across an organization. Treasury is revamping IT governance processes to ensure that investments such as Data Center Consolidation, Enterprise Content Management, IRS Customer Account Data Engine II, and FinCEN's Bank Secrecy Act IT Modernization are demonstrably focused on facilitating mission performance. Treasury is actively using the Federal IT Dashboard to monitor and assess its key IT investments. Furthermore, Treasury senior management actively participates in the direction and oversight of key technical initiatives through a metrics-driven program management review process.

6. Make Treasury a place where IT professionals want to work

   The success of Treasury IT investments is dependent on the ability for Treasury to attract and retain IT talent. Fostering a culture of innovation is critical to ensuring Treasury is a place where IT people want to work. To that end, Treasury is actively assessing the utilization of more emergent technologies like Cloud Computing, Massively Parallel Databases, Open Source, and Web 2.0 platforms as new investments are being planned.

Measuring and Managing our Progress

No strategy is useful without a means for measuring progress against that strategy and for assessing the overall impact the strategy is achieving. Using a combination of vehicles including CIO monthly project assessments, Departmental “Stat” sessions, and the Federal IT Dashboard, Treasury is actively monitoring, assessing and managing its key IT investments. Some of the key metrics we are using to assess progress against our IT Strategy include:

- Customer satisfaction
- Adoption rate of collaborative technologies
- Quality
- Accuracy/Timeliness of information
- Percentage of IT spend allocated to Operations and Maintenance versus Development, Modernization, and Enhancement

Overview

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	FY 2010 to FY 2012 $ Change	FY 2010 to FY 2012 % Change
Department-wide Systems and Capital Investments Program	$9,544	$9,544	$0	($9,544)	(100.0%)
Total Appropriated Resources	**$9,544**	**$9,544**	**$0**	**($9,544)**	**(100.0%)**
Total FTE	**-**	**-**	**-**	**-**	**-**

FY 2012 Priorities

- To continue the program management and initial deployment of the Department-wide Enterprise Content Management (ECM) Program
- To implement the government-wide expansion of common solutions for processing financial transactions through the Financial Innovation and Transformation Program
- To correct life and safety issues and reduce building systems risks by upgrading a number of outdated systems, and to complete energy efficiency upgrades to the Treasury Annex Building

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

DSCIP funding 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.

Top Priorities for FY 2012

The Department is currently implementing a number of key investments further outlined below. These programs will allow Treasury to efficiently and effectively execute its role as the steward of U.S. economic and financial systems, and as an influential participant in the global economy. Current investments include:

Enterprise Content Management (ECM) – Treasury set in motion an initiative to reduce paper-based processes and transactions. The ECM program is an essential element of this initiative and makes it possible for Treasury to have a standardized approach to modernizing paper-based business processes. Prior years' funding will allow the program to continue to enhance mission effectiveness. Once fully implemented, ECM implementation savings will reduce total cost of ownership by promoting economies of scale and enable all Treasury bureaus to progress toward a paperless environment.

Financial Innovation and Transformation (FIT) – Treasury continues to support the Office of Financial Innovation and Transformation's development of government-wide solutions for processing financial transactions. Through the FIT program, Treasury is working to resolve the disparate financial methods used by government agencies by developing a standard electronic invoicing platform and intra-governmental transaction processing. FIT's work comes at a critical time as agencies are looking for a better solution and current procedures for conducting financial transactions are inefficient, fragmented, and expensive.

Treasury Annex Repair and Renovation – Treasury is fixing life safety issues, upgrading a number of outdated systems, and replacing inefficient, single paned windows, which will make the building more energy efficient.

1B – Program History and Future Outlook

In previous years, the Treasury Department has utilized DSCIP to fund enhancements of the Treasury Secure Data Network; meet Department wireless communications requirements; upgrade the capabilities of the Treasury Foreign Intelligence Network and the infrastructure for Treasury's Back-up Disaster Recovery Capacity; and to develop Treasury's automated Personnel System, HR Connect. Additionally, DSCIP funding has strengthened Treasury's Cyber Security program, allowing the Department to approve performance in meeting the requirements of the Federal Information Security Management Act (FISMA) and other government-wide security initiatives. Current modernization and capital investments include Enterprise Content Management, Financial Innovation and Transformation, and upgrading and repairing the Treasury Annex.

During FY 2010, Treasury transformed its ECM strategy from the initial large-scale approach to a lean-scaled approach that will produce faster, more cost-efficient results. The scope of the ECM effort now provides for a Basic Content Services (BCS) technology platform, foundational requirements (Records Management, Center of Excellence, and Training) and business functionality (to include Correspondence Tracking, Freedom of Information Act (FOIA)/ e-Discovery, Evidence Management, Collaboration, Case Management, and Paper Reduction) that will be scaled across Treasury organizations.

In FY 2010 the department used DSCIP funds to conduct an independent industry assessment that resulted in the transformation strategy and award of multiple contracts to develop and deploy the BCS platform, establish these foundational requirements and initial business functionalities. Continuing through FY2012, Treasury will use its remaining ECM funding to complete development and deployment of the remaining business capabilities. Bureau and office content management needs will be continually reviewed for provisioning on the technologically evolving ECM platform, and existing systems that continue to possess useful life will be analyzed for eventual migration and/or retirement.

Treasury will also use DSCIP funds, subject to 2011 appropriations, to implement new financial management solutions through the Financial Innovation and Transformation (FIT) Program. FIT will create a web-based common platform for transaction processing and financial report production. These systems will streamline financial reporting and eliminate the many layers of unnecessary complexity within current reporting systems. Current financial systems require agencies to build and maintain multiple systems. This new program will create options that will allow agencies to perform essential financial transaction processing, such as invoice processing, within a single source. These automated solutions would be web-based; require automated data and payments; have complete financial information; enable agencies and customers to append data; provide performance information; and, as appropriate, provide public access to information.

DSCIP funding has been used in the repair and renovation of Treasury's historic Annex. The Annex building was constructed from 1917 to 1919 and is a Treasury owned facility located the Lafayette Square National Register Historic District across from the Main Treasury building. The building is physically linked by a sub-grade pedestrian tunnel to the Main Treasury building, and together these buildings provide the work environment and infrastructure required to support the mission of the Department of the Treasury.

Previous funding supported various major building repairs and replacements, including emergency generator, fire alarm system, sprinkler system, & new electrical service, along with a reserve for potential emergency repairs. Funding has also supported a number of smaller projects needed to keep building systems functional. These include repairs to the building steam station to correct leaks, replacement of a hot water heater, repairs to failed air conditioning and air handling units, repair of a failed steam condensate return, and several repair efforts due to elevator failures.

The Department uses DSCIP funds to make investments necessary to facilitate achievement of Treasury's four strategic goals:

- Effectively manage U.S. government finances
- Ensure U.S. and world economies perform at full economic potential
- Prevent terrorism and promote the nation’s security through strengthened international financial systems
- Ensure management and organizational excellence

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Department-wide Systems and Capital Investments Program	FTE	Amount
FY 2010 Enacted	**-**	**$9,544**
FY 2011 Annualized CR Level	**-**	**$9,544**
Changes to Base:		
Adjustment to Reach Policy Level:	-	$12,456
Adjustment to Reach FY 2011 President's Policy	-	$12,456
Non-Recurring Costs:	-	($22,000)
Zero Base DSCIP	-	($22,000)
Subtotal FY 2012 Changes to Base	-	($9,544)
Total FY 2012 Base	**-**	**$0**
Total FY 2012 Request	**-**	**$0**

2A – Budget Increases and Decreases Description

Adjustment to Reach Policy Level .... +$12,456,000 / +0 FTE

Adjustment to Reach FY 2011 President's Policy +$12,456,000 / +0 FTE

Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

Non-Recurring Costs .... -$22,000,000 / +0 FTE

Zero Base DSCIP -$22,000,000 / +0 FTE

DSCIP appropriations are one-time funding and do not recur.

2.2 – Operating Levels Table

Dollars in Thousands

Department-wide Systems and Capital Investments Program	FY 2010 Enacted	FY 2011 Annualized CR Level	Proposed Reprogram mings	FY 2011 Proposed Operating Level	FY 2012 Request
FTE	-	-	-	-	-
Object Classification					
25.1 - Advisory and assistance services	$5,000	$5,000	$0	$5,000	$0
32 - Land and structures	$4,544	$4,544	$0	$4,544	$0
Total Budget Authority	**$9,544**	**$9,544**	**$0**	**$9,544**	**$0**
Budget Activities					
Department-wide Systems and Capital Investments Program	$9,544	$9,544	$0	$9,544	$0
Total Budget Authority	**$9,544**	**$9,544**	**$0**	**$9,544**	**$0**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2010 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Appropriated Resources:										
Investment Programs	0	$9,544	0	$9,544	0	$9,544	0	$0	0.00%	-100.00%
Subtotal New Appropriated Resources	0	$9,544	0	$9,544	0	$9,544	0	$0	0.00%	-100.00%
Other Resources:										
Subtotal Other Resources	0	$0	0	$0	0	$0	0	$0	0.00%	0.00%
Total Resources Available for Obligation	0	$9,544	0	$9,544	0	$9,544	0	$0	0.00%	-100.00%

2B – Appropriations Language and Explanation of Changes

No appropriation is requested for DSCIP in FY 2012.

2C – Legislative Proposals

DSCIP has no legislative proposals in FY 2012.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	% Change FY10 to FY12
Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks	2,000	2,000	-	-100.00%
A citizen-centered, results-oriented and strategically aligned organization	4,544	4,544	-	-100.00%
Safer and more transparent U.S. and international financial systems	3,000	3,000	-	-100.00%
Total	**$9,544**	**$9,544**	**$0**	**-100.00%**

3A - Department-wide Systems and Capital Investments Program *(No funding):* The purpose of DSCIP funds is to modernize business processes and increase efficiencies through capital investment. All of the DSCIP efforts provide tangible benefits in their specific areas to produce an improved overall IT and work environment for the Department of the Treasury. The following section describes what the Treasury Department expects to accomplish with the DSCIP funding and the specific benefits each program will provide at the completion of FY 2012.

Enterprise Content Management – ECM encourages critical information sharing in support of the counter-terrorism, law enforcement, financial stability, and regulatory responsibilities of the Treasury Department. ECM will support Treasury's IT goals by reducing the cost of infrastructure operations and increasing bureau productivity and collaboration. The enterprise-wide approach will provide the technology foundation and core capabilities to ensure that all Treasury ECM efforts map to consistent standards, are aligned with related government-wide initiatives, and leverage tools, technologies, licenses, standards, processes, lessons learned, and commonalities in requirements among Departmental components, thereby achieving economies of scale and efficiencies in information sharing. Positive results will be achieved in the following business areas that are aligned with the Treasury's and the Administration's priorities for IT investments:

Transparency – Through ECM Treasury will be able to process FOIA requests from taxpayers and businesses with a faster turnaround time. The majority of the processing time is currently dedicated to manual searches for both paper and scanned documents and to review and redaction processes that are manually and paper intensive. Instituting automated workflows and establishing records repositories that are compliant with federal regulations will streamline the processes for reviewers and attorneys and make the results more readily available to the public.

<u>Litigation Efficiencies through Paper Reduction</u> – Implementing a NARA/DOD 5015.2 compliant database will allow Treasury to store official records electronically, rather than just in paper form. The ECM Program will ensure compliance with regulations, eliminate the time spent filing and copying paper documents, and automate the workflow process. The paper intensity of the current workflow process not only involves human resources, but also requires storage space to warehouse multiple working copies and originals of cases.

<u>Collaboration in Sanctions Programs</u> – Applications for exceptions to sanctions (an instrument of national security and economic power) are currently handled via paper processes. This labor-intensive process delays sanction licensing and has the potential to adversely impact U.S. foreign policy. With a public-facing, customer-driven licensing application for specific programs, the sanctions process would become electronic, thus reducing licensing time, improving relationships with external stakeholders (e.g., the Commerce and State Departments), and fostering transparency, accountability, and effectiveness in sanctions processing.

<u>Intelligence Reform and Terrorism Prevention - Law Enforcement</u> – Implementation of ECM will provide the information infrastructure to comply with the Intelligence Reform and Terrorism Prevention Act, Section 1016(e) requirement by facilitating information sharing between Treasury, federal agencies, and foreign partners using industry and government standards.

<u>End-User Benefits</u> – End-user benefits include time savings and increases to productivity, allowing Treasury employees to focus on their core business activities. Information sharing will be improved, and accessibility to information will be expedited by providing online access to information that was formerly available only on paper, microfilm, or microfiche. ECM will achieve greater organizational accountability by: improved control over documents and document-oriented processes; security over document access and modification; reliable and accurate audit trails; reduction of paper handling, storage, lost documents, and error-prone manual processes.

Performance outcomes to be achieved include:

- Faster production of documents/responses to requesters
- Achieve “green” + operational efficiency goals through paperless environment
- Increase information sharing, utilization, and transparency with outside partners
- Enable electronic collaboration w/in Treasury
- Reduce total cost of ownership of document-centric IT

There are a number of benefits to the bureaus and government at large to be realized:

- Enhanced security for records and documents
- Improved regulatory compliance
- Improved data collection and quality
- Improved information sharing

- Quicker and more accurate management reporting
- Development of Treasury-wide standards for enterprise content management

Financial Innovation and Transformation Program – The FIT program is to be a catalyst in the transformation of Federal financial management by identifying, testing, and facilitating the development and deployment of innovative, common, and cost effective solutions that improve data quality and create efficiencies.

The FIT office has begun to improve Federal financial management in three areas:

1. By developing a centralized solution for capturing and processing electronic invoices for payment;
2. Through reducing intra-governmental differences using a centralized solution for processing and settling intra-governmental orders; and,
3. By increasing the transparency of payment information.

Positive results will be achieved in the following business areas that are aligned with the priorities of the Treasury and the Administration for IT investments:

<u>Improved Data Quality & Transparency</u> – FIT, in partnership with Treasury's Financial Management Service, will create a repository of payment information (the "data mart") that links agency payment data with Treasury disbursement data. This initiative comes at a critical moment when the demands placed on agencies for reliable data and greater transparency has never been greater. With disbursement information coming directly from Treasury's central accounting systems, the data repository will serve as the central authoritative source for payment information. A critical success factor for implementation is the creation of standard definitions for payment data in the Federal Government. FIT will work closely with Federal agencies to establish these standards as part of a broader initiative to standardize financial terms and definitions across the Federal government.

<u>Cost Savings</u> – The Federal government spends hundreds of millions of dollars annually by keying in information that it could receive electronically. Further, manual processes erode the quality of the information and cost more because they are prone to human error. FIT is spearheading this program to automate the process of receiving and processing vendor invoices for payment and the process of performing intra-governmental business between two Federal agencies. FIT is facilitating the planning, design, and implementation of an electronic invoicing solution based on solutions available within the Federal government today or deployed successfully in the private sector. In addition, FIT will assist in standing up an intra-governmental transaction processing solution that will automate a process that currently requires agencies to invest scarce resources in reconciling accounting differences that cumulatively total billions of dollars annually.

Performance will be measured by assessing the costs and performance of the government's current financial management. Expected results are:

- Reduced costs and elimination of duplicative efforts
- Streamlined processes between vendors and government agencies
- Improvements in agency and government-wide financial data

- Financial reports that support policy making and management decision making
- Transparency of information

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

Department-wide Systems and Capital Investments Program Budget Activity					
Resource Level	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Annualized CR Level**	**FY 2012 Request**
Appropriated Resources	$10,546	$26,975	$9,544	$9,544	$0
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$10,546**	**$26,975**	**$9,544**	**$9,544**	**$0**
Budget Activity Total	**$10,546**	**$26,975**	**$9,544**	**$9,544**	**$0**

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

Overview

Mission Statement

The mission of the Office of the Inspector General is 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 Budget Activity

Dollars in Thousands

Appropriation	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	FY 2010 to FY 2012 $ Change	% Change
Audit	$22,869	$22,869	$22,897	$28	0.1%
Investigations	$6,831	$6,831	$6,958	$127	1.9%
Total Appropriated Resources	**$29,700**	**$29,700**	**$29,855**	**$155**	**0.5%**
Total FTE	**172**	**172**	**172**	**-**	**-**

*Does not include the FY 2010 Supplemental (P.L. 111-212) $1.8 million rescission

FY 2012 Priorities

Ensure the effectiveness and integrity of Treasury programs:

- Complete 100 percent of mandated audits on time, including requirements related to financial statements, information security, and failed financial institutions;
- To the extent resources are available after addressing mandated work, focus on programs of high risk, to include those that address the American Recovery and Reinvestment Act of 2009 (Recovery Act), the safety and soundness of the Nation’s financial markets, terrorist financing and money laundering, and capital investments;
- Investigate allegations of fraud, waste, abuse, and employee misconduct; and
- Conduct proactive efforts to detect, deter, and investigate electronic crimes and threats to Treasury’s physical and cyber infrastructure.

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<u>Section 1 – Purpose</u>

1A – Description of Bureau Vision and Priorities

The Treasury Office of Inspector General (OIG) provides independent oversight of the Department of the Treasury and all of its bureaus except the Internal Revenue Service (IRS) and activities related to the Troubled Asset Relief Program (TARP). The OIG has two mission offices: the Office of Audit and the Office of Investigations.

The Fiscal Year (FY) 2012 President's Budget request for the Office of Inspector General (OIG) will be used for critical audit and investigative resources. The OIG will continue to address its traditional mandates related to audits of (1) the Department's financial statements, (2) the Department's implementation of the Federal Information Security Management Act (FISMA), and (3) failed national banks and thrift institutions regulated by Treasury. In addition to these traditional mandates, the OIG is also responsible for mandates related to the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Small Business Jobs Act of 2010, as discussed below.

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires the Inspector General to (1) function as the Chair of the Council of Inspectors General on Financial Oversight which includes periodic reporting on the Council's audits and investigations along with views on regulatory matters, (2) monitor the transfer of functions of the Office of Thrift Supervision with periodic reporting to the Congress, and (3) perform reviews of systemically significant failed financial institutions that had been regulated by Treasury. The Small Business Jobs Act of 2010 charges the OIG with overseeing the Small Business Lending Fund and the $1.5 billion State Small Business Credit Initiative.

Furthermore, the July 2010 U.S. agreement with the European Union on the processing and transfer of financial messaging data for the purposes of the Department's Terrorist Finance Tracking Program specifically provides for the OIG's oversight to ensure safeguards over sensitive information are followed.

With the resources available after mandated requirements are met, the OIG will conduct audits of the Department's highest risk programs and operations. Four such programs or operations are discussed below. It should be noted that this list is not comprehensive and that risks change over time and circumstance.

<u>*Programs to Ensure the Safety and Soundness of the Nation's Financial Markets*</u> – The wave of bank failures beginning in calendar year 2007 underscores the need for ongoing and proactive audit coverage. While mandated reviews of failed banks are a retrospective look at the quality of bank supervision, and are useful to identify and correct weaknesses in the supervisory process, OIG must also determine the effectiveness of regulators in addressing emerging financial risks prospectively and in real time.

<u>*Programs to Promote Economic Recovery*</u> - The Recovery Act provided Treasury with over $20 billion in non-IRS funding for low-income housing projects and specified energy properties for which the OIG must provide oversight. Additionally, the Community Development Financial

Institutions (CDFI) Fund received $100 million to supplement funding for qualified program applicants and an additional $3 billion in authority for the New Markets Tax Credit (NMTC) program. While the funds through the Recovery Act are available through FY 2010 and possibly beyond, oversight is necessary into future years. The OIG initiated work at Departmental Offices and the CDFI Fund to review controls over non-IRS Recovery Act funding. The OIG will continue this work and determine whether the funds were spent as intended.

Another area that requires vigorous oversight by the OIG is Treasury's responsibilities under the Housing and Economic Recovery Act of 2008 (HERA). Under HERA, Treasury purchases senior preferred stock in Fannie Mae and Freddie Mac, which were placed into federal conservatorship in September 2008, as necessary to ensure they maintain a positive net worth. The maximum amount available to each entity was originally $100 billion. In May 2009 that amount was raised to $200 billion. In December 2009, the Department amended the agreements to replace the $200 billion per entity funding commitment cap with a formulaic cap. That formulaic cap will allow continued draws for 3 years at amounts that will automatically adjust upward quarterly by the cumulative amount of any losses realized by either entity and downward by the cumulative amount of any gains, but not below $200 billion. At the conclusion of the 3-year period, the amount will become fixed and the remaining commitment will be available to be drawn per the terms of the agreements. As of September 30, 2010, Treasury's payments to Fannie Mae and Freddie Mac were $85.9 billion and $63.9 billion, respectively. Also under HERA, Treasury initiated a temporary program to purchase new mortgage backed securities issued by Fannie Mae and Freddie Mac. That program expired on December 31, 2009. In total Treasury purchased approximately $225.5 billion in Fannie Mae and Freddie Mac mortgage backed securities. Treasury continues to manage those securities.

Programs to Combat Terrorist Financing and Money Laundering – Treasury faces unique challenges in carrying out its responsibilities under the Bank Secrecy Act (BSA) and the USA Patriot Act to prevent and detect money laundering and terrorist financing. 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. Similarly, 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 OFAC violations. Moreover, with continued distress in many financial institutions both domestically and globally, there is an increased risk that compliance with BSA and OFAC requirements may have deteriorated even further. For these reasons, this will continue to be a major focus of the OIG's audit program.

Treasury's Management of Capital Investments – Treasury needs to ensure that the hundreds of millions of dollars being expended on large acquisitions of systems and other capital investments are properly managed. The Department's record in this regard has been mixed, at best. It is critical the OIG continue its oversight of FinCEN's BSA Information Technology Modernization program; the Department's Enterprise Content Management (ECM) system development; and the Treasury Network (TNet).

In addition to audit responsibilities, upcoming investigative priorities for FY 2012 include:

- Investigating complaints of alleged criminal and serious misconduct by Department employees and contract employees;
- Investigating allegations of fraud and other crimes involving Treasury contracts, procurements, grants, guarantees (fictitious instruments), and federal funds with an emphasis on Treasury Recovery Act funds and the Check Forgery Insurance Fund ;
- Investigating allegations of criminal conduct stemming from the OIG's review of failed banks;
- Investigating unlicensed and unregistered Money Services Businesses
- Proactive efforts in detecting, investigating, and deterring electronic crimes and other threats to the Department's physical and cyber critical infrastructure;
- Increasing awareness both internally and externally regarding the Office of Investigations investigative areas of responsibility.

As referenced above under new mandated audit work, over the next several years the OIG will provide audit and investigative oversight over two new Treasury programs—the Small Business Lending Fund (SBLF) and State Small Business Credit Initiative (SSBCI). The SBLF is a fund that will be used by Treasury to inject capital into small and medium banks with incentives to encourage them to increase their lending. The SSBCI provides Treasury with $1.5 billion to support state programs designed to increase access to credit for small businesses. To ensure proper oversight of the SBLF, Congress directed the OIG to establish an SBLF Program Oversight Office with responsibility for all audit and investigative activities relating to the program and for recommending program improvements. Congress also directed the OIG to audit participating states' uses of SSBCI funds and required Treasury to recoup any misused funds identified by such audits. To comply with these mandates, the OIG will assess Treasury's implementation of the two programs, continually monitor recipient compliance with program requirements and use of funds, and evaluate the impact of these programs on small business lending.

Resources required to support OIG operations for FY 2012 are $29,855,000 from direct appropriations, and $13,200,000 from reimbursable agreements for (1) contract audits of other Treasury bureaus, and (2) OIG oversight of the SBLF and SSBCI.

Office of Inspector General's Fiscal Year 2012 Budget Request

In accordance with the Inspector General Act, the Treasury Inspector General submits the following information relating to the OIG's requested budget for FY 2012:

- the aggregate budget request for the operations of the OIG is $29,855,000,
- the portion of this amount needed for OIG training is $600,000, and
- the portion of this amount needed to support the Council of Inspectors General on Integrity and Efficiency (CIGIE) is $75,000.

The amount requested for training satisfies all OIG training needs for fiscal year 2012.

1B – Program History and Future Outlook

In FY 2010, the OIG completed 68 audit products, opened 100 new investigations and closed 74 investigations. OIG also referred 100 % of investigations that substantiated administrative violations against a Treasury employee to the appropriate regulated bureau for action. In addition, the OIG referred 19 investigations for criminal prosecution to the Department of Justice. As the result of a high number of bank failures, the OIG has been required to dedicate significant resources to conduct mandated material loss reviews (MLR). Because of the unprecedented numbers of failures, the OIG completed some MLRs after the 6-month timeframe prescribed in statute but the missed dates are not considered significant. The OIG also informed Treasury's Congressional oversight committees by letter that some MLRs would be late due to the numbers of banks that failed. The OIG also dedicated resources to conduct oversight of Treasury's Recovery Act funds.

The OIG, as a result of MLRs performed, received referrals regarding potential criminal misconduct that occurred prior to or during bank failures, and is currently working criminal investigations with the FDIC Office of Inspector General (FDIC OIG) and the OIG Office of Audit regarding potential prosecution of acts which may have contributed to the bank failures. The Recovery Act provided Treasury with approximately $4 billion for low-income housing projects and specified energy properties/projects. OIG's Cyber Investigations Unit (CIU) conducts cyber investigations to identify, locate and prosecute individuals who utilize the Internet in attempts to defraud Treasury. In addition, the CIU provides incident response capability for cyber-attacks against Treasury critical infrastructure and supports initiatives and efforts by other government agencies to remediate the ongoing threat. In support of OI traditional investigations, the CIU provides the full suite of digital forensic support, to include digital media acquisition, examination, and technical investigative consultation. In FY 2012 the OIG expects to complete 70 audit products, and meet or exceed the investigative measures.

The OIG has used two investigative measures: 70 percent of all cases closed during the fiscal year are to be referred for criminal/civil prosecution or Treasury administrative action; and 70 percent of all cases accepted by prosecutors, referred for agency action, or closed during the fiscal year and are to be completed within 18 months of case initiation. After senior leadership review, the OIG determined that these measures do not accurately reflect investigative performance, and are being replaced with a single measure. Starting with FY 2011, the measure, "Percentage (%) of investigations that were referred for criminal/civil or Treasury administrative action," will have an initial goal of 80%.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Office of Inspector General	FTE	Amount
FY 2010 Enacted	**172**	**$29,700**
FY 2011 Annualized CR Level	**172**	**$29,700**
Changes to Base:		
Adjustment to Reach Policy Level:	-	$351
Adjustment to Reach FY 2011 President's Policy	-	$351
Maintaining Current Levels (MCLs):	-	$183
Maintaining Current Levels	-	$183
Efficiencies, Savings & Base Reductions:	-	($392)
MLRs	-	($392)
Subtotal FY 2012 Changes to Base	-	$142
Total FY 2012 Base	**172**	**$29,842**
Program Changes:		
Program Increases:	-	$13
CIGIE Contribution	-	$13
Subtotal FY 2012 Program Changes	-	$13
Total FY 2012 Request	**172**	**$29,855**

2A – Budget Increases and Decreases Description

Adjustment to Reach Policy Level .... +$351,000 / +0 FTE

Adjustment to Reach FY 2011 President's Policy +$351,000 / +0 FTE

Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

Maintaining Current Levels (MCLs) .... +$183,000 / +0 FTE

Maintaining Current Levels +$183,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings & Base Reductions .... -$392,000 / +0 FTE

MLRs -$392,000 / +0 FTE

Savings from anticipated reductions in Material Loss Review work. The savings are anticipated due to regulatory reform and economic recovery.

Program Increases .... +$13,000 / +0 FTE

CIGIE Contribution +$13,000 / +0 FTE

Contribution to the Council of Inspectors General on Integrity and Efficiency

2.2 – Operating Levels Table

Dollars in Thousands

Office of Inspector General	FY 2010 Enacted	FY 2011 Annualized CR Level	Proposed Reprogrammings	FY 2011 Proposed Operating Level	FY 2012 Request
FTE	**172**	**172**	**-**	**172**	**172**
Object Classification					
11.1 - Full-time permanent	$17,000	$17,000	$0	$16,750	$16,971
11.3 - Other than full-time permanent	$100	$100	$0	$100	$105
11.5 - Other personnel compensation	$550	$1,049	$0	$550	$560
11.8 - Special personal services payments	$765	$744	$0	$795	$765
12 - Personnel benefits	$4,800	$4,800	$0	$4,812	$4,819
21 - Travel and transportation of persons	$625	$500	$0	$650	$650
23.1 - Rental payments to GSA	$1,325	$1,412	$0	$1,310	$1,365
23.2 - Rental payments to others	$320	$450	$0	$453	$405
23.3 - Communication, utilities, and misc charges	$725	$800	$0	$750	$800
24 - Printing and reproduction	$20	$10	$0	$20	$20
25.2 - Other services	$895	$450	$0	$950	$1,000
25.3 - Other purchases of goods and services from Govt. accounts	$1,400	$1,450	$0	$1,450	$1,500
25.6 - Medical care	$25	$35	$0	$60	$45
25.7 - Operation and maintenance of equip	$400	$200	$0	$400	$350
26 - Supplies and materials	$300	$300	$0	$250	$200
31 - Equipment	$450	$400	$0	$400	$300
Total Budget Authority	**$29,700**	**$29,700**	**$0**	**$29,700**	**$29,855**
Budget Activities					
Audit	$22,869	$22,869	$0	$22,869	$22,898
Investigations	$6,831	$6,831	$0	$6,831	$6,957
Total Budget Authority	**$29,700**	**$29,700**	**$0**	**$29,700**	**$29,855**

*Does not include the FY 2010 Supplemental (P.L. 111-212) $1.8 million rescission

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2010 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Appropriated Resources:										
Audit	110	$20,445	130	$22,869	130	$22,869	130	$22,898	0.00%	0.13%
Investigations	29	6,107	42	6,831	42	6,831	42	6,957	0.00%	1.84%
Subtotal New Appropriated Resources	**139**	**$26,552**	**172**	**$29,700**	**172**	**$29,700**	**172**	**$29,855**	**0.00%**	**0.52%**
Other Resources:										
Offsetting Collections - Reimbursable		8,366		8,000		10,000		13,200		65.00%
Recission (Haiti Relief)				(1,800)						
Transfers In/Out (FY 2009 Carryover)		447		1,100						
Subtotal Other Resources	**0**	**$8,813**	**0**	**$7,300**	**0**	**$10,000**	**0**	**$13,200**		**80.82%**
Total Resources Available for Obligation	**139**	**$35,365**	**172**	**$37,000**	**172**	**$39,700**	**172**	**$43,055**	**0.00%**	**16.36%**

2B – Appropriations Language and Explanation of Changes

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, $29,855,000 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.*	

2C – Legislative Proposals

The OIG has no legislative proposals.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to:
http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	% Change FY10 to FY12
Exceptional accountability and transparency	37,700	39,700	43,055	14.20%
Total	**$37,700**	**$39,700**	**$43,055**	**14.20%**

3A - Audit *($22,897,000 from direct appropriations, and $13,200,000 from reimbursable programs):* The Office of Audit (OA) conducts audits, provides firsthand, unbiased perspectives and recommendations for improving the economy, efficiency, and effectiveness of Treasury programs and operations under its jurisdiction. The OA produces more than 60 products annually. The OA has recently been challenged to keep up with an increasing number of bank failures that require dedicated resources to conduct mandated material loss reviews. For FY 2009 and FY 2010, the OA received additional funding to meet this requirement. The requested funding for FY 2012 is necessary to maintain a proper level of oversight of Treasury programs and operations, and to enable the OIG to continue to meet statutory timeframes for completing the increasing number of material loss reviews due to financial institution failures. The OIG also responds to requests by Treasury officials and the Congress for specific work. Reimbursable funding supports agreements for contract audits of other Treasury bureaus, as well as oversight of the Small Business Lending Fund (SBLF) and the State Small Business Credit Initiative (SSBCI) programs.

3.2.1 Audit Budget and Performance Plan

Audit Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$12,658	$20,116	$22,869	$22,869	$22,897
Reimbursable Resources	$6,498	$7,381	$8,000	$10,000	$13,200
Total Resources	**$19,156**	**$27,497**	**$30,869**	**$32,869**	**$36,097**
Budget Activity Total	**$19,156**	**$27,497**	**$30,869**	**$32,869**	**$36,097**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Number of Completed Audit Products (Ot)	64	68	68	62	70
Percent of Statutory Audits Completed by the Required Date (E)	100.0	100.0	50.0	100.0	100.0

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

Description of Performance: In FY 2010, the Office of Audit completed a total of 68 audit products. As the result of the unprecedented number of bank failures, the OIG has been required to dedicate significant resources to conduct mandated material loss reviews. Also as a consequence of the high number of failures requiring a material loss review, the OIG completed some of the reviews after the 6-month timeframe prescribed in statute, but the missed dates were not considered significant. The appropriate Congressional oversight committees were informed of this situation. The Office of Audit plans to complete 70 in FY 2012, though the number of required material loss reviews and other anticipated mandates may impact the ability to meet the target. In FY 2009, the Office of Audit met its mandated audit requirements.

3B - Investigations *($6,958,000 from direct appropriations):* The Office of Investigations prevents, detects and investigates complaints of fraud, waste and abuse. This includes the detection and prevention or deterrence of employee misconduct and fraud, or related financial crimes within or directed against Treasury. The Office refers its cases to the Department of Justice, state or local prosecutors for criminal prosecution or civil litigation, or to agency officials for corrective administrative action. Additionally, investigative oversight also extends to that of performing quality assurance reviews of the Treasury's police operations at BEP and the U.S. Mint.

With the increased risk of the Recovery Act grant programs for low-income housing and specific energy properties, the Office of Investigations faces greater challenges and anticipated increases in grant fraud and the need to identify strengths and weaknesses in Community Development Financial Institutions (CDFI) Fund. Compliance and oversight of dispersed grant funds to ensure that CDFI funds provided are being used in accordance with the grant award.

The Office of Inspector General (OIG) is actively investigating numerous allegations received from the OIG's, Office of Audit related to their Material Loss Reviews (MLR). With increasing frequency, the Office of Audit is discovering instances of suspected fraud by bank officials during MLRs of Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS) regulated banks. As such, these alleged criminal violations, which affected the ability of the OCC and OTS to properly oversee these banking institutions, are being referred to the Office of Investigations for investigation.

3.2.2 Investigations Budget and Performance Plan

Investigations Budget Activity					
Resource Level	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Annualized CR Level**	**FY 2012 Request**
Appropriated Resources	$5,792	$6,009	$6,831	$6,831	$6,958
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$5,792**	**$6,009**	**$6,831**	**$6,831**	**$6,958**
Budget Activity Total	**$5,792**	**$6,009**	**$6,831**	**$6,831**	**$6,958**

Measure	**FY 2008 Actual**	**FY 2009 Actual**	**FY 2010 Actual**	**FY 2011 Target**	**FY 2012 Target**
Percentage (%) of Investigations that were referred for Criminal, Civil or Treasury administrative action	N/A	N/A	N/A	B	80.0

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

Description of Performance: In FY 2010 OIG met or exceeded both Investigative Performance Measure targets, opened 100 new investigations and closed 74 investigations. OIG also referred 100 % of investigations that substantiated administrative violations against a Treasury employee to the appropriate regulated bureau for action. In addition, the OIG referred 19 investigations for criminal prosecution to the Department of Justice. OIG received investigative referrals regarding potential criminal misconduct that occurred prior to or during bank failures, and has worked criminal investigations with the FDIC Office of Inspector General (FDIC OIG) and the OIG Office of Audit regarding potential prosecution of acts which may have contributed to the bank failures. As additional financial institutions fail over the next several years, OIG expects an associated increase in investigative work. The Recovery Act provided Treasury with approximately $4 billion for low-income housing projects and specified energy properties/projects. OIG anticipates a significant increase of related criminal investigations as Treasury continues to disburse these funds. After senior leadership review, the OIG determined that the current two performance measures do not accurately reflect investigative performance, and will be replaced with a single measure. Starting with FY 2011, the measure, “Percentage (%) of investigations that were referred for criminal/civil or Treasury administrative action," will have an initial goal of 80%. It is expected that the performance measure will be met or exceeded in FYs 2011 and 2012.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The OIG previously 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.

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

The ongoing financial crisis, however, and the resulting failure of a startling number of financial institutions placed increased pressures on the standard OIG hiring processes. By law, when a Treasury supervised bank or thrift fails, and meets statutory loss thresholds, Treasury OIG is required to complete a material loss review (MLR) within six months to determine the causes of the failure. In FY 2009 and FY 2010, Congress provided additional budgetary resources to hire the staff needed for these MLRs. OIG then embarked on an aggressive initiative to recruit and hire qualified staff to meet the rapidly growing workload, and had to defer all other audit work to devote existing staff to the MLR effort. From the latter half of FY 2009 to the present, OIG brought 67 qualified staff on board, has selected 11 others, and has an additional 13 positions in various stages of the hiring process. This was accomplished despite the dramatic increase in the number of applicants for each position, which in turn increased the time required to carefully review applications, conduct interviews and make selections to ensure OIG hires qualified and competent candidates.

OIG is aware of the critical importance to its mission of developing and maintaining a highly skilled staff. OIG continues to ensure that employees have a variety of opportunities for required developmental and professional training and education. This ensures full confidence in the expertise and integrity of our staff.

In addition, the following section outlines OIG's ongoing efforts in several important programs.

Hiring Reform – OIG currently uses the Bureau of Public Debt (ARC) services for recruitment. ARC staff work directly with hiring managers in developing job analysis that are specific to their needs, and uses the same standard vacancy announcement template used Department-wide to ensure that language and requirements are clear and easy to understand. ARC is also responsible for providing feedback to the applicants regarding their application. ARC and OIG are working together ensure OIG meets the recruitment requirements under the End to End (E2E) initiative. Additionally, one of the mandates for hiring reform is that agencies only use category rating. Fortunately, OIG has been using category rating for a number of years. In an effort to improve public understanding of the hiring process, the Department has been working on a website, Entrance-on-Duty System (EODS), that will provide general information about the on-boarding process. Once hired, the applicant will be granted access to EODs to learn more about Treasury and the OIG, input required information, and complete benefit election forms.

The OIG is developing training for managers and supervisors as well as informal "brown bag" sessions for employees on a number of human resources issues.

Veterans' Employment – OIG is processing a number of recruitment actions that are open to all qualified applicants. As part of that process, OIG is working with organizations like the Veteran's Employment Program Office (VEPO). Established by the Internal Revenue Service, VEPO helps connect veteran's programs with Treasury employment opportunities. Training and assistance is offered to help veterans successfully transition into the federal government. The OIG human resources staff will continue partnering with VEPO on the various programs that are being offered and will ensure that all hiring managers get the training and support needed to aid them in their recruitment efforts.

Hiring of Individuals with Disabilities – OIG participated in career fairs whose targeted audience is individuals with disabilities. In addition, the OIG EEO Manager receives applications from individuals with disabilities and forwards them to the hiring managers for consideration. OIG is planning to develop a system with the EEO Manager to enhance recruitment efforts for targeted populations, including programs and facilities for individuals with disabilities. OIG also provides a wide range of resources to assist employees as well as their managers/peers (e.g. special equipment, translators, etc.)

Labor-Management Forums – OIG is not covered under any union agreements.

Employee Engagement - The OIG is developing an intranet for OIG employees to disseminate information and enable collaboration. Among other things, the intranet will be used to share announcements about the work of OIG being recognized through awards and other means. The goal will be to foster pride by acknowledging the accomplishments of OIG staff.

Also, OIG has an employee suggestion box which allows employees to voice their concerns and/or provide alternative operating procedures that will help OIG work more effectively.

Wellness - The OIG promotes wellness by ensuring employees have the resources and flexibility to maintain a balanced work and family life. The OIG has an onsite fitness center and the health unit provides health screenings and flu shots. The OIG encourages employees to use services provide by the Employee Assistance Program (EAP), including attending workshops or seminars on wellness. The OIG has a supportive atmosphere that encourages a healthy lifestyle and a sustainable worklife balance.

Women and Girls – The OIG provides workplace flexibility which focuses on balancing family and work. We offer alternative work schedules, teleworking, and other programs to provide employees the flexibility they need to remain productive while attending to their family and other responsibilities.

4.1 – Summary of IT Resources Table
Dollars in Thousands

Major IT Investments / Funding Source	Budget Activity	FY 2009 Enacted	FY 2010 Enacted	% Change from FY 2009 to FY 2010	FY 2011 Annualized CR Level	FY 2012 Request	% Change from FY 2010 to FY 2012
No Major Investments		$0	$0	N/A	$0	$0	N/A
Subtotal, Major IT Investments	Collect the Revenue/Protect the Public	$0	$0	N/A	$0	$0	N/A
Non-Major IT Investments	Collect the Revenue/Protect the Public						
Infrastructure Investments	Collect the Revenue/Protect the Public						
Enterprise Architecture	Collect the Revenue/Protect the Public	$650	$600	-7.7%	$1,434	$1,800	200.0%
Enterprise Identity and Access Management	Collect the Revenue/Protect the Public	N/A	N/A	N/A	N/A	N/A	N/A
Total IT Investments	Collect the Revenue/Protect the Public	$650		-100.0%	$1,434	$1,800	100.0%

4B – Information Technology Strategy
OIG must keep pace with and adapt to technological advancements including those in the areas of auditing, computer forensics and security. The OIG must design and/or adapt information technology that is flexible and allows for rapid response to a constantly changing environment. OIG uses standard project management methodologies to track all IT projects. This ensures that projects stay within budget, meet milestones and performance goals.

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 hardware and software 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.

Due to increasing workloads, new responsibilities, and the expansion of OIG staffing over the past two fiscal years (approximately 50%), IT operating costs are not likely to decrease in the near future. Workloads continue to increase significantly in both audit and investigations, and new responsibilities are being given to OIG to address emerging initiatives (e.g., IG Council under Financial Reform, oversight of the new Consumer Financial Protection Bureau, etc.).

Overview

Mission Statement

To advance economic stability by promoting the efficiency and effectiveness of the management of the Troubled Asset Relief Program (TARP), through transparency, through coordinated oversight, and through robust enforcement against those persons and entities, whether inside or outside of government, who waste, steal, or abuse TARP funds.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2010 Actual	FY 2011 Annualized CR Level	FY 2012 Request	FY2010 to FY2012 $ Change	FY2010 to FY2012 % Change
Audit	$9,900	$15,609	$20,371	$10,471	105.8%
Investigations	$13,400	$20,691	$27,003	$13,603	101.5%
Total Appropriated Resources	**$23,300**	**$36,300**	**$47,374**	**$24,074**	**103.3%**
Total FTE	**133**	**192**	**192**	**59**	44.4%

In addition to SIGTARP's FY 2012 request for $47,374, section 402(c)(1) of the Helping Families Save Their Homes Act of 2009, P.L. 111-22, provided SIGTARP $15 million in supplemental funding. However, section 402(c)(2) requires SIGTARP, in the use of these funds, to "prioritize the performance of audits or investigations of recipients of non-recourse Federal loans made under any" Emergency Economic Stabilization Act of 2008, P.L. 110-343 (EESA) program. This supplemental funding is not available for SIGTARP general operations.

FY 2012 Priorities

- Promote transparency in the management and operation of TARP, ensuring the satisfaction of the public's right to know how Treasury decides to invest the public's money, how it manages the investments it makes, and how TARP recipients use the investments.
- Coordinate oversight:
    - Prospectively advise Treasury concerning issues relating to compliance, internal controls and fraud prevention.
    - Retrospectively assess the effectiveness of Treasury's activities, recommend improvements, and evaluate whether TARP recipients are satisfying their legal obligations.
- Prevent, detect, investigate and refer for prosecution cases of fraud, waste and abuse involving TARP funds or programs.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities
SIGTARP supports and complements Treasury's strategic goal of effectively managing the U.S. Government's Finances as they relate to TARP and TARP-related funds, through the implementation of SIGTARP's priorities:

Transparency - Promoting transparency in the management and operation of TARP programs;

Coordinating Oversight:

- Prospectively advising Treasury concerning issues relating to compliance, internal controls and fraud prevention;
- Retrospectively assessing the effectiveness of Treasury's activities and evaluating whether TARP recipients are satisfying their legal obligations; and

Robust Enforcement - Preventing, detecting, investigating and referring for prosecution cases of fraud, waste and abuse involving TARP funds or programs.

Promoting transparency in the management and operations of TARP programs is vital. Through the Emergency Economic Stabilization Act of 2008, P.L. 110-343 (EESA), the American taxpayer has been asked to fund an unprecedented effort to stabilize the financial system and foster economic recovery. In this context, the public has a right to know how Treasury decides to invest its money, how it manages the assets it acquires, and how TARP recipients use the funds. Transparency is a powerful tool to ensure accountability and that all those managing and receiving TARP funds will act appropriately and in the best interest of the country.

SIGTARP views its oversight role prospectively, retrospectively, internally, and externally. Prospectively, SIGTARP, among other things, advises Treasury on issues relating to compliance, internal controls and fraud prevention. Retrospectively, SIGTARP assesses the effectiveness of TARP activities over time and suggests improvements. Internally, SIGTARP's oversight role reaches to Treasury officials and to other government employees who manage TARP-related programs. Externally, it reaches to the recipients of TARP funds, the other private participants in TARP-related programs and to vendors that have been retained to assist Treasury in implementing TARP. SIGTARP also plays a significant external coordinating role among TARP oversight bodies both to ensure maximum oversight coverage and to avoid redundant and unduly burdensome requests on Treasury personnel who manage the programs.

Robust criminal and civil law enforcement involves the prevention, detection, and investigation of instances of fraud, waste, and abuse relating to TARP funds or operations. Through audit and investigative resources, and partnerships with other relevant law enforcement agencies, SIGTARP is committed to deterring, detecting, and investigating and referring for prosecution those persons and entities, inside or outside of the government, who waste, steal, or abuse TARP funds.

In accordance with the requirements of Section 6(f)(1) of the Inspector General Act of 1978 (as amended), the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) submits the following information related to its requested budget for FY 2012:

- The aggregate budget request for the operations of SIGTARP is $47,374,000
- The portion of this amount needed for SIGTARP training is $516,000;
- The portion of this amount needed to support the Council of the Inspectors General on Integrity and Efficiency (CIGIE) is estimated at $51,039; and
- The amount requested for training satisfies all SIGTARP training needs for fiscal year 2012.

1B – Program History and Future Outlook

Background: TARP consists of 13 programs all of which have been implemented. Six are closing or have already been wound down. As of October 3, 2010, Treasury had obligated $474.8 billion for TARP. Of this amount, Treasury had expended or committed to expend approximately $469.8 billion through the 13 implemented programs to provide support for U.S. financial institutions, the automobile industry, the markets in certain types of asset-backed securities and homeowners. The focus of TARP has begun to shift as the early TARP programs that invested huge sums in banks are now closed to further investments and most of the largest bank recipients have repaid their TARP funds. Treasury has stated that, going forward, TARP will focus on foreclosure mitigation efforts, small-business lending, and a continuation of support for the Asset-Backed securities (ABS) markets.

General Management: Section 121 of the EESA created SIGTARP as an independent agency within Treasury responsible for conducting, supervising, and coordinating audits and investigations of any actions taken under EESA. Of the four primary oversight bodies referenced in EESA, (i.e., SIGTARP, the Financial Stability Oversight Board, the Congressional Oversight Panel, and the Government Accountability Office), SIGTARP stands as the sole TARP oversight body charged with criminal law enforcement responsibility. SIGTARP commenced operations on December 15, 2008, with the swearing in of the Special Inspector General (SIG).

Between its commencement in December of 2008 and January 2011, SIGTARP has been extraordinarily productive: publishing nine comprehensive quarterly reports to Congress concerning TARP, opening 142 investigations, initiating 26 audits, issuing 13 audit reports, leveraging oversight resources, testifying at more than 20 Congressional hearings or briefings, building infrastructure, and hiring staff. In the latter regards, SIGTARP has secured permanent office space and equipment for staff; has contracted with public and private vendors for personnel services, procurement assistance, publication consulting, data processing and analysis, and office equipment and services. SIGTARP has completed the move into its permanent space. Further, SIGTARP has hired 141 managers, lawyers, auditors, investigators, and other professionals with a wealth of experience in program auditing, criminal law enforcement, securities enforcement, and other relevant curricula. In FY 2011 SIGTARP anticipates increasing its FTE level to 192 to address field operations established in four sites and work load requirements of audit and investigation cases that are pending due to insufficient staffing. To successfully accomplish this hiring challenge, SIGTARP relied on direct hire authority and dual compensation authority waiver delegated by the Office of Personnel Management, as well as authority provided by the Special Inspector General for the Troubled Asset Relief Program Act of 2009, P.L. 111-15.

Quarterly Reports to Congress: SIGTARP has issued nine wide-ranging quarterly reports to Congress, describing the activities and plans of SIGTARP; explaining and evaluating the various TARP programs (both implemented and announced); reviewing the operations of the Office of Financial Stability (OFS), which administers TARP; and recommending changes to TARP programs and procedures to increase transparency and effective oversight and decrease the potential for fraud, waste and abuse. SIGTARP expends substantial time and resources on its reports to Congress, which are designed to be the comprehensive reference concerning TARP activities for policy makers, Congress and the American people. SIGTARP's reports satisfy the requisite reporting requirements of SIGTARP's authorizing statute by detailing its operations; describing the categories of troubled assets purchased or otherwise procured by Treasury; explaining the reasons Treasury deemed it necessary to purchase each troubled asset; listing each financial institution from which such troubled assets were purchased; listing and detailing biographical information on each person or entity hired to manage such troubled assets; estimating the total amount of troubled assets purchased, the amount of troubled assets held, the amount of troubled assets sold, and the profit or loss incurred on each sale or disposition of each such troubled asset; and listing the insurance contracts issued. These quarterly reports are available at http://www.sigtarp.gov/reports.shtml.

To date, SIGTARP's quarterly reports include 66 detailed recommendations to improve TARP programs and procedures. Treasury has adopted many of these recommendations, and Congress has effectively required OFS to implement several that it has rejected. For example, recommendations included in SIGTARP's April 21, 2009 Quarterly Report to Congress were largely adopted and enacted into law by section 402 of P.L. 111-22. SIGTARP's January 2011 Quarterly Report to Congress includes a series of recommendations concerning, among other things, enhancing transparency, promoting effectiveness and the prevention and detection of fraud in connection with TARP and its components.

Investigative Activities: SIGTARP's Investigations Division (ID) has developed into a sophisticated white-collar law enforcement agency. Currently, ID has 142 open criminal and civil investigations, which concern suspected TARP fraud, accounting fraud, securities fraud, insider trading, bank fraud, mortgage fraud, mortgage servicer misconduct, fraudulent advance-fee schemes, public corruption, false statements, obstruction of justice, theft of trade secrets, money laundering, and tax-related investigations. Although the majority of SIGTARP's investigative activities remain confidential, highlights from several cases that have been brought as the result of SIGTARP's investigations include the following.

- Colonial Bancgroup/Taylor, Bean & Whitaker: On June 15, 2010, SIGTARP, the Federal Bureau of Investigation (FBI), the Office of the Inspector General for the Federal Deposit Insurance Corporation (FDIC OIG), Office of Inspector General (OIG), and the Department of Housing and Urban Development (OIG) executed an arrest warrant for Lee Bentley Farkas, the former chairman of Taylor, Bean & Whitaker (TBW), a private mortgage lending company, in connection with a scheme involving Colonial Bancgroup (Colonial), a large regional bank that was, until its demise in the fall of 2009, TBW's largest lender. In the fall of 2008, Colonial applied for $570 million in taxpayer funding through the TARP's Capital Purchase Program (CPP). As with all CPP applications, Colonial submitted financial data and filings to Federal bank regulators. Based on these representations, Treasury conditionally approved Colonial's TARP application for $553 million, contingent on, among other things, Colonial's raising $300 million in private capital. A review of the circumstances of Colonial's application and its announcement that it had received TARP approval led SIGTARP to open an investigation in concert with the Securities and Exchange Commission (SEC). In April 2009, in a filing with the SEC, Colonial announced that it had met its final condition to receive funding based on Farkas' representation that he led an investment group that had raised $300 million to invest in Colonial. Within days of this announcement, SIGTARP issued subpoenas to both Colonial and TBW, and, over the course of the next several months, SIGTARP and its partners uncovered the massive alleged fraud at both Colonial and TBW, despite attempts by members of the conspiracy to destroy documents called for by SIGTARP's subpoena. SIGTARP alerted Treasury of its investigation to assure that no TARP funds would be disbursed to Colonial, and referred the case to the Department of Justice (DOJ) for prosecution. Farkas was charged in the Eastern District of Virginia in a 16-count indictment, including conspiracy to commit bank, wire and securities fraud; bank fraud; wire fraud; and securities fraud. Among other things, Farkas is charged for his role in attempting to steal $553 million in TARP funds through Colonial's fraudulent CPP application. Ultimately, Colonial did not receive any TARP funds.

- The Park Avenue Bank: On March 15, 2010, Charles Antonucci, the former President and Chief Executive Officer of The Park Avenue Bank, was charged by the United States Attorney's Office for the Southern District of New York with offenses including self-dealing, bank bribery, embezzlement of bank funds, and bank, mail and wire fraud, among others. In particular, Antonucci allegedly attempted to steal $11 million of TARP funds by, among other things, making fraudulent claims about the bank's capital position. These charges mark the first time an individual has been criminally charged with attempting to steal TARP funds.

  According to the allegations, Antonucci falsely represented that he had personally invested $6.5 million in The Park Avenue Bank to improve its capital position. As set forth in the charges, however, the funds were actually borrowed from the Park Avenue Bank itself and reinvested as part of an undisclosed "round-trip" transaction. The complaint further alleges that this fraudulent transaction was touted by The Park Avenue Bank in support of its application for TARP funds as evidence of its supposedly improving capital position.

- Bank of America: On February 4, 2010, the New York Attorney General charged Bank of America, its former Chief Executive Officer Kenneth D. Lewis, and its former Chief Financial Officer Joseph L. Price with civil securities fraud. According to the allegations, in order to complete a merger between Bank of America and Merrill Lynch & Co., Inc. (Merrill Lynch), the defendants failed to disclose to shareholders spiraling losses at Merrill Lynch. Additionally, after the merger was approved, it is alleged that Bank of America made misrepresentations to the Federal Government in order to obtain tens of billions of dollars in

TARP funds. The investigation was conducted jointly by the New York Attorney General's Office and SIGTARP, and the case remains pending in New York state court. SIGTARP also assisted the SEC with its Bank of America investigation. On February 22, 2010, the Honorable Jed S. Rakoff, United States District Judge for the Southern District of New York, approved a $150 million civil settlement between the SEC and Bank of America to settle all outstanding SEC actions against the firm.

- Nations Housing Modification Center: On March 19, 2010, Glenn Steven Rosofsky was arrested by agents from SIGTARP and the Internal Revenue Service, Criminal Investigation Division and charged by the U.S. Attorney's Office for the Southern District of California with one count of conspiracy to commit wire fraud and money laundering and one count of money laundering. Separate information the same day charged Michael Trap with conspiracy to commit fraud and money laundering. As set forth in the charges, Rosofsky, Trap, and others operated a telemarketing firm, ostensibly to assist delinquent homeowners with loan modification services. Operating under the names "Nations Housing Modification Center" and "Federal Housing Modification Department," Rosofsky and Trap took advantage of the publicity surrounding the Administration's mortgage modification efforts under the TARP-supported Making Home Affordable program and are alleged to have used fraudulent statements to induce customers to pay $2,500 – $3,000 each to purchase loan modification services that were not actually provided. It is alleged in court documents that the fraud grossed more than $1 million. Trap pled guilty to the charges listed in his March 19 information the following day. The case against Rosofsky is pending.

- Mount Vernon Money Center: On March 11, 2010, the U.S. Attorney's Office for the Southern District of New York indicted Robert Egan, president, and Bernard McGarry, chief operating officer, of the Mount Vernon Money Center (MVMC) with bank fraud for allegedly stealing $50 million entrusted to their company. MVMC engaged in various cash management businesses, including replenishing cash in more than 5,300 automated teller machines owned by banks and other financial institutions. According to the charges, from 2005 through February 2010, Egan and McGarry solicited and collected hundreds of millions of dollars from MVMC's clients on the false representations that they would not commingle clients' funds or use the money for purposes other than those specified in the various contracts with their clients. Egan and McGarry misappropriated their clients' money — including the funds of several institutions in which the American taxpayer was an investor through TARP — to fund tens of millions of dollars in operating losses in MVMC's businesses, to repay outstanding client obligations, and to enrich themselves at their clients' expense. SIGTARP agents assisted with the investigation. A trial date remains to be set.

Audit Activities: SIGTARP's Audit Division (AD) conducts, supervises, and coordinates programmatic audits with respect to Office of Financial Stability operation of TARP and recipients' compliance with their obligations under relevant law and contracts; evaluates TARP policies and procedures; and provides technical assistance to Treasury. With respect to auditing, AD is designed to provide SIGTARP with maximum flexibility in the size, timing, and scope of audits so that, without sacrificing the rigor of the methodology audit results, whenever possible, can be generated rapidly both for general transparency's sake and so that the resulting data can be used to improve the operations of the fast-evolving TARP. To date, AD has issued thirteen audit reports; highlights from FY 2010 reports are as follows:

- Original CPP and Bank of America Investments: In October of 2009, SIGTARP released an audit examining the review and approval process associated with TARP assistance to the first nine CPP recipients, with emphasis on additional assistance to Bank of America subsequently authorized under Targeted Investment Program and the Asset Guarantee Program. The audit concluded that Treasury, the Federal Reserve, and the FDIC implemented programs designed to help prevent a further deterioration of the economy and a significant risk of financial market collapse. The audit also found that Treasury and other regulators' descriptions of the financial conditions of the first nine institutions as "healthy" were inconsistent with the private beliefs of decision makers at Treasury and the Federal Reserve, and later proved to be inaccurate. In addition to the basic transparency concern that this inconsistency raises, by stating expressly that the "healthy" institutions would be able to increase overall lending, Treasury created unrealistic expectations about the institutions' conditions and their ability to increase lending. Treasury lost credibility when lending at those institutions did not in fact increase and when subsequent events — the further assistance needed by Citigroup and Bank of America being the most significant examples — demonstrated that at least some of those institutions were not in fact healthy.

- Federal Agencies Oversight of American International Group, Inc. Executive Compensation: SIGTARP also released in October of 2009, an audit report that examined the extent of the knowledge of and oversight by officials from the Federal Reserve, New York (FRBNY), and Treasury over compensation programs at AIG, and, specifically, $168 million in retention award payments made to employees of AIG Financial Products Corp. (AIGFP) in March 2009. The audit concluded, among other things, that Treasury officials effectively outsourced oversight of AIG's compensation systems to the Federal Reserve, failing to take any independent steps to assess broadly the amount or scope of AIG's compensation obligations despite the $40 billion TARP investment in November 2008. As a result, senior Treasury officials were apparently not aware of the details of the March 2009 AIGFP payments until February 28, 2009. This meant that Treasury invested tens of billions of taxpayer dollars in AIG, designed AIG's contractual executive compensation restrictions, and helped manage the Government's majority stake in AIG for several months, all without having any detailed information about the scope of AIG's very substantial, and very controversial, executive compensation obligations. Treasury's failure in oversight potentially resulted in a missed opportunity to avoid the explosively controversial events surrounding the AIGFP retention payments that followed and created such considerable public and Congressional concern.

- AIG Counterparty Payments: On November 10, 2008, the Federal Reserve and Treasury announced the restructuring of the Government's financial support to AIG. As part of this restructuring, a special purpose vehicle, Maiden Lane III, purchased certain assets underlying AIGFP's Credit Default Swap (CDS) contracts from its counterparties using $24.3 billion of FRBNY financing in combination with a $5.0 billion equity investment from AIG. In exchange for this payment and being permitted to retain $35 billion in collateral payments already made (thus effectively being paid par or face value for the underlying assets), the counterparties agreed to terminate their CDS contracts with AIGFP. SIGTARP's audit, which was issued in November of 2009, found, among other things, that the terms of the original FRBNY financing did not result from independent analysis, but were simply an adoption of the term sheet from an aborted private financing discussion, and those terms, which included an onerous effective interest rate of 11 percent, made modification of the terms and further Government action inevitable. The audit also found that, in structuring Maiden Lane III, FRBNY attempted to obtain concessions, or "haircuts" from the CDS counterparties — and one counterparty was prepared to take a modest haircut — but the FRBNY's negotiating strategy was hampered by a series of policy decisions that severely limited its ability to obtain concessions, including its decision not to accept concessions unless concessions could be obtained from all of the counterparties, its refusal to use its leverage as regulator to some of the institutions involved, and its basic discomfort with interfering with the sanctity of the counterparties' contractual rights. These policy choices led directly to a negotiating strategy with the counterparties that even then-FRBNY President Geithner acknowledged had little likelihood of success. The audit further noted that although Mr. Geithner has denied that his intent was to benefit the counterparties, the overall structure of the AIG bailout resulted in AIG's counterparties receiving tens of billions of dollars they likely would not have otherwise received had AIG gone into bankruptcy.

- Additional Insights on Use of TARP Funds: In December of 2009, SIGTARP issued an audit conducted as a follow-up to SIGTARP's earlier audit on TARP recipients' use of TARP funds. The follow-up audit examined the use of TARP funds by six institutions — two automobile manufacturers (GM and Chrysler), two automobile financing firms (GMAC Inc. and Chrysler Financial Services Americas LLC), and two life insurance companies (The Hartford Financial Services Group, Inc. and Lincoln National Corporation). The six companies were able to provide useful insight on their actual or planned use of TARP funds.

- HAMP: A SIGTARP audit report published in March of 2010, examined the design and operation of HAMP in detail. The audit first found that Treasury's publicly touted measure of success, the number of short-term trial modification offers that have been made to struggling homeowners, was largely meaningless, and that Treasury needs to clearly identify the total number of homeowners it actually intends to help stay in their homes through sustainable permanent mortgage modifications. The audit also found that the limited results to date stemmed from, among other things, flaws in HAMP's design, rollout, and marketing that diminished the program's effectiveness in providing sustainable relief to at-risk homeowners. In its original version, HAMP involved frequent and time-consuming revisions of guidelines that created confusion and delay; permitted reliance on unverified verbal borrower data that slowed down conversions to permanent modifications; suffered from insufficient outreach to the American public about eligibility and benefits; and did not fully address risk factors for re-defaults among participating borrowers, including negative equity and high total debt levels even after modification. Without addressing the dangers of re-default, HAMP risks merely spreading out the foreclosure crisis at significant taxpayer expense. While this may benefit financial institutions that would not have to recognize the losses from immediate foreclosures, it would do little to accomplish EESA's explicit purpose to "help families keep their homes."

- Warrants Sales: In May of 2010, SIGTARP released an audit that analyzed the processes and procedures Treasury has established to ensure that the Federal Government receives fair market value for the warrants it received in connection with TARP investments and the extent to which Treasury has controls in place to facilitate a transparent and well-documented decision-making process. The audit found that Treasury's warrants disposition process generally has been successful, albeit after a somewhat difficult start. However, there are two areas where Treasury could improve its procedures to ensure more consistent, transparent decision-making. First, Treasury lacks detailed documentation supporting the decision-making process of its Warrant Committee, and SIGTARP recommended that Treasury enhance the detail captured in the meeting minutes of its Warrant Committee. Second, Treasury does not document conversations with its counterparties, nor does Treasury have procedures in place to control the amount of information shared with them.

- Monitoring Compliance: In June 2010, SIGTARP issued an audit that examined the extent to which Treasury follows a clear, consistent, and effective process to ensure that companies receiving exceptional assistance under TARP adhere to applicable requirements. SIGTARP found that, although some progress has been made since an earlier review of internal controls, Treasury's implementation of its compliance strategy has been too slow, Treasury relies too heavily on the companies to gauge their compliance, and Treasury has been inadequately staffed.

- Automobile Dealership Closures: In July 2010, SIGTARP published an audit, as requested by Senator Jay Rockefeller and Representative David Obey, that evaluated the role of Treasury's Auto Team in the decision to reduce dealership networks, the extent to which GM and Chrysler developed and documented processes for deciding which dealership to terminate and which to retain, and to what extent the dealership reductions are expected to lead to cost savings to GM and Chrysler. SIGTARP found that although there was broad consensus concerning the need to close dealerships, there were dissenting expert opinions concerning the timing and location of the reductions; that job losses were not a significant factor in the Auto Team's decision-making; and cost savings were not considered.

These audits may be reviewed in their entirety at http://www.sigtarp.gov/audits.shtml.

Leveraged Oversight Resources: SIGTARP actively coordinates its activities with other oversight and law enforcement bodies. In addition to meeting extensively with Treasury and the Federal Reserve concerning program proposals, SIGTARP regularly and continually coordinates with the Financial Stability Oversight Board, the Congressional Oversight Panel, and the Government Accountability Office concerning our overlapping oversight responsibilities under EESA. Additionally, SIGTARP has initiated several efforts designed to augment audit and investigative resources. For example, SIGTARP founded the TARP Inspector General Council (TARP-IG Council), which includes the Comptroller General, the Inspector General for Treasury, the Federal Reserve Board, the FDIC, SEC, the Federal Housing Finance Agency, HUD, the Small Business Administration, and the Treasury Inspector General for Tax Administration. The TARP-IG Council meets regularly to discuss developments in TARP and coordinate interconnected audit and investigative issues. Similarly, SIGTARP organized and chairs the Term Asset-Based Securities Loan Facility/Public-Private Investment Program

(TALF/PPIP) Task Force, which includes the Inspector General for the Federal Reserve Board, the Federal Bureau of Investigation (FBI), the Financial Crimes Enforcement Network (FinCEN), U.S. Immigration and Customs Enforcement, the Internal Revenue Service Criminal Investigation Division (IRS-CID), the SEC, and the United States Postal Inspection Service (USPIS). The task force members participate in regular briefings about the TALF/PPIP, collectively identify areas of fraud vulnerability, engage in training exercises, and coordinate audit and investigative efforts. SIGTARP has also forged partnerships and launched joint investigations with the FBI, the SEC, IRS-CID, and the Federal Trade Commission, among others.

On February 24, 2010, SIGTARP hosted the inaugural meeting of the Rescue Fraud Working Group. President Obama established the Financial Fraud Enforcement Task Force ("FFETF") "to investigate and prosecute significant financial crimes and other violations relating to the current financial crisis and economic recovery efforts, recover the proceeds of such crimes and violations, and ensure just and effective punishment of those who perpetrate financial crimes and violations." A component of FFETF is the Rescue Fraud Working Group, co-chaired by Special Inspector General Neil M. Barofsky, Assistant Attorney General Lanny A. Breuer of the Criminal Division of the DOJ, and Timothy G. Massad, chief counsel of OFS. Attendees at the inaugural meeting included officials from agencies across the Federal Government, including OFS; DOJ (Civil, Criminal, and Tax Divisions); the U.S. Attorneys' Offices for the Northern and Central Districts of California, the Eastern District of Virginia, the Eastern and Southern Districts of New York, and the District of New Jersey; the Office of the Comptroller of the Currency; the Office of Thrift Supervision; the FinCEN; USPIS; the Board of Governors of the Federal Reserve; the SEC; and the FBI.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Special IG for TARP	FTE	Amount
FY 2010 Enacted	**133**	**$23,300**
FY 2011 Annualized CR Level	**192**	**$36,300**
Changes to Base:		
Adjustment to Reach Policy Level:	-	$13,068
Adjustment to Reach FY 2011 President's Policy	-	$13,068
Maintaining Current Levels (MCLs):	-	$454
Maintaining Current Levels	-	$454
Efficiencies, Savings & Base Reductions:	-	($2,448)
Efficiencies, Savings and Reductions	-	($2,448)
Subtotal FY 2012 Changes to Base	-	$11,074
Total FY 2012 Base	**192**	**$47,374**
Total FY 2012 Request	**192**	**$47,374**

2A – Budget Increases and Decreases Description

Adjustment to Reach Policy Level

Adjustment to Reach FY 2011 President's Policy +$13,068,000 / +0 FTE
Adjustment to Reach FY 2011 President's Policy

Maintaining Current Levels (MCLs)

Maintaining Current Levels +$454,000 / +0 FTE
Funds are required for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings & Base Reductions

Efficiencies, Savings and Reductions -$2,448,000 / +0 FTE
A reduction from the base level will be absorbed through general operating costs.

2.2 – Operating Levels Table

Dollars in Thousands

Special IG for TARP	FY 2010 Enacted	FY 2011 Annualized CR Level	Proposed Reprogrammings	FY 2011 Proposed Operating Level	FY 2012 Request
FTE	**133**	**192**	**-**	**192**	**192**
Object Classification					
11.1 - Full-time permanent	$9,591	$14,782	$0	$14,782	$17,339
11.3 - Other than full-time permanent	$1,903	$1,682	$0	$1,682	$1,766
11.5 - Other personnel compensation	$0	$0	$0	$1,416	$1,741
11.6 - Overtime	$0	$1,416	$0	$0	$0
11.7 - Other Personnel Compensation	$1,047	$449	$0	$449	$413
12 - Personnel benefits	$3,454	$4,734	$0	$4,734	$5,346
21 - Travel and transportation of persons	$0	$963	$0	$963	$1,000
23 - Rent, Communications and Utilities	$1,425	$0	$0	$0	$0
23.3 - Communication, utilities, and misc charges	$0	$0	$0	$0	$172
24 - Printing and reproduction	$0	$0	$0	$0	$195
25.1 - Advisory and assistance services	$4,321	$5,115	$0	$5,115	$7,254
25.2 - Other services	$0	$0	$0	$0	$741
25.3 - Other purchases of goods and services from Govt. accounts	$1,559	$7,159	$0	$7,159	$9,674
26 - Supplies and materials	$0	$0	$0	$0	$410
31 - Equipment	$0	$0	$0	$0	$1,223
42 - Insurance claims and indemnities	$0	$0	$0	$0	$100
Total Budget Authority	**$23,300**	**$36,300**	**$0**	**$36,300**	**$47,374**
Budget Activities					
Audit	$9,900	$15,609	$0	$15,609	$20,371
Investigations	$13,400	$20,691	$0	$20,691	$27,003
Total Budget Authority	**$23,300**	**$36,300**	**$0**	**$36,300**	**$47,374**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2010 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Appropriated Resources:										
Audit	48	$9,900	61	$9,900	78	$15,609	78	$20,371	27.87%	105.77%
Investigations	64	13,339	72	13,400	114	20,691	114	27,003	58.33%	101.51%
Subtotal New Appropriated Resources	112	$23,239	133	$23,300	192	$36,300	192	$47,374	44.36%	103.32%
Other Resources:										
Available multi-year/no-year funds		9,007		20,000		13,068				
Available multi-year PPIP funds		1,238		5,000		1,671		1,708		
Subtotal Other Resources	0	$10,245	0	$25,000	0	$14,739	0	$1,708		-93.17%
Total Resources Available for Obligation	112	$33,484	133	$48,300	192	$51,039	192	$49,082	44.36%	1.62%

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM Federal funds **SALARIES AND EXPENSES** *For necessary expenses of the Office of the Special Inspector General in carrying out the provisions of the Emergency Economic Stabilization Act of 2008 (Public Law 110-343), as amended, $47,374,000.*	

2C – Legislative Proposals

SIGTARP does not have any legislative proposals for FY 2012.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	% Change FY10 to FY12
Exceptional accountability and transparency	23,300	36,300	$47,374	103.32%
Total	**$23,300**	**$36,300**	**$47,374**	**103.32%**

3A - Audit *($20,371,000 from direct appropriations)* [1] The Audit Division (AD) conducts, supervises, and coordinates programmatic audits with respect to Treasury's operation of TARP and the recipients' compliance with their obligations under relevant law and contracts; evaluates TARP policies and procedures; and provides technical assistance to Treasury. With respect to auditing, the division is designed to provide SIGTARP with maximum flexibility in the size, timing, and scope of audits so that, without sacrificing the rigor of the methodology, audit results, whenever possible, can be generated rapidly both for general transparency's sake and so that the resulting data can be used to improve the operations of the fast-evolving TARP. For FY 2012, AD expects to initiate an average of four audits per quarter.

Regarding policy review and technical assistance, a particular focus of AD is ensuring that appropriate internal controls are in place and are complied with, both by Treasury in its management of TARP and by the recipients of TARP funds, including vendors and the entities in which money is invested. Where controls or compliance are found to be lacking, or where particular aspects or policies are found ineffective at reaching TARP's goals, AD assists the SIG to fashion recommendations to resolve such issues.

[1] In addition to the SIG and his central office staff ("CO"), SIGTARP is comprised of the AD, the ID, the Operations Division ("OD"), and the Office of General Counsel. The basic statutory mission of SIGTARP (*i.e.*, audit and investigation) is largely carried out by AD and ID. The CO, OD, and DGC lend support AD and ID as they fulfill the mission, and, thus, CO, OD and DGC costs have been apportioned among AD and ID.

3.2.1 Audit Budget and Performance Plan

Audit Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$0	$0	$9,900	$15,609	$20,371
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$9,900**	**$15,609**	**$20,371**
Budget Activity Total	**$0**	**$0**	**$9,900**	**$15,609**	**$20,371**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Congressional Requests for Testimony Completed (Ot)(Units)	N/A	N/A	7.0	4.0	4.0
Number of Completed Audit Products (Ot)(Units)	N/A	3.0	9.0	12.0	12.0
Percent of Recommendations Implemented (Oe)(%)	N/A	100.0	43.0	70.0	70.0

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

Description of Performance: As discussed in section 1B, AD has issued 13 audit projects and initiated 26 audits. SIGTARP's audit team was not fully staffed for fiscal year 2010 and yet the audit work increased, requiring more in-depth analysis. As SIGTARP's audit division staffs to full capacity, the production of a greater number of audit reports in anticipated in FY 2011 and FY 2012. SIGTARP also anticipated a higher rate of implementation from OFS in FY 2010. SIGTARP will continue to make recommendations to improve the efficiency and effectiveness of TARP and will continue to work with OFS to implement these recommendations. In addition, SIGTARP anticipates that Congress will continue to have interest in SIGTARP's work and will continue to request testimonies in FY 2011 and FY 2012.

3B - Investigations *($27,003,000 from direct appropriations):* Investigations Division (ID) supervises and conducts criminal and civil investigations into those persons and entities, whether inside or outside of government, who waste, steal, or abuse TARP funds. The division is comprised of experienced financial and corporate fraud investigators, including not only special agents, but also forensic analysts and, critically, attorney advisors. This structure provides SIGTARP with a broad array of expertise and perspectives in developing even the most sophisticated investigations. In the interests of maximizing criminal and civil enforcement, ID coordinates closely with other law enforcement agencies with the goal of forming law enforcement partnerships, including task force relationships, across the Federal government to leverage SIGTARP's expertise and unique position.

ID also implements SIGTARPs Hotline which accepts and processes telephone, e-mail, website, and in-person complaints. One of SIGTARP's primary investigative priorities is to operate the SIGTARP Hotline, thus providing a simple, accessible way for the American public to report concerns, allegations, information, and evidence of violations of criminal and civil laws in connection with TARP. From its inception in February 2009 through December 31, 2010, the SIGTARP Hotline has received and analyzed more than 24,000 Hotline contacts. A substantial number of SIGTARP's investigations were generated in connection with Hotline tips. The SISTARP Hotline can receive information anonymously, and the confidentiality of whistleblowers is protected to the fullest extent possible.

3.2.2 Investigations Budget and Performance Plan

Investigations Budget Activity					
Resource Level	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Obligated**	**FY 2011 Annualized CR Level**	**FY 2012 Request**
Appropriated Resources	$0	$0	$13,400	$20,691	$27,003
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$13,400**	**$20,691**	**$27,003**
Budget Activity Total	**$0**	**$0**	**$13,400**	**$20,691**	**$19,703**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percentage of Hotline Complaints Referred for Investigation or to OFS within 14 days of Receipt (E)(%)	N/A	77.0	74.0	65.0	70.0
Percentage of Investigations Accepted by Prosecutors (Oe)(%)	N/A	95.0	100.0	55.0	55.0
Percentage of Preliminary Investigations Converted to Full Investigations (Oe)(%)	N/A	50.0	80.0	40.0	N/A
Percentage of cases that are joint agency/task force investigations (Oe)(%)	N/A	60.0	50.0	35.0	40.0

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

Description of Performance: In FY 2010, the Investigations Division opened 117 investigations and closed 41 cases. There are 142 active investigations as of the end of December 31, 2010. For FY 2012, although it is difficult to forecast for a variety of reasons, SIGTARP anticipates opening 95 new investigations. These investigations concern suspected TARP fraud, accounting fraud, securities fraud, insider trading, bank fraud, mortgage fraud, mortgage-servicer misconduct, fraudulent advance-fee schemes, public corruption, false statements, obstruction of justice, trade secrets theft, money laundering, and tax-related investigations.

The division expects to have grown to 82 FTE's by the end of the fiscal year. These FTEs hail from many Federal agencies including the Department of Justice, FBI, IRS-Criminal Investigations, Department of Energy-OIG, US Postal Inspections, HUD-OIG, Air Force Office of Special Investigations, US Secret Service, FDIC-OIG, US Army Criminal Investigations

Command, Navy Criminal Investigations Service, Treasury-OIG and the Securities and Exchange Commission.

As the Division has expanded so has the depth and complexity of the cases under investigation. Consequently these highly complex cases require considerable investment in investigative resources. Accordingly, the performance measures for FY2012 may need to be adjusted to reflect that some preliminary cases may sit longer prior to closure or conversion to a full investigation depending on available investigative resources. While the FY2010 percentage of 80 percent is an improvement on the last fiscal year the impact on our performance measure of some highly significant cases is difficult to quantify at this time.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The SIGTARP's strategic management of human capital is consistent with its mission, vision and priorities and supports Treasury's strategic goal of managing the U.S. Government's Finances as they relate to the TARP program effectively. SIGTARP anticipates that it will reach steady state (i.e., full staffing level, permanent office space, and most critical contracts in place) in the third quarter of FY 2011. Moreover, SIGTARP, pursuant to section 121(k) of EESA, as amended, is a temporary organization that is scheduled to cease operations on the date that the last troubled asset is disposed or the last guarantee contract expires, whichever is later. SIGTARP uses various hiring flexibilities such as Direct Hiring Authority and dual compensation reduction (salary offset) for re-employed annuitants. Direct Hiring Authority and the authority to re-employ retired annuitants without a salary offset has aided SIGTARP in aggressively recruiting the highly skilled, qualified applicants critical to SIGTARP meeting Congressional mandates.

SIGTARP continues to find ways to strengthen recruitment efforts through its continual development of a proactive working relationship with managers and supervisors. HR Specialist consults with managers/supervisors frequently to discuss position management and position classification issues; recruitment strategies; and provide information on hiring flexibilities and incentives that are available.

SIGTARP recognizes that improvements in the hiring processes are an on-going effort, and while much progress has been made – emphasis on achieving greater efficiencies and improvements continue. This effort includes working with minority schools and institutions to develop relationships; posting job vacancies in various professional magazines; focusing on Schedule A, Persons with Disability appointing authority, and increasing its veterans employment efforts by partnering with the Department of Treasury's Veterans Employment Program Office (VEPO). This program offers assistance with locating interns as well as conducting veteran's workshops for managers and supervisors. The workshops will meet the mandatory hiring manager training requirements.

In addition, SIGTARP participates in the "Take Your Child to Work Program" as a means to support the objectives of the White House Council on Women and Girls (CWG).

4.1 - Summary of IT Resources Table

(Dollars in Thousands)

Major IT Investments / Funding Source	Budget Activity	FY 2009 Enacted	FY 2010 Enacted	% Change from FY 2009 to FY 2010	FY 2011 Annualized CR Level	FY 2012 Request	% Change from FY 2010 to FY 2012
	Audit and Investigations	$0	$457	100.0%	$1,860	$1,260	175.7%
Subtotal, Major IT Investments		$0	$457	100.0%	$1,860	$1,260	175.7%
Continuing Operating Costs	Audit and Investigations	$0	$478	100.0%	$700	$700	46.4%
Other Non-Major Costs	Audit and Investigations	$0	$322	100.0%	$342	$342	6.2%
Non-Major IT Investments		$0	$800	100.0%	$1,042	$1,042	30.3%
Infrastructure Investments		$0	$2,678	100.0%	$3,838	$2,988	11.6%
Enterprise Architecture		$0	$0	0.0%	$0	$0	0.0%
Enterprise Identity and Access Management		$0	$0	0.0%	$0	$0	0.0%
Total IT Investments		$0	$3,935	100.0%	$6,740	$5,290	34.4%

4B – Information Technology Strategy

IT funding has been critical in enabling SIGTARP to fulfill its mission of transparency, coordinated oversight, and robust enforcement. Presently, SIGTARP is utilizing the services provided by Treasury Departmental Offices as part of Treasury's headquarters operations. SIGTARP relies on the Treasury's Office of the CIO and Departmental Offices Operations to provide a secure, independent infrastructure that is fully capable of supporting the mission and administrative requirements of a completely functional, bureau-level government agency with the technology requirements appropriate to an audit and investigative organization. SIGTARP is reviewing those requirements with Treasury Departmental Offices and other government agencies to determine best course of action to complete those requirements. The major IT investments are for acquisition, installation, integration, training and modifications of mission systems such as Hotline information management, investigative case management, forensic system management, audit management, records management, asset management and training management which are not normally provided by Treasury's shared services operations. As a temporary agency, SIGTARP expects only maintenance and routine enhancements and modifications to be required on an ongoing basis after a steady state of IT systems and operations is intended to be achieved in FY 2011. The significant infrastructure investments deferred in FY 2010 are expected to be expended in FY 2011 and FY 2012. These investments support the continued establishment of SIGTARP's capabilities, including infrastructure planning, installation of cabling to desktops, computer facility, telephone facility data storage, wireless antenna system, additional cooling and backup power and the connections for one or more external voice and data providers for its headquarters and remote office structure. After these initial start-up years, funds are budgeted for standard upgrades in capacity and functionality for headquarters and for remote office operations.

Accordingly, SIGTARP's IT strategy is to establish its mission systems and IT infrastructure in the initial years of its operation, then maintain its IT investment beginning in FY 2012 to updates, modifications, maintenance and equipment refreshment consistent with the priorities of the mission and its role as a temporary agency.

Overview

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	FY 2010 to FY 2012 $ Change	FY 2010 to FY 2012 % Change
Audit	$57,421	$57,421	$62,357	$4,936	8.6%
Investigations	$94,579	$94,579	$95,474	$895	0.9%
Total Appropriated Resources	**$152,000**	**$152,000**	**$157,831**	**$5,831**	**3.8%**
Total FTE	**835**	**835**	**864**	**29**	**3.5%**

FY 2012 Priorities

- Adapting to the Internal Revenue Service's (IRS) continuously evolving operations and mitigating intensified risks associated with modernization, security, addressing the Tax Gap, and human capital challenges facing the IRS in domestic and international operations in order to increase voluntary tax compliance;
- Responding to domestic and international threats and attacks against IRS employees, property, and sensitive information;
- Improving the integrity of IRS operations by detecting and deterring fraud, waste, abuse, and misconduct by IRS employees;
- Conducting comprehensive audits, inspections, and evaluations that include recommendations for monetary benefits and enhancing IRS's service to taxpayers;
- Informing the American people, the Congress, and the Secretary of the Treasury of problems and progress made to resolve them; and
- Overseeing the IRS's efforts to administer the tax provisions of the *American Recovery and Reinvestment Act of 2009* (Recovery Act), the *Patient Protection and Affordable Care Act*, and the *Health Care and Education Reconciliation Act of 2010*. These two pieces of legislation are referred to as the Affordable Care Act (ACA).

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Inspector General for Tax Administration (TIGTA) was created by the Congress as a part of the *Internal Revenue Service Restructuring and Reform Act of 1998* (RRA 98). TIGTA's work is devoted to all aspects of activity related to the federal tax system as administered by the Internal Revenue Service (IRS). As one of 69 federal offices of Inspector General, TIGTA reviews IRS programs, makes recommendations to improve their effectiveness and efficiency, and investigates allegations of fraud, waste, and abuse. TIGTA conducts audits that advise the American people, the Congress, the Secretary of the Treasury, and IRS's 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 investigations ensure the integrity of IRS employees, contractors, and tax professionals; provide for infrastructure security; and protect the IRS from external attempts to threaten or corrupt the administration of the tax laws. TIGTA's Office of Inspections and Evaluations (I&E) provides responsive, timely, and cost-effective inspections and evaluations of IRS challenge areas. TIGTA's oversight is essential to the efficiency and equity of the federal tax administration system. TIGTA ensures that the American taxpayer can have confidence that the IRS collects over $2 trillion in tax revenue in an effective and efficient manner without fraud and abuse.

TIGTA's FY 2012 budget request of $157,831,000 represents an increase of 3.8 percent above the FY 2010 budget. These resources will finance critical audit, investigative, and inspection and evaluation services to protect the integrity of tax administration on behalf of the nation's taxpayers. TIGTA's audit, investigative, and inspection and evaluation priorities include:

- Adapting to the Internal Revenue Service's (IRS) continuously evolving operations and mitigating intensified risks associated with modernization and security, addressing the Tax Gap, and human capital challenges facing the IRS in domestic and international operations in order to increase voluntary tax compliance;
- Responding to domestic and foreign threats and attacks against IRS employees, 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, inspections, and evaluations that include recommendations for monetary benefits and enhancing IRS's service to taxpayers;
- Informing the American people, the Congress, and the Secretary of the Treasury of problems and progress made to resolve them; and
- Overseeing the IRS's efforts to administer tax provisions of the *American Recovery and Reinvestment Act of 2009* (Recovery Act), the *Patient Protection and Affordable Care Act*, and the *Health Care and Education Reconciliation Act of 2010* (ACA).

Additionally, TIGTA's strategic goals contribute to the Department's priority performance goal to significantly increase voluntary tax compliance.

TIGTA's commitment to valuing its people was recognized in the Partnership for Public Service's 2010 Best Places to Work rankings. TIGTA placed 18 out of 224 in the overall index score measuring the performance of agency subcomponents related to employee satisfaction and commitment. This ranking is based on the Office of Personnel Management's (OPM) biennial Federal Human Capital Survey, which federal agencies use as benchmarks to measure their performance. The 2010 survey was renamed the "Federal Employee Viewpoint Survey (EVS)." TIGTA's response rate of 79 percent was second place among the Treasury bureaus and higher than the government average. Survey results provided valuable insight into the challenges agency leaders face in ensuring that TIGTA has an effective civilian workforce and how well they are responding. The survey highlights stated that TIGTA employees continue to be happy with their jobs and feel their work is important. The vast majority believe TIGTA is accomplishing its mission and would recommend it as a good place to work.

In FY 2012, TIGTA will face the challenge of adapting its oversight activities to address the complex and high-risk issues associated with IRS implementation of ACA legislation. TIGTA requests $5,600,000 to provide oversight of the IRS implementation of ACA. This effort will be in addition to TIGTA's continuing work including assessing IRS tax compliance initiatives, evaluating the IRS's efforts to administer tax provisions in the Recovery Act, detecting and investigating fraud and electronic crime, reviewing procurement activities, safeguarding taxpayer privacy, evaluating IRS Human Capital activities, and addressing requests for IRS program reviews from the Congress and other IRS stakeholders. Each of these issues presents significant challenges for both TIGTA and the IRS.

In accordance with the requirements of Section 6(f)(1) of the *Inspector General Act of 1978* (as amended), the Treasury Inspector General for Tax Administration submits the following information related to its requested budget for FY 2012:

- The aggregate budget request for the operations of TIGTA is $157,831,000;
- The portion of the request needed for TIGTA training is $2,692,000; and
- The portion of the request needed to support the Council of the Inspectors General on Integrity and Efficiency (CIGIE) is $380,000.

The amount requested for training satisfies all TIGTA training needs for fiscal year 2012.

1B – Program History and Future Outlook

Previously a longstanding oversight office within the IRS, TIGTA was established as an independent office in January 1999 in accordance with RRA 98. TIGTA is mandated to provide independent audit, investigative, and inspection and evaluation services necessary to improve the quality and credibility of IRS operations, including oversight of the IRS Chief Counsel and the IRS Oversight Board. TIGTA's audits, investigations, and inspections and evaluations are integral to the equitable treatment of taxpayers by the IRS, and in ensuring that collection of federal revenue is completed in a fair, efficient and effective manner that is secure from internal and external threats. Oversight activities are explicitly designed to identify high-risk systemic inefficiencies in IRS operations and to investigate exploited weaknesses in tax administration.

In FY 2008, TIGTA's Office of I&E began its first year of operation as a separate office after a successful pilot project during FY 2006 and FY 2007. I&E complements the work of the audit and investigative functions and provides TIGTA with additional flexibilities and capabilities to meet its mission and address increasing requests for IRS program reviews from the Congress and other IRS stakeholders. The scope of the group's efforts ranges from answering Congressional concerns to evaluating IRS's ability to administer the tax laws. I&E will continue to provide TIGTA the ability to conduct in-depth evaluations of major IRS functions, activities, and programs. I&E has positioned TIGTA well to respond to external stakeholders in a rapid response mode. As the group continues its work, I&E expects its influence in overseeing tax administration to grow and its service of informing interested parties to expand.

The passage of the Recovery Act provided funding for the additional workload that has arisen from overseeing IRS efforts to implement a variety of economic stimulus measures. A key component of the Recovery Act is the implementation of 56 tax provisions by the IRS. TIGTA's program plan includes detailed information on all ongoing and planned activities. Recovery work is allowing TIGTA to revise coordination procedures with the IRS to make interim reports more readily available to the public on TIGTA's website and Recovery.gov; successful Recovery coordination changes will have a positive long-term impact on traditional audit and inspection timelines. During FY 2010, TIGTA issued 14 Recovery Act reports. Another 17 reviews are ongoing.

In 2010, the President signed into law significant changes to the nation's health care system under the ACA. Changes to tax administration that IRS will be responsible for implementing include:

- Delivering tax credits to businesses and individuals to assist in covering the cost of health coverage;
- Administering the mandate for individuals to purchase health coverage (only for those who are deemed able to afford such coverage) or be subject to a penalty on their individual federal tax returns; and
- Administering multiple tax provisions designed to raise revenues to offset the cost of ACA.

The IRS components of the new ACA legislation are a cornerstone of the Administration's plan to expand coverage for millions of Americans. TIGTA is in a unique position to allay concerns about IRS overreach, assure citizens about the integrity of the program, and give lawmakers the assurance that the program functions properly. TIGTA has often paved the way for new initiatives that are administered through the tax code. The most recent example was TIGTA's audit recommendations on the First-Time Homebuyers Tax Credit. All recommendations were quickly embraced by the IRS, and taxpayers were quickly assured that this was not a loophole for tax cheats. The roll-out of the Earned Income Tax Credit (EITC) was another initiative that touched millions of tax payers. Similarly, auditors at TIGTA's predecessor, IRS Inspections, were able to identify problems before they had an impact on the public's perception of the program.

FY 2012 stands to be a crucial year in the IRS's efforts to implement new systems and programs to administer these provisions. As IRS leadership lays the groundwork for administering these initiatives, TIGTA executives will monitor these plans and allocate staff and resources that best align with IRS decisions. TIGTA has already identified a critical need to conduct 16 separate ACA-related audits that will require 5,125 staff days, or 23 auditor full time equivalents (FTE), during FY 2012 alone.

ACA will engage almost every component of TIGTA. Within the Office of Audit (OA), the **Returns Processing and Account Services** group will assess the integrity of new IRS forms and make sure that IRS systems are capable of directing the many calls from taxpayers. One example is a planned audit of the administration of section 9002 of the ACA that requires inclusion of employer sponsored health coverage on the Wage and Tax Statement (IRS form W-2).

The **Security and Information Technology Services** division will expand its audits of IRS computer systems to ensure that health care information is safeguarded and secure. Sharing sensitive health care information will be new for most taxpayers and TIGTA's review of the implementation of section 1411 of the ACA legislation will assure that information shared between the U.S. Department of Health and Human Services and TIGTA is secure.

Another example is the **Compliance and Enforcement Operations** group, which will expand audit coverage to include oversight of section 10907 of the ACA that creates a new 10 percent excise tax on indoor tanning services. Industry experts estimate that as many as 30 million Americans use indoor tanning services. This is just one of the 16 audits already identified that will be required to provide proper oversight of IRS's expanded mission.

The Office of Investigations (OI) is similarly impacted by the demands of ACA. As the IRS's efforts to implement new systems and programs to administer the provisions of the ACA increase, so will TIGTA's efforts to protect the IRS from external attempts to corrupt or impede the administration of internal revenue laws. To effectively carry out this important oversight work, TIGTA must be better positioned to utilize law enforcement and intelligence resources to proactively detect and deter efforts impacting the IRS's implementation of the ACA. TIGTA estimates that five series-1811 investigators will be required to discharge its increased duties associated with ACA.

The five investigators will review and analyze intelligence information relating to potential violent acts against IRS employees and facilities and develop proactive leads to investigate and mitigate potential threats. The investigators will also respond to violent acts committed against IRS employees and facilities, initiate investigations into those incidents, and work towards the arrest, conviction and sentencing of the perpetrators. To further enhance their work, the investigators will utilize OI's technical expertise, including TIGTA's Forensic Science Laboratory to help gather intelligence and investigate violent acts.

The Office of Inspections and Evaluations (I&E) will also provide oversight of the IRS's administration of ACA and provide TIGTA with additional flexibility, capacity, and capability to produce value-added products and services to improve tax administration. Inspections will usually be more limited in scope and will be completed in a more compressed period than a traditional audit. Evaluations related to ACA will result in recommendations to streamline operations, enhance data quality, and minimize inefficient and ineffective programs. Its work is not a substitute for audits and investigations; in fact, its findings may result in subsequent audits and/or investigations. I&E is requesting only one FTE at this time. Inspections and Evaluations, by their nature, have a short time horizon and will respond to specific ACA tax administration issues.

TIGTA's work requires close coordination among its Audit, Investigations, Inspections and Evaluations functions. Each program office brings unique skills and experience, but the bureau's overall success depends greatly upon these offices' close collaboration. TIGTA has years of experience in overseeing the roll-out of broad changes to tax administration. The success of the new ACA program will depend on the government's ability to assure taxpayers that the new changes are properly administered.

TIGTA continues to provide comprehensive coverage and oversight of all aspects of the IRS's operations. In FY 2010, TIGTA's overall accomplishments included, $8.61 billion in potential increased and/or protected revenue and $2.82 billion in potential cost savings.

Ensuring Taxpayer Privacy and Security: Millions of taxpayers entrust the IRS with sensitive financial and personal data that are stored in and processed on IRS computer systems. The risk that taxpayers' identities could be stolen by exploiting security weaknesses in the IRS's information technology systems continues to increase, as does the risk that IRS computer operations could be disrupted. Both internal factors (such as the increased connectivity of computer systems and greater use of portable laptop computers) and external factors (such as the volatile threat environment resulting from increased terrorist and hacker activity) require strong security controls. In FY 2010, OA issued reports that included addressing the protection of federal tax information at state government agencies and security controls over the Automated Collection System.

To prevent the compromise of sensitive taxpayer information, TIGTA proactively identifies IRS employees who inappropriately access and/or disclose such private information. These violations, known as unauthorized access (UNAX), are often the initial phase of IRS employee misconduct and frequently result in the uncovering of other criminal violations, including fraud and identity theft. IRS employees who are found to have committed UNAX violations may be subject to fines, prison terms, and loss of their jobs. Since enactment of the *Taxpayer Browsing Protection Act* in August 1998, TIGTA investigations have resulted in more than 6,908 adverse personnel actions taken by the IRS and 367 criminal prosecutions for UNAX violations through FY 2010.

The importance of efforts to detect unauthorized access is often underestimated. Too often, UNAX is seen as browsing by bored employees. However, TIGTA's investigations have revealed a far more disturbing trend where, in a significant number of cases, such unauthorized access was only the first stage in far more serious crimes such as falsification of records, fraud, embezzlement, and identity theft.

In FY 2009, TIGTA established a UNAX modernization group to address all computer applications the IRS currently uses that contain sensitive information. This group's work to date includes monitoring the IRS's efforts to develop and implement an enterprise-wide audit trail solution, providing guidance to the IRS on establishing retention policies so that forensic investigations can be conducted, and ensuring the IRS expands its automated capability to proactively detect unauthorized accesses on all computer systems. During FY 2010, TIGTA investigators completed 1,796 employee integrity investigations, of which 405 involved UNAX allegations. This resulted in 42 criminal prosecutions and 737 administrative disciplinary actions against IRS employees.

Tax Compliance: Tax compliance initiatives include administering tax regulations, collecting the correct amount of tax from businesses and individuals, and overseeing tax-exempt and government entities for compliance. Increasing voluntary compliance and reducing the $345 billion Tax Gap (the IRS defines the Tax Gap as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely paid for a tax year) are currently the focus of many IRS initiatives. In FY 2010, OA issued reports addressing collection alternatives for economically distressed taxpayers, lien determinations, and sole proprietor correspondence audits.

TIGTA continues its outreach efforts to IRS employees and tax practitioners. By doing so, TIGTA develops relationships with these groups to assist in identifying crimes against the IRS and taxpayers. In FY 2010, TIGTA provided 1,427 presentations to more than 52,000 IRS employees and educated tax professionals by providing 118 awareness presentations to 8,068 tax practitioners and preparers.

Leveraging Data to Improve Program Effectiveness and Reduce Costs*:* While the IRS has made some progress in using its data to improve program effectiveness and reduce costs, this area continues to be a major challenge. The IRS lacks a comprehensive, integrated system that provides accurate, relevant, and timely financial and operating data describing performance measures, productivity, and associated costs of IRS programs. In FY 2010, OA issued a report addressing the IRS's methodology for calculating the cost of Unemployment Trust Fund administrative expenses.

Implementing Tax Law Changes: Each filing season tests the ability of the IRS to implement tax law changes made by the Congress. The correct implementation of tax law changes is a continuing challenge because the IRS must identify the tax law changes; revise the various tax forms, instructions, and publications; and reprogram computer systems used to process returns. In FY 2010, TIGTA issued a report on how the IRS can enhance taxpayer awareness of the benefits of the qualified joint-venture filing option.

Department-wide Priority – Electronic Stewardship and Data Centers: Federal agencies have been directed to improve their energy efficiency and reduce greenhouse gas emissions. In FY 2010, OA issued a report regarding the improvement of data center energy efficiency that could save the IRS millions of dollars in energy costs.

Advising the Congress: During FY 2010, TIGTA provided one Congressional testimony, 18 briefings, one Statement for the Record, and 39 official responses to the Congress regarding audit, investigative, and inspection and evaluation activities. Through direct communication, TIGTA aims to address the interest of Congressional committees on critical issues involving IRS operations.

Going Green Initiatives: TIGTA has identified several ways to make its operations more environmentally friendly. TIGTA's audits, inspections, and evaluations also have the potential to reduce the environmental impact of IRS's operations. During FY 2010, OI's Complaints Management Team began to process all complaints electronically, saving paper, ink, and storage costs. TIGTA has also conducted audits of IRS's operations to ensure that both data centers and desktop computer equipment are energy efficient. Given the size of IRS's workforce, any incremental improvement can make a significant difference.

Fraud and Electronic Crime: The sensitivity of the data the IRS collects makes it an attractive target for employees, hackers, and others who could use the information for fraud and identity theft. TIGTA's audit, investigative, inspection and evaluation work provides coverage of this growing national problem, providing proactive prevention and detection efforts that are required in this highly vulnerable and ever-evolving area. As described in *Presidential Decision Directive NSC-63*, IRS operations, that fund the federal government are part of the nation's critical infrastructure. Degradation of the public's trust in the tax system would lead to a decline in voluntary compliance and represents a risk to national security.

Audit Outcomes: TIGTA strives to protect the integrity of America's tax system. TIGTA's audits focus on the economy, efficiency, and effectiveness of tax administration. TIGTA provides recommendations to improve IRS systems and operations while ensuring fair and equitable treatment of taxpayers. During FY 2010, TIGTA issued 129 reports identifying approximately $11.46 billion in potential financial benefits. These reports also impacted approximately 2.03 million taxpayer accounts in areas such as taxpayer burden, taxpayer rights and entitlements, taxpayer privacy and security, and increased revenue/revenue protected. These audits could return $74 for each $1 invested in FY 2010.

Investigative Outcomes: OI investigates threats to America's tax system, which could impede collection of tax revenue and reduce public confidence. In FY 2010, 86 percent of TIGTA's closed investigations generated results, including 1,635 cases of employee misconduct referred to the IRS for administrative action and 235 cases accepted for prosecution. Even though the IRS is committed to "stopping UNAX in its tracks," unauthorized access to confidential tax information remains a significant problem. During the same period, TIGTA closed 611 UNAX cases, resulting in 546 adverse personnel actions against IRS employees. Altogether, the 118 employees under investigation for UNAX and other violations resigned during the investigation or before any personnel action could be taken.

Inspections and Evaluations Outcomes: I&E took the lead in programming TIGTA's Recovery Act activities. Additionally, I&E has reported on several pertinent issues including IRS's preparedness to respond to a pandemic, as detailed in the IRS Pandemic Influenza Preparedness

Plan – Phase I. Planned evaluations will result in recommendations to streamline operations, enhance data quality, and improve the efficiency and effectiveness of IRS programs.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Inspector General for Tax Administration	FTE	Amount
FY 2010 Enacted	**835**	**$152,000**
FY 2011 Annualized CR Level	**835**	**$152,000**
Changes to Base:		
Adjustment to Reach Policy Level:	-	$2,266
Adjustment to Reach FY 2011 President's Policy	-	$2,266
Maintaining Current Levels (MCLs):	-	$1,391
Maintaining Current Levels (MCLs)	-	$1,391
Efficiencies, Savings & Base Reductions:	-	($3,474)
Program Reductions and Efficiencies	-	($3,474)
Subtotal FY 2012 Changes to Base	-	$183
Total FY 2012 Base	**835**	**$152,183**
Program Changes:		
Program Increases:	29	$5,648
Oversight of IRS Implementation of the Affordable Care Act	29	$5,600
CIGIE Payment	-	$48
Subtotal FY 2012 Program Changes	29	$5,648
Total FY 2012 Request	**864**	**$157,831**

2A – Budget Increases and Decreases Description

Adjustment to Reach Policy Level .... +$2,266,000 / +0 FTE

Adjustment to Reach FY 2011 President's Policy +$2,266,000 / +0 FTE

Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

Maintaining Current Levels (MCLs) .... +$1,391,000 / +0 FTE

Maintaining Current Levels (MCLs) +$1,391,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings & Base Reductions .... -$3,474,000 / +0 FTE

Program Reductions and Efficiencies -$3,474,000 / +0 FTE

TIGTA continuously seeks to reduce programs that are non-critical and find efficiencies in its operations. Reaching a savings target of $3,474,000 without impacting the quality of TIGTA's programs will require a combination of actions. TIGTA examines all vacancies to determine the impact of delayed back-filling and will strategically identify positions where longer lapses would have the smallest impact on mission. Reducing the reporting requirements identified in TIGTA's charter document, RRA 98 will generate $840,000 in savings. However, these reductions would require statutory change and are further discussed in the Legislative Proposals section of this document. Further savings will be realized in data center and certification and accreditation consolidation.

Program Increases .... +$5,648,000 / +29 FTE

Oversight of IRS Implementation of the Affordable Care Act +$5,600,000 / +29 FTE

The IRS components of the new ACA legislation are a cornerstone of the administration's plan to expand coverage for millions of Americans. TIGTA is in a unique position to ensure that IRS implements the law effectively, assure citizens about the integrity of the program, and give lawmakers the assurance that the program functions properly. TIGTA has often paved the way for new initiatives that are administered through the tax code. Funding will support 23 auditors, five investigators, and one inspections and evaluations specialist. TIGTA's work requires close coordination among its Audit, Investigations, Inspections and Evaluation functions. Each program office brings unique skills and experience, but the bureau's overall success depends greatly upon these offices' close collaboration. The success of the new ACA program will depend on the government's ability to assure taxpayers that the new changes are properly administered.

CIGIE Payment +$48,000 / +0 FTE

Funds for Council of Inspectors General on Integrity and Efficiency (CIGIE) will specifically support coordinated government-wide activities that identity and review areas of weakness and vulnerability in federal programs and operations with respect to fraud, waste and abuse. This increase raises TIGTA's CIGIE contribution to $380,000.

2.2 – Operating Levels Table

Dollars in Thousands

Inspector General for Tax Administration	FY 2010 Enacted	FY 2011 Annualized CR Level	Proposed Reprogrammings	FY 2011 Proposed Operating Level	FY 2012 Request
FTE	**835**	**835**	**-**	**835**	**864**
Object Classification					
11.1 - Full-time permanent	$82,553	$82,553	$0	$82,553	$85,290
11.3 - Other than full-time permanent	$593	$593	$0	$593	$605
11.5 - Other personnel compensation	$9,656	$9,656	$0	$9,656	$9,781
12 - Personnel benefits	$27,796	$27,796	$0	$27,796	$28,761
21 - Travel and transportation of persons	$4,823	$4,823	$0	$4,823	$4,964
22 - Transportation of things	$24	$24	$0	$24	$36
23.1 - Rental payments to GSA	$9,143	$9,143	$0	$9,143	$9,936
23.2 - Rental payments to others	$288	$288	$0	$288	$292
23.3 - Communication, utilities, and misc charges	$2,570	$2,570	$0	$2,570	$2,614
24 - Printing and reproduction	$8	$8	$0	$8	$8
25.1 - Advisory and assistance services	$1,135	$1,135	$0	$1,135	$1,141
25.2 - Other services	$921	$921	$0	$921	$970
25.3 - Other purchases of goods and services from Govt. accounts	$6,710	$6,710	$0	$6,710	$7,029
25.4 - Operation and maintenance of facilities	$407	$407	$0	$407	$413
25.7 - Operation and maintenance of equip	$1,232	$1,232	$0	$1,232	$1,260
26 - Supplies and materials	$1,206	$1,206	$0	$1,206	$1,233
31 - Equipment	$2,732	$2,732	$0	$2,732	$3,293
42 - Insurance claims and indemnities	$150	$150	$0	$150	$152
91.0 - Confidential Expenditures	$53	$53	$0	$53	$53
Total Budget Authority	**$152,000**	**$152,000**	**$0**	**$152,000**	**$157,831**
Budget Activities					
Audit	$57,421	$57,421	$0	$57,421	$62,357
Investigations	$94,579	$94,579	$0	$94,579	$95,474
Total Budget Authority	**$152,000**	**$152,000**	**$0**	**$152,000**	**$157,831**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2010 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Audit	0	$57,237	349	$57,421	349	$57,421	373	$62,357	6.88%	8.60%
Investigations	0	94,275	486	94,579	486	94,579	491	95,474	1.03%	0.95%
Subtotal New Appropriated Resources	**0**	**$151,512**	**835**	**$152,000**	**835**	**$152,000**	**864**	**$157,831**	**3.47%**	**3.84%**
Other Resources:										
Offsetting Collections - Reimbursable	2	2,113	3	1,300	3	1,300	3	1,300	0.00%	0.00%
Available multi-year/no-year funds	27	2,900		6,196						
Subtotal Other Resources	**29**	**$5,013**	**3**	**$7,496**	**3**	**$1,300**	**3**	**$1,300**	**0.00%**	**-82.66%**
Total Resources Available for Obligation	**29**	**$156,525**	**838**	**$159,496**	**838**	**$153,300**	**867**	**$159,131**	**3.46%**	**-0.23%**

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION Federal Funds General and Special 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 (31 U.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; $157,831,000 of which not to exceed $6,000,000 shall be available for official travel expenses; of which not to exceed $500,000 shall be available for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General for Tax Administration.*	

2C – Legislative Proposals

TIGTA proposes eliminating certain reviews conducted to comply with reporting requirements in the *IRS Restructuring and Reform Act of 1998*. These statutory reviews yield little in the way of improving performance measures and are of relatively low value. TIGTA would prefer to redirect resources applied to these reviews to conducting high-risk audits. TIGTA recommends legislative changes eliminating reporting requirements in the following areas:

- The requirement to report information regarding any administrative or civil actions related to Fair Tax Collection Practices violations in one of TIGTA's Semiannual Reports. This pertains to Internal Revenue Code Section 7803 (d)(1)(G).

- The requirement to review and certify annually that IRS is complying with the requirements of 26 U.S.C. section 6103(e)(8) regarding information on joint filers.

- The requirement to annually report on the IRS's compliance with Internal Revenue Code Sections 7521(b)(2) and (c) requiring IRS employees to stop a taxpayer interview whenever a taxpayer requests to consult with a representative and to obtain their immediate supervisor's approval to contact the taxpayer instead of the representative if the representative has unreasonably delayed the completion of an examination or investigation.

- The annual reporting requirement for the remaining RRA 98 provisions should be revised to a biennial reporting requirement.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to:
http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	% Change FY10 to FY12
Exceptional accountability and transparency	153,300	153,300	159,131	3.80%
Total	**$153,300**	**$153,300**	**$159,131**	**3.80%**

3A - Audit *($62,357,000 from direct appropriations, and $551,000 from reimbursable programs):* OA's mission is to promote the sound administration of the nation's tax laws by conducting comprehensive, independent performance and financial related audits of IRS programs. Audits will 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.

OA strategically evaluates IRS programs and operations so that TIGTA resources are expended in the areas of highest vulnerability. To carry out this goal, OA develops an annual audit plan that communicates its priorities and incorporates both statutory audit coverage, high-risk audit work identified through an annual risk assessment process and stakeholder requests. By focusing on critical areas, OA ensures that TIGTA audits identify and recommend improvements in the most vulnerable IRS programs.
During FY 2010, TIGTA issued 129 audit reports that included potential financial benefits of approximately $11.46 billion and potentially impacted approximately 2.03 million taxpayer accounts in areas such as taxpayer burden, taxpayer rights and entitlements, taxpayer privacy and security, and increased revenue/revenue protected.

American Recovery and Reinvestment Act of 2009 (Recovery Act): *The American Recovery and Reinvestment Act of 2009* includes multiple tax law provisions the IRS must implement. TIGTA received $7 million for oversight and audits of IRS activities related to the Making Work Pay Credit and Economic Recovery Payments. This funding is available through September 30, 2013. While TIGTA received funding to cover the costs of its efforts under the Recovery Act, current estimates indicate that this funding will run out during FY 2012. At that time, the cost of these important audit activities will be absorbed in TIGTA's regular appropriation.

In FY 2010, OA issued a report noting that millions of taxpayers may be negatively affected by the reduced withholding associated with the Making Work Pay Credit. Taxpayers receive the Making Work Pay Credit by means of a decrease in federal income tax withholding. This creates the vulnerability that some taxpayers may have their taxes under withheld at the end of

Tax Years 2009 and 2010. If taxpayers received more of the Making Work Pay Credit than they are entitled to, they may ultimately owe taxes when filing their Tax Years 2009 and 2010 tax returns and may be assessed estimated tax penalties.

In another review, OA found that initial published guidance for Recovery Act bonds was complete, accurate, and consistent. The Recovery Act authorizes new and expanded bond financing subsidies of more than $57.8 billion. However, this figure could be much higher because one type of tax credit bond, known as Build America Bonds, was not given a limit. These financing subsidies enable state and local governments to borrow at lower costs for capital projects and also target programs for energy projects and schools. The IRS quickly published guidance to help bond issuers understand how to issue tax-exempt and tax credit bonds intended to stimulate the economy by preserving and creating jobs.

Ensuring Taxpayer Privacy and Security: The IRS's Safeguards Program is tasked with ensuring that state government agencies receiving federal tax information maintain adequate safeguards to protect the data from unauthorized disclosure. This audit was initiated as a follow-up to a prior audit report to determine whether the IRS's Safeguards Program implemented sufficient policies and procedures to ensure that state government agencies adequately protect federal tax information from the IRS. TIGTA found that two of four previously reported conditions, the use of Plans of Actions and Milestones (POA&Ms) and the timeliness of reporting results continue to require management attention. TIGTA identified 45 state government agencies in the POA&M tool that had 1,094 security weaknesses which were not corrected by the targeted milestone dates. Also, safeguard review reports continue to be issued late.

In another review, TIGTA found that the IRS needs to implement additional security controls to protect the Automated Collection System (ACS) and sensitive taxpayer data. The ACS is a telephone contact system used by IRS employees to perform critical IRS processes such as collecting tax revenues and helping taxpayers resolve their tax issues. The lack of complete security controls increases the risks that taxpayer data could be stolen or computer operations could be disrupted.

Tax Compliance**:** Estimates by the IRS show that sole proprietors who underreported their income caused $68 billion of the $345 billion Tax Gap in 2001. This creates an unfair burden on honest taxpayers and diminishes the public's respect for the tax system. TIGTA evaluated closed correspondence audits of individual sole-proprietor returns and found significant tax issues were not addressed during these audits. TIGTA estimates the IRS could realize $82.6 million in additional taxes and interest over five years if the recommendations are implemented. TIGTA's calculation assumes that all estimated taxes and interest would be owed based upon audits of the taxpayers' records and that conditions such as tax rates and IRS audit coverage remain the same. The amount does not take into consideration implementation costs those associated with training and lost opportunities.

A separate review concluded that lien determinations were not appropriately made or were made late for more than $1.4 billion in delinquent taxes. The IRS protects its claims against taxpayers who owe delinquent taxes by filing federal tax liens (liens), which establish the IRS's priority among secured creditors for the taxpayers' equity. Failure to protect the government's interest on taxes that are owed creates an unfair burden on taxpayers who properly pay their taxes in full and on time. TIGTA estimated the IRS could realize $657.6 million in increased revenue over five years if the recommendation was implemented.

TIGTA also conducted a review to determine whether the IRS effectively implemented provisions identified to assist economically distressed taxpayers having difficulties paying their balance-due accounts. Collection provisions offer many viable alternatives to help resolve taxpayers' balance-due accounts. When the economy weakened, the IRS proactively implemented or re-emphasized provisions to help economically distressed taxpayers. However, some of the actions could jeopardize collections and, at times, some taxpayers may have had difficulty identifying the alternatives if they were unfamiliar with IRS resources.

Leveraging Data to Improve Program Effectiveness and Reduce Costs: TIGTA conducted a review to determine whether the IRS developed and implemented a methodology to reasonably and accurately calculate the cost of Unemployment Trust Fund administrative expenses. The review found that while additional procedures and controls have been implemented, there are still insufficient controls to ensure that expenses associated with the administration of the Unemployment Trust Fund are accurately calculated. For example, the IRS overestimated its trust-fund-related expenses by $63 million during FYs 2005 through 2009. As a result, these funds were not available during this period to fund the federal government's share of unemployment benefit payments to eligible taxpayers.

Department-wide Priority – Electronic Stewardship and Data Centers: The IRS has implemented programs and processes to improve energy efficiency. For example, some facilities fully implemented an Environmental Management System and/or were awarded the ENERGY STAR® designation. In addition, the IRS has a training program to ensure that employees have access to applicable courses and that training completion is documented. However, the IRS does not have policies and procedures for improving energy efficiency in the data centers or for implementing data center energy-efficiency best practices. The IRS could potentially realize savings of $3.2 million over four years, at two sites, by implementing best practices to improve airflow management.

Implementing Tax Law Changes**:** OA conducted an audit to determine whether taxpayers who potentially qualified for the Qualified Joint Venture (QJV) filing option were adequately informed of the election and its potential benefits. Many potentially qualified individuals were not aware of the QJV filing option for two reasons: first, the IRS did not clearly present the new tax law provision and its associated benefits in some of its publications or provide sufficient outreach to emphasize the new tax law change to the paid-preparer community; and second, the tax preparation software packages used by taxpayers and paid preparers did not adequately prompt or notify users of the new provision.

3.2.1 Audit Budget and Performance Plan

Audit Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$50,852	$53,797	$57,421	$57,421	$62,357
Reimbursable Resources	$539	$361	$551	$551	$551
Total Resources	**$51,391**	**$54,158**	**$57,972**	**$57,972**	**$62,908**
Budget Activity Total	**$51,391**	**$54,158**	**$57,972**	**$57,972**	**$62,908**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percentage of Audit Products Delivered when Promised to Stakeholders (Oe)	65.0	81.0	76.0	65.0	70.0
Percentage of Recommendations Made that Have Been Implemented (Oe)	85.0	91.0	95.0	83.0	85.0

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

Description of Performance: TIGTA's products are more likely to be used if they are delivered when needed to support Congressional and IRS decision making. To determine whether products are timely, TIGTA tracks the percentage of products that are delivered on or before the date promised (contract date).

Additionally, TIGTA makes recommendations designed to improve administration of the federal tax system. The IRS must implement these recommendations in order to realize the financial or non-financial benefits. The second measure assesses TIGTA's effect on improving the IRS's accountability, operations, and services. Since the IRS needs time to act on recommendations, TIGTA utilizes the Department's Joint Audit Management Enterprise System to track the percentage of recommendations made four years ago that have been implemented, rather than the results of the activities during the fiscal year in which the recommendations are made. TIGTA tracks recommendations that have not been implemented by the IRS and has a formal process with the IRS to close out unimplemented recommendations where circumstances may have changed, or when the IRS has taken alternative corrective measures that address concerns TIGTA identified.

For FY 2010, actual performance has exceeded expectations on both measures. The actual percentage of audit products delivered when promised to stakeholders was 76 percent against a target of 65 percent. The actual percentage of recommendations made that have been implemented was 95 percent against a target of 83 percent.

3B - Investigations *($95,474,000 from direct appropriations, and $749,000 from reimbursable programs):* While most Offices of Inspectors General focus primarily on fraud, waste, and abuse, TIGTA's mission is more extensive. TIGTA has the statutory responsibility to protect the integrity of tax administration and to protect the ability of the IRS to collect revenue for the federal government. To accomplish this, TIGTA investigates allegations of criminal activity and administrative misconduct by IRS employees, protects the IRS against external attempts to corrupt tax administration, and ensures IRS employee safety and data and infrastructure security. The following summaries highlight TIGTA's investigative efforts in these three core areas:

Employee Integrity: IRS employee misconduct can hinder the IRS's ability to collect revenue for the federal government. An estimated 47 percent of TIGTA's current investigations involve alleged employee misconduct. In addition to UNAX investigations, employee misconduct investigations include allegations of extortion, theft, false statements, and financial fraud. TIGTA also administers a proactive integrity program to help detect possible fraud and other misconduct by IRS employees. During FY 2010, TIGTA initiated 70 proactive investigative initiatives.

Employee and Infrastructure Security: TIGTA is statutorily mandated to ensure that the IRS operates in an environment free from any and all threats on employees, facilities, and data infrastructure. To meet this mandate, TIGTA conducts investigations of individuals or groups who threaten or assault IRS employees, facilities, or IRS data infrastructure. In an era of increasing threats to the nation, the protection of IRS personnel, facilities, and data is of the utmost importance.

According to the Anti-Defamation League, the militia movement has almost quadrupled in size in the past two years, growing to more than 200 groups across the United States. Anti-government and hate groups have grown from 149 groups in 2008, to 512 groups in 2009 -- a 244 percent increase. Each year, OI investigates approximately 900 individuals to determine if they pose a legitimate threat to IRS employees and facilities. Additionally, over 5,000 individuals are currently identified as having the potential to harm the IRS or its employees. During FY 2010, OI closed 1,425 investigations of assaults and/or threats made against IRS employees and facilities.

In addition to the reactive investigations that OI conducts related to threats and assaults, OI investigative analysts monitor the IRS.gov website for any potential threats against IRS employees or facilities that would warrant further investigation. In FY 2010, the investigative analysts have reviewed nearly 39,000 IRS or anti-government related e-mail communications containing key words that could be interpreted as threats. Due to a lack of resources, the investigative analysts have only been able to comprehensively research, analyze, and act on less than one percent of these communications. The inability to identify, monitor, and follow-up on potentially threatening communications made directly to the IRS presents a significant risk.

OI's Electronic Crimes and Intelligence Division (ECID) investigates electronic attacks on the IRS. In calendar year 2010, the IRS Computer Security Incident Response Team (CSIRC) documented almost 22 million external attacks against the IRS network. During this time period, IRS CyberSecurity identified and reported to TIGTA 4,941 "Cyber and Disclosure Incidents" involving the IRS network. CSIRC also reported 1,006 incidents involving the identification of malware (malicious programs) against the 235,000 devices connected to the IRS enterprise network. The Electronic Tax Administration (ETA) program was mandated by the Congress with a goal that 80 percent of all tax returns would be filed electronically. A successful attack on the ETA program would cause the public to lose confidence in the IRS and could set the entire ETA initiative back many years.

TIGTA maintains IRS employee and infrastructure security by conducting investigations into incidents that threaten IRS employees, facilities, and infrastructure. TIGTA's highest priority complaints involve threats and assaults against IRS employees. TIGTA works aggressively and takes swift action to protect IRS employees, including providing armed escorts. In October 2008, the *Inspector General Reform Act of 2008* was signed into law, which allows TIGTA to provide physical security to protect IRS employees against external threats. TIGTA also operates a Criminal Intelligence Program that develops and facilitates pertinent information regarding potential threats to IRS employees and operations. This program includes participation in the Federal Bureau of Investigation-sponsored Joint Terrorism Task Forces nationwide. In addition, TIGTA has a System Intrusion and Network Attack Response Team to defend against hackers who attempt to compromise the data integrity of taxpayer information stored in IRS computer systems.

External Attempts to Corrupt Tax Administration: TIGTA is statutorily mandated to investigate external attempts to corrupt tax administration, which includes criminal misconduct by non-employees, such as, impersonation of IRS employees; interference with the administration of internal revenue laws, bribery, misuse of Treasury names, symbols, etc.; contract fraud; as well as tax practitioner fraud relating to thefts of taxpayer remittances and refunds.

In FY 2012, OI foresees continued risks in IRS programs that will require more oversight. Phishing scams that falsely depict e-mails from the IRS are of great interest and risk. ("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.) These schemes attempt to retrieve a user's Social Security Number (SSN) and banking information by replicating an official IRS seal and/or requesting information required for depositing tax refunds. The IRS, in coordination with OI, has identified 11,546 phishing sites since November 2005 through December 2010. 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 expeditiously.

With the IRS focusing on increased revenue collection from delinquent taxpayers, OI anticipates a rise in attempts to bribe IRS employees involved in those collection activities. TIGTA educates IRS employees on how to recognize bribe overtures and their responsibility to report bribery attempts to TIGTA. During FY 2010, OI closed 59 investigations into bribery of IRS employees by taxpayers.

Another area of concern that poses risks to tax administration is IRS contract improprieties. TIGTA is committed to conducting procurement investigations that ensure the highest degree of integrity, economy, and efficiency in IRS contracts. TIGTA conducts proactive and reactive investigations to detect and deter criminal activity by contractors and IRS employees. TIGTA's contract fraud work has produced significant results, including over $158 million in recovered penalties during FY 2010.

Investigative work in these three core areas is imperative to protect the integrity of tax administration. The results of this work help ensure that the public has confidence in its dealings with the IRS.

3.2.2 Investigations Budget and Performance Plan

Investigations Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$89,161	$91,979	$94,579	$94,579	$95,474
Reimbursable Resources	$727	$582	$749	$749	$749
Total Resources	**$89,888**	**$92,561**	**$95,328**	**$95,328**	**$96,223**
Budget Activity Total	**$89,888**	**$92,561**	**$95,328**	**$95,328**	**$96,223**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percentage of Results from Investigative Activities (Oe)	78.0	83.0	86.0	79.0	80.0

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

Description of Performance: Investigative results include cases referred for prosecution, arrests, indictments, and convictions. Examples of the types of criminal activity investigated are: 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; and impersonation of IRS officials. For FY 2010, actual performance has exceeded expectations (actual performance was 86 percent, while the target was 79 percent). These results are indicative of OI's continuous focus on quality investigative activities.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Hiring Reform

TIGTA is revamping its hiring process to comply with the President's ambitious recruitment and hiring initiative. TIGTA has identified potential barriers, one of which is training. Training opportunities will be available to educate hiring managers/supervisors on improvements to the federal hiring process. TIGTA will also address recruiting and hiring highly qualified veterans and assist hiring officials in finding the best talent.

Furthermore, TIGTA has revised its vacancy announcement wording to meet the five- page length requirement; updated its tracking system for recruiting actions to include new date fields for tracking the 80-day model; created 80-day tracking reports; and are considering the use of category rating.

Veterans' Employment

To enhance recruitment of and promote employment opportunities for veterans, TIGTA supports the Wounded Warriors Program by providing employment assistance for program participants.

On February 24, 2010, TIGTA presented an informational session at the National Naval Medical Center in Bethesda, Maryland. The informational session was designed to educate soldiers/veterans on TIGTA's mission and assistance with job placement for soldiers/veterans with disabilities.

TIGTA also plans to provide detailed resume writing workshops, mock interviews, and tips on how to navigate the government hiring process. TIGTA continually solicits resumes from qualified soldiers and veterans interested in becoming part of the TIGTA Wounded Warrior Intern Program.

To provide annual mandatory training to hiring managers/supervisors on veterans' preference and special authorities for the hiring of veterans, TIGTA is coordinating with Treasury's Veterans Employment Office. This will provide hiring managers/supervisors training on effective, efficient, and timely ways to recruit and hire well-qualified individuals. TIGTA is also preparing a Leadership and Manager Supervisor Training manual that outlines each manager's responsibility to ensure training on veteran hiring.

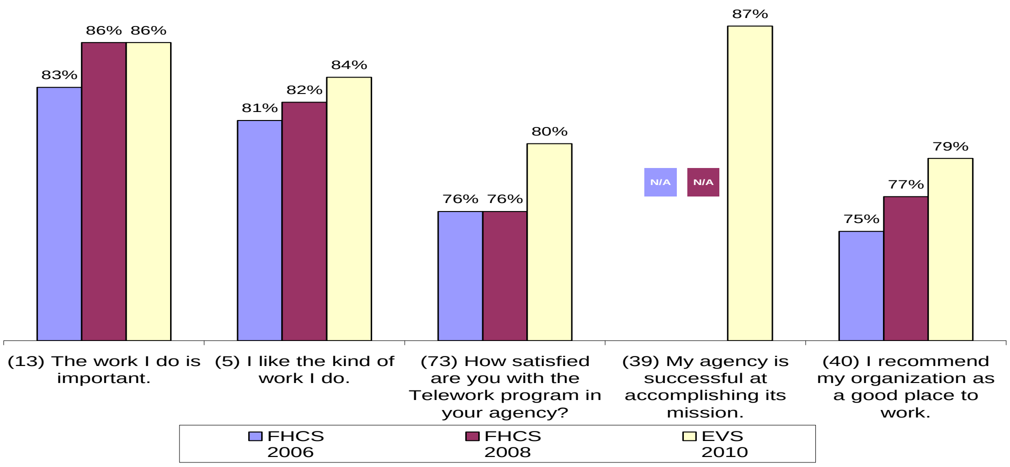
Hiring of Individuals with Disabilities

TIGTA actively participates in The Treasury's disABILITY and IT Accessibility Summit and Career Fairs. Participation in the Summit emphasizes TIGTA's commitment to a diverse workforce, increases recruiting efforts to employ persons with disabilities, and supports TIGTA's leadership role to reach an underrepresented group in the federal government. TIGTA also conducts outreach activities targeted at recruitment of groups identified as under-represented and makes direct hire appointments under non-competitive authorities for individuals with disabilities.

Employee Engagement
TIGTA relies on the results from OPM's Employee Viewpoint Survey (EVS) to measure employee engagement. The EVS focuses on employee perceptions regarding critical areas of their work life, areas which drive employee satisfaction, commitment, and ultimately retention in the workforce.

TIGTA's response rate for 2010 was 79 percent, higher than the overall government average and second place among Treasury bureaus. The survey is distributed to all TIGTA permanent employees. The survey found that TIGTA employees continue to be happy with their jobs and feel their work is important; in addition, employees are satisfied with the Telework program at TIGTA. The vast majority believe TIGTA is accomplishing its mission and would recommend it as a good place to work.

TIGTA's EVS trends for 2006, 2008 and 2010



TIGTA's leaders have taken the survey results very seriously. From the Department-wide report provided by OPM, TIGTA completed a more thorough analysis and developed individual reports specifically for each of the functions. TIGTA uses the survey results to continually improve how the workforce is managed and to meet its strategic human capital management goals. The below snapshot shows overview of TIGTA's survey findings:

- 0 items increased by 5 percentage points since 2008;
- 4 items decreased by 5 percentage points since 2008;
- 53 items had positive ratings of 65% or greater (strengths); and
- 24 items had positive ratings of 35% or less (weaknesses).

Action plans for continued employee satisfaction and increased employee engagement are in the process of being developed for FY 2011.

Action plans for FY 2010 centered on two broad themes of communication and training:

Improved Communication

- Formalize employee suggestion programs and create mechanism for feedback.

- Utilize electronic medium to facilitate electronic discussion threads and a voluntary photo directory. These improvements are important given the geographic dispersion of TIGTA staff.
- Develop succession plans that emphasize leadership competencies.
- Hold regular town-hall style meetings so that employees can be certain they will be given an opportunity to publically raise concerns.
- Initiate new employee orientation curriculum so that new employees can learn that TIGTA is committed to maintaining diversity, flexibility and integrity in its workforce.
- Hold conferences when necessary to communicate decisions and solicit input from staff working in remote field offices.

Targeted Training

- Develop a staff-wide training plan that identifies core training needs as well as continued development Improve new employees' understanding of TIGTA's critical mission through the new employee orientation program.
- Train managers in leadership skills designed to develop, improve, build and maintain trust in working relationships.
- Conduct 360 self-assessments that provide managers with insight on their strengths and weaknesses.
- Implement employee rotation program that allows employees an opportunity to diversify their experience, discover their strengths and explore new areas of interest.
- Develop a skills assessment program that allows employees an opportunity to identify competency gaps and needed development opportunities designed to close those gaps.
- Empower staff who identify technical training needs to work on related projects in order to develop the needed skills. This allows staff to assume leadership and direction roles outside the normal manager/staff relationship.

Wellness

TIGTA's Wellness Program Initiative reflects aspects of the framework provided in the "Elements of a Comprehensive Worksite Wellness Program" and "Healthy People Guidelines." TIGTA has also integrated federal government requirements from OPM. Specifically, the plan incorporates and highlights the *five elements* for an effective worksite wellness program:

- Health and Wellness Education Programs;
- Social, Physical and Environment Support;
- Integration of Worksite Wellness Program into Organizational Structure;
- Linkages with Related Programs; and
- Screenings.

TIGTA is an organization that values its workforce and the wellness initiative will complement its renowned work-life balance program. TIGTA's leadership and management support this program and are committed to providing the resources necessary to promote health and enhance the lives of its talented and dedicated team.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Major IT Investments / Funding Source	Budget Activity	FY 2009 Enacted	FY 2010 Enacted	% Change from FY09 to FY10	FY 2011 CR	% Change from FY10 to FY11	FY 2012 Request	% Change from FY11 to FY12
Subtotal, Major IT Investments		**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Performance and Results Information System (PARIS)	TIGTA: Audit and Investigations Activity	**$1,000**	**$574**	**-42.6%**	**$574**	**0.0%**	**$426**	**-25.8%**
PARIS Property Module (PPM)	TIGTA: Audit and Investigations Activity	**$500**	**$149**	**-70.2%**	**$149**	**0.0%**	**$117**	**-21.5%**
Non-Major IT Investments		**$1,500**	**$723**	**-51.8%**	**$723**	**0.0%**	**$543**	**-24.9%**
TIGTA End User Systems and Services	TIGTA: Audit and Investigations Activity	**$8,293**	**$2,678**	**-67.7%**	**$2,678**	**0.0%**	**$2,808**	**4.9%**
Telecommunications Systems and Services	TIGTA: Audit and Investigations Activity	**$3,300**	**$2,465**	**-25.3%**	**$2,465**	**0.0%**	**$2,543**	**3.2%**
Data Center Systems and Services	TIGTA: Audit and Investigations Activity	**$1,000**	**$4,003**	**300.3%**	**$4,003**	**0.0%**	**$4,003**	**0.0%**
Infrastructure Investments	**TIGTA: Audit and Investigations Activity**	**$12,593**	**$9,146**	**-27.4%**	**$9,146**	**0.0%**	**$9,355**	**2.3%**
Consolidated Enterprise Content Management	**TIGTA: Audit and Investigations Activity**	**$129**	**$0**	**-100.0%**	**$0**	**0.0%**	**$0**	**0.0%**
Consolidated Identity Management	**TIGTA: Audit and Investigations Activity**	**$128**	**$0**	**-100.0%**	**$0**	**0.0%**	**$0**	**0.0%**
Enterprise Architecture	**TIGTA: Audit and Investigations Activity**	**$250**	**$275**	**10.0%**	**$275**	**0.0%**	**$275**	**0.0%**
Total IT Investments		**$14,600**	**$10,144**	**-30.5%**	**$10,144**	**0.0%**	**$10,173**	**0.3%**

4B – Information Technology Strategy

TIGTA's IT Strategy is to:

- Deliver a full set of IT Infrastructure services commensurate with TIGTA's independence requirements to allow employee access to TIGTA resources wherever they may be working;
- Work with the IRS to maintain a secure pathway for TIGTA employees to access IRS systems that meets TIGTA's needs and expectations and supports IRS's responsibility to maintain system security;
- Provide and maintain application systems to support the creation, management, and improvement of products related to TIGTA business mission;
- Maintain technology competencies needed to adapt to changes in the internal and external environments of U.S. tax administration;
- Deploy IT securely to assure the privacy of the vast amounts of taxpayer and law enforcement information in TIGTA's possession;
- Work with the rest of the Department to deploy and maintain IT infrastructure in an efficient, effective, sustainable manner.

By the end of Fiscal Year 2012, TIGTA plans to refresh its client computing hardware and software platforms to use the most efficient power management settings on the most efficient hardware platform available during the refreshment acquisition period.

With changes and improvements in information technology, TIGTA is faced with the constant challenge to maintain IT operational capability and make progress on new IT investment. In FY 2009, TIGTA committed to improving its governance of IT investments by establishing a Program Management directorate to support selection of IT investment on total cost and positive organizational impact and assure selected IT investments are delivered within cost, on schedule, and deliver the expected business performance.

In FY 2010, TIGTA stood up its new IT governance program. All new IT requests pass through a Program Management Board (PMB) chaired by the Associate Inspector General for Mission Support. Requests must present a total cost picture, a positive business case and high-level work breakdown schedule adjusted for risks, especially TIGTA's pervasive IT resource risks, to gain PMB approval to commence work. Projects involving significant financial commitments or high mission visibility to TIGTA require approval from the Investment Review Board, composed of TIGTA's senior executives.

By the end of FY 2010, TIGTA plans to undertake one or more performance reviews of existing business application investments to determine if reinvestment is in order.

By FY 2012, TIGTA plans to extend its new governance process to all TIGTA business units to help them manage projects and priorities.

Under TIGTA's program-management process, milestones for all projects are established and tracked. At any point, projects that have cost overruns, are behind schedule and/or are not delivering at anticipated business performance levels will be analyzed for cause, to be followed by an appropriate continue or stop governance action.

Overview

Mission Statement

Increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	$ Change	Change FY10 to FY12 % Change
Community Development Financial Institutions Program	$107,600	$107,600	$125,869	$18,269	16.98%
Bank Enterprise Award Program	$25,000	$25,000	$0	($25,000)	(100.0%)
Native Initiatives	$12,000	$12,000	$12,000	$0	-
Capital Magnet Fund	$80,000	$80,000	$0	($80,000)	(100.0%)
Administration*	$18,000	$18,000	$22,965	$4,965	27.58%
Financial Education and Counseling	$1,000	$1,000	$0	($1,000)	(100.0%)
Hawaii Financial Ed and Counseling	$3,150	$3,150	$0	($3,150)	(100.0%)
Bank on USA Initiative	N/A	N/A	$41,425	$41,425	100.0%
Healthy Food Financing Initiative	N/A	N/A	$25,000	$25,000	100.0%
Total Appropriated Resources	**$246,750**	**$246,750**	**$227,259**	**($19,491)**	**(7.9%)**
Total FTE	**84**	**84**	**90**	**6**	**7.14%**

** NMTC Program Administration is included in the Administration budget activity for the FY 2012 Budget request.*
*** In addition, $13.5 million is available for the administration of the Bond Guarantee Program provided in PL 111-240.*

FY 2012 Priorities

In accordance with the Department of the Treasury's Strategic Goal of *Ensuring that the U.S. and World Economies Perform at Full Economic Potential*, the Strategic Objective *of Improved Economic Opportunity, Mobility and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad*, and the Strategic Outcome of *Strong U.S. Economic Competitiveness*, the CDFI Fund's FY 2012 priorities are:

- To administer all award and certification programs and initiatives effectively, efficiently, and in a timely manner; improve management processes through continuous assessment of policies and procedures; and align administrative resources to address programmatic growth.
- To implement the Healthy Food Financing Initiative that will support CDFIs to increase the availability of affordable, healthy foods in underserved urban and rural communities.
- To support human capital investment to develop staff skills and expertise. To significantly upgrade award management and information technology systems to more cost effectively administer an increased application workload, increased compliance monitoring activities, and new research initiatives.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The mission of the Community Development Financial Institutions Fund (CDFI Fund) is to increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States.

In accordance with the Department of the Treasury's goal of repairing and reforming the financial system, the CDFI Fund's FY 2012 priorities are:

Priority 1: To administer all award and certification programs and initiatives effectively, efficiently, and in a timely manner; improving management processes through continuous assessment of policies and procedures and aligning administrative resources to address programmatic growth. The CDFI Fund will develop and implement new initiatives in FY 2012; administer existing programs efficiently, effectively and in a timely manner; address increased programmatic requirements; and position the CDFI Fund to undertake new initiatives beyond FY 2012, as needed.

Priority 2: To implement the Healthy Food Financing Initiative that will support CDFIs to increase the availability of affordable, healthy foods in underserved urban and rural communities.

Priority 3: To support human capital investment to develop staff skills and expertise. The CDFI Fund will undertake activities to develop and maintain staff skills and expertise in order to be responsive to the latest trends in the fields of community development finance, economic development and federal agency policies and practices.

Priority 4: To significantly upgrade award management and information technology systems to more cost effectively administer an increased application workload, increased compliance monitoring activities, and new research initiatives. The CDFI Fund will enhance its information technology systems, including hardware and applications, in order to support significant programmatic growth.

1B – Program History and Future Outlook

Fiscal Year 2010: In FY 2010, in addition to the CDFI and Native award programs, the CDFI Fund implemented two new initiatives: the Capital Magnet Fund (CMF) and the Financial Education and Counseling (FEC) Pilot Program. During this time the CDFI Fund processed:

- 322 Financial Assistance (FA) applications and made 147 FA awards totaling $102 million under the FA component of the CDFI Program;
- 86 Technical Assistance (TA) applications and made 32 TA awards totaling $2.9 million under the TA component of the CDFI Program;
- 61 applications and made 45 awards totaling $10.3 million under its Native Initiatives;

- 76 applications and made 69 awards totaling $25 million under the BEA Program;
- 233 applications and made 9 awards totaling $6.15 million under the FEC Program (FY 2009 and FY 2010 funding);
- 250 applications under the New Markets Tax Credit Program, which will be awarded in February 2011;
- 1,595 compliance reviews by the Certification, Compliance, Monitoring, and Evaluation office during FY 2009 and FY 2010.

In addition, in FY 2010, the CDFI Fund launched a multi-year capacity building initiative through which it has entered into vendor contracts to provide technical assistance and capacity building services to CDFIs. Moreover, the CDFI Fund launched a multi-year effort to re-certify all CDFIs whose certification determinations are at least three years old (encompassing approximately 600 CDFIs). The CDFI Fund also certified 142 new institutions as CDFIs, and re-certified an additional 56 organizations as CDFIs.

Fiscal Year 2011: During the first quarter of FY 2011, the CDFI Fund processed a total of 230 applications and made 23 awards totaling $80 million under the CMF Program. During FY 2011, the CDFI Fund will implement a new initiative and assist in the implementation of another that were authorized and funded under the Small Business Jobs Act of 2010 (P.L. 111-240):

- The CDFI Bond Guarantee Program (Sec. 1134); and
- The Small Business Lending Fund Program related to Community Development Loan Funds (Sec. 4102), in support of Treasury's Office of Financial Institutions.

In addition, , the CDFI Fund is preparing to implement a new initiative authorized in Title 12 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203):

- The Bank on USA Program (Section 1204) in conjunction with Treasury's Office of Financial Education and Financial Access.

Finally, in FY 2011, the CDFI Fund is also prepared to administer the Healthy Food Financing Initiative through its CDFI Program as well as through the NMTC Program.

Fiscal Year 2012 (proposed): During FY 2012, the CDFI Fund will continue to execute its core programs and administer the new programs that were implemented during FY 2011. With the introduction of new programs, the CDFI Fund will use its resources to: engage in program outreach, develop application materials, establish application review policies and procedures, and establish reporting requirements and compliance monitoring protocols. The introduction of new programs, as well as the increase in awards made under its existing programs, will also add to the CDFI Fund's growing portfolio of awardees.

The CDFI Fund is requesting $125.9 million for the Community Development Financial Institutions (CDFI) Program. The CDFI Program uses federal resources to invest in and build the capacity of CDFIs to serve low-income people and communities lacking adequate access to affordable financial products and services. The FY 2012 funding request will provide monetary awards for Financial Assistance (FA) and Technical Assistance (TA) to CDFIs to further goals such as:

- Economic development (job creation, business development, and commercial real estate development);
- Affordable housing (housing development and homeownership); and
- Community development financial services (provision of basic banking services to underserved communities and financial literacy training).

The CDFI Fund will also provide critical support to the Healthy Food Financing Initiative (HFFI), including $25 million in grant funding to CDFIs in order to expand the offering of affordable financing for healthy food retail options in distressed communities, and $250 million of New Markets Tax Credit allocation authority. HFFI is a multi-year effort to increase the availability of affordable, healthy foods in underserved urban and rural communities, particularly through the development or equipping of grocery stores and other healthy food retailers.

In 2012, the Departments of Agriculture, Health and Human Services, and Treasury have partnered to make available over $400 million in financing to community development financial institutions, other nonprofits, public agencies, and businesses with sound strategies for addressing the healthy food needs of communities. These organizations will use federal grants, below-market rate loans, loan guarantees and tax credits to attract private sector capital for an even greater investment in projects that increase access to fresh produce and other healthy foods. The goal is to eliminate food deserts in our nation over seven years.

The CDFI Fund is also requesting $12 million to continue its effort for the Native Initiatives Program. The objective of the Native Initiatives Program is to increase opportunities and to provide access to credit, capital, and financial services to Native CDFIs that are primarily serving Native Communities.

The CDFI Fund requests $22.9 million in administrative funding for FY 2012. These administrative resources will be used to, among other things:

- Accommodate the staffing and resource demands created by the unprecedented growth in existing programs and new programs;
- Address significantly increased compliance monitoring requirements; and
- Provide research and program evaluation efforts.

The CDFI Fund requests $41.4 million for its Bank on USA initiative. The Bank on USA Initiative will promote access to affordable and appropriate financial services and basic consumer credit products for households without access to such products and services.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Community Development Financial Institutions Fund	FTE	Amount
FY 2010 Enacted	**84**	**$246,750**
FY 2011 Annualized CR Level	**84**	**$246,750**
Changes to Base:		
Adjustment to Reach Policy Level:	6	$3,144
Adjustment to Reach FY 2011 President's Policy	6	$3,144
Maintaining Current Levels (MCLs):	-	$201
Maintaining Current Levels	-	$201
Efficiencies, Savings & Base Reductions:	-	($1,830)
Office Relocation	-	($1,700)
Procurement Savings	-	($130)
Subtotal FY 2012 Changes to Base	6	$1,515
Total FY 2012 Base	**90**	**$248,265**
Program Changes:		
Program Decreases:	-	($22,706)
Community Development Financial Institutions Program	-	($14,131)
Bank on USA Initiative	-	($8,575)
Program Reinvestment:	-	$1,700
Adjustment to Support New Programs	-	$1,700
Subtotal FY 2012 Program Changes	-	($21,006)
Total FY 2012 Request	**90**	**$227,259**

2A – Budget Increases and Decreases Description

Adjustment to Reach Policy Level…………………………………+3,144,000/ +0FTE
Adjustment to Reach FY 2011 President's Policy +3,144,000/ +0 FTE
Adjustment to reach the FY 2011 President's Policy Level

Maintaining Current Levels (MCLs) ....+$201,000 / +0 FTE
Maintain Current Levels +201,000 / +0 FTE
Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies Savings and Base Reductions ....-$1,830,000 / -0 FTE
Procurement Savings -$130,000 / +0 FTE
Reducing non-competitive and high-risk contract actions and implementing the use of socio-economic programs such as 8(a) and small business set-asides can achieve procurement savings. Other methods to achieve savings include strategic sourcing, advanced acquisition planning, and GSA discount savings.

Office Relocation – 1,700,000 / -0 FTE
This is a one-time cost in the administrative account which is associated with the CDFI Fund's FY 2011 office relocation.

Program Decreases……………………………………………….-$22,706,000 / -0 FTE
Community Development Financial Institutions Program - $14,131,000 / -0 FTE
The CDFI Fund will reduce the amount and number of Financial Assistance and Technical Assistance awards and the funding level for the capacity building initiative, which complements existing funding for technical assistance and capacity building services to CDFIs. However, the impact of the reduction in funding is mitigated by additional financial support to CDFIs from other Treasury programs, including the more than $500 million that has been made available to CDFIs under the Community Development Capital Initiative (CDCI) in FY 2010, and the up to $300 million that is authorized under Small Business Lending Fund (SBLF) in FY 2011.

Bank on USA Initiative - $8,575,000 / -0 FTE
The FY 2012 request is reduced because certain one-time fixed costs incurred in FY 2011 will not be incurred in FY 2012 (technical assistance to local Bank on USA programs, research contracts, and start-up and related administrative costs).

Program Reinvestment...…………………………………………+1,700,000 / +0 FTE
Administration Resources to Support New Programs +$1,700,000 / +0 FTE
The CDFI Fund will redirect reinvestment of non-recurring cost from the office relocation to cover the additional administrative support costs resulting from the implementation of two high-priority initiatives—the Bank on USA Initiative and the Healthy Food Financing Initiative.

2.2 – Operating Levels Table

Dollars in Thousands

Community Development Financial Institutions Fund	FY 2010 Enacted	FY 2011 Annualized CR Level	Proposed Reprogrammings	FY 2011 Proposed Operating Level	FY 2012 Request
FTE	**84**	**84**	**-**	**84**	**90**
Object Classification					
11.1 - Full-time permanent	$8,223	$6,965	$0	$6,965	$8,655
12 - Personnel benefits	$2,060	$1,786	$0	$1,786	$2,313
21 - Travel and transportation of persons	$119	$167	$0	$167	$119
22 - Transportation of things	$20	$6	$0	$6	$20
23.1 - Rental payments to GSA	$1,553	$1,470	$0	$1,470	$1,553
23.2 - Rental payments to others	$190	$0	$0	$0	$190
23.3 - Communication, utilities, and misc charges	$368	$0	$0	$0	$368
24 - Printing and reproduction	$20	$84	$0	$84	$20
25.1 - Advisory and assistance services	$1,023	$3	$0	$3	$0
25.2 - Other services	$1,035	$4,941	$0	$4,941	$4,671
25.3 - Other purchases of goods and services from Govt. accounts	$867	$2,481	$0	$2,481	$3,334
25.5 - Research and development contracts	$1,500	$0	$0	$0	$1,500
26 - Supplies and materials	$111	$70	$0	$70	$111
31 - Equipment	$111	$27	$0	$27	$111
33 - Investments and loans	$800	$0	$0	$0	$0
41 - Grants, subsidies, and contributions	$228,750	$228,750	$0	$228,750	$204,294
Total Budget Authority	**$246,750**	**$246,750**	**$0**	$246,750	**$227,259**
Budget Activities					
Community Development Financial Institutions Program	$107,600	$107,600	$0	$107,600	$125,869
Bank Enterprise Award Program	$25,000	$25,000	$0	$25,000	$0
Native Initiatives	$12,000	$12,000	$0	$12,000	$12,000
Capital Magnet Fund	$80,000	$80,000	$0	$80,000	$0
Administration	$18,000	$18,000	$0	$18,000	$22,965
Financial Education and Counseling	$1,000	$1,000	$0	$1,000	$0
Hawaii Financial Ed and Counseling	$3,150	$3,150	$0	$3,150	$0
Bank on USA Initiative	$0	$0	$0	$0	$41,425
Healthy Food Financing Initiative	$0	$0	$0	$0	$25,000
Total Budget Authority	**$246,750**	**$246,750**	**$0**	**$246,750**	**$227,259**

2.3 – Appropriations Detail

(Dollars in Thousands)

Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted		FY 2011 Annualized CR Level		FY 2012 Budget Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:								
Community Development Financial Institutions Program		$102,987		$107,600		$107,600		$125,869
Bank Enterprise Award		$24,715		$25,000		$25,000		$0
Native Initiatives		$10,909		$12,000		$12,000		$12,000
Capital Magnet Fund		$0		$80,000		$80,000		$0
Administration [1, 2]	84	$17,535	84	$18,000	84	$18,000	90	$22,965
Financial Education and Counseling Pilot Program		$0		$1,000		$1,000		$0
Financial Education and Counseling Pilot Program (Hawaii)		$0		$3,150		$3,150		$0
Bank on USA Initiative		$0		$0		$0		$41,425
Healthy Food Financing Initiative		$0		$0		$0		$25,000
Subtotal New Appropriated Resource	84	$156,146	84	$246,750	84	$246,750	90	$227,259
Other Resources:								
Recoveries		154		154		194		194
Unobligated Balance		104,111		8,591		24,000		14,000
Offsetting Collections - Reimbursables		1,000		1,000		1,160		1,160
Available multi-year/no-year funds		3,976		2,587		3,976		400
Subtotal Other Resources	0	$109,241	0	$12,332	0	$29,330	0	$15,754
Total Resources Available for Obligatic	84	$265,387	84	$259,082	84	$276,080	90	$243,013

[1]/ NMTC Program Administration is included in the Administration budget activity for the FY 2012 Budget request.

[2]/ In addition, $13.5 million is available for administration of the Bond Guarantee Program provided in PL 111-240

2B – Appropriations Language and Explanation of Changes

DEPARTMENT OF THE TREASURY COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND *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, 227,259,000, to remain available until September 30, 2013; of which $12,000,000 shall be for financial assistance, technical assistance, training and outreach programs, under sections 105 through 109 of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4704-4708), designed to benefit Native communities and provided primarily through qualified community development lender organizations with experience and expertise in community development banking and lending in Indian country, Native American organizations, tribes and tribal organizations and other suitable providers; of which, notwithstanding section 108(d) of such Act, up to $25,000,000 shall be for a Healthy Food Financing Initiative to provide grants and loans to community development financial institutions for the purpose of offering affordable financing and technical assistance to expand the availability of healthy food options in distressed communities; of which $41,425,000 shall be for initiatives to establish bank accounts for low and moderate-income persons who do not have bank accounts with financial institutions and to improve access to the provision of bank accounts as authorized by section 1204 of Public Law 111-203; of which up to $22,965,000 may be used for administrative expenses, including administration of the New Markets Tax Credit; of which up to $10,315,000 may be used for the cost of direct loans; and of which 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: Provided further, That these funds are available to subsidize gross obligations for the principal amount of direct loans not to exceed $25,000,000.*	Restores waiving the match for HFFI

2C - Legislative Proposals

The CDFI Fund does not recommend any legislative changes for FY 2012.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years. For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

(Dollars in Thousands)

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	% Change FY10 to FY12
Strong U.S. economic competitiveness	246,750	246,750	227,259	-7.89%
Total	**$246,750**	**$246,750**	**$227,259**	**-7.89%**

3A – Community Development Financial Institutions Program *($125,869,000 from direct appropriations):* Through the CDFI Program, the CDFI Fund makes Financial Assistance (FA) awards to CDFIs that have comprehensive business plans for creating community development impact and that demonstrate the ability to leverage private sector sources of capital, and Technical Assistance (TA) grants to CDFIs and entities proposing to become CDFIs in order to build their capacity to advance community development and meet capital access needs in their target markets.

3.2.1 – CDFI Program Budget and Performance Plan

(Dollars in Thousands)

Community Development Financial Institutions Program Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$50,941	$149,750	$107,600	$107,600	$125,869
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$50,941**	**$149,750**	**$107,600**	**$107,600**	**$125,869**
Budget Activity Total	**$50,941**	**$149,750**	**$107,600**	**$107,600**	**$125,869**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
ALL - Award Cycle Time	N/A	N/A	B	7.5	7.5
ALL - Disbursement Cycle Time	N/A	N/A	B	2.0	2.0
ALL - Jobs Created/Maintained	N/A	N/A	B	51,312	48,991
CDFI - Amount of Loans/Investments Originated (Annual)	N/A	N/A	N/A	B	B
CDFI - Number of Loans/Investments Originated (Annual)	N/A	N/A	N/A	B	B

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

Description of Performance: In FY 2010, CDFIs reported leveraging private investment in the prior year of over $1.9 billion (based on reporting from program year 2009 results), more than triple the target of $600 million; this success was largely due to increased CDFI Program funding which was met by private sector commitments despite the effects of the financial crisis. In FY 2011, the leveraged private investment measure is being replaced by two new measures on the number and amount of loans originated by CDFI awardees. These two new measures will be baselined in FY 2011. In addition, in FY 2011 the FTE job creation/maintenance measures and the two administrative cycle time measures will be consolidated into CDFI Fund-wide measures reflecting the outcomes of all programs.

3B – New Markets Tax Credit Program: Through the NMTC Program, the CDFI Fund spurs the investment of new private sector capital into low-income areas through Community Development Entities (CDEs), which in turn use the privately managed investment vehicles to make loans and equity investments in businesses and real estate projects in low-income communities. By making an equity investment in CDEs, individual and corporate investors can receive a tax credit against their federal income taxes worth 39 percent of the value of the amount invested in the CDE over seven years.

3.2.2 – New Markets Tax Credit Program Budget and Performance Plan

(Dollars in Thousands)

New Markets Tax Credit Program Administration* Budget Activity					
Resource Level	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Annualized CR Level**	**FY 2012 Request**
Appropriated Resources	$4,120	$4,267	$4,203	$4,203	$0
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$4,120**	**$4,267**	**$4,203**	**$4,203**	**$0**
Budget Activity Total	**$4,120**	**$4,267**	**$4,203**	**$4,203**	**$0**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
ALL - Award Cycle Time	N/A	N/A	B	7.5	7.5
ALL - Disbursement Cycle Time	N/A	N/A	B	2.0	2.0
ALL - Jobs Created/Maintained	N/A	N/A	B	51,312	48,991
Community Development Entities' Annual Investments In Low-Income Communities ($ billions) (Oe)	3.3	3.6	3.1	3.0	3.0

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, M - Management/Cust. Satisfaction, DISC - Discontinued, and B – Baseline

** NMTC Program Administration is included in the Administration budget activity for the FY 2012 Budget request.*

Description of Performance: In FY 2010, the NMTC Program competitively awarded $5 billion in NMTC allocation authority to CDEs, including $1.5 billion in Recovery Act authority, providing tax credit allocation authority to CDEs for targeted investments in low-income communities. As reported in FY 2010 (based on reporting from program year 2009 results), cumulative investments in low-income communities by CDEs rose to $15.8 billion (exceeding the performance target) and amounted to an annual increase of $3.1 billion over the prior year (exceeding the annual target by $600 million). In FY 2011 the FTE job creation/maintenance measures and the two administrative cycle time measures will be consolidated into CDFI Fund-wide measures reflecting the outcomes of all programs.

3C – Bank Enterprise Award Program *($0 from direct appropriations):* Through the BEA Program, the CDFI Fund encourages insured depository institutions to increase investments and services in distressed communities and financial assistance to CDFIs. The CDFI Fund does not propose to fund the BEA Program in FY 2012.

3.2.3 – Bank Enterprise Award Program Budget and Performance Plan

(Dollars in Thousands)

Bank Enterprise Award Program Budget Activity					
Resource Level	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Annualized CR Level**	**FY 2012 Request**
Appropriated Resources	$19,924	$22,000	$25,000	$25,000	$0
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$19,924**	**$22,000**	**$25,000**	**$25,000**	**$0**
Budget Activity Total	**$19,924**	**$22,000**	**$25,000**	**$25,000**	**$0**

Description of Performance: In FY 2010, the CDFI Fund received 76 applications requesting a total of $94 million compared to 58 applications requesting approximately $57 million in FY 2009. The CDFI Fund selected 69 FDIC-insured institutions to receive approximately $25 million in awards. FY 2010 applicants were headquartered in 20 states and the District of Columbia. In the FY 2010 funding round (based on the 2009 Assessment Period), awardees provided $373.9 million in qualified loans or investments in distressed communities, $53.9 million in qualified loans, deposits and technical assistance to CDFIs, and $233.3 million in qualified financial services in distressed communities. The CDFI Fund does not propose to fund the BEA in FY 2012.

3D – Native Initiatives: *($12,000,000 from direct appropriations):* Through the Native Initiatives, the CDFI Fund assists entities in overcoming barriers that prevent access to credit, capital and financial services in American Indian, Alaska Native, and Native Hawaiian communities. The Native Initiatives' central program is the Native American CDFI Assistance Program (NACA Program), through which the CDFI Fund makes monetary awards to increase the number and capacity of existing or new CDFIs serving

Native Communities. In addition, the Native Initiatives provide training to help strengthen and develop Native CDFIs.

3.2.4 – Native Initiatives Budget and Performance Plan

(Dollars in Thousands)

Native Initiatives Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$7,979	$16,500	$12,000	$12,000	$12,000
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$7,979**	**$16,500**	**$12,000**	**$12,000**	**$12,000**
Budget Activity Total	**$7,979**	**$16,500**	**$12,000**	**$12,000**	**$12,000**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
ALL - Award Cycle Time	N/A	N/A	B	7.5	7.5
ALL - Disbursement Cycle Time	N/A	N/A	B	2.0	2.0
ALL - Jobs Created/Maintained	N/A	N/A	B	51,312	48,991
NACA - Amount of Loans/Investments Originated (Annual)	N/A	N/A	N/A	B	B
NACA - Number of Loans/Investments Originated (Annual)	N/A	N/A	N/A	B	B

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

Description of Performance: In FY 2010, the NACA Program received 61 applications requesting a total of $23.7 million. The CDFI Fund awarded 45 organizations a total of $10.3 million for both FA and TA funding in FY 2010. In FY 2010, the Native Initiatives registered a 26 percent increase in the total assets of Native CDFIs. In FY 2011, the total assets measure is being replaced by two new measures on the number and amount of loans originated by NACA Program awardees. These two new measures will be baselined in FY 2011. In addition, in FY 2011 the FTE job creation/maintenance measures and the two administrative cycle time measures will be consolidated into CDFI Fund-wide measures reflecting the outcomes of all programs.

3E – Capital Magnet Fund *($0 from direct appropriations):* Through the CMF the CDFI Fund increases capital investment for the development, preservation, rehabilitation, and purchase of affordable housing for low-, very low-, and extremely low-income families, and related economic development activities. As initially conceived, the CMF was to be capitalized through proceeds from Fannie Mae and Freddie Mac. The CDFI Fund does not propose to fund the CMF in FY 2012.

3.2.5 – Capital Magnet Fund Budget and Performance Plan

(Dollars in Thousands)

Capital Magnet Fund Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$0	$0	$80,000	$80,000	$0
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$80,000**	**$80,000**	**$0**
Budget Activity Total	**$0**	**$0**	**$80,000**	**$80,000**	**$0**

Description of Performance: In its inaugural FY 2010 Capital Magnet Fund (CMF) funding round, the CDFI Fund announced $80 million in competitively awarded grants to 23 CDFIs and qualified nonprofit housing organizations serving 38 states. The CDFI Fund received a total of 230 applications for the FY 2010 CMF funding round. In FY 2011, the CDFI Fund will baseline awardees' performance reporting. Awardees will be required to report annually: number of affordable housing units developed or produced; number/percentage of low-income renters/owners; number/percentage of very low-income renters/owners; number of jobs produced; leverage ratio; and deployment rate. In addition, in FY 2011 the FTE job creation/maintenance measures and the two administrative cycle time measures will be consolidated into CDFI Fund-wide measures reflecting the outcomes of all programs.

3F – Administration *($22,965,000 from direct appropriations)*: This budget activity encompasses the CDFI Fund's operational support and management activities for each of its award programs. This includes, among other activities: developing regulations, Notice of Funds Availability (NOFAs) and application materials; reviewing and evaluating certification and funding applications; selecting awardees; finalizing the terms of award agreements; making disbursements; collecting and evaluating performance data; and monitoring awardees' compliance.

During FY 2011, the CDFI Fund will incur one-time cost in the administrative account, which is associated with the CDFI Fund's FY 2011 office relocation. The CDFI Fund will redirect the non-recurring savings from the office relocation to cover the additional administrative support costs resulting from the implementation of two high-priority initiatives—the Bank on USA Initiative and the Healthy Food Financing Initiative.

In FY 2012, the CDFI Fund will continue to enhance compliance monitoring of all awardees. The CDFI Fund has developed IT systems that allow awardees to report information to the CDFI Fund through on-line reporting tools, as well as IT systems that compare the report submissions to the awardees' assistance agreements to flag any incidences of non-compliance. CDFI Fund staff engages in compliance desk reviews and site visits to monitor further the activities and record keeping of CDFIs and CDEs.

Since the CDFI Fund's inception in 1994, its business processes and types of programs have evolved and undergone substantial changes and modifications. However, the corresponding changes in the IT systems and applications used to manage the awards process have not been made based on a unified architecture and/or a common technology platform. Instead, the IT system has been subjected to recurrent modifications with varying business requirements, often resulting in stove-piped designs. The management information system is being replaced with a more efficient, reliable, scalable, and cost effective system that fully integrates all phases of the information system lifecycle.

3.2.6 – Administration Budget and Performance Plan

(Dollars in Thousands)

Administration Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$9,492	$11,883	$18,000	$18,000	$22,965
Reimbursable Resources	$0	$0	$0	$260	$0
Total Resources	**$9,492**	**$11,883**	**$18,000**	**$18,260**	**$22,965**
Budget Activity Total	**$9,492**	**$11,883**	**$18,000**	**$18,260**	**$22,965**

Description of Performance: The CDFI Fund has made significant progress enhancing program administrative business processes, enabling quicker award disbursements. New administrative productivity measures were implemented beginning in FY 2010. These measures replace the old administrative efficiency measure, which was intrinsically difficult to compute because it required allocating a share of organizational overhead to each program. The new program-level measure has two components: cycle time from the date when applications are received to the date of award announcement; and time from the date of award announcement to date of disbursement.

These new administrative measures were initially deployed for each of the CDFI Fund's programs. These measures were first tested through the deployment of the CDFI Fund's Recovery Act funding rounds. In FY 2009, two months after Recovery Act grant awards were announced, the CDFI Fund disbursed all $98 million to 59 CDFIs and 10 Native CDFIs. In addition, the CDFI Fund entered into allocation agreements with CDEs for $1.5 billion in Recovery Act NMTC authority within 60 days of award announcement. In FY 2010, these two program efficiency measures (*application-award* and *award-disbursement cycle times*) were analyzed across all programs to formulate a composite, CDFI-Fund-wide efficiency measure based on the weighted average of the number of awards per program.

In FY 2011, these two administrative efficiency measures will be baselined for performance reporting in FY 2012. In addition, a *performance indicator* was formulated for tracking the cycle time from the date when Notice of Funding Availability (NOFA) is posted to the date when applications are received (in months). Cycle time is calculated as a weighted average across all CDFI Fund programs, weighted by the number of applications per program in each round. In conjunction with the two cycle time performance measures, this new indicator will allow the CDFI Fund to monitor and adjust the NOFA-application cycle time to accommodate the deployment of additional program application rounds; thus, this indicator is intrinsically meant to be a management tool to gauge overall program deployment cycle time, rather than as a performance measure.

3G – Healthy Food Financing Initiative *($25,000,000 from direct appropriations):* Through the HFFI, the CDFI Fund will make CDFI Program awards and NMTC allocation authority to CDFIs and CDEs that will finance healthy food alternatives in food deserts and low-income neighborhoods.

3.2.7 – Healthy Food Financing Initiative Budget and Performance Plan

(Dollars in Thousands)

Healthy Food Financing Initiative Budget Activity					
Resource Level	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Annualized CR Level**	**FY 2012 Request**
Appropriated Resources	$0	$0	$0	$0	$25,000
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$0**	**$0**	**$25,000**
Budget Activity Total	**$0**	**$0**	**$0**	**$0**	**$25,000**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
HFFI - Retail Outlets Created/Preserved	N/A	N/A	N/A	B	B

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

Description of Performance: Proposed HFFI performance metrics include square footage of new retail food outlets created; jobs created at food outlets; and the total number of healthy food retail outlets financed. Performance measures will be implemented in FY 2011, with reporting slated to begin in FY 2012.

3H – Bank on USA Initiative *($41,425,000 from direct appropriations):* Through the Bank on USA Initiative, the CDFI Fund will work in partnership with Treasury's Office of Financial Education and Financial Access to promote access to and innovations in affordable and appropriate financial services, basic consumer credit products and financial education for households without access to such products and services.

3.2.8 - Bank on USA Initiative Budget and Performance Plan

(Dollars in Thousands)

Bank on USA Initiative Budget Activity					
Resource Level	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Annualized CR Level**	**FY 2012 Request**
Appropriated Resources	$0	$0	$0	$0	$41,425
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$0**	**$0**	**$41,425**
Budget Activity Total	**$0**	**$0**	**$0**	**$0**	**$41,425**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Bank on - Number of Accounts Opened	N/A	N/A	N/A	B	B

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

Description of Performance: The Bank on USA Initiative will measure performance based on the number of new accounts opened. This measures whether institutions are providing un- and under-banked consumers access to affordable and appropriate financial products and services. This measure will be baselined in FY 2011. Additional performance indicators will be collected by the CDFI Fund from Bank on awardees to more accurately evaluate awardee performance and overall program effectiveness.

3J – Financial Education and Counseling Pilot Program *($0 from direct appropriations):* Through the FEC Pilot Program, the CDFI Fund makes grants to eligible organizations to provide a range of financial education and counseling services to prospective homebuyers. The CDFI Fund does not propose to fund the FEC Pilot Program in FY 2012.

3.2.9 – Financial Education and Counseling Pilot Program Budget and Performance Plan

(Dollars in Thousands)

Financial Education and Counseling Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$0	$2,000	$1,000	$1,000	$0
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$0**	**$2,000**	**$1,000**	**$1,000**	**$0**
Budget Activity Total	**$0**	**$2,000**	**$1,000**	**$1,000**	**$0**

3K – Financial Education and Counseling Pilot Program (Hawaii) *($0 from direct appropriations):* Through the FEC Pilot Program (Hawaii), the CDFI Fund makes grants to eligible organizations to provide a range of financial education and counseling services to prospective homebuyers in the State of Hawaii. The CDFI Fund does not propose to fund the FEC Pilot Program (Hawaii) in FY 2012.

3.2.10 – Financial Education and Counseling Pilot Program (Hawaii) Budget and Performance Plan

(Dollars in Thousands)

Hawaii Financial Ed and Counseling Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$0	$0	$3,150	$3,150	$0
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$3,150**	**$3,150**	**$0**
Budget Activity Total	**$0**	**$0**	**$3,150**	**$3,150**	**$0**

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

Section 4 – Supporting Materials

4A-- Human Capital Strategy

The CDFI Fund's Human Capital strategy is designed to further the CDFI Fund's mission and operations by developing a Five-Year Human Capital Plan, identifying organizational effectiveness, improving employee training and development, enhancing the CDFI Fund's recruitment and diversity strategies, and improving employee retention and satisfaction.

Five-Year Human Capital Plan: Currently, the CDFI Fund is developing a five-year strategic plan that aligns with the growing needs of the CDFI community.
As part of the strategic planning process, the CDFI is outlining a five-year human capital plan to coincide with the five-year strategic plan. The human capital plan will serve as a roadmap to ensure that the CDFI Fund is able to close employee skill gaps that have been identified. Areas of focus will be within the compliance and research divisions, which will be heavily relied on to monitor compliance and track performance of awardees. The human capital plan will also identify ways to address attrition, as it is critical to the success of the CDFI Fund to have a plan of action to recruit and retain high performers.

Organizational Effectiveness: From FY 2008 through FY 2010, the CDFI Fund underwent an evaluation of the efficiency and effectiveness of its operations. This involved extensive internal assessments of every business unit to determine what was working well, what areas needed improvement and where the organization was duplicating services and/or costs. Managers and staff served an active role by working with contractors to capture pertinent business processes and by evaluating standard operating procedures.

Training & Development: To ensure mission success into the future, the CDFI Fund needs a talented group of employees and leaders able to produce results and able to inspire, motivate, and guide others to produce.

During the second quarter of FY 2010, the CDFI Fund launched the CDFI Fund *Academy*, training, development and succession-planning tool designed to ensure that the CDFI Fund staff have the skills they need to achieve mission success. The CDFI Fund *Academy* prepares staff to take on more challenging and broader roles, as well as more responsibilities, within their area of technical responsibility; provides opportunities to understand customer and industry issues; enhances staff understanding, effectiveness and mobility across programs and business units; and creates a culture of current and future leaders who value people and focus on achieving valuable results that matter to the communities we serve. Through the CDFI Fund *Academy*, each employee has access to a coach to assist with career and/or personal development.

Recruitment and Diversity: During FY 2009 and FY 2010, the CDFI Fund has aggressively staffed vacant positions using its established recruitment strategies. The CDFI Fund is dedicated to recruiting a diverse pool of applicants to reflect its diverse constituents. During FY 2011 and FY 2012, the CDFI Fund will continue the Director's outreach initiative to organizations such as the Hispanic National Internship Program, the Washington Internships for Native American Students, Historical Black Colleges and Universities, and to organizations that represent persons with disabilities. Given the current economic challenges in the CDFI community, the CDFI Fund will also target individuals from the community and economic development finance industries. This will help bring years of specialized experience to enhance the CDFI Fund's mission.

Employee Retention and Satisfaction: In FY 2012, the CDFI Fund will continue surveying its employees to measure employment satisfaction and identify opportunities for improvement. The Director will continue regular informal outreach meetings (including "Brown Bag" lunches) with line staff in order to stay connected to their needs and concerns. The meetings help employees to understand policy, program decisions, and provide an opportunity to share ideas with the Director. In FY 2010, the CDFI Fund developed a group of Change Champions; these business unit liaisons serve as change communicators between management and staff. The Change Champions will continue into FY 2012 to assist with future changes to programs and operations. In order to promote a fully engaged workforce, senior management will ensure that employee ideas and recommendations are captured early through meetings, working groups, policy discussions, and other methods.

Through the Employee Recognition and Award Program, managers and staff acknowledge employee contributions over and above what is expected with "Quality" performance. The award program is designed to establish continual improvement of the CDFI Fund's programs and operations through motivation and reward of employees. Awards include Special Act Awards, On-the-Spot Awards, Time off Awards, and non-monetary awards (such as certificates and tours of historical landmarks in the Washington, D.C. area).

4.1 - Summary of IT Resources Table
(Dollars in Thousands)

Major IT Investments / Funding Source	Budget Activity	FY 2009 Enacted	FY 2010 Enacted	% Change from FY 2009 to FY 2010	FY 2011 Annualized CR Level	FY 2012 Request	% Change from FY 2010 to FY 2012
None		$0	$0	0.0%	$0	$0	0.0%
Subtotal, Major IT Investments		$0	$0	0.0%	$0	$0	0.0%
CDFI Non-Major Investments	CIIS is a web-based data collection system that CDFIs and CDEs use to submit their Institution-Level Reports and Transaction-Level Reports to the Fund. CDFI LAN supports email, grants processing and all business areas within the Fund. CDFI Fund Website C	$427	$450	5.3%	$450	$2,222	367.8%
Non-Major IT Investments		$427	$450	5.3%	$450	$2,222	367.8%
CDFI Infrastructure (End User)	The CDFI Fund's annual office automation budget to support the Grants Management system.	$2,179	$2,584	118.6%	$2,584	$1,450	-52.5%
CDFI Infrastructure (Mainframes and Servers)	CDFI Fund infrastructure costs for hardware and system administration services for Grant processing requirements.	$0	$80	100.0%	$80	$440	340.0%
CDFI Infrastructure (Telecommunications)	Telecommunications and web hosting services for the CDFI Fund including web hosting services from TTB.	$335	$355	5.9%	$355	$310	-26.0%
Infrastructure Investments		$2,514	$3,019	20.1%	$3,019	$2,200	-39.7%
None							
Enterprise Architecture							
Total IT Investments		$2,941	$3,469	18.0%	$3,469	$4,422	7.2%

4B – Information Technology Strategy

The CDFI Fund does not have any Major IT investments, as the term is defined by Treasury guidelines for defining Major IT investments. As such, the CDFI Fund is not required to submit an OMB 300, and instead submits Exhibit 53 for No Major IT investments. However, the CDFI Fund's Chief Operations Officer (COO) ensures that all decision-making is integrated into the organization's planning, operations, and budgeting processes. The Supervisory IT Specialist assists the COO in ensuring that existing processes and structures supporting IT investments are tied to the strategic plan, support the mission, and remain within the approved budget.

The IT unit is responsible for ensuring that the CDFI Fund's IT strategic goals conform to legislative requirements, the goals of Treasury and the Administration, the Federal Information Security Management Act (FISMA), Grants.gov, and the Information Technology Infrastructure Line of Business (ITILoB). This information, as well as budget and project management information for the Capital Planning and Investment Control process is coordinated with Treasury's Office of the Chief Information Officer as part of the Department's IT management process.

The FY 2012 budget request includes the costs associated with new investments that will allow the CDFI Fund to better support its award programs. The CDFI Fund must create a more stable IT infrastructure to improve operational efficiency, research capabilities, and to enhance compliance monitoring for all awards. The CDFI Fund also proposes to form a new formal IT Governance/Compliance framework that will monitor measurable objectives and the overall performance of IT resources and to implement a Grants Management Information System Modernization Plan.

The CDFI Fund has analyzed its business processes and is developing a single, comprehensive, enterprise-wide to-be target architecture for its grant's management system that optimizes business processes by streamlining and eliminating unnecessary redundancies, removing stove-piped and program-specific procedures, and leveraging automation and technology. The benefits associated with this transition are enterprise-wide and will result in a more efficient, flexible, and scalable organization that can handle the larger volume of awards that are managed by the CDFI Fund. This modernization initiative will enable the CDFI Fund to provide more transparency, better data quality, and improve governance within the organization, all resulting in a better value to customers.

4C – Place-Based Policies and Programs

Summary of CDFI Fund Programs: The following programs have requested funding and/or authorization in the FY 2012 budget request:

CDFI Program: Provides Financial Assistance awards to institutions that are certified as CDFIs, which in turn provide loans, investments, financial services (including financial education) and technical assistance to underserved populations and low-income communities; and Technical Assistance grants to certified CDFIs and entities that will become certified as CDFIs within three years.

Native Initiatives: Provides Financial Assistance awards, Technical Assistance grants, and training to Native CDFIs and other Native entities proposing to become or create Native CDFIs.

NMTC Program: Provides tax allocation authority to certified CDEs, enabling investors to claim tax credits against their Federal income taxes; the CDEs, in turn, use the capital raised to make investments in low-income communities.

Bank on USA Initiative: Provides competitive grants to a variety of entities, including financial service providers, community-based organizations and governmental entities, for use in promoting access to and innovations in affordable and appropriate financial services, basic consumer credit products and financial education unbanked and under-banked households.

Healthy Foods Financing Initiative: Through the HFFI, the CDFI Fund will make CDFI Program awards and NMTC allocation authority to CDFIs and CDEs, respectively, for the purpose of financing projects that will increase the availability of healthy food alternatives in food deserts and other areas that currently lack access to healthy and nutritious food options.

Applicability of Place-Based Policies and Programs: The CDFI Fund programs do not fit neatly into the concept of "place-based" initiatives. Each of these programs, to a varying degree, could be considered "place-based" given their goals of improving communities and promoting economic growth. However, the programs are not focused on specific geographic areas. Some program awardees may be serving a local area, but many have a nationwide footprint and/or focus on delivering services to low-income individuals, without a dedicated focus to a particular community. Furthermore, requiring CDFIs to limit their investments to certain geographies may impact their ability to serve low-income persons, diversify their loan pool, mitigate risks, and achieve financial sustainability. Similarly, by limiting NMTC investments to more narrowly defined geographical areas, CDEs may be challenged to achieve balanced portfolios and acceptable financial returns that meet both the financial goals of investors and the social goals of the program.

Overview

Mission Statement

To enhance U.S. national security, deter and detect criminal activity, and safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	FY 2010 to FY 2012 $ Change	% Change
BSA Administration and Analysis	$101,694	$101,694	$84,297	($17,397)	(17.1%)
Regulatory Support Programs	$9,316	$9,316	$0	($9,316)	(100.0%)
Total Appropriated Resources	**$111,010**	**$111,010**	**$84,297**	**($26,713)**	**(24.1%)**
Transfers	$0	$0	$30,000	$30,000	-
Total Program Operating Level	**$111,010**	**$111,010**	**$114,297**	**$3,287**	**3.0%**
Total FTE	**331**	**327**	**304**	**(27)**	**(8.2%)**

In FY 2012, the Regulatory Support Program budget activity is merged into the BSA Administration and Analysis budget activity.

FY 2012 Priorities

The following priorities support the Presidential goal of encouraging economic growth by safeguarding the financial systems from abuse and promoting transparency in the U.S. and international financial systems.

- Implement the BSA IT Modernization Program, using funds transferred from the Treasury Forfeiture Fund (see Administrative Provisions Sec. 125);
- Lead efforts to coordinate federal, state, and local efforts to combat fraud;
- Enhance the BSA regulatory compliance and enforcement strategy based on risks informed by analysis and law enforcement; and
- Engage with priority countries and international bodies to strengthen mechanisms for global information exchange.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Financial Crimes Enforcement Network (FinCEN), a Treasury Department bureau reporting to the Under Secretary of the Office of Terrorism and Financial Intelligence, plays a key role in supporting the Department's strategic goal to prevent terrorism and promote the nation's security through strengthened international financial systems. This role includes ensuring safer and more transparent U.S. and international financial systems through the administration of the Bank Secrecy Act (BSA).

The BSA requires financial institutions to file reports and maintain records on certain types of financial activity and to establish appropriate internal controls to guard against financial fraud, money laundering, terrorist financing, and other types of illicit finance. These reports and records have a high degree of usefulness in criminal, tax, and regulatory matters. Documents filed by businesses pursuant to the BSA requirements are heavily used by law enforcement agencies, both domestically and internationally, to identify, detect and deter financial fraud and money laundering, whether it is in furtherance of a criminal enterprise, terrorism, tax evasion or other unlawful activity. Acts of fraud and acts of money laundering are interconnected: the financial gain of the fraudulent activity ultimately needs to be integrated into the financial system. Money laundering is often a malignant and pernicious product of fraud. FinCEN also serves as the nation's financial intelligence unit (FIU). An FIU serves as a national center to collect, analyze, disseminate, and exchange information pursuant to a country's anti-money laundering/counter-terrorist financing (AML/CFT) legislation and regulations. This includes information about suspicious or unusual financial activity reported by the financial sector. FIUs have specific authority to share lead information with their foreign counterparts to combat cross-border financial crime.

FinCEN's activities and efforts are developed in coordination with federal, state, and international partners. These bureau efforts are linked to the following strategic goals:

- Financial systems resistant to abuse by money launders, terrorists, and their financial supporters, and other perpetrators of financial crime;
- Detection and deterrence of money laundering, terrorism financing, and other illicit activity; and
- Efficient management, safeguarding, and use of BSA information.

The total resources required to support FinCEN for FY 2012 are $117,297,000 including $84,297,000 for direct appropriation, $3,000,000 from offsetting collections and $30,000,000 transferred from the Treasury Forfeiture Fund (see Administrative Provisions Sec. 125) to continue development and maintenance of the BSA Information Technology (IT) modernization program.

1B – Program History and Future Outlook

FinCEN fulfills its mission, goals and priorities by: administering the BSA; supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; enhancing financial anti-fraud efforts; international anti-money laundering and counter terrorist financing efforts and cooperation; and networking people, entities, ideas, and information.

In the regulatory area, FinCEN's policy efforts focus on efficient and effective administration of the BSA. This includes improving the consistency in the application of BSA regulations to regulated financial institutions, providing guidance regarding regulatory expectations, conducting studies to provide feedback to stakeholders, and initiating enforcement actions when appropriate.

In FY 2010, FinCEN:

- Continued an extensive financial institution outreach initiative, focusing in FY 2010 on outreach to small depository institutions, such as community banks and credit unions. FinCEN completed this outreach through visits to individual institutions and participation in several "town hall" events for larger groups. Direct financial institution outreach enables FinCEN to carry out its mission as BSA administrator in the most efficient and effective manner possible and enhances FinCEN's understanding of the operations of and challenges facing the institutions it regulates;
- Enhanced collaboration with law enforcement to identify sources of lead information and is developing analysis criteria to more effectively leverage BSA data to identify potential non-compliant institutions. This strategy should enable FinCEN to become even more proactive in identifying and taking action against non-compliant institutions as warranted. In addition, FinCEN continues to work closely with the Department of Justice to coordinate investigations in order to proceed concurrently on both civil and criminal actions, where appropriate;
- Continued to participate in the U.S. Government's coordinated attack on mortgage fraud by updating analyses of Suspicious Activity Reports (SARs) to highlight current trends in mortgage loan fraud, and in loan modification and foreclosure rescue scams. FinCEN reports showed that mortgage loan fraud SAR filings continued to increase through 2009. FinCEN also issued a report showing that after FinCEN issued an Advisory on loan modification scams, sampled SAR filings reporting such activity in every covered industry more than doubled over the entire preceding five-year period. FinCEN issued additional advisories to highlight updated scam techniques and reverse mortgage fraud schemes potentially related to the Federal Housing Administration (FHA) Home Equity Conversion Mortgage program; and
- Finalized or advanced several significant rulemakings to further strengthen the financial system's resistance to financial crime. FinCEN issued a final rule enhancing domestic and international information sharing to thwart money laundering and terrorist finance by expanding access to FinCEN's successful 314(a) program. FinCEN also issued Notices of Proposed Rulemaking that would establish a more comprehensive BSA regulatory framework to providers and sellers of prepaid access; require banks and money services businesses to report certain cross-border electronic transmittals of funds to FinCEN; and clarify foreign bank account reporting requirements.

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

- Continue to advance regulatory initiatives designed to further protect the U.S. financial system from abuse while balancing their impact on the financial industry. This would include carefully considering public comment on and weighing changes to proposed rules as appropriate;
- Continue to conduct analysis in support of regulatory initiatives (such as identity theft) and further efforts to combat mortgage loan fraud, building off prior analysis efforts to identify emerging trends (such as commercial real estate fraud), and continue to consider advisories to financial institutions highlighting emerging risks or other appropriate regulatory options; and
- Continue to enhance proactive compliance and enforcement efforts by implementing further steps based on risks informed by analysis and law enforcement, including targeted steps to increase money transmitter registration. FinCEN will also continue to strengthen oversight of recently-covered industries under the BSA, by signing additional information sharing agreements with state insurance regulators and working cooperatively with the Internal Revenue Service and state regulators on consistent, risk-based examination procedures.

FinCEN's efforts in the analytical area focus on developing products and services to enhance law enforcement's detection and deterrence of domestic and international financial fraud, money laundering, terrorism financing, and other illicit activity. FinCEN intends to improve its expert analysis of BSA data to provide early warning of emerging trends of fraud and other criminal abuse. This includes information exchange with counterpart FIUs in 120 jurisdictions that are members of the Egmont Group.

In FY 2010, FinCEN:

- Leveraged the relationships and techniques developed in the mortgage fraud context to initiate similar efforts in the areas of health care fraud and securities fraud through its involvement in the Financial Fraud Enforcement Task Force. FinCEN also undertook efforts to expand information sharing across the U.S. Government in a coordinated manner, worked to enhance understanding of the value and utilization of BSA data for investigative purposes, and supported task force summit tour events with analytical targeting packages/demonstrations, through participation in committees and other working groups of the Financial Fraud Enforcement Task Force, including acting, along with the Executive Office for the U.S. Attorneys, as co-chair of the Task Force's Training and Information Sharing Committee;
- Completed a joint study with the Mexican FIU of currency flows between the U.S and Mexico. The study provides a more accurate baseline of U.S. dollar currency activity in Mexico from which the U.S. and Mexico can more effectively measure the scope of bulk cash smuggling into Mexico and the effectiveness of future AML and cash interdiction efforts. The study also developed suspected Mexican money laundering targets and referred them to U.S. and Mexican law enforcement. FinCEN continues to coordinate investigative follow-up of these targets with U.S. law enforcement and develop plans for future targeting efforts. Completion of the study has positioned FinCEN well to respond

to new Mexican regulations related to U.S. dollar transactions. FinCEN dedicated a staff member to work with the Mexican FIU to deepen cooperation;
- Created and disseminated tactical financial intelligence reports to Egmont Group FIUs and managed case exchange with FIUs on behalf of U.S. law enforcement and regulatory agencies. These intelligence products are integral to domestic and foreign investigations of money laundering, financial fraud, and terrorist financing around the world; and
- Worked closely with developing the FIU in Afghanistan, FinTRACA. As a result of FinCEN's efforts within the Egmont Group, FinTRACA was admitted to the Egmont Group in June 2010. Egmont Group membership is expected to lead to a considerably greater flow of financial intelligence between FinTRACA and other FIUs, including FinCEN. FinCEN also placed a staff member to work with the Afghanistan FIU to foster tactical information sharing between the FIU and U.S. law enforcement.

FinCEN's future plans in the analytical area will improve its ability to strengthen financial system security and enhance U.S. national security. To detect and deter financial fraud, money laundering, terrorism financing, and other illicit activity, FinCEN will:
- Continue to work with law enforcement, financial and international partners to combat Mexican cartel-related drug, gun and human smuggling operations in Mexico and along the Southwest Border by increasing and improving the sharing and analysis of related financial information;
- Support federal law enforcement efforts to combat health care fraud by initiating an advanced targeting process to identify potential health care fraud perpetrators and to provide analytical support to investigations and prosecutions;
- Expand the range of analytical products and identify more efficiencies in case management to respond to foreign FIU requests. FinCEN intends to increase the number of proactive intelligence reports sent to foreign counterpart FIUs. Proactive intelligence reports will enable foreign law enforcement agencies, to develop new cases or enhance existing ones; and
- Increase joint analytical projects with foreign FIU counterparts through intensified operational engagements with key strategic partner FIUs. FinCEN plans to replicate with other foreign FIUs a current analytical initiative involving FinCEN, the Mexican FIU, and the Internal Revenue Service's Criminal Investigation Division (IRS-CI).

FinCEN's efforts related to the efficient management, safeguarding, and use of BSA information focus on maximizing utilization by improving the overall information infrastructure and enhancing information technology management capabilities. In the past year, both currency transaction reports and SAR filings decreased for the first time ever, reflecting efforts to focus on data most needed, while data quality continues to increase. Improving data quality remains a priority for FinCEN.

In FY 2010, FinCEN:
- Introduced additional field and business rule validations to batch data at E-Filing submission to improve data quality and provide faster error notification for SARs. Filers receive an e-mail if their submitted file has errors and they are directed to a designated error page to view batch validation error details;

- Completed all of the project-level documentation defined in FinCEN's System Development Life Cycle for the BSA IT Modernization initiative. This documentation provides the necessary business requirements and architectural foundational elements to enable FinCEN to proceed to the Design phase of the Program; and
- Implemented the E-Filing Work-In-Process (WIP) database to provide additional data validations and provide feedback to financial institutions.

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

- Continue to modernize BSA information management and analysis to equip law enforcement and financial industry regulators with better decision-making abilities, increase the value of BSA information through increased data integrity and analytical tools, and move Treasury to the ultimate goal of being a "paperless" agency. FinCEN plans to continue to utilize the Bureau of Public Debt (BPD) for IT modernization hosting to achieve data center efficiencies.
- This multi-year program will:
  - Establish the production and disaster recovery infrastructure;
  - Deploy the Registered User Portal, which will provide a common user interface and authentication process for accessing BSA data;
  - Begin the development efforts to build the BSA new system of record and basic query capabilities; and
  - Implement ability to discretely enter those select forms that are only currently accepted via paper filing.

In FY 2012, FinCEN and the Administration propose a transfer of $30M from the Treasury Forfeiture Fund (see Administrative Provisions Sec. 125) to continue development and maintenance of the BSA Information Technology (IT) modernization program.

Going Green Goals

FinCEN supports the Administration's Going Green goals. Additionally, FinCEN has a committee that routinely provides tips and suggestions to employees related to energy conservation. To improve Greenhouse Gas Reduction (GHG); FinCEN will reduce its Fleet size from four to three vehicles in FY 2011, and all vehicles are currently alternative-fuel vehicles. Further efforts include increased use of conference calls, video conferences and webinars, telework, and alternative work schedules. In addition, FinCEN has a very active and effective recycling program for paper, plastic, and aluminum, and procures paper that contains at least 30 percent postconsumer fiber. Additionally, the bureau donated over 3,900 lbs of old computer equipment to UNICOR for recycling, and donated 61 LCD monitors and 15 laptop notebook computers to Computers for Learning (CFL). Finally, FinCEN implemented a Power Management Program on all computers to save energy; purchased 100 EPEAT- Register Gold Desktop Computers, 130 LCD Monitors, and 20 Laptop Notebook computers; transferred 183 Blackberry Cell Phones to Treasury for reuse; and set up all printers for duplex printing.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Financial Crimes Enforcement Network	FTE	Amount
FY 2010 Enacted	**331**	**$111,010**
FY 2011 Annualized CR Level	**327**	**$111,010**
Changes to Base:		
Adjustment to Reach Policy Level:	-	($11,038)
Adjustment to Reach FY 2011 President's Policy Level	-	($11,038)
Maintaining Current Levels (MCLs):	-	$897
Maintaining Current Levels (MCLs)	-	$897
Efficiencies, Savings & Base Reductions:	(5)	($13,570)
Base Reduction to BSA IT Modernization	-	($10,250)
Regulatory Support Efficiency Savings	-	($1,017)
Information Technology Efficiency Savings	-	($1,636)
Staffing Reduction from Attrition	(5)	($667)
Subtotal FY 2012 Changes to Base	(5)	($23,711)
Total FY 2012 Base	**322**	**$87,299**
Program Changes:		
Program Decreases:	(18)	($3,002)
Reduce Field Law Enforcement Support	(3)	($683)
Reduce Intelligence Support to External Agencies	(6)	($968)
Consolidate State and Local Access to BSA Data	(9)	($1,351)
Subtotal FY 2012 Program Changes	(18)	($3,002)
Total FY 2012 Request	**304**	**$84,297**
Transfers	-	$30,000
Total FY 2012 Request (Net)	**304**	**$114,297**

2A – Budget Increases and Decreases Description

Adjustment to Reach Policy Level ....-$11,038,000 / +0 FTE

Adjustment to Reach FY 2011 President's Policy Level -$11,038,000 / +0 FTE

Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

Maintaining Current Levels (MCLs) .... +$897,000 / +0 FTE

Maintaining Current Levels (MCLs) +$897,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings & Base Reductions ....-$13,570,000 / -5 FTE

Base Reduction to BSA IT Modernization -$10,250,000 / +0 FTE

BSA IT Modernization program will be funded with Forfeiture Fund surplus in FY 2012, thereby reducing the discretionary request by an additional $10.250 million. Total project funding remains the same.

Regulatory Support Efficiency Savings -$1,017,000 / +0 FTE
FinCEN will achieve efficiency savings through targeted regulatory support efforts, centralization of money services business (MSB) outreach activities, and change in distribution methodology for MSB brochure materials. The impact of these reductions will be mitigated through future consolidation of call centers; centralization of outreach activities; additional outreach support by FinCEN staff; and greater reliance on FinCEN's public website to distribute MSB materials, supporting Treasury's paperless initiative.

Information Technology Efficiency Savings -$1,636,000 / +0 FTE
In FY 2012, the BSA IT Modernization program will roll out new capabilities for BSA E-Filing and a new analytical tool. Therefore, FinCEN proposes to eliminate development funding for stand-alone system enhancements that could be rolled into the BSA IT Modernization umbrella during FY 2012. FinCEN will also achieve efficiencies through consolidation of information technology contracts, leveraging Treasury strategic sourcing initiatives, and other related efficiencies.

Staffing Reduction from Attrition -$667,000 / -5 FTE
Reductions were identified from efficiencies achieved in administrative staffing support and absorption of workload associated with positions lost through attrition.

Program Decreases ....-$3,002,000 / -18 FTE
Reduce Field Law Enforcement Support -$683,000 / -3 FTE
Reductions are identified from discontinuance of a liaison position at the Federal Law Enforcement Training Center (FLETC), and from decreases in field positions located in High Intensity Financial Crime Areas (HIFCAs). FinCEN will continue to support law enforcement from its headquarters.

Reduce Intelligence Support to External Agencies -$968,000 / -6 FTE
This reduction will reduce analytical support to external customers in support of their national security, counter terrorism financing, and law enforcement matters. FinCEN will continue to carry-out limited case support and support to FinCEN's analytical initiatives that require national security information. FinCEN will also provide access to BSA information for external agencies through appropriate information sharing protocols.

Consolidate State and Local Access to BSA Data -$1,351,000 / -9 FTE
This reduction will limit direct access to BSA data to only state coordinators, canceling 142 current state and local BSA direct access agreements for law enforcement and regulators. The state coordinators and FinCEN analysts would then be asked to provide access to the BSA by fulfilling query requests from those customers that previously had direct access. These actions allow FinCEN to reduce training, investigative and administrative support to state and local users, and inspections and monitoring of BSA data for appropriate use.

Transfers ....+$30,000,000 / +0 FTE
Proposed Transfer from TFF to Support BSA IT Modernization Continuing Efforts +$30,000,000 / +0 FTE
The BSA IT Modernization will be funded using a transfer from Treasury Forfeiture Fund (see

Administrative Provisions Sec. 125) to support continuing development and maintenance. This transfer allows Treasury to use asset forfeiture to support the development of a tool that will support law enforcement's anti-money laundering and counter-terrorism financing efforts.

2.2 – Operating Levels Table

Dollars in Thousands

Financial Crimes Enforcement Network	FY 2010 Enacted	FY 2011 Annualized CR Level	Proposed Reprogrammings	FY 2011 Proposed Operating Level	FY 2012 Request
FTE	**331**	**327**	**-**	**327**	**304**
Object Classification					
11.1 - Full-time permanent	$36,108	$37,130	$0	$37,130	$34,314
11.3 - Other than full-time permanent	$294	$304	$0	$304	$287
11.5 - Other personnel compensation	$545	$564	$0	$564	$526
12 - Personnel benefits	$9,420	$9,597	$0	$9,597	$8,986
21 - Travel and transportation of persons	$1,153	$844	$0	$844	$758
23.1 - Rental payments to GSA	$5,380	$5,379	$0	$5,379	$5,424
23.2 - Rental payments to others	$71	$71	$0	$71	$71
23.3 - Communication, utilities, and misc charges	$1,399	$1,415	$0	$1,415	$1,313
24 - Printing and reproduction	$454	$459	$0	$459	$263
25.1 - Advisory and assistance services	$1,829	$1,849	$0	$1,849	$1,865
25.2 - Other services	$13,178	$13,064	$0	$13,064	$7,969
25.3 - Other purchases of goods and services from Govt. accounts	$14,545	$14,595	$0	$14,595	$14,415
25.4 - Operation and maintenance of facilities	$968	$737	$0	$737	$0
25.6 - Medical care	$155	$156	$0	$156	$158
25.7 - Operation and maintenance of equip	$5,056	$5,118	$0	$5,118	$5,166
26 - Supplies and materials	$449	$450	$0	$450	$431
31 - Equipment	$20,006	$19,278	$0	$19,278	$2,351
Total Budget Authority	**$111,010**	**$111,010**	**$0**	**$111,010**	**$84,297**
Budget Activities					
BSA Administration and Analysis	$101,694	$111,010	$0	$101,694	$84,297
Regulatory Support Programs	$9,316	$0	$0	$9,316	$0
Total Budget Authority	**$111,010**	**$111,010**	**$0**	**$111,010**	**$84,297**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2010 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Appropriated Resources:										
Collect the Revenue	329	$93,494	331	$101,694	327	$101,694	304	$84,297	-8.16%	-17.11%
Protect the Public		8,716		9,316		9,316				-100.00%
Subtotal New Appropriated Resources	329	$102,210	331	$111,010	327	$111,010	304	$84,297	-8.16%	-24.06%
Other Resources:										
Offsetting Collections - Reimbursable	2	14,200	1	20,000	1	20,000	1	3,000	0.00%	-85.00%
Available multi-year/no-year funds		15,526		20,526		25,420		15,000		-26.92%
Transfers In/Out								30,000		
Recoveries		20		500		500		500		0.00%
Subtotal Other Resources	2	29,746	1	41,026	1	45,920	1	48,500	0.00%	18.22%
Total Resources Available for Obligation	331	$131,956	332	$152,036	328	$156,930	305	$132,797	-8.13%	-12.65%

2B – Appropriations Language and Explanation of Changes

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, including for course development, 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, $84,297,000 of which not to exceed $15,835,000 shall remain available until September 30, 2014: Provided, that funds appropriated in this account may be used to procure personal services contracts.*	To simplify the fund availability structure, FinCEN is proposing to eliminate the two-year fund. The funding available for three years (i.e., until September 30, 2014) is required due to the longer lead-time needed to execute information technology efforts and special analytical, regulatory, or international partnership efforts. This allows these projects to be executed in a single appropriation regardless of lead-time for acquisition.

2C – Legislative Proposals

FinCEN is proposing five technical amendments to Titles 31 and 12 that would make improvements in four important areas. The first amendment provides authority to rely on examinations conducted by state supervisory agencies for nonbank financial institutions lacking a Federal regulator, which would capture most nonbank financial institutions currently subject to Internal Revenue Service (IRS) examination as delegated through a memorandum of understanding. The second amendment increases information sharing between FinCEN and counterpart anti-money laundering/counter-terrorist financing regulators. Specifically, this amendment provides consistency between how FinCEN shares information in its capacity as a regulator and information sharing that currently exists between federal financial regulators and their foreign counterparts. The remaining amendments expand the universe of individuals covered by the prohibition on SAR disclosures and explicitly exempt all BSA data from disclosure under any state law or regulation providing public access to information. The specific changes to the amendment language are outlined below.

Sec. 120. Section 5318(a)(1) of Title 31, United States Code (relating to compliance, exemptions, and summons authority), is amended by - (1) Inserting after "appropriate" "federal or (in the case of financial institutions without a federal supervisor) state"; and (2) Inserting after "Service." , "In lieu of delegating such authority to a state supervisory agency, the Secretary is also authorized to rely on examinations conducted by a state supervisory agency of a category of financial institution. The Secretary may only rely on such state examinations if the Secretary determines that under the laws of the state, the category of financial institution is required to comply with this subchapter and regulations prescribed under this subchapter, or the state supervisory agency is authorized to ensure that the category of financial institution complies with this subchapter and regulations prescribed under this subchapter."

Sec. 121. Public Law 91-508, as amended (12 U.S.C. 1958 et seq.) is amended in section 128, by (1) Striking "sections 1730d (1) and" inserting in lieu thereof "section"; (2) Striking "bank supervisory agency, or other"; (3) Inserting after "appropriate" , "federal or (in the case of financial institutions without a federal supervisor) state"; and (4) Inserting after "agency." "In lieu of delegating such responsibility to a state supervisory agency, the Secretary is also authorized to rely on examinations conducted by a state supervisory agency of a category of financial institution. The Secretary may only rely on such state examinations if the Secretary determines that under the laws of the state, the category of financial institution is required to comply with this chapter and section 1829b (and regulations prescribed under this chapter and section 1829b), or the state supervisory agency is authorized to ensure that the category of financial institution complies with this chapter and section 1829b (and regulations prescribed under this chapter and section 1829b)."

Sec. 122. Section 310(b)(2)(E) of Title 31, United States Code (relating to the Financial Crimes Enforcement Network), is amended by inserting after "Federal" the first time that it appears, "and foreign".

Sec. 123. Section 5318(g)(2)(A) of Title 31, United States Code (relating to reporting of suspicious transactions), is amended by - (1) Inserting after "employee." at the end of paragraph (ii) "; and"; and (2) Inserting after "; and" "(iii) no other person that the Secretary may prescribe by regulation, who has knowledge that such report was made, may disclose to any person involved in the transaction that the transaction has been reported."

Sec. 124. Section 5319 of Title 31, United States Code (relating to availability of reports), is amended by inserting after "title 5", ", or any State law having or intended to have a similar effect."

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to:
http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	% Change FY10 to FY12
Safer and more transparent U.S. and international financial systems	131,010	131,010	117,297	-10.47%
Total	**$131,010**	**$131,010**	**$117,297**	**-10.47%**

3A - BSA Administration and Analysis *($84,297,000 from direct appropriations, $30,000,000 from transfers, and $3,000,000 from reimbursable programs):* This activity comprises FinCEN's efforts to administer the BSA, including promulgating regulations, providing outreach and issuing guidance to the regulated industries, providing oversight of BSA compliance, initiating enforcement actions, and, with the IRS, managing the information reported by the regulated industries, as well BSA compliance of non-bank financial institutions. Analytical programs include support to U.S. law enforcement and international FIUs in combating financial fraud and crime by facilitating the exchange of investigative information, including with foreign counterpart FIUs; identifying foreign and domestic financial fraud, money laundering, and terrorist financing trends, patterns, and techniques; and liaison with and support of intelligence initiatives within the intelligence community and within Treasury. This activity also incorporates efforts to support large-scale, complex law enforcement investigations involving financial fraud, terrorist financing, money laundering, and other financial crimes.

FinCEN works closely with federal and state regulatory agencies that examine financial institutions for BSA compliance to ensure consistency across regulated industries. 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 and maintaining records and filing reports on certain types of financial activity pursuant to the BSA. As appropriate, FinCEN investigates alleged violations by financial institutions, issues letters of caution or warning, and seeks injunctions; additionally, when required, FinCEN imposes civil monetary penalties for egregious BSA violations, typically in conjunction with partner federal and state agencies.

FinCEN supports law enforcement agencies, intelligence agencies, and foreign FIUs investigating financial fraud and crimes by providing specialized and unique analysis of BSA data along with information from law enforcement, intelligence, and commercial sources. FinCEN's analysis also supports regulatory and other policy decisions. The analysis includes development of threat assessments, industry reports, and technical guides describing financial transaction mechanisms. Additionally, FinCEN identifies individuals and networks involved in suspicious financial activity, referring that information to appropriate law enforcement agencies.

In the global arena, FinCEN's activities include: supporting international initiatives to educate other jurisdictions about the BSA regulatory regime; working to establish international anti-money laundering/counter-terrorist financing regulatory standards and norms; and improving information exchange among FIUs through substantial engagement with the Egmont Group.

As administrator of the BSA, FinCEN must ensure the effective management, accessibility, dissemination, and use of the highly sensitive confidential information collected under the Act. FinCEN provides authorized law enforcement, regulatory, and intelligence agencies direct access to BSA information.

Other Resources: Offsetting collections totaling $3,000,000 are collected to support joint activities with other agencies. In addition, $30,000,000 will be transferred from Treasury Forfeiture Fund (TFF) (see Administrative Provisions Sec. 125) to continue development and maintenance of the BSA IT modernization program.

3.2.1 BSA Administration and Analysis Budget and Performance Plan

BSA Administration and Analysis Budget Activity Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$68,606	$82,287	$101,694	$101,694	$84,297
Reimbursable Resources	$4,310	$6,000	$20,000	$20,000	$3,000
Total Resources	**$72,916**	**$88,287**	**$121,694**	**$121,694**	**$87,297**
Transfers	$0	$0	$0	$0	$30,000
Total	**$72,916**	**$88,287**	**$121,694**	**$121,694**	**$117,297**
Budget Activity Total	**$72,916**	**$88,287**	**$121,694**	**$121,694**	**$117,297**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percentage of Customers Satisfied with the BSA E-Filing (Oe)	93.0	94.0	96.0	90.0	92.0
Percentage of Domestic Law Enforcement and Foreign Financial Intelligence Units Finding FinCEN's Analytical Reports Highly Valuable	83.0	81.0	80.0	80.0	80.0
Percentage of Federal and State Regulatory Agencies with Memoranda of Understanding/Information Sharing Agreements (Ot)	41.0	43.0	46.0	46.0	50.0
Percentage of FinCEN's Compliance MOU Holders Finding FinCEN's Information Exchange Valuable to Improve the BSA Consistency and Compliance of the Financial System (Oe)	64.0	82.0	86.0	86.0	86.0
Percentage of FinCEN's Regulatory Resource Center Customers Rating the Guidance Received as Understandable (Oe)	94.0	94.0	92.0	90.0	90.0

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

Description of Performance: In the regulatory area, FinCEN continues to increase activities to monitor financial institutions examined for BSA compliance by state and federal regulators through the establishment of MOUs to exchange compliance information. In 2010, FinCEN met its target of 46 percent of federal and state regulatory agencies with MOU/information sharing agreements. FinCEN achieved its target by finalizing four additional MOUs with state regulatory agencies. FinCEN will continue collaborating with state insurance agencies and other regulatory agencies to sign additional agreements to meet future targets. In FY 2012, FinCEN expects to meet the target of 50 percent.

FinCEN surveys its compliance MOU holders to determine the impact of the information exchange to improve the BSA consistency and compliance of the financial system. In FY 2010 FinCEN surpassed its target of 68 percent rating the information exchange valuable with 86 percent. FinCEN attributes a portion of this success to the distribution of analytic information to the MOU holders throughout the fiscal year. To achieve future targets, FinCEN will continue to facilitate routine discussions with the MOU holders. In FY 2012, FinCEN expects to meet the target of 86 percent.

FinCEN's goal to provide financial institutions with understandable guidance through the BSA Resource Center is critical to institutions establishing anti-money laundering programs that comply with the BSA. The FY 2010 goal was to maintain a 90 percent satisfaction level for customers rating the guidance as "understandable," and FinCEN surpassed its goal with 92 percent. FinCEN attainted this success by responding timely (within 24 hours of the inquiry), providing a high level of service. In order to achieve future targets, FinCEN will continue to make guidance available on the Internet, accept and analyze customer feedback, and conduct surveys to measure customer satisfaction. In FY 2012, FinCEN expects to continue to meet the target maintaining a consistently high satisfaction level of at least 90 percent.

FinCEN also works closely with its regulatory partners to take enforcement action against financial institutions that systemically and egregiously violate the provisions of the BSA, including through imposition of civil money penalties when appropriate. Timely enforcement action is essential to deter non-compliance with the BSA. In fiscal year 2010, FinCEN met its target for the average time to process enforcement matters in one year with an average time of 0.8 year. FinCEN will continue to actively manage casework to meet future targets. In FY 2012, FinCEN expects to continue to meet the target of 1.0 years.

In the analytical area, FinCEN supports domestic law enforcement and international FIU partners by providing analyses of BSA information, and measures the percentage of customers finding FinCEN's analytic reports highly valuable. The measure closely ties to how BSA information is used by law enforcement and international FIUs to identify, investigate, and prevent abuse of the financial system. In FY 2010, 80 percent of the respondents rated the analytic products as highly valuable. FinCEN narrowly missed its target of 81 percent. FinCEN attributes this to a need to enhance communication with and understanding of law enforcement partners' needs. FinCEN has developed a strategy to increase communication with law enforcement partners and will continue efforts to ensure its products and services meet those needs. In FY 2012, FinCEN expects to meet its target of 80 percent.

In the efficient management, safeguarding, and use of BSA information, FinCEN conducts a survey of the users of the BSA E-Filing system to determine the overall satisfaction level and to identify where improvements are needed. The FY 2010 target was to maintain at least a 90 percent satisfaction level, and FinCEN exceeded its target with 96 percent. FinCEN attributes this to a result of continued outreach, the implementation of a more industry-friendly forms submission software (Adobe), and the receipt/acknowledgements and data validations specific to Suspicious Activity Reports now available to the filing community. FinCEN will continue outreach to E-Filers and ensure the technology supports the demand to achieve future targets. In FY 2012, FinCEN expects to meet the target of 92 percent.

FinCEN also began tracking the value of the BSA information to law enforcement and regulatory agency users with direct access to the BSA data. This is a composite measure compiled from survey results. The survey looks at the value of BSA data, such as whether the data provided unknown information, supplemented or expanded known information, verified information, helped identify new leads, opened a new investigation or examination, supported an existing investigation or examination, and provided information for an investigative or examination report. The FY 2010 baseline for the percentage of direct access users finding the BSA data provides valuable information toward the detection and deterrence of financial crime and the transparency and protection of the financial systems was 87 percent.

3B - Regulatory Support Programs *(No funding):* FinCEN is proposing to eliminate the Regulatory Support Program budget activity along with the related two year fund availability. This program has matured and is now an integrated part of FinCEN's activities, thus the separate identification and extended funding availability is no longer required.

3.2.2 Regulatory Support Programs Budget and Performance Plan

Regulatory Support Programs Budget Activity					
Resource Level	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Annualized CR Level**	**FY 2012 Request**
Appropriated Resources	$8,941	$9,178	$9,316	$9,316	$0
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$8,941**	**$9,178**	**$9,316**	**$9,316**	**$0**
Budget Activity Total	**$8,941**	**$9,178**	**$9,316**	**$9,316**	**$0**

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

FinCEN's Human Capital Strategy is best described by its organizational vision outlined in the 2008-2012 Strategic Plan (http://www.fincen.gov/about_fincen/wwd/strategic.html). That vision is to have a well-managed environment where expert staff act swiftly, creatively, and collaboratively to address the threats posed to the domestic and international financial system by money launders, terrorists and their financial supporters, other threats to national security and perpetrators of financial crime.

FinCEN continues to work to improve its employee satisfaction results. The bureau recently received the results of the 2010 Employee Viewpoint Survey and found that its scores have continued to improve, resulting in an overall Bureau rating above the government average. FinCEN realized significant improvement in those areas where it most focused attention (i.e., performance management, communication, training, telework and leadership) in terms of steps for improvement from the 2008 survey. The bureau is finalizing its 2010 – 2011 action plan for improvement from the 2010 survey.

In FY 2010, FinCEN continued several successful work life programs to improve employee morale including: Fitness Center Reimbursement, Student Loan Repayment, Alternate Work Schedule, and telework. Participation in the Fitness Center Reimbursement Program increased from 70 employees (22 percent) to 84 employees (26 percent). Twenty-nine employees have participated in the Student Loan Repayment Program since its implementation and FinCEN has facilitated the repayment of six employee loans in full. Informal feedback showed increased employee satisfaction and retention since a three year service agreement is completed upon entering the program. FinCEN offers employees flexibility with both Alternate Work Schedules (AWS) and telework programs. Currently, 56 percent of FinCEN employees participate in the telework program. To round out work life program offerings, FinCEN promotes the Employee Assistance Program (EAP) and Worklife4You, a Resources and Referral Service. Both EAP and WorkLife4You offer free services to employees, informational emails, and seminars on physical and mental health and wellness issues.

FinCEN's continued focus on work life programs netted improved results when comparing surveys across years. In the 2010 survey, 85 percent of FinCEN of employees indicated satisfaction with AWS and 80 percent felt that their manager supported their need to balance work and other life issues. Further, 58 percent felt that senior leaders demonstrate support for the Worklife Program. Specifically, 63 percent were satisfied with the telework program, up from 30 percent in 2008. Seventy six percent of the workforce is satisfied with the Health and Wellness programs offered and 60 percent with the EAP program. In addition, the FinCEN Worklife Coordinator is a Certified Worklife Professional. Currently, there are only 13 of these individuals in Federal Government and two are employed by Treasury.

FinCEN continues to build a results-oriented, high performing workforce. FinCEN's current five tier performance management system requires that each manager place employees on performance standards that include individual commitments linked directly to the strategic plan. This performance management system enables managers to differentiate performance levels among employees and establish employee's expectations and accountability for meeting specified performance goals and targets. To further develop each employee, managers and employees collaboratively develop and agree upon an annual individual development plan to identify areas for career growth and development.

Based upon OPM and employee feedback, FinCEN developed a new Performance Management Program and Awards and Recognition System for implementation in FY 2011. In the first two quarters of FY 2010, FinCEN reviewed the current policy, surveyed employees, launched an employee feedback/steering group, identified themes and areas requiring adjustment, and drafted a policy and supporting handbook that capture these themes combined with OPM input. This new policy has been approved and training was provided. Any award program developed will feature the extremely popular Annual Director's Awards and Recognition Program. This program celebrates FinCEN employee achievements in leadership, visionary, customer service, team work, and diversity and is a highlight of the fall season.

FinCEN continues to offer a comprehensive leadership development program, expand leader programs/resources, implement strategic on-boarding, review retention data, expand rotational assignments, build upon inter and intra divisional activities, and improve communication.

The Associate Directors who lead FinCEN's five divisions have fostered team building and expanded cross-divisional activities. The 2008 Human Capital Survey results were the first time that the data was available by division, and FinCEN was able to develop division specific initiatives. Analysts across the bureau now meet periodically to build and strengthen relationships, and share analytical tips and processes. This team building effort continues and the organization continues to benefit from the sharing of information and the fostering of a greater understanding of incoming data and its impact on further analysis.

<u>Leadership and Workforce Planning</u>
Although the bureau's overall average age and average years of service is low as compared to other Treasury bureaus and the federal government, FinCEN continues to assess and develop its future workforce. FinCEN offers a wealth of leadership opportunities, both formal and informal, extensive leader resources, a formal mentoring program, a formal rotational assignment program, and extensive skill assessments and training development planning to engage employees.

In FY 2010, FinCEN continued its aggressive leadership development plan to strengthen the skills of its current leaders and promote leadership skills at all levels. Implementation included 360 assessments for executives and supervisors, mandatory training for new supervisors, and annual completion of 24 hours of supervisory or leadership-focused continuing education. To meet these goals, FinCEN conducted in-house training for supervisors that included coaching and mentoring skills, relationship building, performance management, and change management. In FY 2010, FinCEN's executive team started receiving individual and team executive coaching.

To serve both supervisors and potential leaders, FinCEN's new Leadership Webinar Series made a range of topics available to all employees on a biweekly basis. In FY 2010, FinCEN launched a Mentoring Program, pairing twenty individuals together for a year-long plan for training and development. FinCEN also initiated its Thought Leader Series. The goal of the series is to bring acclaimed authors to FinCEN to provoke employees' thinking and offer new perspectives on leadership. FinCEN also delivered in-house instruction to develop leadership skills in non-supervisors and to empower all employees in accomplishing the bureau's mission.

FinCEN expanded resources to all leaders by creating a Supervisor's Toolkit designed for both new and experienced supervisors to facilitate understanding of non-HR topics. This on-line resource is a fresh approach and shortcut to specific information supervisors need to perform their jobs and includes checklists, summary charts, explanations, and links.

FinCEN continues to monitor its skills mix and perform comprehensive skill assessments to design training programs. FinCEN is committed to ensuring that employees possess the skills and knowledge needed to perform their jobs, keep their skills current and prepare for advancement. FinCEN continues to assess skills for its mission critical occupations: Intelligence Research Specialists, Regulatory Specialists, and Law Enforcement Liaison Specialists. In FY 2009, results of those skills gap assessments prompted revisions to the corresponding training development plans, identified and prompted delivery of essential in-house training to close skill gaps, accelerated the frequency at which FinCEN's BSA Training Program is offered, and identified the need for a new Advanced Strategic and Complex Analysis training course, which is scheduled to start at the end of FY 2010. In FY 2010, technical skills training courses were brought in-house for FinCEN's analysts and regulatory specialists. Those courses focused on high level analysis, writing, communication and assessment of written products.

FinCEN's Rotational Assignment Program is another important method for skills enhancement and sharing expertise within and outside the bureau. Since its launch in FY 2009, qualified and motivated employees have continued to further their own learning and career development, while elevating communication and knowledge in their own rotational destinations. Several FinCEN rotational assignments were posted on Treasury's Virtual Career Center portal and two Treasury employees accepted rotations into FinCEN.

Recruitment and Diversity

FinCEN utilizes various hiring authorities and flexibilities. Annually, FinCEN hires a number of students under the Student Temporary Employment Program (STEP). In addition, FinCEN often utilizes the Veterans Employment Opportunity Act (VEOA) and Schedule A Disability Appointment authority. FinCEN continued to reduce the amount of time it takes to hire employees from 45 days to less than 32 days during the last four quarters.

FinCEN continued to take steps to attract a diverse workforce, which included partnering with diverse academic groups to attract student interns of diverse background and establishing contacts with special interest groups to attract applicants from diverse populations. FinCEN continued a mandatory Equal Employment Opportunity (EEO)/Diversity element in all supervisory performance plans to address EEO principles, workplace conflict, EEO plans, and diversity hiring requirements.

FinCEN continues to offer a Diversity Day Training conference for all employees. The 2009 activities focused on "Communicating Across Differences." Noted leadership expert Warren Blank led a workshop on personal responsibility and leadership. In 2010, FinCEN held its 9th

Diversity Day and featured a workshop led by Mr. Howard Ross. Mr. Ross is an expert in diversity, inclusion and unconscious bias, and helps organizations understand how individuals and organizations must develop strategies to unmask unconscious preconceptions regarding team members.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Major IT Investments / Funding Source	Budget Activity	FY 2009 Enacted	FY 2010 Enacted	% Change from FY 2009 to FY 2010	FY 2011 Annualized CR Level	FY 2012 Request	% Change from FY 2010 to FY 2012
BSA Information Technology Modernization*	BSA Administration and Analysis	$0	$31,487	N/A	$32,200	$32,200	2.3%
Subtotal, Major IT Investments	BSA Administration and Analysis	$0	$31,487	N/A	$32,200	$32,200	2.3%
Non-Major IT Investments	BSA Administration and Analysis	$18,108	$12,535	-30.8%	$11,290	$9,718	-22.5%
Infrastructure Investments	BSA Administration and Analysis	$9,800	$11,374	16.1%	$10,621	$10,647	-6.4%
Enterprise Architecture	BSA Administration and Analysis	$385	$250	-35.1%	$453	$457	82.8%
Enterprise Identity and Access Management	BSA Administration and Analysis				$299	$304	
Total IT Investments	BSA Administration and Analysis	$28,293	$55,646	96.7%	$54,863	$53,326	-4.2%

* BSA IT Modernization project includes a transfer of $30 million funding from Treasury Forfeiture Fund.

4B – Information Technology Strategy

As the administrator of the BSA, FinCEN receives valuable information reported and collected under BSA requirements, which totaled approximately 17 million filings in FY 2009. The bureau's mission is to enhance U.S. national security, deter and detect criminal activity, and safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems. FinCEN's mission supports Treasury's strategic goal to prevent terrorism and promote the nation's security through strengthened financial systems. To successfully fulfill its mission, FinCEN relies on secure, advanced information technology (IT) to manage the collection, processing, storage, and dissemination of BSA information that contributes to the soundness and confidence in America's financial system.

FinCEN's IT Strategy takes into account the growing need for financial institutions to meet obligations as efficiently as possible, while ensuring that national and global law enforcement agencies receive accurate, timely, and reliable BSA information to track money trails, identify money laundering, and unravel terrorist financing networks. FinCEN's IT Strategy focuses on the critical need to improve the quality and accessibility of its data and increase responsiveness to stakeholders by introducing flexible and innovative technical solutions.

A major component of FinCEN's IT Strategy is the bureau's information technology modernization vision and strategy (IT MV&S) and resulting Enterprise Transition Strategy, which serves as the roadmap for aligning its IT portfolio with its business objectives and processes and has resulted in the multi-year BSA IT Modernization program. By establishing an enterprise-wide information management and analysis framework, law enforcement and financial industry regulators will be equipped with better decision-making abilities and increased value of BSA information through enhanced data integrity and analytical tools. BSA IT Modernization will help FinCEN move away from custom coded legacy applications which are complex and difficult to maintain to a more modern environment based on Commercial Off the Shelf (COTS) products and standardized data formats. FinCEN is supporting Treasury/OMB's goal of data center consolidation by hosting its production environments at the Bureau of Public Debt (BPD). In addition, FinCEN is working with OMB to develop National Information Exchange Model standards for data exchange with law enforcement and intelligence communities.

The BSA IT Modernization effort helps move Treasury towards a "paperless" environment by increasing electronic filing and enabling future Treasury savings in paper-processing costs, while enabling industry savings due to the reduction of filing complexity. Increasing the automated collection of BSA data also decreases the amount of time it takes to make critical information available to FinCEN's stakeholders. Providing more reliable and valid data in pre-defined formats enables a higher confidence in the data and reduces the time to decipher and interpret data.

FinCEN is employing a System Development Life Cycle (SDLC) methodology and proven Program Management methodologies, such as the Project Management Body of Knowledge, to manage the BSA IT Modernization program. Before FinCEN can proceed through each phase of the program, it must demonstrate completion of all requisite activities and receive approval from the Modernization Executive Group, the highest level of Governance comprised of the Treasury CIO, FinCEN Director, and IRS Deputy Commissioner for Operations and Maintenance.

FinCEN utilizes an Integrated Master Schedule (IMS) to depict all project activities, including cross project dependencies and resource loading. The IMS also serve as the foundation for conducting Earned Value Management, which effectively integrates the program's scope of work with schedule and cost elements for optimum project planning and control. The IMS will allow FinCEN to perform wellness analysis to help ensure adherence to "best practices", qualitative analysis to help ensure appropriate content, and performance analysis, such as critical path, schedule variance, and schedule trend analysis. These various analysis tools will help the bureau stay abreast at any given time of the cost and schedule for the program and take timely remedial actions as necessary.

In FY 2010, FinCEN completed the project-level work to base-line the requirements and technical architecture. FinCEN obtained approval from the Modernization Executive Group to begin the design phase in May 2010. FinCEN has subsequently awarded the necessary task orders under the Indefinite Delivery/Indefinite Quantity contract for IT services support and launched the design effort.

Overview

Mission Statement

Collect the Federal excise taxes on alcohol, tobacco, firearms, and ammunition, and assure compliance with Federal tobacco permitting and alcohol permitting, labeling, and marketing requirements to protect consumers.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	FY 2010 to FY 2012 $ Change	FY 2010 to FY 2012 % Change
Collect the Revenue	$53,000	$53,000	$48,939	($4,061)	(7.7%)
Protect the Public	$50,000	$50,000	$48,939	($1,061)	(2.1%)
Total Appropriated Resources	**$103,000**	**$103,000**	**$97,878**	**($5,122)**	**(5.0%)**
Total FTE	**535**	**535**	**502**	**(33)**	**(6.2%)**

Note: In FY 2010, Congress appropriated $3 million in two-year funds for the hiring, training, and equipping of special agents and related support personnel. This funding expires September 30, 2011.

FY 2012 Priorities

- Collect roughly $24 billion in annual excise tax revenues due to the federal government;
- Reduce the burden of compliance by expanding and promoting electronic filing options for industry members, including the online system that will allow industry members to apply for an original permit to start a new alcohol or tobacco business or file for an amended permit for an existing business;
- Promote voluntary compliance through industry outreach and education programs;
- Complete audits and investigations of TTB taxpayer**s** based upon risk and random selection to ensure lawful operations and tax reporting and payment compliance;
- Assure compliance with federal alcohol beverage production, labeling, and marketing requirements;
- Detect criminal diversion activity, including counterfeit alcohol and tobacco products, to protect the federal revenue stream, U.S. consumers, and industry by even enforcement of laws and addressing criminal activity in the fair market;
- Conduct statistically valid marketplace sampling programs to determine industry-wide compliance with advertising, labeling, and formulation regulations for alcohol beverages;
- Enhance TTB product safety activities focusing on the integrity and safety of domestic and imported alcohol beverage products; and
- Promote U.S. exports by facilitating industry compliance with foreign requirements and by working with foreign regulators to reduce barriers to trade.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities
TTB is responsible for the administration and enforcement of those sections of the Internal Revenue Code of 1986 (IRC) 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 the alcohol beverage industry and the protection of consumers of alcohol beverages. The bureau also administers the Webb-Kenyon Act, which prohibits the shipment of alcohol beverages into a state in violation of state law.

In Fiscal Year (FY) 2012, TTB will continue to focus its efforts on helping industry members comply with federal alcohol, tobacco, firearms, and ammunition laws and regulations, in the interest of collecting excise taxes due upon those commodities, and enforcing the tax code by addressing tax evasion and the illicit trade in alcohol and tobacco products. The bureau will also transition from a pre-market review to a post-market evaluation of alcohol beverage products, which will promote a marketplace for alcohol beverages that complies fully with federal production, labeling, advertising, and marketing requirements.

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

Collect All Revenue Due to the Federal Government--
Tax Verification and Validation:

- Ensure correct payment of federal excise taxes, focusing on audits of large and high risk taxpayers; and
- Identify and address tax evasion and other criminal violations of the IRC in the regulated industries, including diversion and smuggling of taxable commodities.

Voluntary Compliance:

- Develop methods of promoting voluntary tax compliance through partnerships with industry, states, and other federal agencies; and
- Participate in industry seminars and provide web-based education seminars to instruct industry members regarding federal compliance requirements.

Effective and Efficient Tax Collection Systems:

- Reduce the taxpayer paperwork burden associated with filing tax payments by creating alternative electronic filing methods.

Protect the Public Through Education, Product Testing, and Investigation--
Business Integrity:

- Ensure that only qualified permit applicants operate in the alcohol beverage and tobacco products industries.

Product Integrity:

- Enforce compliance with federal laws related to the production of alcohol beverage products;
- Perform appropriate sampling, evaluation, and laboratory analyses of regulated commodities to ensure the integrity and safety of alcohol beverage products in the marketplace;

- Review and act on labels, formulas, and advertising for domestic and imported beverage alcohol products to ensure consumers have complete and accurate product information; and
- Respond to industry and consumer complaints regarding the regulated commodities by investigating incidents and allegations of product contamination and adulteration.

Market Integrity:

- Investigate cases of unfair trade practices and violations of labeling and advertising standards in the alcohol beverage industry;
- Regulate the international import/export trade in beverage and industrial alcohol; and
- Facilitate growth in U.S. exports by working with foreign regulators to reduce barriers to trade and by facilitating industry compliance with foreign trade requirements.

Effective and Efficient Regulatory Systems to Facilitate Economic Growth:

- Use electronic government solutions to reduce taxpayer burden and improve service through online filing solutions for permit applications, COLA applications, formula submissions, and other required information.

The total resources required to support TTB activities for FY 2012 are $100,875,000, including $97,878,000 from direct appropriations and $2,997,000 from reimbursable activities (offsetting collections), mainly from the Puerto Rico cover-over program.

Treasury High Priority Performance Goals

TTB expects to accomplish the following in FY 2012 in support of Treasury's high priority performance goals:

Increase Voluntary Tax Compliance

TTB's outreach and education programs help taxpayers understand and comply with federal tax requirements. The bureau will:

- Participate in industry seminars and provide training to educate taxpayers, especially small business owners, regarding federal compliance issues; and
- Continue the Customer Care program, implemented in FY 2010, to monitor, evaluate, and assist newly permitted industry members with their required tax returns and operational report filings. Under this program, TTB specialists review the tax returns and operational reports of new industry members within the first 90 to 180 days of operation for accuracy and common errors, and follow up when necessary in order to bring industry members into compliance and ensure an understanding of federal requirements.

Significantly Increase the Number of Paperless Transactions with the Public

TTB has made progress in automating its tax and regulatory filing processes to reduce the paperwork burden and enable members of the alcohol and tobacco industries to submit mandatory applications and requests in an online environment. Through outreach efforts to industry, the bureau expects to:

- Increase the electronic filing rate for alcohol beverage label applications to above 80 percent;
- Increase electronic filings of permit applications. Permits Online is an e-filing solution introduced in FY 2011 for original and amended permit applications; and

- Increase Pay.gov registrations to enable taxpayers to file operational reports and tax returns online by continuing to register and educate new permittees.

"Going Green" Goals
TTB will support the continuation of environmentally sound policies and practices in the management of Information Technology (IT) equipment, fleet management, and in the acquisitions process.

Increased Energy Efficiency
TTB currently leverages technologies to ensure that electronic equipment uses efficient power management settings. The power management settings on work stations include powering down computer monitors, hard drives, and machines during periods of inactivity. TTB also has the capability to audit machines to assure use of the assigned power management settings.
In addition, the policies that govern the bureau acquisition process assure that energy efficiency is a consideration in all equipment purchases.

Electronic Stewardship and Data Centers
TTB extensively employs green technologies to reduce its energy consumption. Through the success of the server virtualization program, TTB has targeted a 50 percent reduction in the physical server footprint. In addition, TTB deploys highly efficient computer room air conditioning, programmable thermostats, and Energy Star servers are procured when possible.

Pollution Prevention & Waste Elimination
TTB uses environmentally sound management practices in disposing of its assets. In FY 2010, TTB recycled 23,574 pounds of electronics and reused or recycled 100 percent of its surplus or End-of-Life electronics by working with UNICOR and qualified vendors. TTB also purchases office supplies made from post-consumer materials. Finally, TTB laboratories operate an Ethanol Waste Recycling Program that recycles pure ethanol from samples submitted to the National Laboratory Center and uses the recycled denatured alcohol as a fuel mix for the building's power generator.

1B – Program History and Future Outlook
TTB has two budget activities that focus on collecting the revenue rightfully due the federal government and ensuring alcohol beverage products meet regulatory standards.

Collect the Revenue - This activity collects alcohol, tobacco, firearms, and ammunition excise taxes. These products generate nearly $24 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 roughly 7,100 businesses that had operations resulting in tax payments in a given year. Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette papers and tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. Approximately 200 of the largest taxpayers account for about 98 percent of the annual excise tax collected.

Fostering voluntary compliance is a primary tax administration strategy and, to support this objective, the bureau is working toward allowing TTB permittees and taxpayers to file all payments, returns, and applications online with TTB's National Revenue Center. The FY 2012 President's Budget enables the continuation of efforts to provide the most effective and efficient system for the collection of all revenue that is rightfully due, eliminate or prevent tax evasion and other criminal conduct, and provide high quality service while imposing the least regulatory burden.

The investments in this activity resulted in the following performance highlights and accomplishments during FY 2010:

- Collected approximately $24 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries. The bureau collected $478 for every $1 expended on collection activities;
- Collected roughly $9 million in additional floor stocks tax due from the manufacturers, importers, wholesalers, and retailers of tobacco products as a result of the tax rate increase passed under the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA);
- Achieved a 94 percent voluntary compliance rate among taxpayers who paid greater than $50,000 in annual excise taxes, measured in terms of timely remittance of tax payments. TTB's educational outreach efforts at industry seminars and premises, and improvements in online filing options, assisted in this effort;
- Processed $387 million in cover-over payments to Puerto Rico and the U.S. Virgin Islands. Federal excise taxes collected on all imported rum, and on rum produced in Puerto Rico and the Virgin Islands and subsequently brought into the United States, are "covered-over" (or paid into) the treasuries of Puerto Rico and the Virgin Islands;
- Processed $298 million in drawback claims. Under current law, persons who use nonbeverage 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;
- Analyzed beverage alcohol and tobacco product samples to assign or verify a tax classification. For this purpose, TTB analyzed roughly 1,000 beverage alcohol samples associated with pre-import evaluations, the 5010 tax credit, and enforcement activities. Another 375 tobacco product samples were analyzed to ensure products were appropriately classified for tax purposes; and
- Completed targeted field work of 145 audits and roughly 340 revenue-related investigations that resulted in the identification of $8 million in additional tax, penalties, and interest. TTB's field presence also has a deterrent effect that promotes voluntary tax compliance from industry members.

The following displays the historical collections at TTB from FY 2001 to 2010 by revenue type:

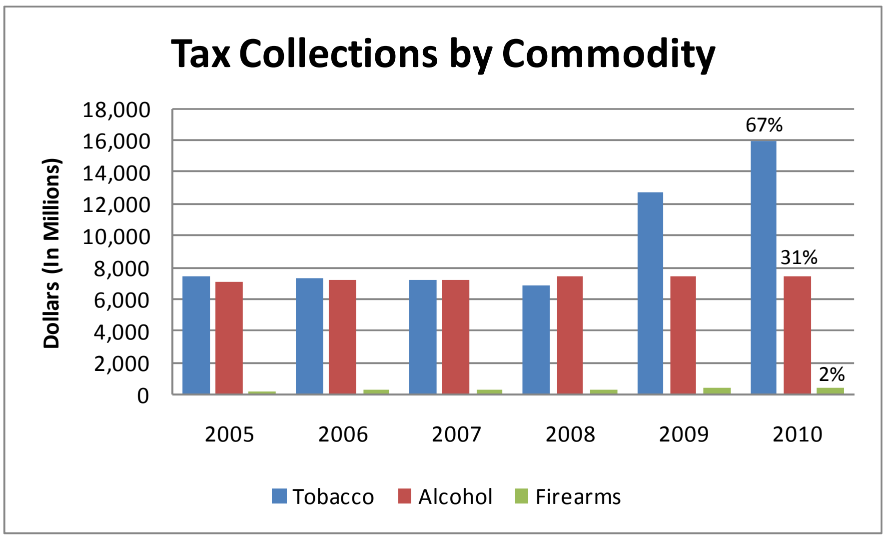
Excise Tax and Other Collections by Fiscal Year

Dollars in Thousands

Fiscal Year	Alcohol	Tobacco	FAET	SOT	FST	Other	Total
2001	$ 6,674,425	$ 7,119,726	$ 175,959	$ 103,610	$ 528	$ 168	$ 14,074,416
2002	6,889,401	7,763,652	205,027	101,893	115,609	159	15,075,741
2003	6,910,631	7,380,807	193,414	103,781	1,628	-	14,590,261
2004	6,995,366	7,433,852	216,006	100,562	-	359	14,746,145
2005	7,074,076	7,409,608	225,818	10,190	9	141	14,719,842
2006	7,182,940	7,350,058	249,578	2,895	638	146	14,786,255
2007	7,232,138	7,194,081	287,835	2,808	-	32	14,716,894
2008	7,420,576	6,851,705	312,622	448	-	634	14,585,985
2009	7,424,292	11,548,504	452,693	272	1,192,375	970	20,619,106
2010	7,476,789	15,913,479	360,813	300	8,558	180	23,760,119
Average	**$ 7,128,063**	**$ 8,596,547**	**$ 267,977**	**$ 42,676**	**$ 131,935**	**$ 279**	**$ 16,167,476**

FAET - Firearms and Ammunition Excise Tax SOT - Special Occupational Tax FST - Floor Stock Tax Other - Suspense Account

Note: Tobacco revenue increased in 2009 as a result of the passage of the Chidren's Health Insurance Program Reauthorization Act (CHIPRA) legislation, which increased the tax rate on tobacco products. Also, legislation was enacted in July 2005 that repealed the SOT for all alcohol taxpayers. The SOT for tobacco permitees remains intact.



Alcohol Beverage Tax Collections
The alcohol beverage industry in the United States pays $7.5 billion in federal excise taxes each year and also provides a source of tax revenue for state and local governments. Economic forecasts predict continued modest growth in the alcohol industry, and taxes collected on alcohol beverages are expected to continue to rise throughout the period of FY 2011 – FY 2012. TTB expects that the increase in new alcohol businesses will be most prominent in the number of wineries, craft breweries, and craft distilleries.

Tobacco Tax Collections and Floor Stocks Tax
In FY 2010, TTB tobacco excise tax collections spiked to an historic high of $15.9 billion as a result of a full year of collections under the increased tax rate imposed by the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA). This legislation provided for a tax increase on all tobacco products (except large cigars), and cigarette papers and cigarette tubes, effective April 1, 2009.

CHIPRA also imposed a floor stocks tax on tobacco products, a one-time excise tax placed on commodities subject to a tax increase that is equal to the difference between the new tax rate and the previous rate. The last floor stocks tax on tobacco enacted by Congress was in 2002. Floor stocks tax collections for FY 2009 totaled $1.2 billion and represent collections from hundreds of thousands of wholesaler and retailer dealers (who do not hold a permit with TTB) and manufacturers and importers (who are required to hold a TTB permit). In FY 2010, TTB continued its enforcement of the floor stocks tax, identifying tobacco wholesalers and retailers that did not file and/or pay floor stocks tax or significantly underpaid this tax. TTB collected nearly $9 million of additional floor stocks tax plus penalties and interest. TTB continues its floor stocks tax enforcement efforts and is finding many wholesalers that appear to be willfully not reporting or underreporting their tobacco inventory and associated tax payments. TTB will continue to audit high risk non-filers and under-filers of floor stocks tax.

Firearms and Ammunition Excise Tax (FAET) Collections
Firearms and ammunition excise taxes are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937. The U.S. Fish and Wildlife Service, which oversees the fund, apportions the money to state governments for wildlife restoration and research, and hunter education programs. Federal excise tax collections on firearms and ammunition have increased from $193 million in FY 2003 to $361 million in FY 2010, an increase of $168 million over the past seven years, or an 87 percent growth in federal FAET revenues. The increase in reported tax revenue can be attributed to industry growth, effective outreach and collection initiatives at the bureau, and the field presence of TTB's auditors, which continues to promote voluntary taxpayer compliance.

Protect the Public - This activity ensures the integrity of the alcohol and tobacco industries and of beverage alcohol products found in the marketplace, and regulates roughly 53,000 alcohol and tobacco businesses. TTB enforces federal laws related to the issuance of permits to industry members and the production, importation, exportation, labeling, advertising, and marketing of alcohol products.

The investments in this budget activity have resulted in the following performance highlights and accomplishments during FY 2010:

- Approved 102,500 of the 132,600 COLA applications received; the remaining 30,100 (23 percent) were rejected, returned for correction, withdrawn, or expired. About 79 percent of COLA applications were filed electronically through COLAs Online. This proprietary TTB system has been in operation since 2003;
- Processed 5,770 original and 18,230 amended permits. TTB averaged 65 days to process original permit applications. TTB protects consumers by screening permit applicants to ensure only qualified persons engage in operations in the regulated industries;
- Evaluated about 6,700 beverage alcohol formulas and analyzed about 2,300 alcohol beverage samples in support of audits and investigations, as well as the product integrity, pre-import, Alcohol Beverage Sampling Program, 5010 tax credit, and consumer complaints programs;
- Issued 190 cease and desist letters to tobacco importers operating without permits. Through its effective information sharing relationship with U.S. Customs and Border Protection, TTB was able to compare import data in the customs International Trade Data System with permit information in TTB's Integrated Revenue Information System and determined that 15 percent of entities reporting importations of tobacco products had done so without a permit. TTB's issuance of cease and desist letters, and appropriate follow up activities, ensured that the responsible parties ended operations or obtained a permit; and
- Initiated more than 700 field investigations of industry members regarding permit applications, consumer complaints, trade practice violations, and product integrity verifications. Included are high-risk permit applications to meet TTB's public protection objectives.

TTB Permitting Process
TTB's vision for the Permits Online investment is to provide a secure, web-based solution that allows members of the alcohol and tobacco industries to electronically submit applications for permits to operate. Applicants who plan to produce finished distilled spirits, wines, malt beverages, and tobacco products, and persons wishing to operate businesses such as alcohol wholesalers, alcohol importers, tobacco importers, specially denatured spirits users and dealers, tax-free alcohol users, alcohol fuel plants, tobacco processors, and tobacco export warehouses, must submit original and amended permit applications. The National Revenue Center currently processes original application packets for 23 types of permits/registrations.

New or existing industry members file these application packets to request permission to commence a new regulated industry operation, or to update critical industry member information such as trade names and changes in control. Over the past several years, the volume of paper applications has increased making it difficult to maintain current service levels. The bureau purchased a commercial off-the-shelf software package that will be the core of the electronic system to automate the submission process for all permit applications. TTB engaged in an intensive development effort in FY 2010, and devised a schedule for the phased release of the Permits Online system. The system will be deployed in stages, with the initial release targeted for FY 2011, and subsequent releases scheduled through FY 2012. Once the commercial product is fully implemented, industry can expect reduced processing time, electronically guided assistance through the application process, improved communications with TTB, and an overall reduction in mailing and materials costs. The FY 2012 President's Budget includes a staff reduction of 3 FTE as a result of the efficiencies gained by the introduction of this technology.

Specific Challenges in FY 2012

Tobacco Product Diversion
Given the increased rate of tax (since 2009) upon tobacco products, there is an increased incentive to evade the tax to gain an illegal profit. Tobacco diversion refers broadly to the movement of tobacco products into domestic commerce without the payment of taxes due.

Diversion schemes include:

- Tobacco products are removed from the manufacturer's premises in excess of the quantity reported to TTB, thus evading the tax on the unreported quantity of products removed;
- Tobacco products are removed from the manufacturer's premises for export (which is a removal not subject to federal excise tax) and either the manufacturer or an export warehouse proprietor diverts the products into domestic commerce before export, thus illegally avoiding tax payment;
- Tobacco products are removed from the manufacturer's premises without tax payment for export, are exported, and are smuggled back into the United States without the required importation entry and associated tax payment;
- Tobacco products are smuggled from abroad into the United States, disguised and declared as something other than tobacco products, or are declared as a smaller quantity than actually imported, thus illegally evading the applicable tax payment requirements;
- Tobacco products are sold by mail order, phone, and over the Internet from domestic and foreign vendors and are delivered directly to the consumer, thus bypassing applicable federal and/or state tax payment requirements; and
- Tobacco products are produced by a manufacturer operating without a permit and are removed for domestic consumption without the payment of applicable taxes.

TTB has been involved with cases that touch on each of these diversion schemes and has either addressed them administratively (where permittees have been involved) or worked with state or other federal agencies to address the unlawful conduct and to collect the tax due.

The Department of the Treasury Report to Congress on Federal Tax Receipts Lost Due to Illicit Trade and Recommendations for Increased Enforcement ("Report"), dated February 4, 2010, presented a study estimating the amount of federal tax receipts lost as a result of tobacco diversion. The Report also made several recommendations that, taken together and assuming appropriate resources to implement, TTB believes would reasonably be expected to limit tobacco diversion. The study emphasized that the substantial uncertainty surrounding the degree of underreporting of cigarette consumption in survey data necessarily results in uncertainty about the magnitude of the federal tax receipts lost due to cigarette diversion. The Bureau will continue to conduct this study to analyze post-CHIPRA revenue loss once data regarding cigarette consumption rates for 2009 and 2010 become available.

Additionally, since the enactment of CHIPRA, TTB has seen a number of changes in the tobacco products industry, apparently in response to the new incentives created by the different tax rates imposed on the tobacco product categories. Those industry trends have included shifts within the industry in terms of the types of tobacco products removed from manufacturing premises for commercial distribution, specifically in regard to small and large cigars, and pipe tobacco and roll-your-own tobacco products. This shift can be attributed to consumers consciously purchasing lower-tax tobacco products.

In FY 2010, TTB was provided $3 million in two-year (FY 2010-2011) funding that will expire on September 30, 2011. Congress specified that the funds would be for the hiring, equipping, and training of special agents and related support personnel. To assist the bureau with enforcing its criminal jurisdiction, TTB entered into an interagency agreement for the services of law enforcement agents on a reimbursable basis from the Internal Revenue Service Criminal Investigation division. The TTB criminal cases involving alcohol and tobacco diversion activity are in the investigative stage and, due to their complex nature, will take time to develop and bring to closure. TTB expects measurable results from the current caseload, and has identified additional leads for potential criminal referrals.

Alcohol Fuel Plants

TTB has issued approximately 1,700 alcohol fuel plant permits, which it regulates as distilled spirits plants. The establishment of these new plants creates new challenges because of the possibility for significant revenue losses due to the unlawful diversion of alcohol. The Energy Independence and Security Act of 2007 mandates the use of 36 billion gallons of renewable fuel per year by 2022. In comparison, total U.S. consumption of beverage distilled spirits is about 420 million gallons per year – and beverage spirits contain less than half the ethanol that is in alcohol fuel. Most alcohol fuel production comes from fewer than 150 large plants, but hundreds of smaller plants have applied for TTB permits in each of the last few years.

Succession Planning

Succession planning is high on the list of TTB's strategic priorities. TTB could lose approximately 30 percent of its workforce by 2012 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. Continuation of this authority is key to closing skill gaps in mission critical occupations and is requested for an additional year in the FY 2012 budget.

Rulemaking

TTB's regulatory actions will support its mission objectives to collect the revenue and protect the public. The bureau will work on a number of regulatory projects in FY 2012, and several key regulatory initiatives are detailed below.

Key Regulatory Initiatives

Collect the Revenue and Protect the Public - Modernization of Title 27, Code of Federal Regulations. In FY 2012, TTB will continue to pursue its multi-year program of modernizing its regulations in title 27 of the Code of Federal Regulations. This program involves updating and revising the regulations to be more clear, current, and concise, with an emphasis on the application of plain language principles. Modernizing the regulations will ultimately result in greater compliance by industry members, thus protecting both the revenue and the public, as well as cost savings to TTB through the use of more efficient regulatory processes. In FY 2010, TTB drafted an advance notice of proposed rulemaking on Part 25, Beer regulations and expects to publish it in early FY 2011.

Collect the Revenue--Alcohol Fuel Plants. In FY 2012, TTB intends to publish amendments to the alcohol fuel plant regulations, in recognition of the significant growth in this industry segment. TTB anticipates these changes would include updated procedures for producers of distilled spirits intended for fuel use that will provide TTB with improved methods to protect the revenue, and also clarify or ease certain operational requirements.

The regulatory proposal will provide for more frequent reporting to TTB by larger alcohol fuel plants to enable TTB to better protect the revenue. TTB will also propose to remove the recordkeeping requirement for samples used at the alcohol fuel plant, and will provide clarification as to the disposition of distiller's grain and other bi-products that result from ethanol production.

Collect the Revenue - Simplify Reporting Requirements for Distilled Spirits Plants. TTB will need to undertake a rulemaking project to revise its regulations related to reporting requirements for distilled spirits plants (DSP). In order to realize the anticipated savings from staff reductions, as incorporated into the FY 2012 budget request, TTB must publish a final rule that updates the regulations to consolidate the required monthly operations reports for non-industrial DSP.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FTE	Amount
FY 2010 Enacted	**535**	**$103,000**
FY 2011 Annualized CR Level	**535**	**$103,000**
Changes to Base:		
Adjustment to Reach Policy Level:	12	$2,571
Adjustment to Reach FY 2011 President's Policy	12	$2,571
Maintaining Current Levels (MCLs):	-	$832
Maintaining Current Levels	-	$832
Efficiencies, Savings & Base Reductions:	(45)	($8,525)
Audits, Investigations, Outreach & Trade Facilitation	(15)	($1,584)
Law Enforcement/Special Agents	(10)	$0
Licensing and Registration Fees Initiative	(12)	($5,500)
New Regulations to Simplify Reporting Requirements	(3)	($300)
Overhead/Operating (Reduced Staffing/Overtime/Travel/Contracts, etc.)	(2)	($841)
Paperless Initiative (Permits Online)	(3)	($300)
Subtotal FY 2012 Changes to Base	(33)	($5,122)
Total FY 2012 Base	**502**	**$97,878**
Total FY 2012 Request	**502**	**$97,878**

2A – Budget Increases and Decreases Description

Adjustment to Reach Policy Level .... +$2,571,000 / +12 FTE

Adjustment to Reach FY 2011 President's Policy +$2,571,000 / +12 FTE

Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

Maintaining Current Levels (MCLs) .... +$832,000 / +0 FTE

Maintaining Current Levels +$832,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings & Base Reductions .... -$8,525,000 / -45 FTE

Audits, Investigations, Outreach & Trade Facilitation -$1,584,000 / -15 FTE

Savings realized from a reduction of staff, combined with an improved strategy for tax and regulatory enforcement that focuses on the areas that present the highest revenue risk, and a reinvented approach to industry outreach and international trade activities.

Law Enforcement/Special Agents +$0 / -10 FTE

Reduction of 10 FTE due to the expiration of two-year funding (FY 2010-2011) for law enforcement agents and related support personnel whose focus was on criminal activities surrounding the alcohol and tobacco commodities.

Licensing and Registration Fees Initiative -$5,500,000 / -12 FTE
Reduction due to the exclusion from the FY 2012 Presidents Budget of a licensing and registration fee program, which would have required the collection of annual fees from alcohol and tobacco industry members to fund TTB operations.

New Regulations to Simplify Reporting Requirements -$300,000 / -3 FTE
Savings realized from simplifying the reporting requirements for distilled spirits plants (DSP) by updating the regulations to consolidate the required monthly operations reports for non-industrial DSP.

Overhead/Operating (Reduced Staffing/Overtime/Travel/Contracts, etc.) -$841,000 / -2 FTE
Savings realized from the reduction of operating costs such as overtime, travel, supplies, GSA rent, equipment, software, and the reduction of management staff.

Paperless Initiative (Permits Online) -$300,000 / -3 FTE
Savings realized from staffing reduction enabled by efficiencies gained from the Permits Online electronic filing system due to processing time reduction and the streamlining of business processes.

2.2 – Operating Levels Table

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FY 2010 Enacted	FY 2011 Annualized CR Level	Proposed Reprogram mings	FY 2011 Proposed Operating Level	FY 2012 Request
FTE	**535**	**535**	**-**	**535**	**502**
Object Classification					
11.1 - Full-time permanent	$47,375	$47,375	$0	$47,375	$45,389
11.5 - Other personnel compensation	$794	$794	$0	$794	$785
12 - Personnel benefits	$11,706	$11,706	$0	$11,706	$11,582
21 - Travel and transportation of persons	$3,508	$3,508	$0	$3,508	$2,990
22 - Transportation of things	$102	$102	$0	$102	$96
23.1 - Rental payments to GSA	$4,796	$4,796	$0	$4,796	$4,763
23.3 - Communication, utilities, and misc charges	$5,132	$5,132	$0	$5,132	$5,178
24 - Printing and reproduction	$388	$388	$0	$388	$393
25.2 - Other services	$16,628	$16,628	$0	$16,628	$16,548
25.3 - Other purchases of goods and services from Govt. accounts	$7,159	$7,159	$0	$7,159	$6,420
26 - Supplies and materials	$740	$740	$0	$740	$636
31 - Equipment	$4,645	$4,645	$0	$4,645	$3,071
42 - Insurance claims and indemnities	$27	$27	$0	$27	$27
Total Budget Authority	**$103,000**	**$103,000**	**$0**	**$103,000**	**$97,878**
Budget Activities					
Collect the Revenue	$53,000	$53,000	$0	$53,000	$48,939
Protect the Public	$50,000	$50,000	$0	$50,000	$48,939
Total Budget Authority	**$103,000**	**$103,000**	**$0**	**$103,000**	**$97,878**

2.3 – Appropriations Detail Table
Dollars in Thousands

Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2010 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Appropriated Resources:										
Collect the Revenue	268	$49,553	268	$53,000	268	$53,000	251	$48,939	-6.34%	-7.66%
Protect the Public	267	50,190	267	50,000	267	50,000	251	48,939	-5.99%	-2.12%
Subtotal New Appropriated Resources	535	$99,743	535	$103,000	535	$103,000	502	$97,878	-6.17%	-4.97%
Other Resources:										
Offsetting Collections - Reimbursable	15	4,234	15	4,234	15	3,050	15	2,997	0.00%	-29.23%
Subtotal Other Resources	15	$4,234	15	$4,234	15	$3,050	15	$2,997	0.00%	-29.23%
Total Resources Available for Obligation	550	$103,977	550	$107,234	550	$106,050	517	$100,875	-6.00%	-5.93%

Note: The obligations related to the 2-year FY 2010/2011 funding in the amount of $3 million for the hiring, training and equipping of special agents and related support personnel was outsourced in the first quarter of FY 2011 with another government agency.

2B – Appropriations Language and 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, $97,878,000; 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 Administrative Provisions:** *Section 122(g)(1) of Public Law 105–119 (5 U.S.C. 3104 note), is further amended by striking " 12 years" and inserting " 14 years".*	TTB proposes to continue the Pay Demonstration Project by amending the language to extend the program for one additional year.

2C – Legislative Proposals
Extend Pay Demonstration Project

TTB proposes to continue the Pay Demonstration Project (Pay Demo) by amending the General Provision language to extend the project for one additional year. This project was established to enhance Treasury's ability to effectively recruit and retain highly qualified employees. Pay Demo has been extended every year since it was first established in FY 1999, and has been a successful intervention tool in the recruitment and retention of critical staff positions.

- The continuation of the Pay Demo authority has proven to be an effective recruitment strategy that enables the bureau to timely fill its positions with the right people, with the right skills, minimizing loss and skill gaps caused by an aging workforce and employee turnover;

- The Pay Demo authority fosters a results-oriented organizational culture since the employees' compensation is based upon the level of performance, therefore, improving the bureau's overall performance;
- The Pay Demo authority has resulted in a more diverse workforce, with increased representation of various groups (e.g., women, persons with disabilities, veterans, and persons from different age groups) across all occupations and band/grade groupings under the authority.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	% Change FY10 to FY12
Strong U.S. economic competitiveness	55,117	54,525	50,437	-8.49%
Revenue collected when due through a fair and uniform application of the law	52,117	51,525	50,438	-3.22%
Total	**$107,234**	**$106,050**	**$100,875**	**-5.93%**

3A - Collect the Revenue *($48,939,000 from direct appropriations, and $1,499,000 from reimbursable programs):* This budget activity includes all tax processing, verification, enforcement, and outreach efforts related to tax administration performed by TTB. Collect the Revenue includes three programs: 1) Alcohol and Tobacco Tax Collections, 2) Firearms and Ammunition Excise Tax Collections, and 3) Outreach and Voluntary Compliance. Principal business activities within these programs include:

- *Tax Collection, Claims, Refunds, and Classification*, which involves preparing taxpayer notices and assessments, processing claims and settlement agreements, and assigning a tax classification to a product based on regulatory standards;
- *Tax Verification, Audits, and Investigations*, which includes the reconciling and auditing of tax returns and reports of business operations; on-site audits of alcohol, tobacco, firearms, and ammunition industry members; investigating criminal allegations or indications of tax fraud; conducting compliance investigations of permittees who have substantial potential for tax liability; and initiating adverse actions for willful violations of the Internal Revenue Code; and
- *Voluntary Compliance*, which supports outreach and education efforts for members of the regulated industries, and includes preparing regulatory guidance, web site postings, and newsletters; participating in and/or hosting conferences and seminars; and industry and state liaison activities.

Strategies used to collect the revenue rightfully due the federal government focus on identifying any gaps in tax payment from illegal entities and 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. TTB uses an interagency approach in applying these enforcement strategies that involves cooperation with local, state, federal, and foreign government counterpart agencies to maximize the deterrent impact of enforcement actions.

Offsetting Collections…………………………………………………Total $1,499,000
Non-Federal Sources (Puerto Rico)……………………………………..$1,450,000
Federal Sources (Laboratory Services)…………………………………..$17,000
Federal Sources (IT Network Services)……………………………………$32,000

The non-federal reimbursable funds 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 cover-over taxes collected in the United States. The bureau collects a nominal amount of reimbursable funding for lab services performed to support criminal investigations at the Bureau of Alcohol, Tobacco, Firearms, and Explosives. Also, the bureau collects reimbursable funding for the cost of providing information technology network services for the Community Development Financial Institutions Fund.

3.2.1 Collect the Revenue Budget and Performance Plan

Collect the Revenue Budget Activity

Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$46,758	$50,524	$53,000	$53,000	$48,939
Reimbursable Resources	$1,878	$2,576	$2,117	$1,525	$1,499
Total Resources	**$48,636**	**$53,100**	**$55,117**	**$54,525**	**$50,438**
Budget Activity Total	**$48,636**	**$53,100**	**$55,117**	**$54,525**	**$50,438**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Amount of Revenue Collected Per Program Dollar (E)	313.0	427.0	478.0	400.0	410.0
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely and Accurately (In Terms of Revenue) (Oe)	94.0	94.0	94.0	92.0	94.0

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

Description of Performance: In FY 2010, TTB met all of its performance measures under the Collect the Revenue budget activity, and showed continued improvements in performance levels.

The amount of revenue collected per program dollar measure quantifies the efficiency of the tax collection program and, in FY 2010, TTB reported a return on investment of $478 for every dollar spent on collection activities. In just two years, the return on investment for the Collect the Revenue program increased by more than 50 percent, principally because of the higher federal excise tax rate imposed on tobacco products under the February 2009 CHIPRA legislation. The bureau used Congressional Budget Office revenue projections for increased tobacco excise tax collections to determine its targeted performance levels for fiscal years 2010 - 2012 and, due to ongoing and successful compliance audit and investigation efforts, exceeded the performance target for FY 2010 by 20 percent. Additionally, through on premises visits to industry and targeted post-audit verifications, TTB auditors continued to enforce the collection of the tobacco floor stocks tax from the manufacturers, importers, wholesalers, and retailers who held tobacco products in inventory at the time of the tax rate increase. This field work resulted in nearly $9 million in additional floor stocks tax collections in FY 2010.

TTB collected nearly $24 billion in federal excise taxes in a highly efficient manner. Key performance metrics show that 94 percent of industry members voluntarily file their tax payments on or before the scheduled due date. During an economic downturn, this compliance rate from business is especially notable, and is a function of TTB's enforcement presence and the service and outreach TTB provides to its industry members.

3B - Protect the Public *($48,939,000 from direct appropriations, and $1,498,000 from reimbursable programs):* This budget activity funds the programs that ensure the integrity of products and industry members in the marketplace, promote compliance with laws and regulations by TTB-regulated businesses, and provide information to the public as a means to prevent consumer deception. Protect the Public includes four programs: 1) Permits and Business Assurance; 2) Advertising, Labeling, and Product Safety; 3) Trade Facilitation; and 4) Outreach and Voluntary Compliance. Principle business activities within these programs include:

- *Business Integrity,* which involves enforcing compliance with federal laws related to the issuance of permits to those who wish to operate in the alcohol, tobacco, firearms, and ammunition industries;
- *Product Integrity,* which includes reviewing alcohol beverage label applications; evaluating alcohol beverage product advertisements; reviewing alcohol beverage formula submissions; evaluating specially denatured alcohol and other nonbeverage alcohol formulas to verify the tax drawback claim of the applicant; investigating incidents of suspected unsafe conditions or product deficiencies related to the production and labeling of alcohol beverages; and testing samples of beverage alcohol sold at the retail and producer levels to ensure that these products meet formulation and labeling requirements, do not contain unauthorized substances or contaminants, and are properly classified for tax purposes; and
- *Market Integrity,* which includes monitoring the trade practices of the alcohol industry and taking enforcement actions on violations, monitoring and reviewing international trade in alcohol beverages to identify trade barriers and incidents of international fraud and contaminated products, and promoting international agreements on product integrity.

TTB works with industry, foreign and state governments, and other interested parties to reduce the burden of compliance with regulatory requirements and to maintain the appropriate level of oversight to ensure public safety. Industry education, interagency partnerships, international cooperation, and open communication are paramount strategies in facilitating compliance with regulatory product and trade requirements.

U.S. exports of alcohol beverages totaled more than $2 billion in 2009. TTB seeks to promote U.S. exports by facilitating industry compliance with foreign requirements and by working with foreign regulators to reduce barriers to trade. In FY 2010, TTB issued over 10,000 export certificates for beer, wine, and distilled spirits. Without these certificates, which are only issued by TTB, U.S. producers of alcohol beverages cannot sell their products in major markets abroad. Further, through its international outreach, TTB has arranged for the elimination or reduction of certification requirements for wine exported to the European Union, Argentina, Australia, Canada, Chile, Georgia, New Zealand, and South Africa.

Offsetting Collections……………………………………….………Total $1,498,000
Non-Federal Sources (Puerto Rico)………………………………..$1,450,000
Federal Sources (Laboratory Services)………………………………..$17,000
Federal Sources (IT Network Services)……………………………….$31,000

The non-federal reimbursable funds cover the costs associated with the functioning and support of the Puerto Rico office, and are offset from the cover-over taxes collected in the United States. Also, the bureau collects a nominal amount of reimbursable funding for lab services performed to support criminal investigations being conducted at the Bureau of Alcohol, Tobacco, Firearms, and Explosives. Also, the bureau collects reimbursable funding for the cost of providing information technology network services for the Community Development Financial Institutions Fund.

3.2.2 Protect the Public Budget and Performance Plan

Protect the Public Budget Activity

Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$46,758	$48,541	$50,000	$50,000	$48,939
Reimbursable Resources	$1,878	$2,578	$2,117	$1,525	$1,498
Total Resources	**$48,636**	**$51,119**	**$52,117**	**$51,525**	**$50,437**
Budget Activity Total	**$48,636**	**$51,119**	**$52,117**	**$51,525**	**$50,437**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Average Number of Days to Process an Original Permit Application at the National Revenue Center (E)	64.0	64.0	65.0	72.0	65.0
National Revenue Center (NRC) Customer Satisfaction Survey Results (%) (Oe)	90.0	89.0	89.0	85.0	85.0
Percent of Electronically Filed Certificate of Label Approval Applications (E)	62.0	74.0	79.0	81.0	83.0
Percentage of Importers Identified by TTB as Illegally Operating without a Federal Permit (%) (Oe)	22.0	15.0	15.0	19.0	14.0

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

Description of Performance: In FY 2010, TTB met or exceeded its targeted performance for each of its Protect the Public measures.

The bureau reported increases in the percent of electronically filed COLA applications, which in FY 2010 reached 79 percent of all applications. The ongoing rise in electronic filing is due to successful industry outreach events sponsored by the bureau, and system enhancements that simplify the filing process for industry members. TTB has set aggressive performance targets for fiscal years 2011 and 2012 and will effectively deploy its resources to meet these performance goals.

The NRC customer survey measures satisfaction with application and claims processing times and the level of service provided to the industry. The survey solicits feedback on the level of service provided to applicants for an original or amended permit, and those industry members who file a claim to recover taxes paid on nonbeverage alcohol or overpayments of tax. TTB exceeded its target of a sustained score of 85 percent on customer satisfaction for permit application and claims processing, and achieved a composite score of 89 percent in FY 2010. Planned service enhancements, including the online filing solution for original and amended permit applications which will be released in FY 2011, will contribute to the bureau continuing to meet its targeted performance level. This target factors in anticipated efficiencies from realignments to staff and improvements to technology and business processes.

TTB expects automation efforts that commenced in FY 2011 to expedite permit processing times. With full system functionality for Permits Online slated for deployment in 2012, and considering the requisite transition and training period for industry members, TTB anticipates achieving considerable improvements in processing times beginning in the latter quarters of FY 2012. Once this process improvement is implemented, and with resources directed toward promoting Permits Online and training industry on its use, the bureau expects to achieve and sustain a 65-day average turnaround time in permit processing in FY 2012. This will support the government's efforts in facilitating economic growth, as permits must be issued before new businesses can commence operations.

TTB continues its enforcement of federal permit requirements, targeting entities identified as importing cigarettes and other tobacco products without a TTB permit. By monitoring the U.S. Customs and Border Protection's International Trade Data System, and comparing import data against the permittees on file with TTB, the bureau is able to identify and take action against those entities engaging in unlawful operations. The bureau exceeded its targeted performance level for FY 2010.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The TTB Human Capital Strategic Plan aligns with the TTB Strategic Plan and Treasury Human Capital Strategic Plan, and documents strategies to improve skill and competency gaps, workplace demographics, succession planning, workforce management, and performance measurement efforts. The model for strategically assessing the skills gap for future years is predicated on assumptions regarding future changes in the workforce, including retirement eligibility rules and rates of attrition.

One of TTB's key indicators of how successfully it manages human capital declined compared to prior year results. Expanding mission requirements from the CHIPRA legislation, with short timeframes for implementation, and increased workloads contributed to declines in employee satisfaction, as evidenced by the OPM employee survey, FedView. TTB ranked 83rd out of 224 sub-component agencies on the FY 2010 Best Places to Work in the Federal Government rankings, a decline from its 2008 ranking of 7th out of 216. In response to this government-wide employee survey, TTB spearheaded an effort to solicit feedback from both employees and managers which involved creating processes for feedback loops, engaging employees in the decision making process, and leveraging employee talents to meet the bureau's programmatic needs.

While TTB's ranking decreased from the prior year survey, the positive response rate on the FedView survey compares favorably to the Department of the Treasury and government overall. The positive response rate for TTB in all survey categories, with one exception, remained at or above the government-wide average. These results can be attributed, in part, to TTB's use of its Pay Demonstration Project (Pay Demo) authority, which provides a number of human capital management and compensation flexibilities, and the promotion of telework and alternative work schedules. Currently, 56 percent of employees telework on a regular recurring schedule, and 74 percent of the workforce telework at least on an occasional basis.

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

- Effectively Managed U.S. Government Finances; and
- U.S. and World Economies Perform at Full Economic Potential.

Succession planning is a strategic priority for TTB, especially as it relates to the bureau's mission-critical positions. The bureau could lose approximately 30 percent of its workforce between FY 2010 and FY 2012 due to retirements and other attrition. Many of these positions are auditors and investigators who enforce compliance from permittees and taxpayers. To mitigate these losses, it is vital that the personnel interventions identified in the Pay Demo project are available to improve its ability to recruit, develop, and retain high-caliber employees in mission-critical positions. The bureau has roughly 130 participants in this project in positions such as chemists, industry analysts, auditors, and information technology specialists. The bureau also extensively uses federal programs to recruit new employees and increase skill levels such as the Presidential Management Fellows Program and other special emphasis hiring. TTB emphasizes employee development through training programs such as the Emerging Leaders Program and supports specialized training through TTB-sponsored courses like the Integrated Field Operations (InFO) course, which trains new auditors and investigators on legal authorities, policies, and specific industry knowledge.

Interagency and Contract Services

TTB uses the Bureau of Public Debt Administrative Resource Center (BPD ARC), a government shared service provider, for the majority of its administrative functions, including financial services, human resources, travel, procurement, and timekeeping functions. Outsourcing these functions provides a cost savings from economies of scale and allows the bureau to better focus resources on its core mission. With this very low rate of administrative overhead, the bureau directly hires only those positions necessary to administer policy and provide appropriate oversight of the shared service provider. In addition, TTB outsources all IT functions to a commercial service provider, directly hiring only positions necessary to administer policy and provide appropriate oversight of the IT contractor.

Wellness

TTB maintains contracts with Federal Occupational Health and with the BPD ARC for employee assistance programs and medical services. TTB has a Health Improvement Program that allows time for exercise. A multitude of health and wellness services and opportunities are offered to employees, including "heart healthy" choices in snack machines; extensive Employee Assistance Program services (e.g., substance abuse counseling, smoking cessation programs, grief counseling, and stress management); occupational health services (such as immunizations) through the Federal Occupational Health program; and participation in federal government programs such as FedsGetFit, HealthierFeds, and Health Care Flexible Spending Accounts. TTB also publishes a monthly informational bulletin about health and wellness programs. Bureau managers coordinate voluntary wellness activities such as creating teams for charity walks. Plans are in development to reach the Administration's goal of 75 percent employee participation in wellness programs.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Major IT Investments / Funding Source	Budget Activity	FY 2009 Enacted	FY 2010 Enacted	% Change from FY09 to FY10	FY 2011 Annualized CR Level	FY 2012 Request	% Change from FY10 to FY12
No Major Investments		$0	$0	N/A	$0	$0	N/A
Subtotal, Major IT Investments	Collect the Revenue/Protect the Public	$0	$0	N/A	$0	$0	N/A
Non-Major IT Investments	Collect the Revenue/Protect the Public	$4,480	$4,480	0.0%	$4,480	$5,780	29.0%
Infrastructure Investments	Collect the Revenue/Protect the Public	$17,258	$16,260	-5.8%	$16,260	$15,128	-7.0%
Enterprise Architecture	Collect the Revenue/Protect the Public	$644	$644	0.0%	$644	$513	-20.3%
Enterprise Identity and Access Management	Collect the Revenue/Protect the Public	N/A	N/A	N/A	N/A	$172	100.0%
Total IT Investments	Collect the Revenue/Protect the Public	$22,382	$21,384	-4.5%	$21,384	$21,593	1.0%

Note: In past budget submissions (FY 2011 and prior), TTB's Enterprise Identity and Access Management (EIdAM) funding was spread across the entire portfolio of investments and was not depicted as a standalone investment/line item within the Table 4.1 as it was not a requirement to do so. As part of the FY 2012 submission (per OMB and Treasury CPIC guidance), TTB's Table 4.1 now includes the EIdAM investment as a separate line item with associated projected costs in FY 2012.

4B – Information Technology Strategy
TTB's Strategic Plan establishes the vision and objectives for the bureau in the business context. TTB's Information Technology (IT) Strategic Plan is a five-year plan based on the business strategy, which includes the bureau's mission, vision, goals, and objectives from the IT perspective. This plan charts the course the bureau will follow in the coming years to develop and implement IT solutions that are aimed at streamlining the collection of data, leveraging web technologies, and making the Internet the method of choice for the reporting and exchanging of information. By aligning business and technical strategy, the bureau is able to leverage technology to enable the bureau to meet its objectives in the most efficient and cost-effective manner while identifying ways to minimize system redundancy.

TTB has no major IT investments based on the OMB and the Department of Treasury criteria. Several non-major investments, however, directly support the mission, strategy, and day-to-day operations of the bureau. These include:

TTB Tax System – This investment consists of several component applications that ensure fair and proper collection of revenue from the industry members for alcohol, tobacco, firearms, and ammunition excise taxes and ensures compliance with the excise tax regulations.

TTB Regulatory System – This investment includes applications that streamline the beverage and non-beverage alcohol formula approval process and COLA issuance for tax and regulatory compliance.

TTB General Support Services – This investment provides TTB users with the infrastructure applications necessary to conduct daily business.

TTB Enterprise Architecture – This investment is integrated with the strategic planning, portfolio management, and capital planning processes.

In addition to leveraging IT to support the mission, strategy, and day-to-day operations of the bureau, TTB supports and maintains strategy alignment with OMB and Treasury through enterprise wide IT initiatives. These include: Cyber Security; IT Infrastructure; Electronic Identity and Access Management (HSPD-12); Enterprise-wide Contracts and Services; and Program Metrics and Milestones.

Overview

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 owed to the government.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	FY 2010 to FY 2012 $ Change	FY 2010 to FY 2012 % Change
Payments	$150,395	$142,537	$132,868	($17,527)	(11.7%)
Collections	$21,911	$24,267	$21,265	($646)	(2.9%)
Government-wide Accounting and Reporting	$71,826	$77,328	$64,672	($7,154)	(10.0%)
Total Appropriated Resources	**$244,132**	**$244,132**	**$218,805**	**($25,327)**	**(10.4%)**
Total FTE	**1,500**	**1,500**	**1,200**	**(300)**	**(20.0%)**

FY 2012 Priorities

- Provide timely, accurate, and efficient disbursement of federal government payments.
- Provide timely, accurate, and efficient collection of federal government receipts.
- Maximize collection of delinquent debt owed to the government.
- Produce timely and accurate financial information that contributes to the improved quality of financial decision making.
- Emphasize conversion from paper to electronic transactions.
- Be a great place to work.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

FMS provides critical and essential payment, collections, debt collection and government-wide accounting and reporting functions essential to the successful operation of the federal government. These functions are far reaching. This includes issuing over 70 million benefit payments distributed monthly to the American public, the collection of all federal revenues that fund government operations and programs, processing and collecting of delinquent debts owed to the federal government including collection of past due child support, and providing financial reports to varied stakeholders. FMS touches almost every American and federal agency providing these very important and essential services.

FMS' vision is to be characterized by three real and recognized qualities in everything we do - exceptional integrity, quality, and responsiveness.

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. In ensuring confidence in the nation's financial system, FMS executes its role of managing the nation's finances by collecting money due to the United States, making its payments, and performing central accounting functions.

FMS' Strategic Goals, as reflected in the FY 2012 priorities, are to:

- Provide timely, accurate, and efficient disbursement of federal government payments.
- Provide timely, accurate, and efficient collection of federal government receipts.
- Maximize collection of delinquent debt owed to the government.
- Produce timely and accurate financial information that contributes to the improved quality of financial decision making.
- Be a great place to work

FMS is responsible for certain key governmentally controlled resources which are essential to the operation of the economy and government. While 100 percent of FMS' operational functionality comprises the processing and safeguarding of public funds, FMS devotes approximately 75 percent of its direct salary and expense appropriation to ensuring the viability of the National Financial Critical Infrastructure. Specifically, three FMS programs – payments, collections, and cash reporting, which are part of the infrastructure. FMS is required to ensure these activities are fully operational at all times.

The National Critical Infrastructure was established as a result of the Homeland Security Act of 2002. Critical Infrastructure are the assets, systems, and networks, whether physical or virtual, so vital to the United States that their incapacitation or destruction would have a debilitating effect on security, national economic security, public health or safety, or any combination thereof. Under the Homeland Security Presidential Directive 7, the Department of the Treasury was identified as a key sector-specific area for the Banking and Finance Sector. As part of the National Financial Critical Infrastructure, FMS provides critical services to millions of United States taxpayers, FPAs, and other customers. It embodies Treasury's leadership strategy to create value for the American people, provides responsible and effective stewardship over the government's finances, and focuses on quality service, results and innovation. FMS operates the largest tax collection system in the world and issues more than one billion payments annually; therefore, the impact of its programs on the economy and the public is significant. FMS' activities touch millions of citizens and virtually every FPA and state government across the country.

As the government's financial manager, FMS oversees a daily cash flow in excess of $94 billion, disbursing over $2.3 trillion in non-defense payments to more than 100 million people. These payments include income tax refunds, Social Security benefits, veterans' benefits and other federal payments to individuals and businesses. FMS also administers the world's largest collection system, collecting $2.94 trillion in FY 2010. FMS provides cash management guidance to FPA's, maintains the government's accounts, and compiles and publishes government-wide financial information used to monitor the government's financial status. Finally, FMS serves as the government's central delinquent debt collection agency.

1B – Program History and Future Outlook

FMS' budget reflects a strong commitment to fiscal stewardship of taxpayers funding. Even though the FY 2011 and FY 2012 budgets represent a 10% reduction from FY 2010 levels, FMS is committed to providing continued high service levels to our customers. We will fulfill this objective due to FMS' innovative modernization efforts which have been implemented and finalized over the past years.

FMS' FY 2012 budget directly addresses the Department's high priority performance goal of significantly increasing the number of paperless transactions with the public. It also addresses the Administration's priority of "going green" and consolidating data centers.

FMS supports Treasury's paperless initiative, which requires all *new* enrollees in federal benefit programs (*e.g.*, Social Security Administration) to receive payments electronically by May 1, 2011. Anyone currently receiving checks would be required to switch to electronic payment by March 1, 2013. A second important component of the all-electronic Treasury initiative requires all businesses currently required to use a Federal Tax Deposit (FTD) coupon to pay electronically beginning January 1, 2011.

In response to a request from the Office of the Fiscal Assistant Secretary, the Commissioners of FMS and the Bureau of the Public Debt (BPD) determined that they could improve the efficiency and effectiveness of their collective information technology (IT) infrastructures. As a result, FMS, in partnership with BPD, initiated a project to consolidate the data centers across the two bureaus to help achieve the Secretary's objective of increasing the utilization and efficiency of combined IT assets, while reducing technology costs. This effort also conforms to the Office of Management and Budget's (OMB) Data Center Consolidation Directive which requests that all federal agencies review IT spending, placing emphasis on consolidating and sharing IT services to reduce expenditures. Five data centers will be consolidated into two shared by both bureaus with one acting as a back-up to the other. This effort also includes the creation of a single corporate governing body, in-sourcing of select contractor functions, and consolidation of application development methodologies and associated infrastructure; resulting in a more "green" approach to the delivery of IT services.

FMS continues to work toward increasing operational efficiencies that streamline our four main activities of payments, collections, government-wide accounting and reporting, and debt collection. Given FMS' recent history of cost reduction, it is clear that FMS is a conscientious steward of taxpayer money. These cost saving measures do not inhibit our ability to deliver the products and services that are vital to our nation's economic security.

FMS continues to work toward increasing operational efficiencies and by implementing these initiatives will greatly facilitate the ongoing effort to modernize the Federal government's payment, collections, debt collection and central accounting and reporting systems. The end result will be greater efficiency, cost savings, and data quality improvements throughout government.

Payments

The Payments program, a component of the National Financial Critical Infrastructure, develops and implements federal payment policies and procedures, issues and distributes payments, encourages check recipients to convert to electronic payments, 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. It also includes special payments such as Federal Emergency Management Agency payments. In FY 2010, FMS issued more than one billion non-Defense payments worth over $2.3 trillion to a wide variety of recipients, such as those who receive Social Security benefits, veteran's benefits, and tax refunds. Eighty-two percent of all payments disbursed were issued via EFT.

Streamlining the payments processes while continually investing in state-of-the-art technology is integral to processing payments accurately, timely, and more safely and securely for the taxpayer. The Payment Application Modernization (PAM) project is an effort to replace the current mainframe-based software applications that are used to disburse over one billion federal payments annually. Ultimately, PAM will be a single application that will generate check, wire transfer, and ACH payments for FPAs, including the Social Security Administration, Internal Revenue Service, the Department of Veterans Affairs, and others.

In FY 2012, FMS will continue to expand the use of electronic media to deliver federal payments. Electronic payments are safer, more secure, and more reliable than paper checks. In addition, electronic payments decrease the number of paper checks issued, minimizing costs and inefficiencies associated with the delivery of non-electronic benefits. As FMS continues to move to an all-electronic Treasury, the bureau will realize savings.

Collections
The Collections program, also part of the nation's Financial Critical Infrastructure, collects revenues needed to operate the federal government. In FY 2010, FMS collected $2.94 trillion, of which slightly more than 85 percent was collected electronically, through a network of more than 8,000 financial institutions. A major component supporting 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, seven days a week. Under the Paperless Treasury Initiative, all businesses currently using a FTD coupon will be required to pay electronically effective January 1, 2011.

FMS is in the middle of a comprehensive effort to streamline, modernize, and improve the processes and systems supporting Treasury's collections and cash management program. This effort, Collections and Cash Management Modernization (CCMM), will improve financial performance by enabling FMS and government agencies to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes.

In FY 2012, FMS will continue to expand the use of electronic collection mechanisms using the most advanced and secure collection technologies that are flexible enough to accommodate the varying needs and technical sophistication of all taxpayers and FPAs. In addition, FMS will work to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program.

FMS will improve collections reporting, supplying the latest information on deposits and the details of collection transactions to federal agencies via a single system. As a transaction broker, data repository, and reporting solution, this single system will greatly improve the way agencies collect, analyze, and redistribute financial transaction information. The system will eliminate redundancies and disconnects in the government's current collections reporting processes.

FMS will also continue to focus on security oversight efforts at financial agent processing facilities and banking institutions as a way to proactively identify security control weaknesses and detect and deter fraud, waste, theft and unauthorized access associated with the collection of government remittances and protection of sensitive information.

Government-wide Accounting
The Government-wide Accounting and Reporting program maintains the federal government's accounts for its monetary assets and liabilities by operating and overseeing the government's central accounting and reporting system. This includes daily cash forecasting and reporting (daily treasury Statement), which are components of the Nation's Financial Critical Infrastructure. On a monthly basis, FMS reports the budget surplus/deficit through the release of the Monthly Treasury Statement (MTS – the monthly public source of budgetary results). FMS releases the *Financial Report of the United States Government (FR),* which reports the financial condition of the government using the accrual basis of accounting. The information in the FR complements the traditional cash basis budget reporting done at FMS that provides the authoritative information on the government's budget surplus/deficit.

In FY 2012, FMS in conjunction with the Office of the Fiscal Assistant Secretary, will migrate the legacy system that captures data related to the daily operating cash accounting function (CASH TRACK), to a more efficient web-based system. In addition, the two organizations are developing a more robust and integrated Future Forecasting System (FFS) to replace the current spreadsheet driven cash forecasting system.

Currently, FMS requires the agencies to classify their transactions on a monthly basis to the proper Treasury Account. That data is used to update the central records for fund balance with treasury, and to compile the MTS report in the printed form. FMS initiated a modernization effort (Government-wide Accounting Modernization Project (GWAMP) to classify transactions in real-time and leverage technology to implement a central accounting system that would accommodate the real-time classification of transactions. In FY 2010, FMS completed the build out of its central accounting infrastructure through GWAMP. The completion of this Program provides for improved exchange of financial information among FMS, Federal Agencies, and OMB. The infrastructure allows for more efficient government-wide accounting functions and processes that are both internal and external to FMS. The new process, 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 eliminate duplicate reporting and reconciliation burdens on agencies. In addition, agencies will have better tools for reporting financial information and access to daily account statements for monitoring the status of their financial information in Treasury's central accounting system. While FMS will realize modest savings from this program, the most significant savings will be government-wide as agencies will no longer have to prepare month-end reports classifying all of their disbursement and collection transactions or perform reconciliations on statements of differences associated with month-end reporting.

With the infrastructure complete, FMS has ended the GWAMP. However, before FMS can decommission the legacy central accounting system (STAR) and other supporting applications, FMS has to migrate the reporting capabilities (MTS and Combined Statement) and the General Ledger from STAR to the new Central Accounting System. Part of the General Ledger initiative is an effort to implement the accounting entity for the General Fund (a distinct subset of the General Ledger Transactions) for Financial Reporting and FR compilation purposes. These efforts have been reconstituted as individual projects under a blanket name of STAR Transition, and are scheduled to be complete in FY 2012.

The Financial Information Reporting Standardization (FIRST) initiative will also leverage technology to replace inefficient reporting processes with a streamlined reporting process that will reduce the overall footprint for Financial Reporting across the Federal Government. The FIRST initiative is comprised of two financial reporting systems. One of those systems, the Government-wide Financial Report System (GFRS) is complete and is used in the FR compilation process. The other system, the Government-wide Treasury Account Symbol (GTAS) is currently being developed. GTAS will replace legacy systems (FACTS I, FACTS II, IFCS, IRAS data collection) that require agencies to submit four (4) different subsets of Trial Balance Data to FMS. GTAS will require a single set of Trial Balance data for each Treasury account reported on a quarterly basis. FIRST is scheduled to be completed and go live in January of 2013.

These initiatives will allow us to decommission obsolete legacy systems and will address two material weakness regarding intra-governmental eliminations and the compilation of the *Financial Report of the United States Government*. The general fund/general ledger initiative will directly impact the material weaknesses associated with intra-governmental eliminations and compilation of the *Financial Report of the United States Government*.

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), as amended, and related legislation. In FY 2010, FMS collected $5.45 billion in delinquent debt. Debt referrals from creditor agencies were at 100 percent of eligible debt at the end of FY 2010. As a result of FMS' continued program improvements, cumulative debt collections since the enactment of the DCIA are $48.2 billion through FY 2010.

In FY 2012, FMS will continue to enhance FedDebt, a comprehensive system that integrated FMS' existing collection programs: the Treasury Offset Program (TOP) and Cross-Servicing. TOP compares the names and Taxpayer Identifying Numbers (TINs) of debtors with the names and TINs on state and federal payment files. If there is a match, the federal payment is reduced, or "offset," to satisfy the overdue debt. Cross-Servicing includes the use of 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. FMS will continue developing FedDebt by implementing a centralized debt data repository. In addition, in an effort to more aggressively pursue delinquent debt, FMS is investing in technology that will provide better analytics, debt scoring, and skip tracing tools. Finally, FMS is converting its Austin facility from a payments processing center to a debt collection call center. These investments will allow FMS to realize additional opportunities to increase debt collection and improve efficiencies.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Financial Management Service	FTE	Amount
FY 2010 Enacted	**1,500**	**$244,132**
FY 2011 Annualized CR Level	**1,500**	**$244,132**
Changes to Base:		
Adjustment to Reach Policy Level:	(125)	($10,537)
Adjustment to Reach FY 2011 President's Policy	(125)	($10,537)
Maintaining Current Levels (MCLs):	-	$2,000
Maintaining Current Levels	-	$2,000
Efficiencies, Savings & Base Reductions:	(175)	($11,690)
Elimination of Bureau of Economic Analysis Interagency Agreement	-	($175)
Reduce Systems Development	-	($1,400)
Paperless Treasury / Payment Center Repurposing	(49)	($6,297)
Data Center Consolidation	(121)	($685)
Migration of Human Resources Operations to Shared Service Provider	(5)	($533)
Operational Efficiencies & Space Consolidation	-	($2,600)
Subtotal FY 2012 Changes to Base	(300)	($20,227)
Total FY 2012 Base	**1,200**	**$223,905**
Program Changes:		
Program Decreases:	-	($5,100)
FIRST and GWAMP Project Savings	-	($5,100)
Subtotal FY 2012 Program Changes	-	($5,100)
Total FY 2012 Request	**1,200**	**$218,805**

2A – Budget Increases and Decreases Description

Adjustment to Reach FY 2011 President's Policy Level…..……+$10,537,000 / +125 FTE

Funds are adjusted from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

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

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies, equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings, and Reductions ....-$11,690,000 / -175 FTE

Paperless / Payment Center Repurposing -$6,297,000/ -49 FTE

In FY 2012, the Paperless Treasury Initiative will not only save the government money through consumable savings, but will also allow FMS to move from four payment centers to three. The repurposing of the Austin Financial Center provides FMS the opportunity to expand its delinquent debt activity by targeting more of the delinquent debt referred to FMS for collection.

Data Center Consolidation -$685,000 / -121 FTE

FMS, along with BPD, will consolidate five IT data centers to two that will produce savings as a result of reductions in energy consumption, equipment, software, and staff. The consolidation of Fiscal Service data centers includes the transferring of staff from FMS to the Treasury Franchise

Fund. The salary and benefit costs of those FTE will be used to pay for the resulting new contract with the Treasury Franchise Fund.

Migration of Human Resources Operations to Shared Service Provider -$533,000 / -5 FTE
FMS examined the feasibility of migrating its human resources program to a shared service provider. Based on the analysis, FMS elected to transition its HR operational functions to the Administrative Resource Center of the Bureau of the Public Debt. This migration is expected to improve the quality and cost-effectiveness of FMS' HR operational processes. This reduction will offset the full cost of the shared services agreement with full implementation in 2012.

Elimination of Bureau of Economic Analysis Interagency Agreement -$175,000 / +0 FTE
FMS has an interagency agreement with the Department of Commerce's Bureau of Economic Analysis for statistical analysis required each year for the International Monetary Fund. However, FMS no longer has programs or activities that benefit from this expense. Elimination of this service would not hamper FMS efforts.

Reduce Systems Development -$1,400,000 / +0 FTE
FMS will reduce funding related to low priority program system development and maintenance.

Operational Efficiencies & Space Consolidation -$2,600,000 / +0 FTE
FMS will identify operational efficiencies gained through improved process and modernization efforts. Additionally, in coordination with GSA, FMS will work to consolidate space and reduce the FMS' footprint in the Hyattsville Center to accommodate changes in staffing and Data Center consolidation.

FIRST and GWAMP Project Savings -$5,100,000 / +0 FTE
In accordance with the principles for the acquisition and management of new financial systems outlined in OMB Memorandum 10-26, FMS at the direction of OMB, will not proceed with new development on these projects in FY 2012. FMS will use this as an opportunity to recast and reframe these modernization efforts which will allow for the time necessary to consider the best path forward for GWAR modernization.

2.2 – Operating Levels Table

Dollars in Thousands

Financial Management Service	FY 2010 Enacted	FY 2011 Annualized CR Level	Proposed Reprogrammings	FY 2011 Proposed Operating Level	FY 2012 Request
FTE	**1,500**	**1,500**	**-**	**1,500**	**1,200**
Object Classification					
11.1 - Full-time permanent	$127,561	$121,605	$0	$121,605	$106,725
11.3 - Other than full-time permanent	$1,540	$1,540	$0	$1,540	$1,540
11.5 - Other personnel compensation	$3,081	$5,081	$0	$5,081	$5,081
11.8 - Special personal services payments	$3,603	$3,603	$0	$3,603	$3,603
12 - Personnel benefits	$31,703	$29,999	$0	$29,999	$26,289
13 - Benefits for former personnel	$180	$180	$0	$180	$180
21 - Travel and transportation of persons	$1,511	$1,511	$0	$1,511	$1,511
22 - Transportation of things	$278	$278	$0	$278	$278
23.1 - Rental payments to GSA	$13,635	$14,708	$0	$14,708	$12,313
23.2 - Rental payments to others	$677	$677	$0	$677	$677
23.3 - Communication, utilities, and misc charges	$10,455	$9,942	$0	$9,942	$9,942
24 - Printing and reproduction	$505	$505	$0	$505	$505
25.1 - Advisory and assistance services	$6,062	$6,062	$0	$6,062	$6,062
25.2 - Other services	$18,574	$23,674	$0	$23,674	$10,109
25.3 - Other purchases of goods and services from Govt. accounts	$2,795	$2,795	$0	$2,795	$15,080
25.4 - Operation and maintenance of facilities	$505	$505	$0	$505	$405
25.7 - Operation and maintenance of equip	$8,085	$8,085	$0	$8,085	$8,085
26 - Supplies and materials	$3,636	$3,636	$0	$3,636	$2,794
31 - Equipment	$9,191	$9,191	$0	$9,191	$7,071
32 - Land and structures	$505	$505	$0	$505	$505
42 - Insurance claims and indemnities	$50	$50	$0	$50	$50
Total Budget Authority	**$244,132**	**$244,132**	**$0**	**$244,132**	**$218,805**
Budget Activities					
Payments	$150,395	$142,537	$0	$142,537	$132,868
Collections	$21,911	$25,267	$0	$25,267	$21,265
Government-wide Accounting and Reporting	$71,826	$76,328	$0	$76,328	$64,672
Total Budget Authority	**$244,132**	**$244,132**	**$0**	**$244,132**	**$218,805**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2010 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Payments			963	$150,395	963	$142,537	713	$132,868	-25.93%	-11.65%
Collections			135	21,911	135	24,267	127	21,265	-6.16%	-2.95%
Gov. Accounting and Reporting			402	71,826	402	77,328	360	64,672	-10.45%	-9.96%
Subtotal New Appropriated Resources	**0**	**$0**	**1,500**	**$244,132**	**1,500**	**$244,132**	**1,200**	**$218,805**	**-20.00%**	**-10.37%**
Other Resources:										
Recoveries										
Offsetting Collections - Reimbursable			483	234,690	460	216,730	561	231,223	16.15%	-1.48%
Available multi-year/no-year funds										
Transfers In/Out										
Subtotal Other Resources	**0**	**$0**	**483**	**$234,690**	**460**	**$216,730**	**561**	**$231,223**	**16.15%**	**-1.48%**
Total Resources Available for Obligation	**0**	**$0**	**1,983**	**$478,822**	**1,960**	**$460,862**	**1,761**	**$450,028**	**-11.20%**	**-6.01%**

2B – Appropriations Language and Explanation of Changes

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, $218,805,000 of which not to exceed $4,210,000 shall remain available until September 30, 2014, for information systems modernization initiatives, and of which not to exceed $2,500 shall be available for official reception and representation expenses.*	

Exhibit 2B – Permanent, Indefinite Appropriations

Financial Agent Services Permanent, Indefinite Appropriation

Congress has given the Secretary of the Treasury broad discretion to deposit money in financial institutions and to obtain banking services by designating financial institutions to act/serve as Financial Agents (FA) of the United States. The services support many FMS programs such as Electronic Federal Tax Payment System (EFTPS), the Lockbox Networks, E-Commerce systems, and the deposit reporting and cash concentration system called CA$HLINK II. These and other programs are vital to FMS' strategic goals, the National Financial Critical Infrastructure, and the expanding E-Government. The services provided by the FAs are authorized under numerous statutes including, but not limited to, 12 United States Code (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 FA services for FY 2012 will be approximately $623 million, which includes $20 million for Government Sponsored Enterprise - Mortgage Backed Securities (GSE-MBS) administrative costs. Of this amount, approximately $80 million will be reimbursed from other government agencies and deposited into the General Fund.

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 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. Since the FRBs support many FMS program activities, 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 2012 will be approximately $329 million.

Table 2.4 – Permanent, Indefinite Appropriations
(Dollars in Thousands)

Permanent, Indefinite Appropriation	2010 Enacted	2011 Request	2012 Request
Federal Reserve Bank	$321,000	$321,000	$329,000
Financial Agent Services*	$633,000	$625,000	$623,000

* FY 2010, FY 2011, and FY 2012 include costs for the Government Sponsored Enterprise - Mortgage Backed Securities administrative costs of $36M, $20M, and $20M, respectively.
Note: Approximately $80M is reimbursed from other government agencies and deposited into the General Fund each year.

2C – Legislative Proposals

Debt Collection

Debt Collection – For further details on these proposals please see the Treasury Green book summarizing the Administration's tax legislative proposals.

Increase Levy Authority for Payments to Federal vendors with Delinquent Tax Debt
The Budget proposes a change to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Federal contractors. Through the Federal Payment Levy Program, the Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Pursuant to the American Jobs Creation Act of 2004, Treasury is authorized to continuously levy up to 100 percent of payments to a Federal vendor for goods or services sold or leased to the Federal government if the vendor has an unpaid tax liability. However, the language contains a technical imperfection that has the unintended effect of limiting the levy to 15 percent for vendor payments made for the sale or lease of real estate or other types of property. The Budget proposal will allow Treasury to levy up to 100 percent of any payment due to a Federal vendor with unpaid tax liabilities.

Allow Offset of Federal Income Tax Refunds to Collect Delinquent State Income Taxes for Debtors Who Currently Reside in Other States

Under current law, federal tax refunds may be offset to collect delinquent state income tax obligations only if the delinquent taxpayer resides in the state collecting the tax. This proposal will allow FMS to offset federal income tax refunds to collect delinquent state tax obligations regardless of where the debtor resides.

Increase Levy Authority for Payments to Medicare Providers with Delinquent Tax Debt

The Budget proposes a change to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Medicare providers. Through the Federal Payment Levy Program, Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Pursuant to the Medicare Improvements for Patients and Providers Act of 2008, Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider in order to collect delinquent tax debt. The Budget proposal will allow Treasury to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	% Change FY10 to FY12
Financial Information	75,949	81,543	69,084	-9.04%
Revenue Collected	115,421	105,722	118,515	2.68%
Payments	287,452	273,597	262,429	-8.71%
Total	**$478,822**	**$460,862**	**$450,028**	**-6.01%**

3A – Payments *($132,868,000 from direct appropriations and $129,561,000 from reimbursable programs):* FMS is responsible for managing and operating federal payment systems and for disbursing approximately 85 percent of all federal payments. It is comprised of a headquarters staff and Regional Financial Centers (RFCs). Major payments include: social security benefits, supplemental security income, federal pension benefits, veterans' compensation, railroad retirement pensions, and tax refunds. An electronic payment is an electronic funds transfer made by direct deposit via the Federal Reserve Bank's Automated Clearing House system to more than 28,000 member financial institutions nationwide. In FY 2010, the centers disbursed over one billion payments, totaling over $2.3 trillion dollars.

This activity also includes controlling and providing 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 that have been forged, lost, stolen, or destroyed. FMS 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. It is important to note that 100 percent of funds devoted to the payments activity support the National Financial Critical Infrastructure.

FMS continues, through its Paperless Treasury Initiative, to encourage recipients to convert to electronic payment methods through public education programs, 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.

To help with this endeavor, FMS continues with a nationwide campaign called "Go Direct" to encourage current check recipients to switch to direct deposit. In five extremely successful years, the Go Direct Campaign has reached 5 million conversions, saving millions of dollars for the U.S. Treasury in years to come.

Direct deposit offers federal benefit 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. This is attributable to consumable inventory and postage costs which are mitigated with each EFT payment. These programs are especially important as the government prepares for the huge increase in retiring baby boomers in the near future, and it is thus critical that FMS dramatically increase use of direct deposit for issuing benefit payments.

- *Direct Express® Debit MasterCard®* card offers the convenience and security of receiving benefit payments electronically for those who prefer a prepaid debit card or those who do not have a bank account. Instead of receiving a paper check, the benefit payment is automatically deposited into the recipient's Direct Express® card account on payment date. The card is currently available to Social Security, SSI, Veterans' Compensation and Pension, and Railroad Retirement Board benefit recipients, and FMS is optimistic that other benefit payments will be implemented in CY 2011. As of December 2010, more than 1.5 million beneficiaries signed up for the Direct Express® card.

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 smartcard is 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 and reducing risk 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 through FY 2010, over 27 million EFT transactions with a dollar value in excess of $4.2 billion were processed via the SVC programs. In FY 2010 alone, the SVC programs collected over $1 billion through the processing of over 7.5 million EFT transactions.

- *Internet Payment Platform (IPP):* The IPP is a centralized, secure, Web-based application service that accepts, processes, and presents data from agencies and supplier systems related to all stages of electronic order-to-payment transactions: purchase orders, invoices, approvals, and ACH payment information, including aftermath activity such as partial payments, debt offsets and returns.

- *Payment Application Modernization (PAM):* The PAM project is an effort to replace the current mainframe-based software applications that are used to disburse approximately one billion federal payments annually. PAM is a single application that generates check, wire transfer, and ACH payments for FPAs, including Social Security, IRS, Veterans Affairs, and others. In addition to standardization, FMS is modernizing the technologies employed in the development of the system, using commercial software products where feasible. Additionally, the project incorporates new and enhanced functionality to support improvements in the payment process. In FY 2012, PAM will deploy an architecture refresh and data stage upgrade, continue converting FPAs to the PAM standard format, begin transition of remaining legacy applications who have not converted to the PAM standard format, and enhance usability and performance.

3.2.1 Payments Budget and Performance Plan

Payments Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$171,686	$147,717	$150,395	$142,537	$132,868
Reimbursable Resources	$130,853	$138,584	$137,057	$131,060	$129,561
Total Resources	**$302,539**	**$286,301**	**$287,452**	**$273,597**	**$262,429**
Budget Activity Total	**$302,539**	**$286,301**	**$287,452**	**$273,597**	**$262,429**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percentage of Paper Check and Electronic Funds Transfer (EFT) Payments Made Accurately And On-Time (Oe)	100.0	100.0	100.0	100.0	100.0
Percentage of Treasury Payments and Associated Information Made Electronically (Oe)	79.0	81.0	82.0	83.0	85.0
Unit Cost For Federal Government Payments (E)	0.39	0.37	0.36	0.40	0.37
Number of Electron Payments (Thousands) (Ot)	793,832	827,643	801,576	867,215	938,168
Number of Check Payments (Thousands) (Ot)	205,604	196,686	175,920	186,442	173,761
Number of Check Claims Submitted (Thousands) (Ot)	1,461	1,219	1,109	1,200	N/A
Average Number of Days to Settle a Claim (Ot)	N/A	N/A	N/A	N/A	30

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

Description of Performance: FMS disburses 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 2010, FMS issued more than one billion non-Defense payments, with a dollar value of over $2.34 trillion. More than 82 percent of these transactions were issued by Electronic Funds Transfer (EFT). In FY 2012, FMS is projecting the percentage of electronic payments to be 85 percent.

3B – Collections *($21,265,000 from direct appropriations and $198,000 from reimbursable programs):* FMS collects revenues needed to operate the federal government through the management of the federal government's collections infrastructure. The collections activity is also part of the nation's critical infrastructure. FMS collected nearly $2.94 trillion in FY 2010 through a network of more than 8,000 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. While 85 percent of federal revenue was collected electronically in FY 2010, the Paperless Treasury Initiative will help FMS improve the percentage of tax revenue collected electronically by requiring all businesses currently required to use a FTD coupon to pay electronically effective January 1, 2011.

FMS develops and operates a variety of collection mechanisms and systems to meet program agency needs. It has initiated a comprehensive effort, CCMM, to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. This effort will improve financial performance by enabling FMS and government agencies to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes. Additionally, it will improve timeliness by providing FPAs with the ability to predefine accounting rules to facilitate timely processing of financial transactions through the re-engineering of reporting processes. It will also reduce the number of collections and cash management systems and processes and eliminate the duplication of data, products, interfaces, and technologies. This effort will simplify and standardize systems and processes that have accumulated over 30 years.

FMS continues to promote the use of electronic systems 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):* EFTPS collects approximately 82 percent of United States tax dollars and is required for businesses with annual federal tax obligations above $200,000. Starting in 2011, in support of the Paperless Treasury Initiative, businesses using paper FTD coupons will be instructed to use EFTPS. IRS research has shown that businesses using EFTPS are 31 times less likely to make an error. FMS has been 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 FTD coupons, which were reduced in FY 2010 by 24 percent over FY 2009. 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. Additionally, FMS has implemented a new on-line interface that will allow financial institutions and other third parties to remit tax payments to EFTPS on behalf of their customers. In FY 2010, more than 108 million payments were processed through EFTPS totaling more than $1.98 trillion.

- *Pay.gov*: Pay.gov is a system allowing individuals and businesses to make nontax payments to federal agencies over the internet. Pay.gov provides collections, form submittal, and bill presentment. Pay.gov meets the increasing demands of consumers and businesses for electronic alternatives by providing the opportunity to complete forms and applications, make payments, and submit queries online 24 hours a day, seven days a week. Pay.gov, currently serves 153 federal agencies representing 667 cash flows. In FY 2010 Pay.Gov processed over 49 million transactions and collected over $80 billion. New developments will focus on interfaces with new systems within the new Collections Business Line Enterprise Architecture, improved interfaces with federal agencies, and enhanced functionality to take advantage of same-day ACH transactions.

- *Check Conversion and Truncation:* Paper Check Conversion Over-The-Counter (PCC OTC) and Electronic Check Processing (ECP) are programs utilized to convert paper checks received at federal agency and lockbox sites into electronic debits to the check writer's account through the Automated Clearing House (ACH) system, or into a substitute check image that is truncated and cleared under the authority of Check 21. The funds are deposited into Treasury's account at the Federal Reserve Bank. These programs leverage image technology and eliminate the need to photocopy checks, safeguard checks, or process paper by providing a complete electronic record of all check images and related financial data accessible via a web-based archive. In FY 2010, more than 10.6 million items were received over-the-counter, representing more than $17.1 billion, and processed through check conversion or truncation. Additionally, more than 43.8 million items received through the mail at lockboxes, representing $20.5 billion, were similarly processed. FMS's target is that all paper checks remitted to the federal government will be converted or truncated and processed electronically.

3.2.2 – Collections Budget and Performance Plan

Collections Budget Activity

Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$23,103	$21,521	$21,911	$24,267	$21,265
Reimbursable Resources	$141	$0	$113	$1,419	$198
Total Resources	**$23,244**	**$21,521**	**$22,024**	**$25,686**	**$21,463**
Budget Activity Total	**$23,244**	**$21,521**	**$22,024**	**$25,686**	**$21,463**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percentage Collected Electronically of Total Dollar Amount of Federal Government Receipts (Oe)	80.0	84.0	86.0	86.0	88.0
Unit Cost to Process a Federal Revenue Collection Transaction (E)	1.47	1.57	1.67	1.70	1.70

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

Description of Performance: In FY 2010, FMS collected $2.94 trillion through a network of more than 9,000 financial institutions. Slightly more than 85 percent of the funds was collected electronically. While FMS continued to promote and convert collections from paper to the more efficient electronic media in FY 2010, there are a number of factors that have adversely affected the unit cost metric. It is projected that the unit cost metric for collections will increase over the next three years due to two primary factors: 1) The current economic conditions; and 2) Increased expenses during the transition to a fully implemented Collections and Cash Management Modernization (CCMM) initiative.

The economic climate has had a major influence on the unit cost for collections. Recessionary business failures and job losses have caused fewer employers to report withholding transactions to the Electronic Federal Tax Payment System (EFTPS). Similarly, small business failures and job losses reduced the number of tax filers using the IRS Lockbox Network. For example, during the Spring 2009 tax season, tax transaction receipts were down by 22 percent. Since some of the costs of EFTPS and the IRS Lockbox Network are fixed, the unit cost per item increased.

In addition, FMS has embarked on a multi-year initiative that will streamline, modernize, and improve the processes and systems supporting Treasury's collections and cash management program. FMS is building a number of new systems that will fulfill its enterprise architecture goals. When this initiative is fully implemented, FMS will operate only 13 collection and cash management systems or services, decommissioning 20 other systems or services. The CCMM initiative will make it much more efficient for FMS to collect government receipts. Full implementation of this initiative includes new systems deployment and agency conversions to these new systems. Until full implementation is realized, FMS must continue to maintain legacy systems and processes, and incur the costs to maintain those systems as well.

3C – Debt Collection *($97,052,000 from reimbursable programs):* FMS collects delinquent government and child support debt by providing centralized debt collection, oversight and operational services to FPAs and states pursuant to 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 on improving debt management, and referrals to the Department of Justice.

To better utilize internal resources for increased debt collection activity, especially in the cross-servicing of existing debt, resulting in the collection of additional delinquent debt, FMS was able to begin re-purposing the Austin payments facility to a debt collection call center in FY 2011; this effort should be finalized in FY 2012.

Additionally, FMS will continue to enhance FedDebt, a comprehensive system that integrated FMS' existing collection programs: Cross-Servicing and the Treasury Offset Program (TOP). TOP compares the names and Taxpayer Identifying Numbers (TINs) of debtors with the names and TINs on state and federal payment files. If there is a match, the federal payment is reduced, or "offset," to satisfy the overdue debt. Cross-Servicing includes the use of 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.

FedDebt provides FPAs with batch and online capabilities for all users, via a single sign-on interface and will employ a common file format for submitting debts to either Cross-Servicing or TOP. FedDebt provides a single platform for debt business applications, a single entry portal, a web-based customer interface, and a single database for reporting. FedDebt eliminates many labor-intensive processes and hard-copy data exchanges for federal and state agency customers and service partners. FMS will continue developing FedDebt by implementing a centralized debt data repository.

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. The Defense Finance and Accounting Service is currently in the process of levying civilian salaries. In addition, the Centers for Medicare and Medicaid Services (CMS) offset program began in 2009, as did the Railroad Retirement Board levy program. The Postal Service began taking vendor payment offsets and levies in late 2009. Finally, enhancements of collection tools such as administrative wage garnishment and Debt Check, an online database used to assist agencies in barring delinquent debtors from obtaining new loans or loan guarantees, will improve program performance.

3.2.3 Debt Collection Budget and Performance Plan

Debt Collection Budget Activity

Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$74,705	$86,247	$93,397	$80,036	$97,052
Total Resources	**$74,705**	**$86,247**	**$93,397**	**$80,036**	**$97,052**
Budget Activity Total	**$74,705**	**$86,247**	**$93,397**	**$80,036**	**$97,052**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Amount of Delinquent Debt Collected Per $1 Spent (E)	54.76	53.76	54.54	43.0	45.0
Amount of Delinquent Debt Collected Through All Available Tools ($ billions) (Ot)	4.41	5.03	5.50	5.50	5.80
Percentage of Delinquent Debt Referred to FMS for Collection Compared To Amount Eligible For Referral (Ot)	99.0	100.0	100.0	97.0	98.0

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

Description of Performance: In FY 2010, FMS collected $5.45 billion in delinquent debt including $12.8 million from Economic Recovery Payments. The amount collected includes $2.10 billion in past due child support, $2.30 billion in federal nontax debt, and over $1.05 billion in federal tax levies and state tax debt offsets. Debt referrals from creditor agencies were at 100 percent of eligible debt at the end of FY 2010. As a result of the continued program improvements, cumulative collections since enactment of the Debt Collection Improvement Act of 1996 are $48.2 billion. In calendar year 2010, the Internal Revenue Service referred an additional $54 billion of tax debts for continuous levy, a 15 percent increase over calendar year 2009.

3D – Government-wide Accounting and Reporting *($64,672,000 from direct appropriations and $4,412,000 from reimbursable programs):* The Government-wide Accounting and Reporting (GWA) activity maintains the federal government's 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. It provides support, guidance, and training to assist FPAs in improving their government-wide accounting and reporting responsibilities. FMS collects, analyzes, 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. 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). It is important to note, the cash reporting function of GWA supports the National Financial Critical Infrastructure.

FMS is taking other significant steps to address the material weaknesses found in the compilation process of the FR 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, Central Reporting Team as a forum to discuss 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.

- Reconciling the agency data to central accounting data which FMS uses to prepare the Reconciliations of Net Cost and Unified Budget Deficit Statement and the Statement of Changes in Cash Balance from Unified Budget and Other Activities.

- Strengthening internal controls over the process for preparing the FR.

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

Government-wide Accounting and Reporting Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$72,420	$70,547	$71,826	$77,328	$64,672
Reimbursable Resources	$726	$3,179	$4,123	$4,215	$4,412
Total Resources	**$73,146**	**$73,726**	**$75,949**	**$81,543**	**$69,084**
Budget Activity Total	**$73,146**	**$73,726**	**$75,949**	**$81,543**	**$69,084**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percentage of Government-Wide Accounting Reports Issued Accurately (%) (Oe)	100.0	100.0	100.0	100.0	100.0
Percentage of Government-Wide Accounting Reports Issued Timely (E)	100.0	100.0	100.0	100.0	100.0
Unit Cost to Manage $1 Million Dollars of Cash Flow (E)	8.96	7.08	7.36	10.15	8.90

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

Description of Performance: FMS issues 100 percent of its government-wide accounting reports accurately and timely. Annually, FMS releases the *Financial Report of the United States Government (FR).* The FR has been audited by the Government Accountability Office (GAO) since 1997, and has received a disclaimer of opinion each year. Treasury continues to take steps to help resolve differences in intragovernmental activity and balances; and during fiscal year 2010, Treasury, in coordination with the Office of Management and Budget, continued implementing corrective action plans and made progress addressing certain internal control deficiencies that they have previously reported.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

FMS' strategic management of human capital is consistent with its mission, vision, and priorities supporting 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 and has taken steps to improve the quality of its professional workforce. A Human Capital Strategic Plan has been developed to identify opportunities and build upon our strengths. Achieving the following objectives will support and strengthen its work force:

- *Strategic Alignment*: A human capital strategy is aligned with FMS' mission, goals, organizational objectives, and is integrated into the strategic plans, performance plans, and budgets.

- *Critical Success Factors:* Recognizing that an organization's mission, vision, and values provide an insight into why the organization exists, where the organization is heading, and how it will conduct its business, FMS has embarked on a rigorous enterprise-wide activity to crisply define our mission, vision, and values, as well as to define and draw attention to the essential elements – the Critical Success Factors – that are key to our continued success.

- *Workforce Planning & Deployment:* FMS is citizen-centered and mission-focused. It 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. It has a performance management system and awards program that effectively holds employees accountable, links individual/team/unit performance to organizational goals and desired results.

- *Diversity:* FMS demonstrates its commitment to diversity by recognizing the contributions of all employees and by understanding the strengths that arise from the broad range of backgrounds, cultures, customs, and beliefs. FMS has processes in place to sustain diversity and to address under-representation particularly in mission-critical occupations and leadership positions.

- *Talent:* FMS has significantly reduced gaps in mission-critical skills, knowledge and competency. 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. FMS utilizes all intern program authorities, to the extent possible, in order to attract talent from some of the best colleges and universities.

FMS has action plans to obtain 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 to determine whether the position should be back-filled, redirected as appropriate, or eliminated. This is one way FMS counters the possibility of either a surplus or deficiency of staff in certain job occupations.

Through FY 2010, 22 percent of FMS' current employees are eligible for Optional Retirement and 41 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 pay incentives within budget constraints (e.g., recruitment and retention incentives) and specialized employee development programs such as: SES Candidate Development, Project Management Certification, Management Preparatory Development, Federal Career Intern Program, Leadership, and Mentoring.

FMS believes that maintaining a diverse workforce is vital to 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 established to ensure a diverse workforce:

- SES Candidate Program was developed to create a diverse group of future senior executives.
- Special emphasis programs were expanded and Equal Employment Opportunity and diversity awareness training was instituted.
- Hispanic recruitment was enhanced through the increased use of Hispanic Associations of Colleges and Universities interns, which created a gateway for new Hispanic employees.

In addition, FMS has increased participation in the Washington Internship for Native Students Program and the Department of Labor's Workforce Recruitment Program for students with disabilities.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Major IT Investments / Funding Source	Budget Activity	FY 2009 Enacted	FY 2010 Enacted	% Change from FY 2009 to FY 2010	FY 2011 AnnualizedCR Level	FY 2012 Request	% Change from FY 2010 to FY 2012
Automated Standard Application for Payments (ASAP)	Payments	2,398	2,165	-9.72%	1,771	1,843	-14.87%
Debit Gateway	Collections	-	300	N/A	300	300	0.00%
Deposit and Data Management (DDM)	Collections	1,120	1,146	2.32%	1,194	1,194	4.19%
FMS EFTPS (Electronic Federal Tax Payment System)	Collections	659	682	3.49%	705	729	6.89%
FedDebt	Debt Collection	-	-	N/A	-	-	N/A
Financial Information and Reporting Standardization (FIRST)	Government-wide Accounting	7,098	7,501	5.68%	6,649	3,623	-51.70%
Government-Wide Accounting and Reporting Modernization (GWAMP)	Government-wide Accounting	9,787	9,983	2.00%	10,186	8,323	-16.63%
International Treasury Services (ITS.gov) 1/	Payments	341	351	2.93%	362	372	5.98%
Internet Payment Platform (IPP)	Payments	308	318	3.25%	329	338	6.29%
Intra-Governmental Payment and Collection (IPAC)	Government-wide Accounting	552	638	15.58%	660	673	5.49%
Over the Counter Channel Application (OTCnet)	Collections	403	305	-24.32%	459	390	27.87%
PACER	Payments	2,631	2,744	4.29%	2,800	2,889	5.28%
Pay.gov	Collections	569	480	-15.64%	497	515	7.29%
Payment Application Modernization (PAM)	Payments	12,123	13,906	14.71%	16,937	16,793	20.76%
Print and Check Enclosing (PrinCE)	Payments	-	3,613	N/A	1,173	1,108	-69.33%
Secure Payment System (SPS)	Payments	3,717	3,403	-8.45%	3,716	3,822	12.31%
Treasury Check Information System (TCIS)	Payments	996	1,154	15.86%	1,443	1,248	8.15%
Treasury Collateral Management and Monitoring (TCMM)	Collections	-	134	N/A	96	282	110.44%
Subtotal, Major IT Investments		42,702	48,823	14.33%	49,277	44,442	-8.97%
non-major IT Investments 2/		5,912	12,355	108.99%	8,689	6,997	-43.37%
Infrastructure Investments 3/		23,200	154,696	566.79%	158,314	158,662	2.56%
Enterprise Architecture		5,493	3,655	-33.46%	3,655	2,799	-23.42%
Total IT Investments 4/		77,307	219,529	183.97%	219,935	212,900	-3.02%

1/ ITS.gov was changed from a non-major to a major investment in FY 2009.

2/ PrinCE was changed from a non-major to a Major in FY2009.

3/ In FY 2009, the number of non-majors reporting increased to 17 investments.

4/ Figures provided for FY 2009 include funding amounts for the Treasury Web Application Infrastructure (TWAI) platform that were not included in previous years.

* Infrastructure reporting requirements changed in FY 2009, which resulted in changes to FY 2010 and FY 2011 figures.

4B – Information Technology Strategy

The FMS IT Strategy addresses all bureau information resource management. It focuses on technology and how it supports FMS' Strategic Plan which is a long-range plan that supports the economic policies and mission of the Department of the Treasury for payments, collections, government-wide accounting and reporting, and collection of delinquent debt.

Governance Process

FMS has an established governance process that selects, evaluates, and monitors new and existing IT investments. FMS' IT Governance Process complies with Department of the Treasury and OMB requirements for Capital Planning and Investment Control, and Enterprise Architecture. Before projects are started or a major change implemented, there is a formal review process beginning with the FMS Division Information Officer (DIO) Council. Each project provides the DIO Council with project business case documentation, which describes the project, documents benefits, and shows start-up costs, full life-cycle costs, other systems impacted, programmatic impact, and platforms that will be used. Costs include all project costs including contracts, FTE, hardware, and software. The FMS governing bodies, including the DIO Council and Architecture Review Board (ARB), review each investment to ensure compliance with FMS' target architecture, use of existing infrastructure, and shared resources (*e.g.*, document imaging and Single-Sign On). At least once a year, each FMS project is presented to the DIO Council. Current cost, schedule, and performance goals status for the project are presented. Any project that is not within acceptable cost, schedule, and performance goals must provide the DIO Council with a project remediation plan detailing the steps it plans to implement to get the investment back within acceptable ranges. The project is also required to provide the DIO Council with quarterly cost, schedule, and performance updates. The FMS governance process includes recommendations by the DIO Council for approval/disapproval of all IT investments and major enhancements. The FMS executive board must also approve all large scale IT projects and it conducts quarterly reviews of all major FMS investments.

Fiscal IT

FMS, in partnership with BPD, initiated a project to consolidate the data centers across the two bureaus to help achieve the Secretary's objective of increasing the utilization and efficiency of combined IT assets, while reducing technology costs. This effort also conforms to the Office of Management and Budget's Data Center Consolidation directive which requests that all federal agencies review IT spending, placing emphasis on consolidating and sharing IT services to reduce expenditures. This effort includes consolidation of five data centers into two shared by both bureaus with one acting as a back-up to the other, creation of a single corporate governing body, in-sourcing of select contractor functions, and consolidation of application development methodologies and associated infrastructure while resulting in a more "green" approach to delivery of IT services.

Overview

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 Budget Activity

Dollars in Thousands

Appropriation	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	FY10 to FY12 $ Change	FY10 to FY12 % Change
Wholesale Securities Services	$24,396	$25,049	$23,120	($1,276)	(5.2%)
Government Agency Investment Services	$18,013	$16,706	$15,419	($2,594)	(14.4%)
Retail Securities Services	$139,569	$140,915	$116,260	($23,309)	(16.7%)
Summary Debt Accounting	$10,266	$9,574	$8,836	($1,430)	(13.9%)
Do Not Pay Implementation	$0	$0	$10,000	$10,000	100.0%
Total Appropriated Resources	**$192,244**	**$192,244**	**$173,635**	**($18,609)**	**(9.7%)**
Total FTE	**1,042**	**1,042**	**987**	**(55)**	**(5.3%)**

Total Appropriated Resources for FY 2010 and FY 2011 include $10,000,000 in projected user fee collections.
Total Appropriated Resources for FY 2012 include $8,000,000 in projected user fee collections.

FY 2012 Priorities

- Protect and strengthen Treasury's borrowing capabilities.
- Enhance, when appropriate, government securities market regulation, while maintaining market liquidity and efficiency.
- Eliminate new issues of over-the-counter paper savings bonds.
- With the elimination of new issues of paper savings bonds, position Treasury to provide other simple, safe, and affordable ways for Americans to save.
- Deliver a high-quality retail customer experience through traditional and emerging technologies, opportunities for self-service, and easy-to-use communication channels.
- Continually demonstrate accounting excellence by producing daily financial statements and receiving unqualified opinions on the annual audits of the *Schedules of Federal Debt*.
- Gain efficiencies and strengthen controls by reducing the number of common business processes that serve federal investments, special purpose securities and federal borrowings from eight to six.
- Consolidate data centers across the Financial Management Service and Public Debt.
- Continue to adopt technological advances to ensure Public Debt's various information technology systems remain secure.
- Expand the Do Not Pay List and enhance analytical capabilities to support agency detection of fraud patterns and reduce improper payments.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Bureau of the Public Debt's (Public Debt) vision is to lead the way for responsible, effective government through commitment to service, efficient operations, openness to change and values-based behavior. In carrying out its mission and vision, Public Debt annually auctions and issues more than $8 trillion in Treasury bills, notes, bonds and Treasury Inflation-Protected Securities (TIPS); administers on Treasury's behalf its regulatory responsibilities for the government securities market; ensures reliable systems and processes are in place for issuing, transferring, paying interest on and redeeming Treasury securities; issues and redeems about 50 million paper savings bonds each year; administers in excess of $4 trillion in investments for more than 230 federal trust funds; and provides timely and accurate information on the public debt.

In support of Treasury's strategic outcome of government financing at the lowest possible cost over time, Public Debt's top priority is to guarantee operational readiness to meet the government's critical financing needs by ensuring the most efficient systems are in place to conduct borrowing operations and deliver securities services to investors. To that end, the bureau continues to enhance its auction process. The Treasury Automated Auction Processing System (TAAPS) provides simple bid-entry, quick and easy access to data and superior reliability and security.

A major operational initiative for Public Debt is to consolidate all Government Agency Investment Services (GAIS) functions into a single integrated control environment by FY 2012. This will result in lower operational risks, stronger internal controls, more timely and accurate data and standardized system, business and data elements. To date, the federal investments, federal borrowings and Special Purpose Securities functions are operating from the same automated platform.

Public Debt will stop the issuance of paper savings bonds sold over-the-counter at financial institutions no later than December 31, 2011 as part of the overall Paperless Treasury initiative. This also supports the Department's High Priority Performance Goal to significantly increase the number of paperless transactions with the public. The strategy to accomplish Public Debt's portion of the goal centers on TreasuryDirect and electronic bonds, which are more efficient to issue and service over the long term than paper savings bonds. Public Debt will enhance its system and processes to attract investors to TreasuryDirect as their preferred way to buy and hold savings bonds.

In placing a high priority on delivering a high-quality customer experience, Public Debt plans to implement a business and technical architecture for customer service known as Treasury Retail E-Services (TRES). TRES is an initiative to provide Public Debt and the consolidated Treasury Retail Securities (TRS) site with a fully integrated view of customer interactions that will allow customer service representatives to quickly identify customers and evaluate their needs.

In support of Treasury's sustainability program, Public Debt developed a strategy that will incorporate all areas within the sustainability efficiency goals, including greenhouse gas emissions, increased energy efficiency and high performance sustainable design. By FY 2020, Public Debt has set a goal of reducing greenhouse gas emissions by 33 percent from FY 2008 levels. Public Debt's FY 2012 budget includes projects that increase the overall efficiency of its data center operations by lowering energy levels and greenhouse gas emissions. In addition, energy initiatives for Public Debt facilities, such as replacing constant speed motors with variable frequency drive motors and water conservation projects, are also under consideration.

Another priority receiving attention at Public Debt is telework. The current program is undergoing significant changes. Only a small number of employees currently participate in telework and the degree to which those employees work from home is minimal. Policy and process changes will be implemented to increase participation and improve the quality of the program. A greater variety of telework schedules will be offered based on job duties and needs.

By expanding the use of telework, Public Debt will gain several advantages including increased employee morale and satisfaction and a greater ability to operate during an emergency or other office closure. In addition, Public Debt hopes to avoid the costs associated with increased space requirements. Under consideration is the concept that teleworkers on expanded or full schedules will not have dedicated workstations, thus reducing the amount of space needed.

Overall, the total resources required to support Public Debt activities in FY 2012 are $198,035,000, including $173,635,000 from direct appropriations, of which $8,000,000 are user fees, and $24,400,000 are from offsetting collections.

With its resources, Public Debt:

- Conducts more than 290 marketable securities auctions annually, resulting in the issuance of approximately $8.5 trillion in Treasury bills, notes, bonds and TIPS;
- Administers 233 funds in excess of $4 trillion in Government Account Series investments, which amounts to approximately 37 percent of the public debt;
- Manages some 5,000 active SLGS securities accounts valued at nearly $195 billion;
- Serves more than 50 million retail customers holding marketable and savings securities, including over 300,000 funded investor accounts in the internet-accessed TreasuryDirect system;
- Accounts for and reports on $972 billion in federal agency borrowings from Treasury in 86 funds;
- Accounts for and reports on the balance and composition of more than $13 trillion in public debt, the single largest liability on the federal government’s balance sheet, and reconciles more than $107 trillion annually in securities transactions reported from numerous systems to cash flowing in and out of the federal government each year; and
- Receives unqualified audit opinions on the *Schedules of Federal Debt* annually.

1B – Program History and Future Outlook

Public Debt continues to enhance the mechanisms for participation by a wide range of investors in its wholesale, government agency investment services and retail programs.

Over the years, the bureau has dramatically reduced the time required to complete marketable securities auctions. Results are consistently released within two minutes, plus or minus 30 seconds, of the closing of the competitive auction. In addition, non-competitive results are released 15 minutes prior to competitive close. Treasury has effectively reduced the time that bidders are exposed to market risk or adverse market movements by consistently releasing flawless auction results within the two minute window.

TAAPS fully automates the announcement, auction, and issuance of marketable securities. At the same time, TAAPS provides speed and flexibility to Treasury debt managers in bringing new types of securities to market (e.g., the 30-year TIPS bond) and implementing policy changes in a timely manner. By eliminating manual processes, the system supports error-free auction results and greatly reduces operational risk. Public Debt continues to upgrade TAAPS to keep pace with changes in technology and security requirements.

By reducing the number of common business processes, Public Debt continues its commitment to provide efficient mechanisms for federal investments, special purpose securities and federal borrowings. Common business processes supporting GAIS are funds management, investment accounting, standard reporting, customer interface, enhanced reporting and account maintenance.

Public Debt will provide its customers with the assistance they need to manage their federal investments, special purpose securities and federal borrowings effectively and efficiently as possible. One of the ways this will be accomplished is through education, periodic seminars and orientation for new customers to ensure they understand and can take full advantage of Public Debt's systems and services.

Additionally, when Treasury introduces new instruments or changes existing instruments available for federal agency investment, Public Debt will assist its customer agencies in understanding these changes. As new legislation is enacted or business processes change, the bureau will support federal agencies' implementation of these modifications.
Public Debt will also support Treasury's initiative to standardize legislation for all new investment funds by actively promoting Treasury's preferred language to drafters of proposed investment legislation. This effort will eliminate operational challenges when legislation establishing investment authority for a new fund is vague or inconsistent.

The retail program supports Treasury's High Priority Performance Goal to significantly increase the number of paperless transactions with the public by ending the sale of paper savings bonds through employer-sponsored payroll savings plans by January 1, 2011 and eliminating new issues of paper savings bonds sold over-the-counter financial institutions. This will virtually eliminate new issues of paper savings bonds. Public Debt will encourage investors to use TreasuryDirect as their preferred way of buying and holding savings bonds.

Delivering a high-quality customer experience through efficient and effective processes remains a key goal for the retail program. In FY 2012, Public Debt will streamline how it processes customer service correspondence (i.e., printed forms and letters) by centralizing print and mail functions and by using intelligent barcodes. At the same time, using intelligent barcodes along with existing scanning capabilities will create efficiencies in routing correspondence returned by customers to appropriate service representatives. Public Debt will also enhance its telephone access and interactive voice response architecture.

The retail program also strives to efficiently maintain Public Debt's legacy retail systems. In the next few years, the Federal Reserve will move away from mainframe application hosting. To avoid substantial hosting costs, Public Debt will decommission its Legacy Treasury Direct application, and it will no longer exist in its current mainframe environment. Public Debt will implement a solution that makes technical as well as business and financial sense.

Public Debt continues to work to improve the clarity, usefulness and availability of federal debt information. The bureau will work to modernize its system used for public debt accounting by migrating common financial information to a shared service solution and continuing to define requirements to reengineer business processes that best support the needs of the Summary Debt Accounting program. This approach will offer many benefits in terms of a faster migration of new or modified functionality and reduced operational risks, while standardizing system, business and data elements.

Although not supported by appropriated funding, Public Debt’s franchise program represents a significant part of the business and staff resources of the organization. As a recognized Shared Service Provider (SSP) in several business lines, the Administrative Resource Center (ARC) provides financial management, administrative support and information technology services to federal agencies, generating revenue to pay all organizational expenses. Because of the quality of the services provided, the depth and breadth of services provided to customers has grown. The vision of allowing agencies to focus on mission-related activities, while gaining efficiencies and increasing standardization through the use of SSPs is being realized. During FY 2011, ARC expects to use 1,012 FTE to service more than 70 customers and generate $165 million in offsetting collections. In FY 2012, ARC projects offsetting collections of $245 million.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Bureau of the Public Debt	FTE	Amount
FY 2010 Enacted	**1,042**	**$192,244**
FY 2011 Annualized CR Level	**1,042**	**$192,244**
Changes to Base:		
Adjustment to Reach Policy Level:	(33)	($7,458)
Adjustment to Reach FY 2011 President's Policy	(33)	($7,458)
Maintaining Current Levels (MCLs):	-	$1,234
Maintaining Current Levels	-	$1,234
Efficiencies, Savings & Base Reductions:	(42)	($20,385)
Eliminate Paper Savings Bonds Sold Over-the-Counter at Financial Institutions	-	($6,451)
Eliminate new issues of paper payroll savings bonds by 1/1/2011	(12)	($5,700)
Program and Support Services Efficiencies	(18)	($5,464)
Data Centers Consolidation	-	($470)
Decommission Legacy Treasury Direct System	(12)	($1,650)
Procurement Savings	-	($650)
Subtotal FY 2012 Changes to Base	(75)	($26,609)
Total FY 2012 Base	**967**	**$165,635**
Program Changes:		
Program Decreases:	-	($2,000)
Reduction to Systems Modernization Fund	-	($2,000)
Program Increases:	20	$10,000
Do Not Pay Implementation	20	$10,000
Subtotal FY 2012 Program Changes	20	$8,000
Total FY 2012 Request	**987**	**$173,635**
User Fees	-	($8,000)
Total FY 2012 Request (Net)	**987**	**$165,635**

2A – Budget Increases and Decreases Description

Adjustment to Reach Policy Level ....-$7,458,000 / -33 FTE

Adjustment to Reach FY 2011 President's Policy -$7,458,000 / -33 FTE

Adjustment to Reach FY 2011 President's Policy

Maintaining Current Levels (MCLs) ....+$1,234,000 / +0 FTE

Maintaining Current Levels +$1,234,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings & Base Reductions ....-$20,385,000 / -42 FTE

Eliminate Paper Savings Bonds Sold Over-the-Counter at Financial Institutions no later than December 31, 2011 -$6,451,000 / +0 FTE

Eliminate new issues of paper savings bonds. Savings of agent fees, postage and printing by eliminating new issues of over-the-counter paper savings bonds.

Eliminate new issues of paper payroll savings bonds by 1/1/2011 -$5,700,000 / -12 FTE

Savings of agent fees, postage and printing by eliminating new issues of paper payroll savings bonds and FTE savings from a decline in customer service transactions after new issues of paper payroll bonds are eliminated.

Program and Support Services Efficiencies -$5,464,000 / -18 FTE
Savings realized from reductions in funded positions across all Public Debt programs and in administrative and IT support services. In addition, to increase operational efficiencies and reduce operating expenses, Public Debt will centralize its printing, duplicating and scanning activities.

Data Center Consolidation -$470,000 / +0 FTE
Public Debt, along with the Financial Management Service, will consolidate five data centers to two, which will produce savings due to reductions in energy consumption, equipment, software, and staff. As a result of the Data Center Consolidation, Public Debt projects savings of $470,000.

Decommission Legacy Treasury Direct System -$1,650,000 / -12 FTE
Established in 1986, Legacy Treasury Direct allows marketable securities investors to do business by mail and, to a certain extent, through an automated phone system or online. Now that marketable securities are available in TreasuryDirect, an online account system, Public Debt can decommission the aging Legacy system.

Procurement Savings -$650,000 / +0 FTE
Cost savings by streamlining procurement operations and reducing procurement spending.

Program Decreases .... -$2,000,000 / +0 FTE
Reduction to Systems Modernization Fund -$2,000,000 / +0 FTE
Savings due to elimination of BPD's Systems Modernization fund.

Program Increases .... +$10,000,000 / +20 FTE
Do Not Pay Implementation +$10,000,000 / +20 FTE
Expand the Do Not Pay Portal and increase analytical capabilities to detect fraud patterns and reduce improper payments.

Adjustments to Request User Fee .... -$8,000,000 / +0 FTE
User Fees -$8,000,000 / +0 FTE
For $100 account maintenance fees that Public Debt charges to account holders in the Legacy Treasury Direct system with an account balance of more than $100,000 in par value.
Public Debt projects that in FY 2012 there will be fewer users of this system that will be subject to maintenance fees.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau of the Public Debt	FY 2010 Enacted	FY 2011 Annualized CR Level	Proposed Reprogrammings	FY 2011 Proposed Operating Level	FY 2012 Request
FTE	**1,042**	**1,042**	**-**	**1,042**	**987**
Object Classification					
11.1 - Full-time permanent	$71,974	$65,981	$0	$65,981	$64,595
11.3 - Other than full-time permanent	$525	$533	$0	$533	$533
11.5 - Other personnel compensation	$2,474	$2,151	$0	$2,151	$2,151
11.8 - Special personal services payments	$0	$32,956	$0	$32,956	$32,956
12 - Personnel benefits	$18,874	$19,984	$0	$19,984	$19,950
13 - Benefits for former personnel	$40	$30	$0	$30	$30
21 - Travel and transportation of persons	$1,278	$1,017	$0	$1,017	$1,132
22 - Transportation of things	$79	$86	$0	$86	$91
23.1 - Rental payments to GSA	$10,605	$9,452	$0	$9,452	$15,299
23.2 - Rental payments to others	$7	$2	$0	$2	$2
23.3 - Communication, utilities, and misc charges	$9,946	$10,010	$0	$10,010	$4,952
24 - Printing and reproduction	$1,508	$1,859	$0	$1,859	$935
25.1 - Advisory and assistance services	$94	$95	$0	$95	$1,987
25.2 - Other services	$15,153	$15,332	$0	$15,332	$11,844
25.3 - Other purchases of goods and services from Govt. accounts	$55,941	$28,609	$0	$28,609	$13,417
25.4 - Operation and maintenance of facilities	$979	$991	$0	$991	$896
25.6 - Medical care	$15	$15	$0	$15	$13
25.7 - Operation and maintenance of equip	$355	$360	$0	$360	$265
26 - Supplies and materials	$1,683	$1,818	$0	$1,818	$1,757
31 - Equipment	$576	$813	$0	$813	$687
32 - Land and structures	$138	$148	$0	$148	$143
42 - Insurance claims and indemnities	$0	$2	$0	$2	$0
Total Budget Authority	**$192,244**	**$192,244**	**$0**	**$192,244**	**$173,635**
Budget Activities					
Wholesale Securities Services	$24,396	$25,049	$0	$25,049	$23,120
Government Agency Investment Services	$18,013	$16,706	$0	$16,706	$15,419
Retail Securities Services	$139,569	$140,915	$0	$140,915	$116,260
Summary Debt Accounting	$10,266	$9,574	$0	$9,574	$8,836
Do Not Pay Implementation	$0	$0	$0	$0	$10,000
Total Budget Authority	**$192,244**	**$192,244**	**$0**	**$192,244**	**$173,635**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2010 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Wholesale Securities Services	133	$24,912	132	$24,396	136	$25,049	129	$23,120	-2.27%	-5.23%
Government Agency Investment Services	91	17,058	98	18,013	91	16,706	86	15,419	-12.24%	-14.40%
Retail Securities Services	680	127,940	756	139,569	763	140,915	703	116,260	-7.01%	-16.70%
Summary Debt Accounting	52	9,832	56	10,266	52	9,574	49	8,836	-12.50%	-13.93%
Do Not Pay Implementation							20	10,000	100.00%	100.00%
Subtotal New Appropriated Resources	**956**	**$179,742**	**1,042**	**$192,244**	**1,042**	**$192,244**	**987**	**$173,635**	**-5.28%**	**-9.68%**
Other Resources:										
Offsetting Collections - Reimbursable		21,425		21,425		20,815		24,400	0.00%	13.89%
User Fees		6,441								
Available multi-year/no-year funds		968		2,988		4,000				
Subtotal Other Resources	**0**	**$28,834**	**0**	**$24,413**	**0**	**$24,815**	**0**	**$24,400**	**0.00%**	**-0.05%**
Total Resources Available for Obligation	**956**	**$208,576**	**1,042**	**$216,657**	**1,042**	**$217,059**	**987**	**$198,035**	**-5.28%**	**-8.60%**

New Appropriated Resources for FY 2010 and FY 2011 include $10,000,000 in projected user fee collections.
New Appropriated Resources for FY 2012 include $8,000,000 in projected user fee collections.

2B – Appropriations Language and Explanation of Changes

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, $173,635,000, of which not to exceed $2,500 shall be available for official reception and representation expenses, and of which $10,000,000 shall remain available until September 30, 2014, for the Do Not Pay portal initiative: Provided, That the sum appropriated herein from the general fund for fiscal year 2012 shall be reduced by not more than $8,000,000 as definitive security issue fees and Legacy Treasury Direct Investor Account Maintenance fees are collected, so as to result in a final fiscal year 2012 appropriation from the general fund estimated at $165,635,000. In addition, $165,000 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. 1389, 1394 (1990), established a permanent indefinite appropriation to pay such sums as necessary to reimburse the Federal Reserve Banks for acting as fiscal agents. A permanent indefinite account was established in FY 1992. Claims for reimbursements 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). Funding for FY 2012 is estimated at $126,100,000.

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 2012, the funding estimated to support payments for the replacement of valuables is $800,000.

2C – Legislative Proposals

Public Debt has no legislative proposals for FY 2012.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2012 Request	% Change FY10 to FY12
Accurate, timely, useful, transparent and accessible financial information	11,410	10,611	10,052	-11.90%
Government financing at the lowest possible cost over time	202,259	202,448	187,983	-7.06%
Total	**$213,669**	**$213,059**	**$198,035**	**-7.32%**

FY 2010 and FY 2011 total includes $10,000,000 in projected user fee collections.
FY 2012 total includes $8,000,000 in projected user fee collections.

3A - Wholesale Securities Services *($23,120,000 from direct appropriations, and $3,179,000 from reimbursable programs):* The Wholesale Securities Services (WSS) program is responsible for the announcement, auction, issuance and settlement of marketable Treasury bills, notes, bonds and TIPS. In FY 2010, Public Debt conducted more than 290 auctions resulting in the issuance of more than $8 trillion in marketable securities. WSS also oversees that portion of the Fedwire Securities Services infrastructure that provides for the transfer, custody and redemption of all Treasury marketable securities, which are purchased mostly by commercial market participants.

As one of the federal government's Primary Mission Essential Functions, Wholesale Securities Services ensures communications, systems, processes and contingency plans provide for high level performance and business continuity for wholesale auction operations. The program is an essential function which enables the federal government to finance government operations and programs, including the Financial Stability Plan.

In February 2010, Public Debt resumed debt issuance for the Federal Reserve's Supplementary Financing Program (SFP), to restore the balance to levels maintained between February and September 2009. The SFP is one of the programs developed in the midst of the economic disruption of 2008. Designed to support Federal Reserve initiatives to address liquidity pressures in the financial market, the program consists of a series of Treasury bills, in addition to Treasury's borrowing program.

Another major component of this program is the commercial book entry system, which holds approximately $7.2 trillion, or 99 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 trillion per day in Treasury securities are transferred among account holders in the commercial book-entry system.

On behalf of Treasury, Public Debt administers regulations that provide investor protection and maintain the integrity, liquidity and efficiency of the secondary market for government securities under the Government Securities Act of 1986, as amended. Public Debt also administers Treasury's auction and buyback regulations, and monitors for compliance with Treasury's auction rules. As part of this program, the bureau identifies collateral that can be pledged to the federal government to secure public monies on deposit at financial institutions and ensure that this collateral is valued appropriately.

Public Debt also evaluates its business processes for ways to enhance reporting capabilities, strengthen system security and contingency plans that are aimed at mitigating risk for the Treasury and its auction participants. Such safeguards effectively guarantee continuous operational readiness in order to meet its primary objective of borrowing at the lowest cost over time. Treasury will continue to seek opportunities in U.S. and global markets, to better serve holders of its securities and share information to further the understanding of the Treasury auction process, debt financing policies and securities.

Other Resources:
Reimbursements totaling $3,179,000 are allocated to this program for providing administrative support to Public Debt's franchise operation.

3.2.1 Wholesale Securities Services Budget and Performance Plan

Wholesale Securities Services Budget Activity

Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$21,350	$23,444	$24,396	$25,049	$23,120
Reimbursable Resources	$1,494	$2,821	$2,719	$2,712	$3,179
Total Resources	**$22,844**	**$26,265**	**$27,115**	**$27,761**	**$26,299**
Budget Activity Total	**$22,844**	**$26,265**	**$27,115**	**$27,761**	**$26,299**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Cost Per Debt Financing Operation ($) (E)	220,732	170,214	162,378	161,726	172,979
Percent of Auction Results Released in Two Minutes +/- 30 Seconds (%) (Oe)	100.0	100.0	100.0	100.0	100.0
Percent of Primary Dealers that submit live bids from their disaster recovery site on two separate auction dates (%) (Ot)	N/A	N/A	78.0	70.0	90.0

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

Description of Performance: The cost per debt financing operation is estimated at $161,726 in FY 2011 and $172,979 in FY 2012. For FY 2012, the new calculation of the cost per item is based upon a five-year rolling average volume to limit exogenous factors impacting this measure and establish more meaningful reporting. Cost increases in the cost per debt financing operation are primarily due to scheduled upgrades to the TAAPS system to keep pace with changes in technology that will ensure financing operations are conducted timely and with 100 percent accuracy and to improve the availability of auction-related data for Treasury's debt managers.

Public Debt continues to achieve its target of releasing auction results within two minutes, plus or minus 30 seconds, 100 percent of the time.

Public Debt has implemented a strategic plan with primary dealers for contingency auction processing. The plan outlines various operational tests and events that strengthen overall readiness to deal with contingencies and ensure the continuity of the auction process. In FY 2009, the bureau exceeded its target of 10 percent of all primary dealers participating in a live auction from their respective disaster recovery sites. To further improve performance, Public Debt developed a new long-term goal which states that 90 percent of primary dealers will submit live bids from their disaster recovery sites on two separate auction dates in FY 2012.

3B - Government Agency Investment Services *($15,419,000 from direct appropriations, and $2,121,000 from reimbursable programs):* The Government Agency Investment Services (GAIS) program includes the offering of specialized investments for government entities at the federal, state and local levels, as well as borrowings by federal agencies. This program consists of three distinct components: Federal Investments, Special Purpose Securities and Federal Borrowings.

The Federal Investments component includes issuing, servicing and redeeming Government Account Series securities for federal agencies that have specific statutory authority to invest. Federal agencies hold 233 trust and investment funds that total more than $4 trillion in investments, which is over one third of the total public debt outstanding. These special, nonmarketable Treasury securities include such items as the 18 trust funds in which the Secretary of the Treasury, designated by statute, is the managing trustee. 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.

Special Purpose Securities include issuing, servicing and redeeming a variety of special purpose securities including Treasury's State and Local Government Series (SLGS) securities, which offer a flexible investment alternative for state and local governments to refinance their outstanding, tax-exempt debt. At nearly $195 billion, the SLGS program is critical for the more than 5,000 state and local government entities that use these securities to help comply with provisions of the Internal Revenue Code.

Federal Borrowings accounts for and reports on the principal borrowings from and repayments to Treasury for 86 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 approximately $972 billion in loans and loan guarantees.

Public Debt's services in the GAIS program directly help customers produce timely and accurate financial information contributing 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 Internal Revenue Service requirements related to the issuance of tax-exempt securities.

Other Resources:
Reimbursements totaling $2,121,000 are allocated to this program for providing administrative support to Public Debt’s franchise operation.

3.2.2 Government Agency Investment Services Budget and Performance Plan

Government Agency Investment Services Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$15,445	$17,702	$18,013	$16,706	$15,419
Reimbursable Resources	$4,279	$2,130	$2,008	$1,809	$2,121
Total Resources	**$19,724**	**$19,832**	**$20,021**	**$18,515**	**$17,540**
Budget Activity Total	**$19,724**	**$19,832**	**$20,021**	**$18,515**	**$17,540**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Cost Per Government Agency Investment Services Transaction ($) (E)	64.98	41.71	82.08	86.18	33.31
Number of Government Agency Investment Services Control Processes Consolidated (Oe)	2.0	0.0	5.0	0.0	2.0
Percent of Respondents Selecting the Highest Rating of Customer Satisfaction with Government Agency Investment Services (%) (Oe)	N/A	N/A	55.0	56.0	57.0

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

Description of Performance: Public Debt established a long-term goal to reduce the number of systems used to support GAIS. This will streamline the diversity of technology and allow the bureau to consolidate and standardize internal controls over GAIS processes. The control environment originally consisted of 18 processes in 2006 that will be transformed into six standardized processes by FY 2012. The six processes include funds management, investment accounting, standard reporting, customer interface, enhanced reporting and account maintenance. Consolidating the systems that house GAIS data into a single, integrated control environment now provides one location for all investment activities, which will reduce operational risks, while standardizing system, business and data elements. In FY 2012, the eight remaining processes will be reduced to six standardized processes.

The cost per GAIS transaction was projected to be $86.18 for FY 2011. For FY 2012, the calculation of the cost per item volumes will change to a summary level indicator that better presents all of Government Agency Investment Services and is based upon a five- year rolling average volume. This new measure is a direct result of the GAIS program recognizing the benefit of streamlining and standardizing common business processes for all components of the proposed measure. Even though Federal Funds Investments is the largest component of GAIS, from a "unified" program perspective, it is more meaningful to the program managers to include all components of GAIS into the reported cost per item calculation. The new consolidated GAIS cost per transaction for FY 2012 is $33.31.

Public Debt established a goal to provide high quality customer satisfaction for GAIS. In FY 2010, the bureau conducted an initial customer survey to focus on program and system satisfaction, set a baseline, and identified opportunities for improvement in the future. This GAIS measurement supports an objective to provide quality customer service, transaction processing, and accurate and timely payments to investors.

3C - Retail Securities Services *($116,260,000 from direct appropriations, including $8,000,000 from user fee collections, and $17,884,000 from reimbursable programs):* Public Debt's Retail Securities program serves more than 50 million retail customers who have invested in marketable and savings securities directly with Treasury. Investors may hold these securities in book-entry or paper form.

The retail program will eliminate new issues of paper savings bonds sold over-the-counter at financial institutions no later than December 31, 2011. By January 1, 2011, new issuance of paper payroll bonds will have ended. Public Debt will continue to encourage investors to move to TreasuryDirect as their preferred way of buying and holding savings bonds. Efforts to transition customers will be educational, such as financial literacy programs that target customers not yet accustomed to conducting financial transactions online.

In FY 2012, the retail program will continue focusing on delivering a high-quality customer experience. Public Debt will streamline how it processes customer service correspondence (i.e., printed forms and letters) by centralizing print and mail functions and by using intelligent barcodes. Centralized printing and mailing of outgoing correspondence will take advantage of postal presort rates. At the same time, using intelligent barcodes along with existing scanning capabilities will create efficiencies in routing correspondence returned by customers to appropriate service representatives. Public Debt will also enhance its telephone access and interactive voice response architecture. Through these changes, Public Debt will be able to respond to retail securities customers more quickly and thoroughly.

Other Resources:
Offsetting collections totaling $8,000,000 are collected for Legacy Treasury Direct Investor Account maintenance fees. In addition, $17,884,000 in reimbursements are allocated to this program for providing administrative support to Public Debt's franchise operation.

3.2.3 Retail Securities Services Budget and Performance Plan

Retail Securities Services Budget Activity					
Resource Level	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Obligated**	**FY 2011 Annualized CR Level**	**FY 2012 Request**
Appropriated Resources	$127,079	$127,909	$139,569	$140,915	$116,260
Reimbursable Resources	$9,006	$15,393	$15,554	$15,257	$17,884
Total Resources	**$136,085**	**$143,302**	**$155,123**	**$156,172**	**$134,144**
Budget Activity Total	**$136,085**	**$143,302**	**$155,123**	**$156,172**	**$134,144**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Cost Per TreasuryDirect Assisted Transaction ($) (E)	8.19	8.72	8.23	7.95	6.86
Cost Per TreasuryDirect Online Transaction ($) (E)	4.34	5.21	6.12	5.46	4.16
Percentage of Retail Customer Service Transactions Completed within 5 Business Days (%) (Ot)	N/A	86.0	92.7	87.0	87.0

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

Description of Performance: Although TreasuryDirect promotes investor self-sufficiency, there are times when assistance from a customer service representative is necessary. Representatives handle phone and email inquiries, offline authentication forms processing, conversions, changes in bank information and transactions requiring legal evidence. One of the performance measures of the retail program is the cost per TreasuryDirect assisted transaction, which is projected at $7.95 in FY 2011 and $6.86 in FY 2012.

In the internet-accessed TreasuryDirect system, investors can set up accounts, purchase electronic securities, and manage their holdings, without customer assistance. Since investors have self-service capability, Public Debt also tracks the cost of online transactions. The cost per TreasuryDirect online transaction is projected at $5.46 in FY 2011 and $4.16 in FY 2012.

The drop in the cost per transaction in FY 2012 for assisted and online transactions is a result of an increase in projected volumes as customers are expected to transition to TreasuryDirect from employer-sponsored paper savings bond payroll plans and from the Legacy Treasury Direct system.

Public Debt projects to complete 87 percent of time-sensitive retail customer service transactions within five business days in FY 2012. Transactions include answering phone and email inquiries, processing payments or changes to payment instructions, and handling TreasuryDirect requests. The goal will be achieved by continually streamlining work processes and increasing the volume of electronic business transactions.

3D - Summary Debt Accounting *($8,836,000 from direct appropriations, and $1,216,000 from reimbursable programs):* The Summary Debt Accounting program is key to meeting Public Debt's responsibility to annually account for more than $13 trillion of public debt and nearly $400 billion in related interest expense incurred to finance the operations of the federal government. This program provides the overarching control structure for dozens of subordinate securities systems and reconciles more than $107 trillion annually of securities transactions and related cash flows handled by these subsystems. These cash flows represent funds received from the sale of securities and funds disbursed as interest and principal payments.

The program produces daily reports on the balances and composition of the public debt, the *Monthly Statement of the Public Debt*, and the annual, audited *Schedules of Federal Debt*, which reports on the single largest liability in the annual *Financial Report of the United States Government.* For each year an audit has been conducted, Public Debt has received an unqualified opinion on the *Schedules of Federal Debt.*

Public Debt is currently engaging in a thorough reengineering of Summary Debt Accounting business processes. This effort will redefine many reporting requirements, responsibilities and informational needs, produce more consistent processes across the board, drive improvements in the subsidiary reporting systems and ultimately create greater efficiency within the debt accounting programs at the summary and subsidiary levels.

While the Public Debt Accounting and Reporting System currently accounts for the public debt of the United States, this investment is nearing the end of its useful life. In response, the bureau is seeking a shared-service solution to meet its current and future accounting responsibilities for the Summary Debt Accounting program. This approach offers many benefits including faster migrations of new or modified functionality and reduced operational risks.

Other Resources:
Reimbursements totaling $1,216,000 are allocated to this program for providing administrative support to Public Debt’s franchise operation.

3.2.4 Summary Debt Accounting Budget and Performance Plan

Summary Debt Accounting Budget Activity					
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$6,793	$7,081	$10,266	$9,574	$8,836
Reimbursable Resources	$475	$852	$1,144	$1,037	$1,216
Total Resources	**$7,268**	**$7,933**	**$11,410**	**$10,611**	**$10,052**
Budget Activity Total	**$7,268**	**$7,933**	**$11,410**	**$10,611**	**$10,052**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Cost Per Summary Debt Accounting Transaction ($) (E)	9.11	8.66	11.28	15.50	14.95
Percent of Summary Debt Accounting business processes restructured or eliminated (%) (Oe)	N/A	N/A	6.0	6.0	6.0

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

Description of Performance: Public Debt tracks the cost per transaction of performing summary debt accounting, which includes reporting all financial activity related to the public debt of the United States. Issues, redemptions and interest payments on the public debt must be accounted for to calculate the amount of debt outstanding and interest paid. The bureau projects the cost per summary debt accounting transaction to be $15.50 in FY 2011 and $14.95 in FY 2012. For FY 2012, the calculation of the cost per item is based upon a five-year rolling average volume in order to limit exogenous factors impacting this measure and establish more meaningful reporting. The projected cost per summary debt accounting transaction is escalating over FY 2010 as a result of inflation, increased support charges and the development costs to redefine and modernize the Summary Debt Accounting environment. In FY 2012, the bureau will restructure or eliminate six percent of the business processes that support Summary Debt Accounting.

Public Debt established a long term goal to migrate Summary Debt Accounting to a shared service solution by FY 2013. The measurement of this goal is the percent of Summary Debt Accounting business processes restructured or eliminated.

3E - Do Not Pay Implementation *($10,000,000 from direct appropriations):* In June 2010, a Presidential Memorandum (*Enhancing Payment Accuracy Through a "Do Not Pay List"*) established the creation of a comprehensive Do Not Pay List against which agency payments could be cross-checked to prevent ineligible recipients from receiving payments from the federal government. To make this list more beneficial, VerifyPayment.Gov has been created to serve as a one-stop-shop for agencies. The Bureau of the Public Debt has been given responsibility for maintaining and expanding VerifyPayment.Gov. Additionally, Public Debt will work with the

Recovery Accountability and Transparency Board, to support an operations center to analyze fraud patterns and refer potential issues to agency management.

3.2.5 Do Not Pay Implementation Budget and Performance Plan

Do Not Pay Implementation Budget Activity

Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$0	$0	$0	$0	$10,000
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$0**	**$0**	**$10,000**
Budget Activity Total	**$0**	**$0**	**$0**	**$0**	**$10,000**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Performance Measures Not Yet Created	N/A	N/A	N/A	N/A	N/A

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

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Public Debt's employees are its greatest asset and investment in the workforce is crucial. The bureau is recognized throughout the local and surrounding communities as a values-based employer where candidates want to work and employees want to stay. According to the report, *Best Places to Work in the Federal Government 2010*, the bureau ranked 6thth out of 224 federal agencies subcomponents. Additionally, Public Debt has consistently improved its overall score in every *Best Places to Work in the Federal Government* survey over the last five years.

As a values-based organization, Public Debt understands the benefits telework provides for enhancing employee morale. Telework has the potential to increase employee productivity and provides employees an additional method for balancing work and home life. Moreover, it has the added benefits of increasing the recruitment of new employees, retaining the current workforce and potentially cutting down on employee absences.

To ensure essential business functions are maintained during office closures due to weather-related situations or other emergency events, telework will be integrated into continuity of operations plans as an alternative way of conducting business. Several offices are piloting telework on a trial basis to ensure functionality of systems in the event of a real-world disaster.

Public Debt moved to a performance-based management system for non-supervisory, non-bargaining unit employees at the end of December 2008. The new appraisal system is aligned with Public Debt's strategic and annual performance plans. In December 2009, the bureau successfully completed the bargaining process to move the remaining non-supervisory employees to the same system. The date to transition bargaining unit employees is pending.

The use of statistical analysis continues to be a crucial part of workforce planning and deployment. Through FY 2015, 37 percent of Public Debt's permanent employees will be eligible for optional retirement. Thanks to the bureau's standing as an employer of choice and the large pool of highly qualified candidates in the local community, Public Debt can address the anticipated retirements successfully.

A closer analysis of the retirement data reveals 62 percent of Senior Executive Services (SES) level employee will be eligible to retire during the same period. Public Debt's SES Candidate Development Program concluded in March 2010, at which time, candidates applied for SES certification. The candidates, once certified, will be eligible for noncompetitive appointments in the Senior Executive Service. By planning ahead, the bureau will be able to counteract the potential impact of future SES retirements.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments Major IT Investments / Funding Source	Budget Activity	Restated [2/] FY 2009 Enacted	Restated [2/] FY 2010 Enacted	% Change from FY09 to FY10	FY 2011 Annualized CR Level	% Change from FY10 to FY11	FY 2012 Request	% Change from FY10 to FY12
Government Agency Investment Services	Government Agency Investment Services	$5,493	$3,759	-31.6%	$4,269	13.6%	$4,338	15.4%
Summary Debt Accounting Services	Summary Debt Accounting	$2,030	$2,091	3.0%	$5,537	164.8% [3/]	$5,721	173.6%
Wholesale Securities Services	Wholesale Securities Services	$31,725	$34,664	9.3%	$29,344	-15.3%	$29,152	-15.9%
Subtotal: Administering the Public Debt		*$11,562*	*$12,252*	*6.0%*	*$6,520*	*-46.8%* [4/]	*$5,022*	*-59.0%* [4/]
Subtotal: Reimbursements to Federal Reserve Banks		*$20,163*	*$22,412*	*11.2%*	*$22,824*	*1.8%*	*$24,130*	*7.7%*
Retail Securities Services	Retail Securities Services	$18,698	$19,108	2.2%	$57,518	201.0%	$59,082	209.2%
Subtotal: Administering the Public Debt		*$18,698*	*$19,108*	*2.2%*	*$24,139*	*26.3%*	*$24,236*	*26.8%*
Subtotal: Reimbursements to Federal Reserve Banks		*$0*	*$0*	*0.0%*	*$33,379* [5/]	*100.0%*	*$34,846* [5/]	*100.0%*
Subtotal, Major IT Investments		$57,946	$59,622	2.9%	$96,668	62.1%	$98,293	64.9%
Non-Major IT Investments		$1,784	$1,840	3.1%	$1,945	5.7%	$2,094	13.8%
Infrastructure Investments		$0	$0	0.0%	$0	0.0%	$0	0.0%
Enterprise Architecture		$0	$0	0.0%	$0	0.0%	$0	0.0%
Total IT Investments		$59,730	$61,462	2.9%	$98,613	60.4%	$100,387	63.3%

1/ Crosswalk of Portfolio Changes:

Prior Year Submissions		2012 Submission
Government Agency Investment Services System (GAISS)	Renamed. . .	Government Agency Investment Services
Public Debt Accounting and Reporting System (PARS)	Renamed. . .	Summary Debt Accounting Services
SaBRe	Consolidated to . . .	Retail Securities Services
Treasury Automated Auction Processing System (TAAPS)	Renamed. . .	Wholesale Securities Services
TreasuryDirect	Consolidated to . . .	Retail Securities Services
Non-Majors IT Investments (Admin Support, Transaction Support, Program & Mgmt Support)	Consolidated to . . .	Retail Securities Services and Bureau-wide Services
Infrastructure Investments	Moved to. . .	Treasury Franchise Fund Budget Submission
Enterprise Architecture	Moved to. . .	Treasury Franchise Fund Budget Submission

2/ Prior years restated for comparison to FY 2012.

3/ SDAS investment increase represents development work to redefine and modernize the debt accounting environment to ensure the collection, verification, and dissemination of all debt accounting information is accurate, appropriate, flexible, and standardized. While increasing governance, the project will maintain SDA's ability to account for and report on the public debt and related interest costs, and to establish and maintain reporting requirements and accounting procedures and controls.

4/ WSS investment reduction does not result in WSS program savings. Program operations costs were included as investment costs in prior years. In FY 2011 and 2012, program operations costs are removed from the investment baseline, but are still incurred as program operations costs.

5/ Represents share of reimbursements to Federal Reserve Banks for IT systems and services performed. Formerly recognized as program costs, starting in FY 2011, they are appropriately captured as IT costs.

Additional Note: The Oracle e-Business Suite is captured in the Franchise Financial and Administrative Services (FFAS) investment and is included in the Treasury Franchise Fund Budget Submission.

4B – Information Technology Strategy

Information Technology (IT) Resource Planning and Strategic Alignment

To ensure the success of Public Debt's mission at the lowest cost to the taxpayer, the bureau continues to strengthen its strategic planning processes to make the best possible use of resources, including IT. Public Debt created its Enterprise Architecture Group to promote strategic alignment across the Public Debt enterprise, optimize business processes by promoting an appropriate diversity and reuse of technology solutions and expose strategic planners to information that enables informed decisions.

With this budget submission, Public Debt unveiled a completely restructured IT investment portfolio, better aligning budget activities and programs. By aligning with budget activities and Enterprise Architecture, the Capital Planning and Investment Control and budget process integration provided a structured approach for long-range strategic planning and efficient management of the IT portfolio and its resources. Managers will have complete visibility into and greater control over IT spending within their respective programs.

Modern and Secure Technical Environment

The IT strategy embraces a modern and secure technical environment to support Public Debt's programs, workforce, and customers. Public Debt's software engineering framework will leverage open source technologies. Public Debt will expand its virtual infrastructure and will leverage virtual technologies in the delivery of end user services. Furthermore, social media technologies and data services (for both structured and unstructured data) will be available for use in a secure manner as a productive means of business collaboration.

Data Centers Consolidation

In late 2009, the Office of the Fiscal Assistant Secretary asked the Commissioners of the Financial Management Service (FMS) and the Bureau of the Public Debt to assess where improvements could be made in the efficiency and effectiveness of IT infrastructures. As a result, FMS in partnership with Public Debt initiated a project to consolidate the data centers across the two bureaus to help achieve the Secretary's objective of increasing the utilization and efficiency of combined IT assets, while reducing technology costs. This effort includes consolidation of five data centers into two shared by both bureaus with one acting as a back-up to the other, creation of a single corporate governing body, in-sourcing of select contractor functions, consolidation of application development methodologies and associated infrastructure, and importantly results in a more "green" approach to delivery of IT services. In FY 2012, Public Debt expects total net cost savings of $470,000.

Internal Revenue Service

Mission Statement

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriations Internal Revenue Service	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request	FY 2012 $ Change	%
Taxpayer Services	$2,278,830	$2,278,830	$2,345,133	$66,303	2.91%
Enforcement	5,504,000	5,504,000	5,966,619	462,619	8.41%
Operations Support	4,083,884	4,083,884	4,620,526	536,642	13.14%
Business Systems Modernization	263,897	263,897	333,600	69,703	26.41%
Health Insurance Tax Credit Administration	15,512	15,512	18,029	2,517	16.23%
Total Appropriated Resources	**$12,146,123**	**$12,146,123**	**$13,283,907**	**$1,137,784**	**9.37%**
Offsetting Collections - Reimbursable	$137,758	$137,279	$138,272	993	0.72%
Mandatory Appropriation - User Fees	$175,529	$204,428	$204,428		
Total Program Operating Level	**$12,459,410**	**$12,487,830**	**$13,626,607**	**$1,138,777**	**9.12%**
Direct FTE	94,766	94,766	99,878	5,112	5.39%
Reimbursable FTE	659	659	659		
User Fees FTE	93				
Total FTE	**95,518**	**95,425**	**100,537**	**5,112**	**5.36%**

[1] FY 2010 Enacted represents the approved FY 2010 Operating Plan.

FY 2012 Priorities

The IRS collects the revenue that funds the government and administers the nation's tax laws. In FY 2010, the IRS collected $2.345 trillion in taxes (gross receipts before tax refunds), 93 percent of federal government receipts. To protect the flow of revenue to the government, the IRS pursues a robust service and enforcement agenda. The service agenda supports and protects the trillions in revenue that come into the Treasury each year voluntarily from taxpayers. The enforcement agenda vigorously pursues those who evade their responsibility to pay the taxes they owe. The IRS collected $57.6 billion in revenue in FY 2010, $8.7 billion, or 18 percent, more than FY 2009. This increase in enforcement revenue demonstrates that the substantial investment in the IRS over the past two years is producing a significant return on investment.

In the FY 2012 request, the IRS seeks additional funding for:

- **Taxpayer Service** – Improve taxpayer service and the IRS.gov website;
- **Enforcement** – Implement legislative mandates, handle new information reporting requirements, increase compliance efforts to address offshore tax evasion, focus on corporate and high-wealth returns, increase examination and collection coverage, and enforce tax return preparer compliance;

- **Infrastructure** – Enhance employee security, develop disaster recovery systems capability, and develop the information technology, infrastructure, and systems to implement the various ACA provisions; and
- **Business Systems Modernization** – Continue migration of applications to CADE 2 and the expansion of Modernized e-File.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The IRS Strategic Plan 2009-2013 guides program and budget decisions and supports the Department of the Treasury Strategic Plan and High Priority Performance Goals. The IRS Strategic Plan recognizes the increasing complexity of tax laws, changing business models, expanding use of electronic data and related security risks, accelerating growth in international tax activities, and growing human capital challenges.

The IRS Strategic Plan goals and objectives are:

IRS Strategic Goals

Improve Service to Make Voluntary Compliance Easier

Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes

To improve service to and make voluntary compliance easier, the IRS must:

- Incorporate taxpayer perspectives to improve all service interactions;
- Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS;
- Provide taxpayers with targeted, timely guidance and outreach; and
- Strengthen partnerships with tax practitioners, tax preparers, and other third parties to ensure effective tax administration.

To enforce the law to ensure everyone meets their obligation to pay taxes, the IRS must:

- Enforce the law proactively in a timely manner while respecting taxpayer rights and minimizing taxpayer burden;
- Expand enforcement approaches and tools;
- Meet the challenges of international tax administration;
- Allocate compliance resources using a data-driven approach to target existing and emerging high-risk areas;
- Continue focused oversight of the tax-exempt sector; and

- Ensure that all tax practitioners, tax preparers, and other third parties in the tax system adhere to professional standards and follow the law.

To achieve the service and enforcement goals, the IRS must:

- Make the IRS the best place to work in government;
- Build and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity;
- Use data and research across the organization to make informed decisions and to allocate resources; and
- Ensure the privacy and security of data and the safety and security of employees.

Treasury High Priority Performance Goals

The IRS budget request includes resources to achieve the following Treasury High Priority Performance Goals.

Increase voluntary tax compliance

- Make progress against the Tax Gap through improved service and enhanced enforcement of the tax laws:
    - Achieve 4.5 million document matching closures in FY 2012 (where IRS information does not match taxpayer reported information); and
    - Achieve 80 percent of individual taxpayers receiving refunds on a 5-day cycle in the new Customer Account Engine database in FY 2012.
- Assist Americans in voluntarily meeting their tax obligations:
    - Achieve individual income tax filers' American Customer Satisfaction Index score of 70 percent; and
    - Improve telephone level of service to 80 percent by the end of FY 2012.

Significantly increase the number of paperless transactions with the public

- Achieve individual e-File rate of 76 percent and report performance.

FY 2012 Budget Request

The IRS FY 2012 President's Budget request is $13,283.9 million, $1,137.8 million, 9.37 percent, more than the FY 2010 enacted level.

Appropriation Account	($ in Millions)
Taxpayer Services	$2,345.1
Enforcement	5,966.6
Operations Support	4,620.6
Business Systems Modernization	333.6
Health Insurance Tax Credit Administration	18.0
Total Appropriated Resources	$13,283.9

The $1,137.8 million increase consists of:

- +$299.0 million for changes to the base:
    - +$401.7 million adjustment to reach the FY 2011 President's policy level;
    - +$85.7 million to fund the non-pay inflation adjustment and retirement contribution;
    - -$189.9 million for efficiency savings and non-recur activities; and
    - +$1.5 million for a submission processing consolidation reinvestment.
- +$838.8 million for program changes:
    - +$114.3 million to improve taxpayer service and the IRS.gov website;
    - +$605.7 million to implement legislative mandates, handle new information reporting requirements; increase compliance efforts to address offshore tax evasion, focus on corporate and high-wealth returns, increase examination and collection coverage, enforce tax return preparer compliance, and address workload growth in Appeals and Counsel; and
    - +$118.8 million to enhance employee security, develop disaster recovery systems capability, and develop the information technology, infrastructure, and systems to implement the various Affordable Care Act (ACA) provisions.

Reducing the Tax Gap

Recent investments in IRS enforcement programs have yielded significant increases in enforcement revenue. Enforcement revenue was $57.6 billion in FY 2010 for a total IRS-wide return on investment (ROI) of 4.7 to 1. The return on investment estimate does not include the revenue effect of the deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

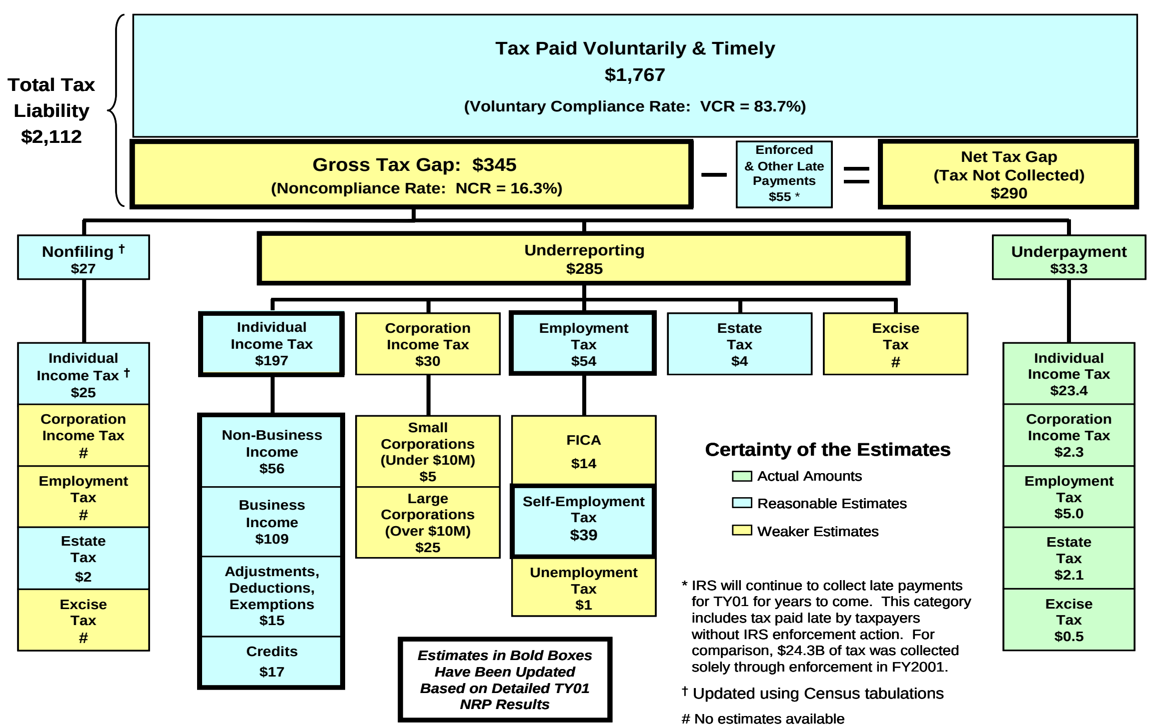
In 2006, the IRS released updated results of its first study in two decades of the difference between taxes owed and taxes actually paid on a timely basis – the "tax gap." The IRS estimated that taxpayers initially underpaid by $345 billion in 2001 (see *Tax Gap Map for Tax Year 2001*, below). This equates to a voluntary compliance rate of almost 84 percent. Late payments and IRS enforcement action reduced this to a net tax gap of $290 billion.

As a result of an increase in funding included in the IRS FY 2009 budget, the Department of the Treasury and the IRS have initiated intensive efforts to update the estimate of the tax gap on an ongoing basis, which will permit more regular and effective assessments. Starting in 2011, ongoing updates of the tax gap estimate will form the basis for assessing progress towards that goal on a regular basis.

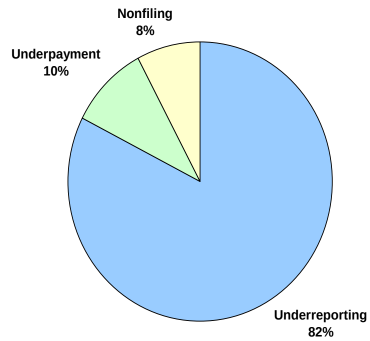
The three components of the tax gap are:

- **Underreporting** – Not reporting one's full tax liability on a timely-filed return;
- **Nonfiling** – Not filing required returns on time; and
- **Underpayment** – Not timely paying the full amount of tax reported on a timely return.

TAX GAP MAP for Tax Year 2001 *(in $ Billions)*



Underreporting tax liability ($285 billion) comprises 82 percent of the gross tax gap ($345 billion). The remainder is almost evenly divided between nonfiling ($27 billion, 8 percent) and underpaying ($33 billion, 10 percent). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.



Taxpayer Service and Enforcement Programs Complement Each Other

The IRS serves individuals, businesses, non-profit organizations, and processed more than 230 million tax returns in 2010. The system of voluntary tax compliance requires the IRS to excel in taxpayer service for those who are trying to meet their obligations under the law and provide a robust enforcement program for those who shirk their responsibilities to their fellow citizens. Most taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply because they do not understand their obligations under the complex tax laws. Noncompliance can stem from a wide range of causes, including lack of knowledge, confusion, poor recordkeeping, differing legal interpretations, unexpected personal emergencies, and temporary cash-flow problems.

Taxpayer Service

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. Assisting taxpayers with their tax questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. Accordingly, the IRS provides year-round assistance to millions of taxpayers through many sources, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, IRS.gov, Taxpayer Assistance Centers (TAC), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites. Many of these sites provide information in Spanish as well as in English.

Helping taxpayers understand their obligations under the tax law is critical to improving compliance and addressing the tax gap. To this end, the IRS remains committed to a balanced program of assisting taxpayers to understand the tax law and remit the proper amount of tax. The IRS remains committed to improving voluntary compliance and reducing the tax gap through both taxpayer service and enforcement programs.

Enforcement

Vigorous enforcement encourages voluntary compliance for those taxpayers who seek to avoid meeting their tax obligations under the law, further increasing revenue. Increased resources for IRS compliance programs yield direct, measurable results through high return on investment activities. As shown in the table below, the proposed IRS FY 2012 enforcement initiatives will generate $1,332.1 million annually, an ROI of 6.4 to 1, in additional annual enforcement revenue once the new hires reach full potential in FY 2014.

Return on Investment for FY 2012 Enforcement Initiatives

Dollars in Millions						
	First Year (FY 2012)			Full Performance (FY 2014)		
FY 2012 Enforcement Investment[1]	**Cost**	**Revenue**	**ROI**	**Cost**	**Revenue**	**ROI**
All Enforcement Initiatives	**$339.3**	**$646.2**	**1.9**	**$296.4**	**$1,332.1**	**4.5**
Direct Revenue Producing Program Integrity Initiatives	**$243.8**	**$646.2**	**2.7**	**$207.8**	**$1,332.1**	**6.4**
Increase International Service and Enforcement	72.6	234.0	3.2	57.1	467.1	8.2
Increase Collection Coverage	52.0	177.3	3.4	45.2	398.3	8.8
Implement Merchant Card and Basis Reporting	35.8	72.4	2.0	30.8	185.7	6.0
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	29.8	42.7	1.4	27.3	80.8	3.0
Ensure Accurate Delivery of Tax Credits	51.0	110.2	2.2	45.0	183.3	4.1
Administer New Statutory Reporting Requirements	2.6	9.6	3.7	2.4	16.9	7.0
Other Enforcement Initiatives	**$95.5**	**$0.0**	**0.0**	**$88.6**	**$0.0**	**0.0**
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	24.5	0.0	0.0	23.2	0.0	0.0
Ensure Accurate Delivery of Tax Credits	33.6	0.0	0.0	33.5	0.0	0.0
Administer New Statutory Reporting Requirements	7.6	0.0	0.0	7.5	0.0	0.0
Leverage Return Preparer Program to Reduce Noncompliance	16.6	0.0	0.0	12.6	0.0	0.0
Address Appeals Workload Growth	9.1	0.0	0.0	7.9	0.0	0.0
Implement Uncertain Tax Position Reporting Requirements	4.1	0.0	0.0	3.9	0.0	0.0

[1] For the purpose of ROI calculation, capital IT expenses related to the IRS implementation of ACA have been excluded.

The Affordable Care Act (ACA): The FY 2012 request includes funding for ACA (Public Law 111-148) to administer a premium credit to subsidize the cost of health insurance for Americans who do not have access to affordable coverage; a small business tax credit to encourage employers to provide health insurance coverage for their employees; new information reporting and sharing requirements; an excise tax on tanning services; a new aggregate annual fee on businesses engaged in manufacturing and importing branded prescription drugs sold to specified government programs; new reporting requirements for tax-exempt hospitals; and an individual coverage requirement for employees who can afford health insurance, but fail to obtain minimum essential coverage. These and other provisions of the ACA will require additional resources to build new IT systems; modify existing tax processing systems; provide taxpayer outreach and assistance services; make enhancements to notices, collections, and case management systems to address and resolve taxpayer issues timely and accurately; and conduct focused examinations to encourage compliance. While these activities are spread across the three primary IRS appropriations, the vast majority of the funding request is in the Operations Support account that funds information technology and infrastructure.

Further information is provided in Section 2A, Budget Increases and Decreases Description.

1B – Program History and Future Outlook

The IRS administers America's tax laws and collects 93 percent of the revenues that fund most government operations and public services. Performance in FY 2010 confirms that the IRS is making significant progress in achieving its goals of providing service to taxpayers and enforcing the tax laws in a balanced manner while continuing to make steady gains in better serving America's taxpayers.

Taxpayer Service

The IRS website has become the preferred source of information for millions of taxpayers to get answers to their tax questions, to questions about economic recovery legislation, and about how to prepare and file a federal tax return accurately and on time. IRS.gov/Español offers many of the same services and information in Spanish.

To improve service to taxpayers during the 2010 filing season, the IRS enhanced IRS.gov by providing a rotating spotlight feature on the front page. The spotlight, which changes every few seconds, highlights important taxpayer information by identifying how tax law changes such as the *Making Work Pay* and *First-Time Homebuyer Credit* can benefit different types of taxpayers; and how to access on-line applications such as *Where's My Refund?,* an online tool for taxpayers to check on the status of their refund, and *What If?*, a list of questions and answers to assist taxpayers who are having difficult times financially handle various scenarios related to payment of taxes and other financial problems. In 2010, there were 304.8 million visits to the website and more than 66.9 million taxpayers accessed the popular application, *Where's My Refund?,* to find out the status and anticipated receipt of their tax refund. Taxpayers also can use electronic tools such as the EITC Assistant to determine if they qualify for the refundable tax credit.

The IRS also is committed to continuing efforts to redesign IRS correspondence to improve clarity, accuracy, and effectiveness. In FY 2010, the IRS:

- Completed the redesign of 115 notices (25 in Spanish) to provide clear and simple explanations of the notice purpose and required taxpayer actions;
- Redesigned the area of IRS.gov that provides information on locating specific notices and an explanation of the redesign process; and
- Released the first group of nine new notices. These notices account for approximately two million pieces of correspondence with individuals, businesses and exempt organizations.

The IRS completed a successful 2010 filing season, rising to challenges posed by the implementation of provisions in the American Reinvestment and Recovery Act of 2009 (Recovery Act), the Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA), and increased telephone demand for Economic Recovery Payment inquiries. The IRS received more than 141.9 million individual returns, of which 69.3 percent were e-filed. The number of taxpayers e-filing their returns from a home computer continued to grow. More than 34.6 million taxpayers prepared their own e-file return, a 7.5 percent increase over 2009.

The IRS issued 109.5 million refunds to individual taxpayers totaling $366 billion. The average dollar refund was $3,048 compared to $2,682 in 2009, an increase of almost 14 percent. IRS also direct-deposited more than 73 million refunds compared to 72.4 million in 2009.

Beginning in the 2010 filing season, taxpayers could purchase up to $5,000 of Series I U.S. Savings Bonds using their federal tax refund. More than 22,300 taxpayers took advantage of this opportunity, requesting more than 98,000 bonds totaling approximately $11.1 million.

In FY 2010, the IRS expanded outreach and educational services to improve information, news, and taxpayer interaction through social media networks (Facebook, Twitter, YouTube, etc.). For the first time, the IRS produced a number of podcasts that were available on IRS.gov and iTunes. In addition, the IRS created more than a dozen YouTube videos on a variety of subjects including the *Education Tax Credit*, *Making Work Pay*, and the *New Homebuyer Credit*. These videos attracted more than 963,800 upload views and were available in English, American Sign Language, and Spanish.

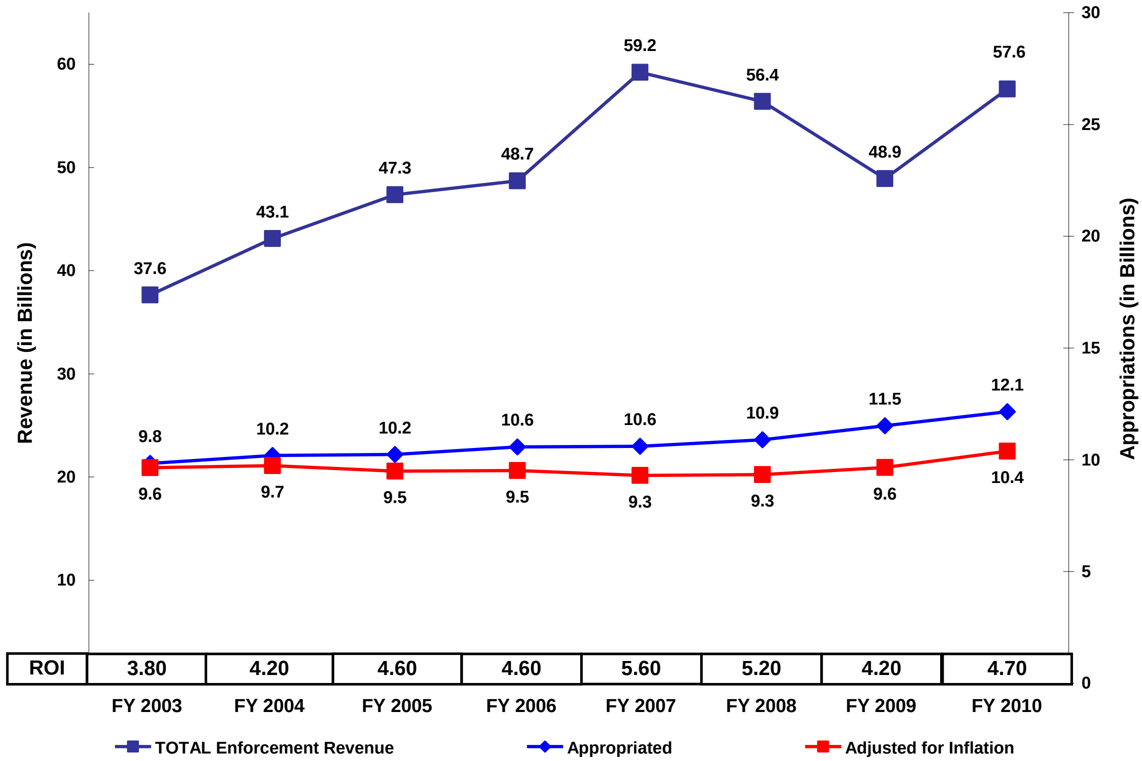
As always, providing high-quality, toll-free telephone service is important in helping taxpayers navigate the complex tax code. IRS telephone assistors answered 36.7 million calls, 6.3 percent fewer than in 2009 while at the same time the IRS received 35.1 million automated calls, 21 percent more than in 2009, reflecting the growing taxpayer demand for self-service options. Telephone level of service (LOS) increased to 74 percent from the FY 2009 LOS of 70 percent. This reflects the success rate of taxpayers who call the IRS for live telephone assistance on the 1-800 help lines. In 2010, the IRS added an estimated wait time feature so taxpayers could make informed choices about whether to wait for a live assistor or use another service channel (i.e., self-assisted automated telephone services or IRS.gov) to answer their questions. Accuracy rates for both customer tax law and account questions remain above 92 percent.

The IRS also provides in-person service at its Taxpayer Assistance Centers (TACs), for taxpayers to resolve tax issues and receive help to prepare their tax returns. Approximately 6.4 million taxpayers visited a TAC, three percent more than in 2009. Walk-in service remains popular among elderly taxpayers, those with limited English and computer proficiency, and taxpayers without internet access.

During the 2010 filing season, the IRS expanded hours of service at 16 geographically dispersed TACs, and seven were open every Saturday. In 27 locations, low-income taxpayers took advantage of IRS help in the preparation of both their state and federal tax returns. The IRS held Open House events at 200 TACs and partner sites nationwide to help taxpayers prepare their returns and resolve their tax issues. As a result, more than 31,400 taxpayers were served and over 7,700 returns were prepared at these events.

Enforcement

In FY 2010, revenue from all enforcement sources reached $57.6 billion, 18 percent more than in FY 2009. This increase in enforcement revenue demonstrates that the investment in the IRS over the past two years is producing a significant return.



In FY 2010 the IRS expanded its enforcement presence in the international field, continued to pursue high-wealth/high-income noncompliant taxpayers, and audited more charities and other tax-exempt organizations. As a result, the IRS made improvements compared with FY 2009 in these key areas:

- Examined more than 1.58 million individual returns, an increase of 11 percent, reaching the highest rate in the past decade;
- Increased high-income/high-wealth audits on taxpayers with income greater than $200,000 by 5.5 percent and audits for those with income greater than $1 million by more than 8 percent;
- Increased automated underreporter contact closures by 19.8 percent, surpassing the four million mark for the first time, with more than 4.3 million;
- Increased collection case closures by 6.3 percent and criminal investigations by 12.4 percent;

- Increased large corporate audits by 8.1 percent, a significant achievement given the size (assets greater than $10 million) and complexity of these corporate entities and audits of foreign corporations by almost 48 percent; and
- Increased tax exempt and government entities compliance contacts by roughly 20 percent.

As part of an overall strategy to improve offshore compliance, in FY 2010 the IRS continued to take aggressive steps to track tax evaders that hide their wealth by engaging in offshore tax evasion schemes. The IRS realigned and renamed its Large and Mid-Size Business Division to Large Business and International as part of its continuing strategy to improve international tax administration. The organizational realignment will allow the IRS to focus its expertise on the most pressing international issues. In addition, the IRS more than doubled its offshore presence by opening new offices in Asia and Central America, placed additional law enforcement personnel at its existing offices throughout the world, and expanded its interaction with key international organizations involved in tax and financial law compliance. All of these steps are designed to develop new leads in ongoing criminal tax and financial crime investigations.

Other notable accomplishments include:

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

In addition, the IRS Voluntary Disclosure Program (VDP) provided information on banks and professionals, including foreign professionals, who facilitate tax evasion. More than 15,000 Americans with offshore accounts, some holding hundreds of millions of dollars, came forward during a voluntary disclosure period that ended in October 2009 to disclose information, bringing them back into the U.S. tax system. An additional 3,000 Americans came forward with accounts at various banks since October 2009, with the total disclosures over the period expected to reach 20,000. In FY 2010, the IRS began reviewing the information from program participants to identify financial institutions, advisors, and others who promoted or otherwise helped Americans hide assets and income offshore.

The IRS continues to ensure that the largest corporate taxpayers are in compliance using strategies that are less time and resource intensive. The Compliance Assurance Process (CAP) program resolves issues early and ensures the filing of accurate returns. The CAP program allows taxpayers who identify their tax issues to get certainty with respect to their tax obligations at the time the return is filed, rather than waiting for the IRS to examine issues during an audit. In FY 2010, participation increased to 112 corporate taxpayers, with all 102 from 2009 returning. The IRS plans to issue guidance that will make CAP permanent and available to a greater number of taxpayers.

Research improves service to taxpayers and helps in the development of better ways to identify noncompliance and reduce the tax gap. The FY 2010 National Research Program (NRP) included a study to assess the reporting compliance of employment taxes. The study spanned three tax years, from 2008 through 2010, examining approximately 2,200 randomly-selected taxpayers each year. The new study complements the ongoing study of individual reporting compliance.

Beginning in FY 2010, the IRS launched a number of important changes to its oversight of the tax return preparer community to improve tax administration and tax compliance. The IRS and external stakeholders agree that setting higher standards for the tax return preparer community will significantly enhance protections and services for taxpayers, increase confidence in the tax system and result in greater compliance with the tax laws.

Important changes included:

- Requiring registration and the assignment of a preparer tax identification number (PTIN) for all paid tax return preparers (through December 31, 2010, more than 523,000 return preparers received PTINs utilizing the new application system);
- Establishing mandatory testing and continuing education for paid tax return preparers who are not an attorney, certified public accountant, or enrolled agent;
- Developing a public database so that the public can ensure that their tax return preparer is registered with the IRS; and
- Making all return preparers subject to the ethical standards of Treasury Circular 230 and subject to discipline by the IRS.

Business System Modernization

IRS modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. The following highlights IRS accomplishments:

- Customer Account Data Engine (CADE) posted more than 41.2 million returns, generated more than 35.8 million refunds and, for the first time, accepted more than seven million payments submitted with taxpayer returns. In FY 2010, the IRS revised its CADE strategy to implement a new taxpayer account database for the 2012 filing season. This new database will accelerate the refund processing time for most taxpayers.
- Modernized e-File (MeF) deployed an additional release that allowed for the acceptance of Form 1040 and 22 supporting forms and schedules. This new functionality is designed to reach 61 percent of the e-File population, or approximately 55.1 million filers.

- Account Management Services (AMS) final release provided IRS employees with the ability to view taxpayer correspondence images online and on demand, eliminating reliance on a manual process to obtain copies of images. This direct access reduced the case cycle time from 10 to 14 days to zero.

Future Outlook

In FY 2012, the IRS will continue to seek less costly ways of improving taxpayer service and bolstering enforcement.

The service and enforcement agenda supports the Administration's goals to reduce the federal deficit by increasing tax receipts. Delivering cost-effective and efficient services to meet taxpayer demands within a constrained budget environment will continue to be a challenge for the IRS. With this in mind, the IRS will focus efforts on the following priorities in FY 2012.

Taxpayer Service – Increase the telephone level of service and improve the IRS website where an increasing percentage of taxpayers find the help they need.

Assisting taxpayers with their tax questions before they file prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. In FY 2012, the IRS plans to increase level of service by adding resources to meet the ever-increasing demand and continuing to make efficiency improvements such as automated self-service applications that allow taxpayers to obtain information on less complex issues such as refund inquiries. These improvements will free up staff to deal with the more complex tax law issues stemming from the passage of new legislation. In addition, the IRS continues to study the effects of services it offers to taxpayers on the internet, at walk-in sites, and on its toll-free telephone lines as well as exploring the relationships between taxpayer errors and unclear correspondence to aid in the development of new approaches to service.

Provisions that become effective in later years, when new options for buying health insurance through state-sponsored exchanges go into effect, place significant new administrative responsibilities on the IRS that require the design and development of new IT systems and business processes along with substantial coordination with other federal and state entities.

Enforcement – Implement legislative mandates, handle new information reporting requirements, increase compliance efforts to address offshore tax evasion, focus on corporate and high-wealth returns, increase examination and collection coverage, develop initiatives to improve issue resolution with large business taxpayers, and enforce tax return preparer compliance.

In FY 2012, the IRS will implement changes required by enactment of various legislative mandates such as the Foreign Account Tax Compliance Act (FATCA) included in the Hiring to Restore Employment (HIRE) Act of 2010 (Public Law 111-147), the merchant payment card and third party reimbursements enacted in the Housing and Economic

Recovery Act of 2008 (Public Law 110-289) and basis reporting on security sales enacted in the Emergency Economic Stabilization Act of 2008 (Public Law 110-343). These legislative mandates include new information reporting requirements for individuals and businesses.

The IRS will continue to invest in strong compliance programs, including robust international enforcement initiatives to address offshore tax evasion. Enforcement initiatives will address underreporting of income associated with international activities and expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers and the complex business enterprises they control (including corporations, partnerships, and trusts). The IRS will use audit results and intelligence from ongoing offshore initiatives to refine case identification and selection methods to identify promoters, facilitators, and participants in abusive offshore arrangements.
The IRS also will improve the way compliance risks are identified and addressed in large, complex global businesses and high-wealth individuals.

In addition, the IRS will continue to pursue other important initiatives, such as the CAP program, industry issue resolution projects, and fast track settlements, aimed at earlier and speedier issue resolution and greater efficiency and certainty. These initiatives are a major part of the overall retooling of IRS's relationships with large corporate taxpayers.

The IRS will continue to implement the recommendations of the Tax Return Preparer Strategy by addressing the challenges associated with the implementation of registration, continuing education, and testing requirements for tax return preparers that are scheduled to go into effect in FY 2011. The IRS took a major step forward in launching the new PTIN online registration process. The process gives the IRS an important and improved line of sight into the return preparer community. The IRS will use the information to analyze trends, spot anomalies, and potentially detect fraud. In addition, the IRS will continue to develop and implement legislation to increase electronic filing among the paid preparer community.

Business Systems Modernization – Continue the development of the new taxpayer account database.

Data and technology are central to the future of tax administration. For the 2012 filing season, the IRS will complete the new taxpayer account database and continue to make investments in the electronic filing systems. Completion of the core taxpayer account database is the cornerstone of IRS IT modernization that will expedite refunds to millions of individual taxpayers. It is also a prerequisite for other major initiatives, such as expansion of online paperless services. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until the new taxpayer account database is completed.

Implement the Affordable Care (ACA) Act.

Implementation of the Affordable Care Act (ACA) of 2010 presents a major challenge to the IRS. ACA represents the largest set of tax law changes in more than 20 years, with more than 40 provisions that amend the tax laws. Although the new law goes into effect gradually over many years, many provisions required immediate action, including the *Small Business Health Care Tax Credit*, the *Qualifying Therapeutic Discovery Credit*, and the expanded *Adoption Credit.*

To enact the range of provisions that were retroactive to 2009 and immediately effective for calendar year 2010, the IRS focused on: developing new systems and business processes for near-term provisions; conducting initial planning for longer-term provisions; and defining appropriate outreach activities for each affected group.

Section 2 – Budget Adjustments – Internal Revenue Service

The IRS Budget Request for FY 2012 is $13,283,907,000 in direct appropriations and 99,878 FTE. This is an increase of $1,137,784 or 9.37 percent and 5,112 FTE more than the FY 2010 enacted level of $12,146,123,000 and 94,766 FTE.

Program Summary by Appropriations Account and Budget Activity

Dollars in Thousands

Appropriations / Budget Activity Internal Revenue Service	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	Request	FY 2012 $ Change	% Change
Taxpayer Services	$2,278,830	$2,278,830	$2,345,133	$66,303	2.91%
Pre-filing Taxpayer Assistance and Education	679,924	679,924	701,035	21,111	3.10%
Filing and Account Services	1,598,906	1,598,906	1,644,098	45,192	2.83%
Enforcement	$5,504,000	$5,504,000	$5,966,619	$462,619	8.41%
Investigations	639,363	639,363	678,849	39,486	6.18%
Exam and Collections	4,700,345	4,700,345	5,103,420	403,075	8.58%
Regulatory	164,292	164,292	184,350	20,058	12.21%
Operations Support	$4,083,884	$4,083,884	$4,620,526	$536,642	13.14%
Infrastructure	895,202	895,202	986,045	90,843	10.15%
Shared Services and Support	1,311,127	1,311,127	1,313,050	1,923	0.15%
Information Services	1,877,555	1,877,555	2,321,431	443,876	23.64%
Business Systems Modernization	$263,897	$263,897	$333,600	$69,703	26.41%
Health Insurance Tax Credit Administration	$15,512	$15,512	$18,029	$2,517	16.23%
Total Appropriated Resources	**$12,146,123**	**$12,146,123**	**$13,283,907**	**$1,137,784**	**9.37%**
Offsetting Collections - Reimbursable	$137,758	$137,279	$138,272	$993	0.72%
Mandatory Appropriation - User Fees	$175,529	$204,428	$204,428		
Total Program Operating Level	**$12,459,410**	**$12,487,830**	**$13,626,607**	**$1,138,777**	**9.12%**
Direct FTE	94,766	94,766	99,878	5,112	5.39%
Reimbursable FTE	659	659	659		
User Fees FTE	93				
Total FTE	**95,518**	**95,425**	**100,537**	**5,112**	**5.36%**

[1] FY 2010 Enacted represents the approved FY 2010 Operating Plan.

2.1 – Budget Adjustments Table

Dollars in Thousands

Internal Revenue Service

Internal Revenue Service	FTE	Amount
FY 2010 Enacted Budget[1]	**94,766**	**$12,146,123**
FY 2011 Annualized CR Level	**94,766**	**$12,146,123**
Changes to Base:		
Adjustment to Reach FY 2011 President's Policy Level	**1,653**	**$401,665**
Maintaining Current Levels		**$85,754**
Other Adjustments	**501**	
Technical FTE Adjustments	501	
Efficiencies/Savings	**(523)**	**($189,957)**
Non-Recur Savings		(22,090)
Increase e-File Savings	(416)	(22,444)
Reduce IT Infrastructure		(75,000)
Reduce Contracts		(20,754)
Reduce Administrative Expenses	(66)	(14,331)
Eliminate Lockbox Fees		(4,000)
Reduce Certain Mailings		(4,000)
Reduce Training, Travel and Programs	(41)	(27,338)
Reinvestment		**$1,486**
Consolidate Submission Processing Site (Atlanta)		1,486
Subtotal Changes to Base	**1,631**	**$298,948**
Total FY 2012 Base	**96,397**	**$12,445,071**
Program Changes:		
Program Increases:		
Taxpayer Service Initiatives	**534**	**$114,307**
Improve Taxpayer Service	519	81,307
Expand Online Options through IRS.gov Improvements	15	33,000
Enforcement Initiatives	**2,917**	**$605,671**
Increase International Service and Enforcement	377	72,596
Increase Collection Coverage	413	52,000
Implement Merchant Card and Basis Reporting	415	35,730
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	497	96,718
Ensure Accurate Delivery of Tax Credits	834	260,293
Administer New Statutory Reporting Requirements	187	58,505
Leverage Return Preparer Program to Reduce Noncompliance	108	16,600
Address Appeals Workload Growth	66	9,100
Implement Uncertain Tax Position Reporting Requirements	20	4,129
Infrastructure Initiatives	**90**	**$118,858**
Enhance Security and Disaster Recovery Systems Capability	5	12,000
Update Integrated Financial System (IFS)	5	27,500
Leveraging Data to Improve Compliance	5	1,400
Enhance Physical Security for Federal Employees	10	15,481
Implement Individual Coverage Requirement and Employer Responsibility Payments	65	62,477
Business Systems Modernization (BSM) Initiative	**(60)**	
Continue Migration from Aging Tax Administration System	(60)	
Subtotal Program Changes	**3,481**	**$838,836**
Total FY 2012 Request	**99,878**	**$13,283,907**
Adjustments to Request		
User Fees		204,428
Total FY 2012 Request	**99,878**	**$13,488,335**

[1]FY 2010 Enacted represents the approved FY 2010 Operating Plan

2A – Budget Increases and Decreases Description

Treasury Strategic Goals and Outcome

The IRS FY 2012 initiatives support the Treasury Strategic Goal: "Effectively Managed U.S. Government Finances" and the Treasury Strategic Outcome: "Revenue collected when due through a fair and uniform application of the law" and the Treasury Strategic Goal: "Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems" and Treasury Strategic Outcome: "Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking, and other criminal activity on the part of rogue regimes, individuals, and their support networks."

The table that follows lists FY 2012 resources by Strategic Goal, Objective and Outcome outlined in the FY 2007-2012 Treasury Strategic Plan. The Treasury Strategic Plan is a corporate-level plan for the Department that provides a description of what the agency intends to accomplish over the five-year period.

Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request	Percent Change
Revenue collected when due through a fair and uniform application of the law	11,908,430	11,908,050	13,025,396	**9.4%**
Removed and reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking, and other criminal activity on the part of rogue regimes, individuals, and their support networks	237,693	238,073	258,511	**8.6%**
Total Request	**$12,146,123**	**$12,146,123**	**$13,283,907**	**9.4%**

[1]The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Initiative Costing Methodology

The IRS uses a variety of methods to cost its initiatives. Costs for initiatives that require labor funding are calculated by converting the workload to the number and type of staff (e.g., Revenue Agents, Revenue Officers, or Special Agents) needed to deliver targeted performance goals. Once the number of full-time equivalents (FTE) and type of staff are determined, the cost of the FTE is estimated using a Unit Cost Rate (UCR) calculator, a tool for projecting FTE salary and non-salary support cost and/or savings. The UCR calculator fully costs the salary, benefits, and support costs needed for each FTE.

Total Changes to Base
+$298,948,000 / +1,631 FTE

Adjustment to Reach FY 2011 President's Policy Level
+$401,665,000 / +1,653 FTE

Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

Maintaining Current Levels (MCLs)
+$85,754,000 / 0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment, and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Other Adjustments
$0 / +501 FTE

Technical FTE Adjustments
$0 / 501 FTE

This adjustment reflects permanent changes made to ensure FTE levels are fully funded in the base budget and to add FTEs where activities are now funded in-house instead of through contractor services.

Efficiencies and Savings
-$189,957,000 / -523 FTE

Non-Recur Savings
-$22,090,000 / 0 FTE

This is the net reduction of non-recurring, one-time costs associated with the FY 2011 enforcement initiatives (e.g., IT equipment and training).

Increase e-File Savings
-$22,444,000 / -416 FTE

This decrease is a result of savings from increased electronic filing (e-File). Savings are based on e-File projected growth, modernization, and the completion of the phased implementation of the Worker, Homeowner, and Business Assistance Act of 2009 (Public Law 111-92), which requires electronic filing by tax return preparers. As a result, the IRS needs 416 fewer FTE in submission processing, generating a savings of $22.4 million.

Reduce IT Infrastructure
-$75,000,000 / 0 FTE

The IRS will reduce the unit costs of infrastructure through use of the Capability Maturity Model (i.e., a process improvement approach that yields efficiencies in software engineering); the Information Technology Infrastructure Library (ITIL) that will allow the IRS to improve the quality of IT services; and the further consolidation of security activities in the Cybersecurity organization to leverage security best practices.

Reduce Contracts
-$20,754,000 / 0 FTE

In accordance with the 2009 Presidential guidance on controlling contracting costs, the IRS will achieve targeted savings through reduced contracting expenses. The FY 2012 Budget saves $20.8 million through better acquisition and acquisition-related program practices in project support, web learning, equipment, marketing, technical support contracts and, as a result of implementing the e-file requirement for tax return preparers, lower marketing expenses associated with promoting e-filing.

Reduce Administrative Expenses
-$14,331,000 / -66 FTE

The IRS will reduce administrative expenses, including targeted attrition through hiring freezes.

Eliminate Lockbox Fees
-$4,000,000 / 0 FTE

The IRS will eliminate lockbox fees that now will be paid by taxpayers in installment agreements.

Reduce Certain Mailings
-$4,000,000 / 0 FTE

The IRS will eliminate printing and mailing of certain forms and publications and reduce the number of inserts in mailings.

Reduce Training, Travel and Programs
-$27,338,000 / -41 FTE

The IRS will reduce agency-wide non-technical training and non-case related travel; and will implement various program efficiencies. Reductions in training costs will be achieved by reducing out-of-town training and the length of training, as well as by leveraging technology. The IRS will reduce travel expenses by making greater use of technology, increasing the use of hoteling, and eliminating/reducing travel reimbursements to field-based employees reporting to duty stations. The IRS will achieve program efficiencies in the Business Systems Modernization (BSM) ($1.0 million), Health Insurance Tax Credit Administration (HITCA) ($1.1 million), and the taxpayer communication and education programs ($4.3 million and 41 FTE).

Program Reinvestment
+$1,486,000 / 0 FTE

Consolidate Submission Processing Site (Atlanta)
+$1,486,000 / 0 FTE

Increased use of electronic filing has led to a consolidation of individual return processing sites. A portion of the *Increase e-File Savings* will be reinvested to fund one-time separation costs associated with the September 30, 2011, closure of the Atlanta submission processing site. As the Atlanta consolidation approaches, the IRS will continue to assist employees to find employment either inside or outside of the organization. The funding will allow the IRS to provide Voluntary Separation Incentive Payments (VSIP) and severance pay to affected Atlanta employees.

Program Increases
+$838,836,000 / +3,481 FTE

Improve Taxpayer Service
+$81,307,000 / +519 FTE

Position Type/Other Costs	FTE	$000
Increase LOS	369	$30,000
Customer Service Representative	369	30,000
Implement Affordable Care Act (ACA)	150	$51,307
Assisting Taxpayers in Understanding New Provisions	**150**	**$22,170**
Customer Service Representative	143	13,158
Media & Pubs Program Analysts	5	8,739
Customer Account Specialists	2	273
Call Center Changes		**$15,300**
Infrastructure		**$13,837**
Total	519	$81,307

Funding for Improve Taxpayer Service and the $25.9 million increase included in the FY 2011 President's Policy level will provide staffing to address rising demand and increase the Customer Service Representative Level of Service (LOS) from the planned target of 71 percent in FY 2010 to 80 percent in FY 2012 while maintaining a 93 percent customer satisfaction rate for toll-free telephone services. This initiative also includes funding to help taxpayers understand the new tax law provisions and to make related call center and infrastructure changes to handle anticipated inquiries, including ACA-related service questions.

<u>Increase Customer LOS (+$30.0 million / +369 FTE)</u>

From FY 2006 to FY 2009, taxpayer demand for IRS toll-free assistor services increased by more than 30 percent from 46 million to more than 60 million. In 2009, the National Taxpayer Advocate identified access to the IRS toll-free service as the most serious problem for taxpayers. The IRS has been aggressively pursuing strategies to mitigate telephone demand, including a restructuring of telephone routing systems and creating internet applications to divert telephone traffic to IRS.gov.

Taxpayers need effective service to understand their tax obligations and pay their taxes in a timely manner. In addition, increased enforcement activities have caused a significant increase in telephone inquiries to address balance-due accounts and establish installment agreements. Working with these taxpayers earlier in the process allows the IRS to resolve inquiries quickly in a more cost-effective manner and thereby increase taxpayer satisfaction.

This initiative also requests $0.1 million for Information Resources Accessibility Program equipment to evaluate the needs of new hires with disabilities; evaluate new assistive technologies for potential use within the IRS; determine the appropriate assistive technology to accommodate functional limitations; purchase assistive technology, maintenance, and training, if required; and assist customers with assistive technology features and functions.

Implement Taxpayer Service Programs for New Tax Law Provisions
(+$51.3 million / +150 FTE)

- Assisting Taxpayers in Understanding New Provisions
(+$22.2 million / +150 FTE)

  This request further incorporates additional resources to help taxpayers understand new ACA provisions. Proactive outreach, education, and educational tools will be critical to ensuring that individuals and employers understand the changes to the tax law that come into effect starting in 2014. In addition, various provisions in the law already are effective (e.g., small employer tax credits and the excise tax on tanning services) which require IRS taxpayer service resources. IRS requests resources to develop and deliver new publications and informational tools to help taxpayers understand their obligations. In addition, to meet immediate customer service needs, the IRS requests additional customer service staffing for its toll-free service operation to help maintain LOS at 80 percent.

- Call Center Changes (+$15.3 million)

  The IRS operates one of the largest and most complex phone support operations in the world. In order to prepare for a number of ACA provisions coming into effect in 2014 for individuals and employers, a number of changes must be made to the existing IRS call center systems. The IRS must update its call center applications and make enhancements to notices, collections, and case management systems to address and resolve taxpayer issues promptly and accurately.

- Infrastructure Costs to Support Recently-Enacted Law Service Inquiries
(+$13.8 million)

  Existing call sites are operating at capacity. In order to absorb the requested additional staffing needed to deliver an acceptable level of service to taxpayers, the IRS needs infrastructure resources to ensure adequate space and technology to support ACA-related service inquires.

Other Direct Costs

There are no other direct costs associated with this initiative.

Expand Online Options through IRS.gov Improvements
+$33,000,000 / +15 FTE

Position Type/Other Costs	FTE	$000
IRS.gov RUP/EUP Portal Migration	15	$25,000
IT Project Specialist	15	2,277
Contractor Service		22,723
Taxpayer and Tax Practitioner Applications	0	$8,000
Contractor Service		8,000
Total	15	$33,000

Funding for Expand Online Options through IRS.gov Improvements will continue the multi-year effort to replace the outdated web portal environment and provide additional online services to taxpayers. The Taxpayer Assistance Blueprint, Phase 2, targeted migration to the electronic channel and services as one of the five areas for improvement of IRS service delivery.

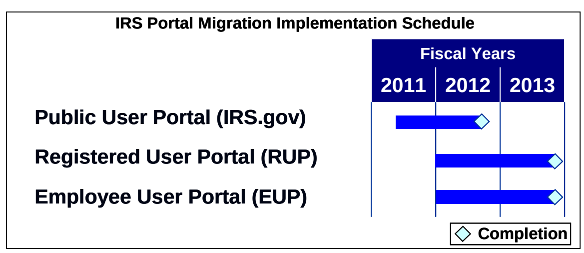
This initiative will allow the IRS to:

- Continue the replacement of an outdated web portal environment that has reached the end of its useful life; and

- Implement e-Notices enhancements.

Completion of these activities will allow the IRS to achieve efficiencies by moving high-volume transactions to IRS.gov, thereby improving self-service, reducing taxpayer burden, increasing compliance, reducing costs, and improving security. These improvements will position IRS.gov as the preferred delivery channel of choice for taxpayer service. Taxpayer satisfaction with IRS.gov also will be improved by better integrating access to information and transaction services, improving IRS.gov navigation, enriching content quality, and enhancing IRS.gov search capabilities.

<u>IRS.gov – Registered User Portal (RUP) and Employee User Portal (EUP) Migration (+$25.0 million / +15 FTE)</u>



This initiative funds the second year of a three-year effort to replace the aging infrastructure of the portals and complete the migration of the RUP/EUP by the end of FY 2013. This initiative will re-engineer the portal and migrate the RUP/EUP applications that interface with core IRS systems, resulting in an overall improvement and in significant enhancements to online capabilities for tax preparers and other registered users. This request is driven by the need to complete the transition of the RUP/EUP to the new web environment by August 2013 when the existing RUP and EUP contracts expire. Failure to complete the portal migration by August 2013 will result in increased portal operating costs and increased risk under existing sole source contracts. In addition, taxpayer and tax practitioners will continue to use more expensive, labor intensive service delivery channels such as calling the 1-800 number or visiting an IRS taxpayer assistance center.

The additional FY 2012 resources will allow the IRS to complete the build-out of the consolidated web environment and migrate the RUP transactional applications and integrate them with the tax information on IRS.gov by the end of FY 2013. Some of the RUP applications that the IRS plans to migrate include:

- *Where's My Refund?* – Allows authorized users to look up the status of refunds reported on their tax returns;
- Online Employer Identification Number (EIN) – Allows users to apply online for a new EIN and, in most cases, receive the new number immediately;
- Preparer Taxpayer Identification Number (PTIN) Application – Allows tax professionals to apply online for a PTIN without submitting a paper application form and existing users to look up a forgotten PTIN; and
- Online e-File – Allows tax professionals to apply online to become an authorized e-File Electronic Return Originator (ERO).

Activities to migrate the EUP will begin in FY 2012 and be completed in FY 2013. EUP migration activities will complete the build-out of the consolidated web environment for the secure employee-facing applications and move the applications from the existing EUP. Transitioning these applications to the new environment will allow IRS employees to process, update and analyze taxpayer returns and information online. Some of the applications to be migrated in FY 2012-FY 2013 include:

- Modernized e-File (MeF) – Provides authorized IRS employees the capability to view MeF return data and run reports on taxpayer information; and
- Integrated Financial System (IFS) - Provides authorized IRS employees with timely and detailed financial, cost accounting, property accounting and procurement data.

Online Service Applications – e-Notices (Installment Agreement Reminder Notice) (+$8.0 million / +0 FTE)

This initiative funds implementation of new online functionality for e-Notices that will deliver cost-effective services to the taxpayer while reducing the taxpayer burden. E-Notices will securely deliver taxpayer correspondence electronically through an integrated, web-based system. Development of the e-Notice concept could result in significant cost savings to the IRS if expanded to other higher volume notices. The development of the e-Notices Installment Agreement Reminder will provide taxpayers who have entered into an installment agreement to opt for monthly electronic payment reminders by logging into the IRS Registered User Portal (RUP) to define their preference.

Implementation of e-Notices will provide specific benefits such as:

- Reduced taxpayer burden in both time and cost;
- Electronic delivery option to meet taxpayer preferences;
- Reduced risk of taxpayer social security number exposure through mail delivery; and
- Expedited communications that may result in quicker receipt of payment.

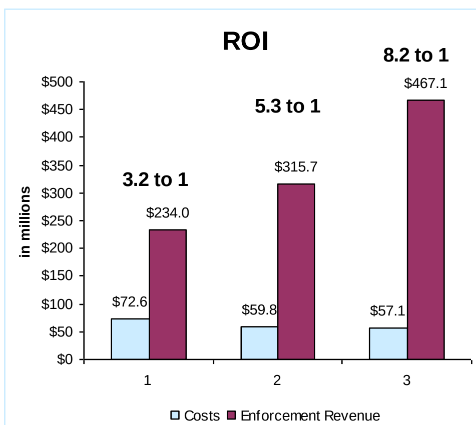
Other Direct Costs

There are no other direct costs associated with this initiative.

Increase International Service and Enforcement
+$72,596,000 / +377 FTE

Funding for Increase International Service and Enforcement will implement changes required by enactment of the Foreign Account Tax Compliance Act (FATCA) included in The Hiring Incentives to Restore Employment (HIRE) Act of 2010, (Public Law 111-147). The IRS will implement the reporting, disclosure and withholding requirements and expand coverage of international filings, conduct more in-depth international compliance work, strengthen compliance efforts related to offshore activity and expand the Global High-Wealth compliance group, producing additional annual enforcement revenue of $467.1 million with an ROI of 8.2 to 1 once the new hires reach full potential in FY 2014.

Position Type/Other Costs	FTE	$000
Implement FATCA Legislation	186	$35,000
Revenue Agent	75	14,349
Tax Examiner	43	3,749
Special Agent	4	923
Customer Service Representative	40	3,260
Attorney	8	1,414
Support Staff	16	1,305
IT Equipment		10,000
Increase International Coverage	107	$15,777
Revenue Agent	58	10,539
Tax Technician	15	2,131
Tax Examiner	8	699
Other Support	26	2,408
Criminal Investigation International Expansion	36	$8,552
Special Agent	29	7,471
Other Support	7	1,063
IT Equipment		18
International Data Analysis	19	$8,784
Revenue Agent	4	705
Other Support	11	1,269
Research Analyst	4	780
Contractor Services and Equipment		6,030
Other Costs	29	$4,483
Appeals Officer	10	1,484
Attorney	15	2,492
Support Staff	4	507
Total	377	$72,596



Major Activities	Projected Revenue $M	Individual Audits	Cases Completed	Business Audits	Specialty Program Audits
Implement FATCA Legislation					
Address Foreign Withholding Compliance	$171.6				117
Expand Coverage of Int'l Tax Return Filings	$32.4	21,540			
International Compliance Field Operations	$83.0	614		155	
Criminal Investigation			7		
Increase International Coverage and Compliance					
Expand Global High-Wealth Coverage	$180.1	25		274	
Criminal Investigation International Expansion			21		
Total	**$467.1**	**22,179**	**28**	**429**	**117**

Implement Foreign Account Tax Compliance Act (FATCA) Legislation (+$35.0 million / +186 FTE)

The number of business and individual returns with international activity continues to increase. According to the Department of the Treasury Report on Foreign Portfolio Holdings of U.S. Securities dated June 30, 2009, the total long-term and short-term foreign holdings of U.S. securities grew from $4.3 billion in June 2002 to $9.6 billion in June 2009 (Filings of Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding)*. The total U.S. source income, income where the activity for which the payment is being made is in the U.S., was $139.6 million in tax year 2000 and $646.5 million in tax year 2007, an increase of 363 percent. This growth creates two areas of concern for tax administration: (1) U.S. taxpayers avoiding taxation by shielding their identity using foreign accounts; and (2) foreign citizens benefiting from withholding rates that they are not entitled to use.

This initiative will allow IRS to:

- Address Foreign Withholding Compliance

  IRS implementation of the reporting, disclosure and withholding requirements mandated by FATCA for international investors and financial institutions will augment IRS activities to address international noncompliance.

  Every person who earns income subject to U.S. withholding or reporting generally must identify himself or herself to both the U.S. government and all intermediaries (e.g., banks, brokers, and custodians) through whose hands that income passes. The Qualified Intermediary Program (QIP) is responsible for the withholding and related documentation requirements for foreign banks, foreign branches of U.S. banks, and other non-U.S. financial institutions that must comply with withholding tax laws. In general, a Qualified Intermediary (QI) is a foreign financial institution or foreign branch of a U.S. financial institution that enters into an agreement with the IRS. The QIP will implement the FATCA withholding requirements and ultimately the reporting of U.S.-source income sent offshore.

  In addition, the Withholding Tax Refund Program will be updated to create new electronic forms and reports to support the HIRE Act filing and disclosure requirements, handle the thousands of expected claims, provide data storage and analysis, and ensure proper and timely processing of returns and cases. The number of entities applying to become QIs will increase significantly from the current 5,014 QIs to approximately 20,000 to 100,000 entities. As a result, the IRS expects a high volume of customer inquiries in response to the influx of new QIs. The IRS will not enter into a QI withholding that provides for the use of documentary evidence obtained under a country's know-your-customer (KYC) rules if it has not received the KYC practices and procedures for opening accounts and responses to specific questions. The additional staffing will approve KYC rules of these additional jurisdictions and perform outreach where needed.

Automatic matching of payments to annual income tax return data is the most efficient and effective tool that the IRS uses to ensure compliance. The Form 1042-S will be used to determine whether tax is owed on U.S. source income flowing to an offshore locality by determining the identity of the recipients. The enhancement of systems to reconcile Form 1042, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*, 1041-T, *Allocation of Estimated Tax Payments to Beneficiaries*, with Form 1042-S will provide significant steps toward achieving international compliance in an efficient manner.

With passage of the HIRE Act, the U.S. Withholding Agent will be responsible for establishing the Form 1042 Advanced Review Program (ARP). Additional resources will allow IRS to establish this program to work with taxpayers to resolve issues before filing their 1042 withholding tax return.

Withholding taxes on payments to foreign financial institutions and non-financial foreign entities that do not agree to make the disclosures are intended to function like a back-up withholding tax, so that beneficial owners would be eligible to claim a refund or credit for any withholding in excess of their tax liabilities. As a result of the enacted legislation and the need for increased withholding of income taxes on payments to foreign persons, the IRS will implement revenue protection systems that will check for erroneous tax refund claims. As in prior years, thousands of claims for a refund of taxes withheld or paid are likely. The legislation will add to the number of withholding returns as well as claims, and the IRS must increase the capabilities of the Withholding Tax Refund System to respond to these additional claims to protect revenue.

FATCA also imposes significant tax withholding penalties on foreign financial institutions that do not disclose holdings by U.S. individuals or firms and creates new information reporting requirements. To avoid the withholding requirements, the foreign financial institutions must enter into an agreement with the Department of the Treasury to identify all U.S. accounts held by it or its affiliates and report annually to Treasury on each account. Further, the foreign financial institution must comply with requests by Treasury for additional information regarding each U.S. account and must attempt to obtain from each holder of a U.S. account a waiver of any bank secrecy law that would otherwise prevent such a report. If a waiver is not obtained from each holder of a U.S. account, the account will be closed. This initiative funds enforcement of the reporting requirements through new administrative and compliance activities.

This initiative will allow IRS to conduct 117 more specialty program audits.

- Development and Improvement of IT Systems and Specialized Tools

The funding also will allow for the development and improvement of systems to carry out key areas of the FATCA legislation and for the development of specialized tools to detect abuses and trends in international taxpayer data and the linking of international data to tax return data. This includes system capabilities to:

- Enable secure Web-based interactivity to implement provisions that require the creation of formal working agreements between the IRS and Foreign Financial Institutions (FFI);
- Accept, store and retrieve FFI information such as FFI agreements, annual account reporting, and certifications;
- Automate the interface between the data secured via the Web-based Portal and the IRS Master File (MF) stored data;
- Perform document matching on IRC sections 1471 (imposes a 30 percent tax on foreign financial institutions who do not meet certain reporting requirements) and 6038D (requires U.S. persons to report foreign investments) and Report of Foreign Bank and Financial Accounts (FBAR) account data;
- Generate reports on FATCA Audit and Registration certifications; and
- Provide public access to published FFI information.

Automatic matching of payments to annual income tax return data is the most efficient and effective tool that the IRS uses to ensure compliance. The Form 1042-S will be used to determine whether tax is owed on U.S. source income flowing to an offshore locality by determining the identity of the recipients. The enhancement of systems to reconcile Forms 1042, 1041-T, with Forms 1042-S will provide significant steps toward achieving international compliance in an efficient manner.

- Expand Coverage of International Tax Return Filings

  With the increased reporting of withholding requirements required by FATCA legislation, this initiative funds withholding compliance activities. It provides new coverage for discrepancies identified through third-party correlations based on FATCA and will enhance and centralize coverage for non-filer taxpayers and those with withholding-related issues. The funding also will allow IRS to handle the calls/communications resulting from notices sent to taxpayers for resolution by the Campus Compliance Unit (CCU) that will identify emerging issues with FATCA compliance with respect to international tax filings or other international tax issues. IRS will compile data and reports that will provide more complete background information during the initial set up of related audit case files. The building of these case files will create increased efficiencies during the examination process by highlighting the FATCA non-compliance areas for examiners relative to the unique needs of this compliance initiative.

  These additional resources will increase the number of correspondence examinations by 21,540 individual audits.

- International Compliance Field Operations

  Offshore financial centers offer strict financial secrecy and low tax rates or no taxes to non-residents who maintain bank accounts, investments, and/or other financial assets or structures within their jurisdiction. They also allow for the formation of non-resident entities such as international business corporations, personal investment corporations, and foreign trusts to act as de facto holding companies to shield the beneficial ownership of those financial assets. This lack of transparency makes offshore financial centers a haven for U.S. taxpayers to divert income and shield assets. Further, revenue is lost because of weaknesses in compliance involving Chapter 3 withholding issues. FATCA will strengthen compliance efforts in this area.

  With the increased mobility of people and transactions, the chances for non-compliance increase because of the lack of understanding of filing and reporting compliance for individuals living or working abroad. In addition, the internet has made it easier for more U.S. citizens to have investments in foreign countries, resulting in more complex tax situations. An indicator of this growth is the 133 percent increase in individual Americans claiming foreign tax credits from 2000 to 2007.

  This funding also will ensure proper coverage of the increasing number of small businesses with assets of less than $10 million that have expanded into the international markets.

  This initiative will allow the IRS to:

  - Increase resources needed to identify and audit schemes to avoid FATCA compliance involving offshore financial centers;
  - Increase audit coverage for U.S. taxpayers living abroad, non-resident aliens and small businesses operating overseas; and
  - Ensure proper application of treaty benefits, foreign tax credits and foreign earned income exclusion.

  Once the new hires reach full potential in FY 2014, the IRS will increase the number of examinations by 769 (614 individuals and 155 businesses).

- Criminal Investigation

  This initiative also will fund the expansion of criminal investigation efforts to identify and investigate U.S. citizens and residents that hold substantial funds in financial institutions in foreign countries and fail to disclose the holdings to the IRS or fail to follow FATCA reporting and withholding requirements. The IRS and the Financial Crimes Enforcement Network plan to expand the Suspicious Activity Report/Report of Foreign Bank and Financial Accounts (SAR/FBAR) project to countries beyond Mexico.

Once the new hires reach full potential in FY 2014, the IRS will increase the number of cases completed by seven cases.

<u>Increase International Coverage (+$15.8 million / +107 FTE)</u>

- Expand Global High-Wealth Coverage

  High-wealth individuals frequently operate complex enterprises consisting of multiple, interrelated businesses and flow-through entities that often have international components. The complex interrelationships and ownership patterns within these enterprises often mimic those of large corporations and pose significant challenges to effective tax administration. This initiative continues IRS's efforts to focus on Global High-Wealth (GHW) taxpayers by increasing risk identification, case building, and examination capabilities.

  The IRS will take a unified look at the entire web of business entities controlled by high-wealth individuals to better assess the risks. Addressing the high-wealth population holistically will allow the IRS to better align and coordinate its resources toward this higher compliance risk population and develop better approaches in accordance with identified risk factors. The goal is to identify alternative treatment and engagement options to encourage greater voluntary compliance. Additional benefits include addressing a concern that traditional methods of assessing high-wealth compliance risk, done largely on a return-by-return, year-by-year basis, may have overlooked aspects of complex enterprise structures frequently employed by high-wealth individuals.

  This initiative will allow the IRS to:

  - Conduct examinations of GHW individuals and related entities;
  - Refine a risk assessment process for GHW enterprises;
  - Examine highly-complex returns to address the non-compliant entities;
  - Address non-compliance stemming from multi-jurisdictional tax evasion schemes; and
  - Improve existing methods of capturing data to allow better and quicker identification of abusive transactions related to complex enterprises and structures.

  Once the new hires reach full potential in FY 2014, the IRS will conduct 25 more individual and 274 business examinations.

- International Central Withholding Agreements

  Non-resident aliens (NRAs) who earn income also can be subject to U.S. taxation. Increased coverage will ensure that the filed returns of foreign athletes and entertainers, who have entered into Central Withholding Agreements (CWA), properly reflect income and deductions. A CWA is an agreement between the

IRS and a NRA, usually an athlete or entertainer, and their withholding agent and/or promoter based on the net compensation the nonresident alien expects to earn in the United States. From 2004 through 2006, visas issued to foreign athletes and entertainers rose 9 percent each year. There were 78,000 of this type of visa issued in 2006 (most current figure available and does not include residents of Canada and Mexico). At a projected coverage of 70 percent, there are a possible 54,600 CWA candidates.

Criminal Investigation International Expansion (+$8.5 million / +36 FTE)

The additional resources for Criminal Investigation (CI) will add special agents and support staff to maximize the deterrent effect of CI activities, increase voluntary disclosure, increase the number of potential tax evaders identified, and increase the tax revenue collected. This increased revenue applies not only to the years under investigation but to subsequent years after the taxpayer re-enters the tax system.

Similarly, the IRS will expand cooperation with the Department of Homeland Security (DHS), Immigration and Customs Enforcement (ICE) and Trade Transparency Unit (TTU) to identify import/export businesses involved in trade and transfer pricing transactions designed to facilitate tax evasion and money laundering activities. These programs will enhance IRS's ability to identify and develop leads for criminal investigations within domestic field offices.

The IRS has committed to the Attorney General to support the International Organized Crime (IOC) strategy and agreed to place staff at the International Organized Crime Intelligence and Operations Center (IOC-2) in support of intelligence gathering on international organized crime. While the IOC-2 will generate leads and support case agents, the Global Illicit Finance Team (GIFT) will address the financial investigations at the working agent level. The establishment of a West Coast GIFT and an expansion of the East Coast GIFT will enhance IRS efforts to respond effectively to the escalating demand for special agents to investigate illicit financial transactions on a national and international level. The operations of both IOC-2 and GIFT also will involve substantial coordination with IRS foreign attachés, as well as other federal attachés and other foreign law enforcement agencies.

This initiative will allow the IRS to:

- Further its global presence and its pursuit of offshore tax and financial crimes; and

- Support the Department of Justice Law Enforcement Strategy to combat international organized crime.

Once the new hires reach full potential in FY 2014, the IRS will increase the number of cases completed by 21 cases.

International Data Analysis (+$8.8 million / +19 FTE)

This initiative provides funding to perform international data analysis to detect abuses and trends.

The IRS receives annual submissions from tax treaty partners with income and withholding statements for U.S. taxpayers in foreign countries for a variety of income types, including interest, dividends, royalties and capital gains. The IRS also forwards to treaty partners similar information taken from the submissions of Form 1042-S for foreign taxpayers earning income in the U.S. Data are received in various formats by multiple recipients throughout the IRS, but not all business users with a need have access nor is it available in forms that facilitate full usage for tax purposes. For much of the data, effective electronic analysis has not occurred. The initiative would build on the prototype already developed that provides the means for electronically analyzing passport renewal data, security and exchange commission forms, routine exchange data from treaty partners and other data as identified. Currently, the IRS is not incorporating this tax information into information matching programs, and only rarely is this information incorporated into ongoing compliance efforts. This solution will:

- Provide inclusion of foreign income into information matching programs reducing a serious tax gap related to these types of returns;
- Make the data available for compliance research for modeling taxpayer behavior and for the identification of high-risk returns; and
- Strengthen partnerships with tax treaty partners by providing a more effective means of exchanging information in a timely way.

Similarly, the IRS currently has no way to link individual filers with complex international financial transactions to related businesses and other entities to which they have significant or controlling interests. This solution provides the overall approach for providing technology capabilities to support international risk assessments and tax compliance across the IRS and to support several new initiatives, such as the GHW Industry and Transfer Pricing Practice.

To address current limitations of international tax compliance, the IRS seeks additional resources to:

- Increase acquisition, utilization and availability of information on international tax issues such as passport renewal data, security and exchange commission forms, routine exchange data from treaty partners, and any additional data that might be identified;
- Increase international compliance risk assessment (i.e., link GHW industry individual taxpayer behaviors to businesses or tax-exempt organizations);
- Leverage insights into international compliance risks across all international taxpayer segments;

- Improve international compliance workload identification across IRS organizations to assess the total volume of workload exhibiting specific compliance risks; and
- Create an enterprise-wide database with tools and technologies that can be used throughout IRS to:
    - Promote collaborations for cases that cut across the IRS organization;
    - Centralize disparate datasets into a cohesive data sharing strategy;
    - Analyze complex international and offshore cases; and
    - Identify abusive transactions and emerging trends.

Other Direct Costs (+$4.5 million / +29 FTE)

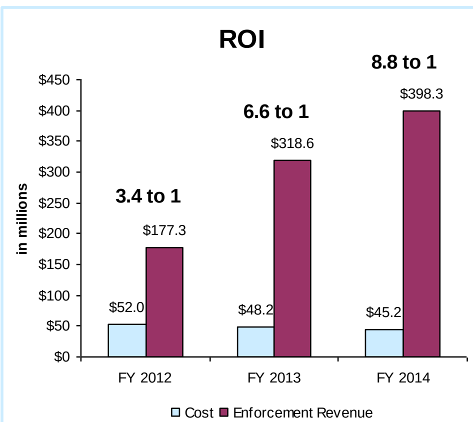
Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	$1.5	10	Ensure proper handling of cases, fair enforcement of laws, and – when appropriate – equitable application of taxes and penalties.
Chief Counsel	$3.0	19	Support examinations of Forms 1042 and 1042S and assist audit teams in addressing complicated withholding issues.
Total	**$4.5**	**29**	

Increase Collection Coverage
+$52,000,000 / +413 FTE

Funding for Increase Collection Coverage will expand work on the collection inventory and improve collection processes to bring taxpayers who fail to pay their tax debt into compliance and produce additional annual enforcement revenue of $398.3 million with an ROI of 8.8 to 1 once the new hires reach full potential in FY 2014.

Position Type/Other Costs	FTE	$000
Nonfiling/Underpayment Compliance	282	$26,300
Customer Service Representative	254	22,737
Support Staff	28	3,202
Safeguard Travel		361
Offers-In-Compromise (OIC)	75	$7,920
Revenue Officer	25	4,127
Tax Examiner	17	1,493
Support Staff	33	2,300
Other Costs	56	$5,755
Appeals Officer	5	750
Revenue Agent	1	137
Attorney	10	1,773
Customer Service Representative	35	2,618
Support Staff	5	477
IT Projects	0	$12,025
Electronic Lien (e-Lien)		3,000
Business Masterfile CCNIP		3,025
Integrated Collection System (ICS)		2,000
Consolidated Decision Analytics (CDA)		3,000
Online Offer-in-Compromise (OIC)		1,000
Total	413	$52,000



Major Activities	Projected Revenue $M	TDI Closures	TDA Closures
Nonfiling/Underpayment Compliance	$398.3	25,200	144,300

Nonfiling/Underpayment Compliance (+$26.3 million / +282 FTE)

This initiative funds the expansion of the Automated Collection Systems (ACS) program to address nonfiling and underpayment compliance more effectively. The increase will allow the IRS to address growing collection case inventories and call volumes. This effort will help reduce the nonfiling tax gap, estimated at $27 billion (approximately 8 percent), and the underpayment tax gap, estimated at $33 billion (approximately 10 percent).

The ACS is a call-site operation and is the most productive IRS program for revenue collection. In FY 2010, ACS call volume was 11 percent more than in 2009. Significant increases in phone volume occurred after IRS representatives began leaving messages identifying IRS as the caller. ACS support staff will be increased in Atlanta to help place employees who will be effected by the closing of the Atlanta Submission Processing Center scheduled for the end of FY 2011. These ACS resources will address the workload generated by increased balance due and delinquent return notices and the expansion of the international examination program, which resulted in a significant increase in workload.

Offers In Compromise (OIC) (+$7.9 million / +75 FTE)

The OIC program processes taxpayer requests to reduce or eliminate their tax liabilities because of extreme circumstances and/or hardship. In FY 2010, the requests for OIC services was 8.5 percent more than in 2009. The funding will address the increased workload attributable to more taxpayers experiencing economic hardship and the IRS focus on assisting unemployed taxpayers. Even with the additional resources requested in the FY 2011 budget request, current submission levels will overwhelm the program and will result in case processing delays.

Collection IT Requirements (+$12.0 million)

The IRS cannot pursue a large portion of its collection inventory because of resource constraints and is developing innovative approaches to inventory selection. The following projects will allow the IRS to innovate and improve the collection process:

- Consolidated Decision Analytics (CDA) – Improve the selection, prioritization, and assignment of collection cases. The initiative supports the enhancement of workload prediction and selection models, allowing the IRS to allocate collection resources more effectively to reduce the tax gap and address the inventory of unpaid assessments.
- Integrated Collection System (ICS) – Continue the modernization of ICS through automation of manual processes, improving employee efficiency and productivity, and providing a streamlined process for capturing financial data.
- Business Masterfile Case Creation Non-filer Identification – Identify business return non-filers, including unknown non-filers who may be delinquent in filing their tax returns. Expand current algorithms and data sets and incorporate available state return data to improve the quality of case selection and allow the system to become the primary repository where cases are created, prioritized, selected and maintained.
- Electronic Lien (eLien) System – Develop an eLien system to deliver liens electronically. More than one million federal tax lien documents are mailed each year to more than 4,000 state and local jurisdictions. This system will eliminate GAO findings by reducing the time to file lien releases and resolve lost liens. Tax liens are a significant tool in the IRS collection program, resulting in the filing of over 450,000 liens annually.

Other Costs (+$5.8 million / +56 FTE)

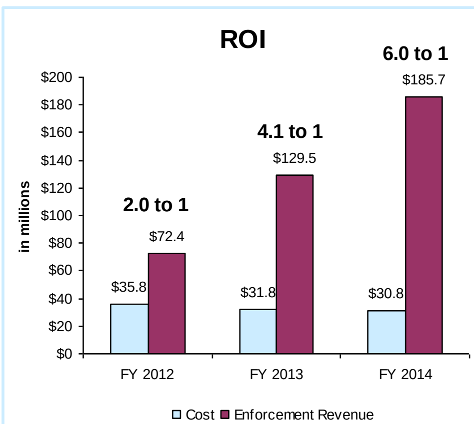
Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	$1.0	7	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	$2.0	12	Provide advice related to refundable credits and assist in litigation against promoters of schemes to fraudulently claim these credits and any cases resulting from denial of refunds. Advise examiners hired to do employment tax audits.
Taxpayer Advocate Service	$0.3	3	Ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayers' rights.
Wage & Investment	$2.5	34	Support examination efforts by ensuring staffing available to handle downstream impact in collection, accounts management and submission processing operations.
Total	**$5.8**	**56**	

Implement Merchant Card and Basis Reporting
+$35,730,000 / +415 FTE

Funding for Implement Merchant Card and Basis Reporting will staff programs to implement information reporting on merchant payment card and third party reimbursements enacted in the Housing and Economic Recovery Act of 2008 (Public Law 110-289) and basis reporting on security sales enacted in the Emergency Economic Stabilization Act of 2008 (Public Law 110-343), producing additional annual enforcement revenue of $185.7 million with an ROI of 6.0 to 1 once the new hires reach full potential in FY 2014.

Position Type/Other Costs	FTE	$000
Information Reporting on Merchant Card Reimbursements AUR	327	$27,456
Tax Examiner	185	17,529
Data Transcriber	126	8,291
Support Staff	16	1,142
IT Equipment		494
Basis Reporting on Security Sales	20	$1,316
Data Transcriber	20	1,316
Other Costs	68	$6,958
Revenue Officer	13	1,763
Revenue Agent	1	137
Customer Service Representative	28	2,099
Attorney	4	725
Paralegal	3	265
Support Staff	19	1,969
Total	415	$35,730



Major Activities	Individual and Business Return Audits
Information Reporting on Merchant Card Reimbursements	325,000

The IRS is building new IT systems and modifying existing systems to create the Business Master File Automated Underreporting Program (BMF AUR) to implement document matching for merchant card payment transactions. In FY 2011, the IRS requested resources to pilot the Business Master File AUR program and test new procedures. The FY 2012 initiative will allow the IRS to implement additional document matching for merchant payment card and third party entities that transfer payments and money between banks and merchants to report the amount of the transaction, and the name, address, and taxpayer identification number (TIN) of each payee receiving payments from reportable transactions on Form 1099-K, *Merchant Card and Third Party Payments.*

Information Reporting on Merchant Payment Card Reimbursements – Underreporter (+$27.5 million / + 327 FTE)

Underreported business income accounts for a significant portion of the individual income tax gap. A business receives payments for goods or services through a consumer payment card or through third party entities. These receipts can go unreported by businesses, thereby significantly contributing to the tax gap.

The enacted legislation allows the IRS to validate income reported by businesses with their payment card receipts and third party transactions through additional information reporting:

- Payment card processors will report total payments made to a business; and
- Third party settlement organizations will report network transactions settled among participating payees.

The legislation will help reduce the tax gap in three ways:

- A business could reconcile merchant card payments and third party network transactions to an official year-end statement;
- A business could avoid underreporting knowing the IRS performs income validation through document matching; and
- A business that evades its tax obligations by not filing or understating its income would be easier for the IRS to identify.

To implement the document matching of Merchant Payment Card reimbursements, this initiative funds 126 FTE for data transcribing to capture payment information and new line items from income tax forms and 185 FTE (AUR tax examiners) to reconcile approximately 242,000 additional tax returns beginning in FY 2012. Once new hires reach full potential in FY 2014, this investment will produce 325,000 more individual and business return reconciliations.

Basis Reporting on Security Sales (+$1.3 million / +20 FTE)

GAO estimated that 36 percent of individual taxpayers misreported their securities capital gains or losses in tax year 2001. The estimated capital gains tax gap for Tax Year 2001 is $11 billion. The enacted legislation requires investment brokers to report the adjusted basis of publicly traded securities owned by customers. The Basis Reporting on Security Sales program audit workload levels would remain the same. However, the additional information would improve productivity, case selection, and greatly reduce the "no change" rate.

This initiative includes 20 FTE to transcribe basis information from Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions,* and related income tax line items on Form 1040 *Schedule D, Capital Gains and Losses.* This information will capture basis reporting on securities sales to improve document matching.

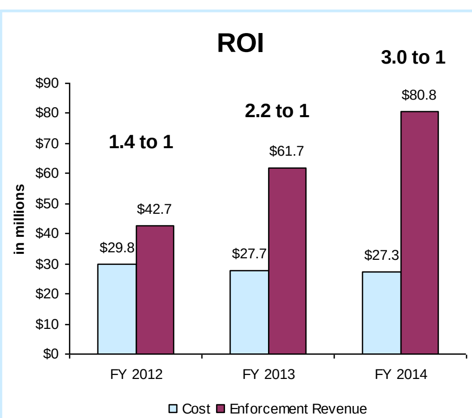
Other Direct Costs (+$6.9 million / +68 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	$2.0	15	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	$1.1	9	Litigate those cases that are not resolved at the audit or appeals stages.
Taxpayer Advocate Service	$1.7	16	Ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayers' rights.
HCO	$0.1	1	Handle increased workload to hire and support staff.
Wage & Investment	$2.0	27	Support examination efforts by ensuring staffing available to handle downstream impact in collection, accounts management and submission processing operations.
Total	**$6.9**	**68**	

Increase Coverage to Address Tax Law Changes and Other Compliance Issues
+$96,718,000 / +497 FTE

The Increase Coverage to Address Tax Law Changes and Other Compliance Issues initiative addresses compliance issues and new responsibilities arising from recent tax law changes included in major legislation such as the American Recovery and Reinvestment Act of 2009 (Recovery Act) (Public Law 111-5) and the Affordable Care Act (ACA) (Public Law 111-148). This initiative will fund compliance programs needed for new provisions such as direct-pay bonds, new requirements on tax-exempt hospitals, a new fee on manufacturers and importers of branded prescription drugs, the excise tax on indoor tanning, and also will increase specialty programs (i.e., employment tax, excise tax, and estate and gift tax) audits. These resources would produce additional annual enforcement revenue of $80.8 million with an ROI of 3.0 to 1 once the new hires reach full potential in FY 2014.



Position Type/Other Costs	FTE	$000
Expand Coverage of Specialty Taxes	45	$6,730
Revenue Agent	32	4,408
Attorney	11	1,642
Support Staff	2	180
Contractor Service		500
Support Expansion of Direct-Pay Bonds	16	$2,550
Revenue Agent	8	1,093
Tax Law Specialist	4	825
Program Manager	2	460
Clerk	2	164
Support Services		8
Taxpayer Service Support for AUR Soft Notices	36	2,742
Customer Service Representative	23	1,707
Tax Examiner	13	855
Additional Postage for Soft Notices		180
Examination IT Requirements		$5,975
Correspondence Imaging Compliance (CIC)		5,975
Other Costs	37	$5,106
Revenue Agent	3	410
Appeals Officer	23	3,446
Attorney	2	402
Customer Service Representative	3	287
Taxpayer Advocacy Specialist	2	209
Manager, Analyst, and Support Staff	4	352
Implement Affordable Care Act (ACA)	312	$65,606
Promote Compliance with New Excise Tax	**81**	**$11,506**
Revenue Agent	58	9,166
Tax Examiner	8	687
Tax Technician	2	181
Manager, Analyst, and Support Staff	13	1,472
Administer New Fees on Drug Manufacturer and Health Insurers	**76**	**$29,278**
Revenue Agent	5	1,025
IT Project Specialist	67	10,747
Manager, Analyst, and Support Staff	4	764
Contractor Service		12,092
Software		750
Computer Equipment		3,900
Strengthen Oversight of Exempt Hospitals	**84**	**$9,861**
Revenue Agent	35	3,965
Tax Law Specialist	22	3,433
Manager, Analyst, and Support Staff	27	2,463
Update Existing IT Systems for Tax Law Changes	**71**	**$14,961**
IT Project Specialist	71	11,361
Computer Equipment		3,600
Other ACA Costs	51	$8,009
Appeals Officer	10	1,879
Attorney	8	1,501
Taxpayer Advocacy Specialist	17	1,641
Manager, Analyst, and Support Staff	16	2,988
Total	497	$96,718

Major Activities	Projected Revenue $M	Specialty Program Audits	Exams
Specialty Programs	$43.0	2,210	
IRS Bond Enforcement Activities			675
Affordable Care Act			
Promote Compliance with New Excise Tax	$37.8	1,000	
Strengthen Oversight of Exempt Hospitals			1,700
Total	**$80.8**	**3,210**	**2,375**

Expand Coverage of Specialty Taxes (+$6.7 million / +45 FTE)

This initiative increases compliance activities in the Employment, Excise, and Estate and Gift Tax Programs:

- The *Employment Tax* program would focus on misclassification of employees as independent contractors through an increase in worker classification audits. It also would focus on tip compliance by assessing the employer share of FICA taxes on unreported tip income and expanding the Voluntary Compliance Agreement process for governmental employers.
- The *Excise Tax* program would focus on the increased workload involving international issues of foreign entities such as insurance brokers and foreign airlines, referrals from large business audits, and non-filers.
- The *Estate and Gift Tax* program would focus on changes in the estate tax law and on expanding non-filer work in both programs. IRS non-filer work has improved using data from state agencies and new research to develop and refine both estate and gift non-filer models. The expansion of efforts to address non-filers is critical to achieving a higher level of voluntary compliance with estate and gift laws.

Once the new hires reach full potential in FY 2014, this investment will produce 2,210 more specialty program return audits and generate $43 million in revenue.

Support Expansion of Direct-Pay Bonds (+$2.6 million / +16 FTE)

Build America Bonds (BABs) are tax-credit bonds created by the Recovery Act, which were extended and expanded by the Hiring Incentives to Restore Employment Act (Public Law 111-147). The requested resources would allow IRS enforcement to keep pace with the projected growth in these and similar refundable credit bonds by:

- Performing critical pre-payment and post-issuance compliance checks on direct payment bonds;
- Regulating the volume cap limitations;
- Preventing the risk of lost revenue by maintaining a strong examination program to address both traditional tax exempt bonds and new tax advantaged issuances such as BABs; and
- Meeting the demand for new bond issuances.

The direct payment feature of BABs and other refundable tax credit bonds introduces new risks to the Treasury. Through November 2010, state and local governments issued more than 2,000 direct-pay bonds worth $165 billion. Since enactment of the Recovery Act, the IRS has completed pre-payment compliance reviews for more than $2.5 billion in refundable credit payments. Without the requested resources, the risk of fraudulent credit payments made to BABs and other direct-pay bonds (potentially in the millions of dollars) would increase, and the ability of the IRS to prevent, detect, and remedy noncompliant bond transactions would decrease. Additionally, many of these new bond arrangements are subject to volume cap limitations that restrict the aggregate value of bond issuances.

These staffing resources would be dedicated to monitoring the dollar limitations for tax-preferred bonds, would strengthen IRS's ability to ensure compliance with the volume cap rules, would allow the IRS to conduct pre-payment reviews for each related bond return, and would ensure that direct-pay bonds meet compliance requirements throughout their life cycle. Without this staffing, BAB and direct-pay bond compliance activities would strain existing enforcement resources and would decrease the number of completed exams in the Tax Exempt Bond examination program.

<u>Taxpayer Service Support for AUR Soft Notices (+$2.7 million / +36 FTE)</u>

The IRS Strategic Plan includes the expansion of enforcement tools such as soft notices. A soft notice asks the taxpayer to self-correct to avoid the traditional compliance treatment resulting in additional phone calls and an increase in the number of amended returns filed. The AUR program minimizes revenue loss through document matching of taxpayer account information. Approximately 12 million taxpayers each year misreport income based on matching with third-party information returns. Of these taxpayers, the AUR program processes about four million cases. This initiative allows the IRS to issue notices to more non-compliant taxpayers.

<u>Examination Information Technology (IT) Requirements (+$6.0 million)</u>

The IRS requests resources to make the exam process more efficient through the following technology initiatives:

- Correspondence Imaging Compliance (CIC) – Campus Compliance annually receives about 16 million pieces of correspondence averaging 10 pages each. The current manual process causes lengthy delays between receipt and disposition, resulting in increased telephone calls and resubmissions. CIC would replace the manual process with an electronic imaging system that would use existing technology. This investment:

    - Allows real-time access to documents when taxpayers contact the IRS;
    - Provides better management of correspondence inventory;
    - Allows correspondence to be available within one to three days, versus weeks;
    - Reduces cycle time or days in inventory; and
    - Reduces call volumes and duplicative mail receipts.

  Hard copy document storage at the Federal Records Center and transshipments cost savings of $12.1 million also would be realized during the project life cycle.

Implement Tax Code Changes (+$65.6 million / +312 FTE)

- Promote Compliance with New Excise Tax (+$11.5 million / +81 FTE)

  The ACA imposes a new 10 percent excise tax on indoor tanning services provided on or after July 1, 2010. As many as 25,000 businesses provide indoor tanning services, including about 10,000 businesses that offer tanning services along with other services, such as spas, health clubs, and beauty salons. These entities typically do not have experience filing federal excise tax returns. This tax is expected to nearly double the number of Form 720, *Quarterly Federal Excise Tax Return*, that the IRS receives each quarter, from about 25,000 to more than 45,000.

  To promote compliance with this new tax, the IRS has developed a comprehensive strategy to identify the affected population and reduce non-filing through the use of notices sent before initiating compliance activity. The IRS would select entities for examination based on risk, with an emphasis on non-filers. The IRS expects to close about 1,000 excise tax cases annually by FY 2013.

- Administer New Fees on Drug Manufacturers and Health Insurers (+$29.3 million / +76 FTE)

  The IRS must administer a new aggregate annual fee on businesses engaged in manufacturing and importing branded prescription drugs sold to specified government programs. The fee, set at $2.8 billion for 2012 and 2013, represents a significant new source of revenue and requires the development of new systems and new processes for interacting with the affected business community. The IRS will receive and process information from manufacturers/importers and specific government programs (Veterans Affairs, Medicare Parts D and B, Medicaid, Department of Defense and TriCare) to determine each manufacturer's fee assessment. Continuing administration includes IRS collection of data, computation of each entity's fee amount, and notification of payment due. This system also would provide a technology platform for administering fees on health insurance policies and self-insured health plans, which become effective after September 30, 2012.

- Strengthen Oversight of Exempt Hospitals (+$9.9 million / +84 FTE)

  The ACA establishes new requirements for tax-exempt hospitals, which include a majority of the hospitals in the United States. IRS submission processing operations will need additional staff to process these new reporting requirements. In addition, the IRS is required to review, at least once every three years, the community benefit activities of tax-exempt hospital organizations to which new Section 501(r) applies (estimated at more than 5,100 entities). This initiative will increase the number of compliance reviews of tax-exempt hospitals by 1,700.

The first cycle of compliance reviews is scheduled to be completed by September 2013.

Additionally, the IRS (in consultation with the HHS) must develop and deliver a new annual report to Congress on levels of charity care in the hospital sector. These are substantial new requirements and additional resources are required to ensure the legislative intent of these changes is satisfied.

- Update Existing IT Systems for Tax Law Changes (+$14.9 million / +71 FTE)

  In the last few years recent tax law changes have required not only the design of new systems, but also have necessitated changes and upgrades to existing IRS systems to ensure that they accurately reflect the new requirements and can interact with other new systems. These changes allow the IRS to keep pace with new tax law, avoid the development of costly manual procedures to counteract unanticipated problems, and maintain the efficiency of IRS programs. It is critical that IRS systems reflect current law and exchange data and information reliably. These additional resources would help the IRS meet its tax administration responsibilities by keeping existing IT systems current with recent tax law changes that require the IRS to integrate new information reporting data, calculate and assess new taxes, administer new taxes (e.g., update tax accounts, send notices, provide updates to customer service), and assess penalties for incorrect reporting, failure to pay, etc.

Other Direct Costs (+$13.1 million / +88 FTE)

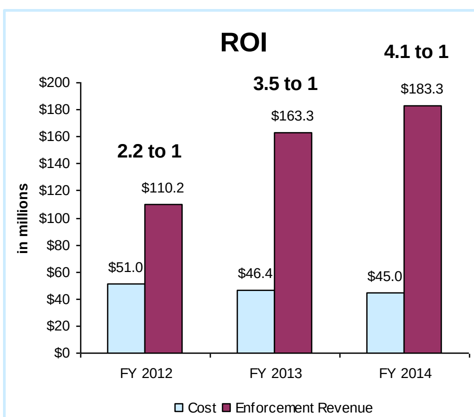
Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	$6.0	39	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	$2.0	12	Provide advice related to refundable credits and assist in litigation against promoters of schemes to fraudulently claim these credits and any cases resulting from denial or refunds. Advise examiners hired to do employment tax audits.
Taxpayer Advocate Service	$1.0	19	Ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayers' rights.
Wage & Investment	$2.0	3	Support examination efforts by ensuring staffing available to handle downstream impact in collection, accounts management and submission processing operations.
HCO	$0.1	1	Handle increased workload to hire and support staff.
ACA Program Management (CFO/NHQM/WAGE)	$2.0	14	Overall program management and administration of ACA tax law changes.
Total	**$13.1**	**88**	

Ensure Accurate Delivery of Tax Credits
+$260,293,000 / +834 FTE

Recognizing IRS's important role in delivering economic incentives through tax credits, the Ensure Accurate Delivery of Tax Credits initiative will improve the delivery of existing credits through a combination of improved technology tools and increased enforcement staffing. The initiative also funds the information technology and other systems required to implement the new ACA premium assistance tax credit, which becomes effective in 2014. The IRS must build new systems to support eligibility determinations based on household income, and modify existing tax processing systems to support reconciliation of advance payments of the credit. The initiative also funds the appropriate compliance resources for the small employer tax credit, which came into effect in 2010. The resources devoted to improving administration of existing credits would produce additional annual enforcement revenue of $183.3 million with an ROI of 4.1 to 1 once the new hires reach full potential in FY 2014.

Position Type/Other Costs	FTE	$000
Establish Refundable Credit Compliance Office	314	$30,176
Revenue Agent	5	605
Tax Compliance Officer	35	3,606
Tax Examiner	220	20,097
Manager, Analyst, and Support Staff	54	5,868
Other Costs	16	$2,621
Attorney	13	2,376
Manager, Analyst, and Support Staff	3	245
Implement Affordable Care Act (ACA)	453	$213,459
Provide Coverage for New Health Care Tax Credits	**234**	**$23,927**
Revenue Agent	193	20,113
Customer Service Representative	2	167
Tax Examiner	8	708
Manager, Analyst, and Support Staff	31	2,939
Provide Facilities and Infrastructure for New Compliance Staffing		**$13,837**
Expand IT Infrastructure for New Tax Credits	**219**	**$175,695**
IT Project Analyst	219	35,885
Contractor Service		111,960
Software		10,850
Computer Equipment		17,000
Other ACA Costs	51	$14,037
Appeals Officer	10	1,858
Attorney	7	1,322
Taxpayer Advocacy Specialist	16	1,550
Manager, Analyst, and Support Staff	18	9,307
Total	834	$260,293



Major Activities	Projected Revenue $M	Protected Revenue $M	Individual Audit	Business Audits	Exams
Refundable Credit Compliance Office	$128.9	$128.9	75,700		
Affordable Care Act	$54.4		5,000	9,000	1,000
Total	**$183.3**	**$128.9**	**80,700**	**9,000**	**1,000**

Establish Refundable Credit Compliance Office (+$30.2 million / +314 FTE)

The Refundable Credit Compliance Office will develop a comprehensive and integrated compliance strategy for administering refundable credits and rapidly addressing refund schemes.

A refundable tax credit is a credit that can reduce tax liability below zero and can result in a negative tax liability. If the credit exceeds the total tax liability, the excess is refundable and the government incurs an outlay. Examples of refundable credits are the Earned Income Tax Credit (EITC) and the Child Tax Credit.

Establishing an office dedicated to refundable credit work allows the IRS to address non-compliance and fraud trends that emerge from existing and future refundable credits. Once the new hires reach full performance in 2014, the IRS will complete 37,850 more post-refund audits, generating annual enforcement revenue of $128.9 million. The additional 37,850 pre-refund audits will protect an additional $128.9 million in revenue.

The additional staffing would allow the IRS to maintain broad exam coverage by meeting the challenges of new credits without reducing its coverage of existing returns. The IRS would work both individual and small business cases produced by the new refundable credits.

The initiative funding:

- Expedites pre-refund credit review and processing;
- Reduces the time to notify taxpayers of their eligibility for the credit; and
- Increases the number of post-refund audits.

Implement New Legislative Provisions (+213.4 million / +453 FTE)

- Provide Coverage for New Health Care Tax Credits
  (+$23.9 million / +234 FTE)

  The ACA created a significant new credit for small employers to encourage these employers to provide health insurance coverage for their employees. This credit is equivalent to 35 percent of the employer's health care premium expenses (25 percent refundable credit for tax-exempt employers). The credit percentage increases to 50 percent (35 percent for tax-exempt organizations) for tax year 2014 and beyond. The IRS has identified and communicated with more than four million small businesses potentially eligible for this credit. These additional resources will allow the IRS to conduct focused examinations to encourage compliance with this credit and would allow the IRS to include this issue in routine examinations of small employer tax returns without reducing coverage of other tax compliance issues. This initiative also provides resources to address the expanded adoption tax credit.

- Provide Facilities and Infrastructure for New Compliance Staffing (+$13.8 million)

  Administration of various credits established by the ACA (especially the Premium Assistance Tax Credit) requires additional IRS campus staffing. Although the premium credit does not become effective until 2014, the IRS must begin the process of acquiring and building out new facilities in 2012 so that they will be available and functioning when these new employees are hired. This request includes funds for acquiring space and equipping facilities with the telecommunications and networking infrastructure needed for enforcement staff to perform their job duties effectively.

- Expand IT Infrastructure for New Tax Credits (+$175.7 million / +219 FTE)

  The ACA establishes a new premium credit to subsidize the cost of health insurance for millions of Americans who do not have access to affordable coverage. For a number of reasons, administering this credit will require a significant investment in new technology. First, the eligibility for the credit is based on household-level income information that is not currently maintained. This initiative would create a new tax data repository to support the eligibility determination for this new credit.

  In addition, a new accounting and payment system would be needed to administer this benefit. The system would aggregate payments to insurers on the participants' behalf and track payments by insurer and participant.

  Furthermore, individuals must reconcile any advance payments received throughout the year with the actual income reported on the tax return. IRS must modify systems, forms and instructions to support this process.

  Finally, the IRS will build the infrastructure needed to perform document matching and other decision analytics to detect fraud and other non-compliance. Together, these systems ensure prompt and accurate delivery of the premium credit to eligible taxpayers while ensuring that this subsidy is not abused.

Other Direct Costs (+$16.7 million / +67 FTE)

Dollars in Millions

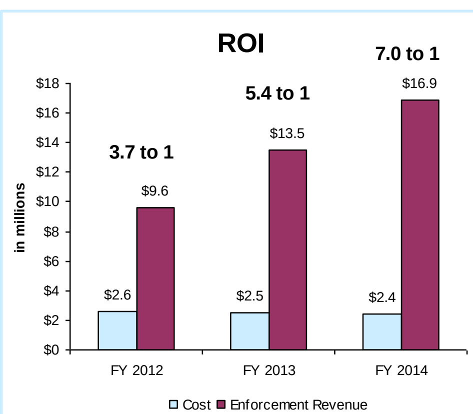
IRS Activity	Cost	FTE	Explanation
Appeals	$1.9	10	Staffing for increased receipts.
Chief Counsel	$4.3	26	Counsel providing legal support for compliance activities.
Taxpayer Advocate Service	$1.5	16	Staffing to handle additional case receipts.
ACA Program Management	$9.0	15	Overall program management and administration of ACA tax law changes.
Total	**$16.7**	**67**	

Administer New Statutory Reporting Requirements
+$58,505,000 / +187 FTE

Recent legislation established significant new information reporting and sharing requirements from third parties (such as employers, health insurance providers), and the exchanges to administer the ACA's premium assistance tax credit, the individual coverage requirement, and the employer responsibility payment. Effective implementation requires significant enhancements to existing information returns systems to handle the additional volumes and new information reporting categories. This initiative also includes resources to implement provisions that allow IRS to share tax data with state and federal entities to determine eligibility for the advance premium credit. This request also includes resources to ensure secure exchange of information.

Position Type/Other Costs	FTE	$000
Implement Affordable Care Act (ACA)	182	$57,676
Implement New 1099 Reporting Requirements	**82**	**$23,286**
Tax Examiners	29	2,627
IT Project Specialist	53	9,659
Contractor Services		6,000
Software		2,000
Computer Equipment		3,000
Implement New Health Coverage Information Reporting	**100**	**$34,390**
Tax Technician	7	1,121
Manager, Analyst, and Support Staff	28	5,676
IT Project Specialist	65	10,480
Contractor Services		13,888
Software		1,225
Computer Equipment		2,000
Other ACA Costs	5	$829
Attorney	4	751
Support Staff	1	78
Total	187	$58,505

In addition, the ACA, as enacted, also amends Section 6041 of the Internal Revenue Code to require businesses to file Form 1099 information returns starting in 2012 for all aggregate purchases of services or property greater than $600. The initial campus staff included in this initiative to handle the inventory resulting from this provision will produce additional annual enforcement revenue of $16.9 million with an ROI of 7.0 to 1 once the new hires reach full potential in FY 2014.



Major Activities	Projected Revenue $M	TDA/TDI Closures
Affordable Care Act		
Nonfiler Compliance	$16.9	70,000
Total	**$16.9**	**0**

Implement New 1099 Reporting Requirements (+$23.3 million / +82 FTE)

Under ACA, the Form 1099 reporting requirement for a taxpayer making payments to a recipient aggregating $600 or more for services or determinable gains in the course of a trade or business in a calendar year was expanded to include payments to corporations and payments for property. The IRS will need resources to hire additional campus staff and upgrade the Filing Information Returns Electronically (FIRE) system. The FIRE system provides the capability for businesses and others to file required information returns with the IRS in a cost-effective, electronic manner. In order to manage the additional workload from this provision, the IRS will need to upgrade the current system that is unable to handle the increased volume of submissions. This initiative also will provide the initial campus compliance staffing (29 FTE) to establish the program, including hiring and training of enforcement resources, to handle the additional inventory of non-filer assessments expected because of the expanded Form 1099 information reporting requirements from this enacted provision.

Note: The Administration has proposed to repeal this provision based on the burden it places on small businesses. Should this provision be repealed, the IRS would adjust its initiative needs accordingly.

Implement New Health Coverage Information Reporting
(+$34.4 million / +100 FTE)

The ACA establishes new requirements for employers and health insurance providers to report information to the IRS. It also creates new information sharing needs among the IRS, the HHS, and state health insurance exchanges. These requirements require the IRS to modify existing systems and develop new systems to accept, validate, process, aggregate, and store new information. This initiative includes IT resources to develop these systems and new staffing (35 FTE) to expand IRS safeguards and data protection.

Other Direct Costs (+$0.8 million / +5 FTE

Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Chief Counsel	$0.8	5	Develop policy for new reporting requirements and issue appropriate guidance to clarify requirements.
Total	**$0.8**	**5**	

Leverage Return Preparer Program to Reduce Noncompliance
+$16,600,000 / +108 FTE

Position Type/Other Costs	FTE	$000
Enforcement Support of the Return Preparer Program	108	$16,600
Revenue Agent	46	7,430
Revenue Officer	3	346
Tax Technician	22	2,429
Program Analyst	1	195
Special Agent	18	4,225
Appeals Officer	1	146
Attorney	1	162
Support Staff	16	1,667
Total	108	$16,600

Funding for Leverage Return Preparer Program to Reduce Noncompliance will increase tax return oversight to ensure that tax return preparers are competent and that the IRS collects the right amount of taxes. This initiative will ensure uniform and high ethical standards of conduct for tax return preparers by enforcing preparer compliance with IRS rules, increasing preparer examinations, and monitoring and pursuing preparers engaged in fraudulent activities. This initiative is core to the IRS's tax gap strategy and will increase government revenue.

Competent tax return preparers who are well educated in the rules and subject matter of their field can prevent costly errors, potentially saving a taxpayer from unwanted problems later on and relieving the IRS from expending valuable examination and collection resources. Given the important role that tax return preparers play in federal tax administration, the IRS has a significant interest in being able to identify tax return preparers and monitor their tax return preparation activities. This effort also will support the Department's High Priority Performance Goal of increasing voluntary compliance.

This initiative provides funding to ensure preparers are compliant with IRS rules and to design a preparer activity-monitoring program that will allow the IRS to:

- Match preparer information to the filed returns;
- Ensure return preparers are adhering to professional standards and the law;
- Ensure return preparers are compliant with their own tax returns; and
- Provide assurances to the taxpaying public that paid preparers are competent.

This initiative will deploy a coordinated return preparer compliance strategy by conducting visits and investigating suspicious activity, especially of abusive return preparers. The IRS plans to use undercover shopping, where appropriate, in the investigation of suspicious return preparer activity. The planning and synchronizing of shopping activities is a labor-intensive investigative tool. In an effort to enhance enforcement activities to identify unscrupulous return preparers, the IRS is requesting funding that will support the expansion of investigative efforts to include approximately 300 undercover shops each year.

To increase enforcement presence, the IRS will establish multi-agency tax administration taskforces to seek prosecution where appropriate with a focus on eliminating fraudulently obtained tax refunds. Special Agents will conduct outreach efforts that address return preparer concerns year round while working with the various state taxing agencies to leverage resources and collaborate in prosecution efforts.

This initiative establishes a Scheme Development Center (SDC) that will focus on detecting international tax avoidance schemes. The SDC will develop proactive approaches to protect the integrity of the U.S. tax system by:

- Developing and implementing procedures for compliance checks of international return preparers who specialize in preparing returns for U.S. citizens living abroad (expatriates) and foreign persons subject to U.S. tax on U.S. earned income;
- Developing leads received by attachés involving abusive promoters preparing bad returns for citizens abroad;
- Identifying taxpayers abusing the foreign tax credit; and
- Analyzing data received as a result of the voluntary disclosure process.

A one-visit comprehensive return preparer compliance check will be used to verify compliance of a return preparer. This approach will increase direct compliance time by eliminating administrative redundancies of operating individual programs and shifting resources to a more holistic review of the preparer. While providing a full treatment strategy to the highest risk preparers, this approach also will support any specialized emphasis that might occur (e.g., greater weight to monitoring of new tax law provisions, in particular refundable credits that provide unique opportunities for abuse).

Other Direct Costs

There are no other direct costs associated with this initiative.

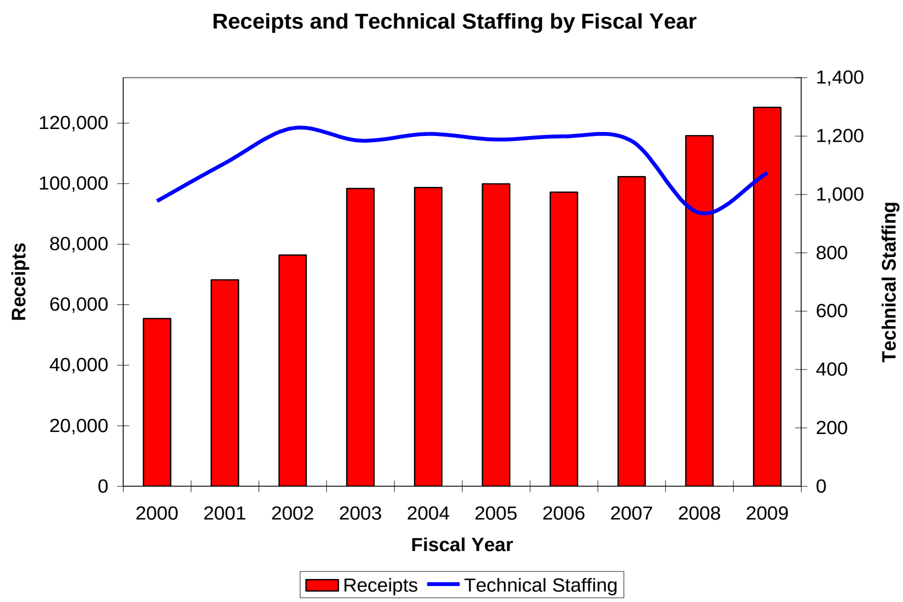
Address Appeals Workload Growth
+$9,100,000 / +66 FTE

Position Type/Other Costs	FTE	$000
Appeals Workload Growth	66	$9,100
Appeals Officer	20	2,902
Revenue Officer	46	6,198
Total	66	$9,100

Funding for Address Appeals Workload Growth will allow the IRS to increase Appeals staffing. Despite improvements in cycle time and increased efficiency in working cases, Appeals continues to experience rising inventories, and because of the nature of Appeals work, the cases are processed manually. Increased Appeals settlements lead to increased revenue.

From FY 2000 through 2009, Appeals experienced significant workload growth. Case receipts increased by almost 126 percent, from 55,000 cases to more than 125,000 cases. However, Appeals staffing levels remained relatively constant. In FY 2000, Appeals had 977 case-working staff. After years of decline in staffing levels and recent hiring, staffing levels reached 1,074 case-working staff in FY 2009. Although Appeals case workload grew 126 percent, Appeals case work staffing levels grew by less than 10 percent. As a result, the average case inventory per Appeals caseworker increased from 36 cases in FY 2000 to 70 cases in FY 2010.

The chart below illustrates the relationship between Appeals workload and staffing over the past decade:



Over the next several years, Appeals workload will continue to grow. Current projections indicate that by FY 2012 case receipts will exceed 152,000, an increase of nearly 22 percent. Growth will continue beyond FY 2012 as well, reaching a projected 181,000 case receipts in FY 2015, a 38 percent increase above current levels and a 227 percent increase since FY 2000.

To meet the challenges posed by the growing number of receipts, Appeals needs additional technical staff to handle the large number of cases it receives:

- Appeals Officers are highly trained tax specialists capable of adjudicating both examination and collection cases at all levels of complexity. The additional Appeals Officer staff will meet the need for additional teams throughout the country.
- Settlement Officers are specialized case-working staff trained to handle collection receipts. Due to the substantial growth in these cases over the past several years, Appeals needs additional Settlement Officers throughout the country to help resolve this work efficiently and effectively.

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement Uncertain Tax Position Reporting Requirements
+$4,129,000 / +20 FTE

Position Type/Other Costs	FTE	$000
Implement New Reporting Requirements	20	$4,129
Attorney	20	4,129
Total	20	$4,129

Funding to Implement Uncertain Tax Position Reporting Requirements will allow the IRS to provide guidance and certainty on tax positions and meet increasing taxpayer demands for this service. This increased workload is expected as a result of changes the IRS has proposed (Announcement 2010-9, Uncertain Tax Positions – Policy of Restraint) that require certain large business taxpayers to report information about their uncertain tax positions that could affect their U.S. federal income tax liability. It is a critical part of IRS's work to gain greater transparency into large corporate tax returns.

The IRS expects both the volume and complexity of workload to increase in areas listed below as taxpayers seek certainty on the most complex issues facing their organizations and tax administration.

- Advanced Pricing Agreements (APA);
- Private Letter Rulings (PLR);
- Non-PLR Closing Agreements (CLAG);
- Actions on Decisions (AOD);
- Published guidance of all types;
- Legal advice (Pre-Filing); and
- Inquiries and general information letters (as part of training).

Taxpayers subject to this requirement will provide a concise description of each uncertain tax position for which the taxpayer or a related entity has recorded a reserve for U.S. federal income tax in its financial statements. As proposed, a taxpayer also would be required to report those positions for which no reserve was established because the taxpayer expects to litigate the position and prevail in litigation.

The requirement will apply to business taxpayers with assets of more than $10 million and a financial statement prepared under FIN 48 (i.e, a standard for accounting for uncertainty in income taxes recognized in an enterprise's financial statements) or other similar accounting standard, such as International Financial Reporting Standards (IFRS), that reflects uncertain tax positions. Under this proposal, for each uncertain tax position identified, the taxpayer will be required to:

- Use a new schedule to disclose their uncertain tax positions and file it with the taxpayer's Form 1120, *U.S. Corporation Income Tax Return*, or other business tax returns; and

- Rank their uncertain positions from highest to lowest based on the size of the position (based on U.S. federal income tax reserve amounts).

The schedule was implemented in 2010 for corporations filing Form 1120, Form 1120F, *U.S. Income Tax Return of a Foreign Corporation*, Form 1120L, *U.S. Life Insurance Company Income Tax Return*, and Form 1120PC, *U.S. Property and Casualty Insurance Company Income Tax Return*.

Other Direct Costs

There are no other direct costs associated with this initiative.

Enhance Security and Disaster Recovery Systems Capability
+$12,000,000 / +5 FTE

Funding for Enhance Security and Disaster Recovery Systems Capability is part of a multi-year improvement strategy to support the continued deployment of critical disaster recovery capabilities. It would improve the resiliency of two critical business processes: *Processing Remittances and Processing Tax Returns*.

Position Type/Other Costs	FTE	$000
Develop Security and Disaster Recovery System Capability	5	$12,000
IT Project Specialist	5	619
IT Equipment		8,381
Software		1,000
Telecommunication Equipment		1,250
Contractor Services		750
Total	5	$12,000

This initiative enhances the resiliency of existing architectures by deploying systemic improvements to build a more fault-tolerant infrastructure designed to reduce the recovery time dramatically for critical applications supporting remittance and tax return processing. The improvements include:

- Enhancing mainframe and mid-tier system processing;
- Building test and development environments;
- Increasing network and data storage capacities;
- Deploying high-availability and geographically-dispersed data replication architectures;
- Leveraging virtualized infrastructures; and
- Evaluating alternative IT architectures, such as cloud-based computing, that can facilitate the provisioning and scalability of IT resources for disaster recovery requirements.

This initiative also will ensure IRS compliance with government mandates as directed by Critical Infrastructure Protection and Homeland Security Presidential directives.

<u>Enhance Security and Disaster Recovery Systems Capability (+$12.0 million / +5 FTE)</u>

Recent business impact and technical assessments confirmed that the IRS does not have adequate redundancy capabilities for critical tax processing systems. In the event of a disaster, the IRS would not be able to continue processing revenue, returns, and taxpayer refunds efficiently and provide customer service in a timely manner.

The IRS needs to maintain the capabilities that support its critical business processes. The two processes covered in this initiative represent the highest priority critical business processes in need of disaster recovery capabilities. In addition, Homeland Security Presidential Directive 7 has resulted in designating several IRS core tax processing systems that directly support *Processing Remittances and Processing Tax Returns* as an essential part of the national Critical Infrastructure Protection (CIP) Program.

The IRS CIP assets are part of the overall federal government continuity program that supports the requirements for maintaining national economic stability, national security, public morale, and confidence in government. To meet these requirements, these critical assets must have sustained systems architectures that ensure availability through resiliency and redundancy.

The IRS needs a recovery time of 12 to 36 hours to allow continued processing of revenue and taxpayer refunds. With the current infrastructure, the recovery of the supporting systems will likely take several days, and in some cases weeks. Both internal and external assessments confirm inadequate disaster recovery capabilities for major mainframe-based legacy remittance and tax processing systems. These inadequacies range from no disaster recovery infrastructure to insufficient infrastructure operating at decreased capacity resulting in an inability to meet acceptable recovery time objectives, degraded user capabilities, and extended processing times. Key applications, such as e-Services, which support tax return processing are currently unrecoverable. The profile also shows that other applications (such as the Master File) that support remittance processing and several other critical business processes can be recovered fully only after five days.

The IRS estimates that each hour of unavailability of the Electronic Filing (e-File) system could potentially affect $199 million in refunds. Moreover, 83 percent of the systems that support the critical processes, *Processing Remittances* and *Processing Tax Returns*, are either currently unrecoverable or have recovery times that exceed 36 hours.

Recent analysis of IRS remittance and tax return processing workloads indicate that extended application recovery times would affect the ability of the IRS to deposit federal tax receipts. In April, deposits were estimated at $814 million per day representing approximately $43.4 million in interest revenue. These figures do not include electronic, bank lockboxes or federal tax deposit coupons, which, if added, would significantly increase the daily tax receipts. In addition, a major outage would affect an estimated $952 million in refund processing for each day of downtime.

Some of the specific improvements include:

- Implementing an automated data replication solution ($8.7 million). This would reduce the recovery window for major legacy mainframe applications. The potential reduction of the recovery window for Master File would be from five days to nine hours;
- Upgrading disk storage capacity to recover the application development and testing environment ($1.8 million). This upgrade would significantly reduce the current 60-day window to recover this environment. This is critical for applications such as Master File; and
- Upgrading the network capacity ($1.5 million). The upgrades would expand IRS's bandwidth, which determines the amount of data that can be carried from one point to another in a given time period (usually a second). Expanding the

bandwidth would provide the capacity necessary to support and fully realize the benefits of automated data replication initiatives.

Other Direct Costs

There are no other direct costs associated with this initiative.

Update Integrated Financial System (IFS)
+$27,500,000 / +5 FTE

Funding for Update Integrated Financial System will complete the first phase of an initiative to update IFS.

Position Type/Other Costs	FTE	$000
Integrated Financial System (IFS)	5	$27,500
IT Project Specialist	5	770
Contractor Services		26,730
Total	5	$27,500

Updating to SAP ERP 6.0 software provides the following benefits:

- Ensures compliance with future federal accounting requirements, including Government-Wide Accounting (GWA) standards and Common Government-wide Accounting Classification (CGAC) requirements;
- Moves to an open-services technology platform to allow implementation of standardized interfaces and communication with other federal systems with minimal configuration;
- Allows automatic functional updates to implement SAP enhancements without costly upgrades;
- Provides standardized federal accounting functionality in compliance with federal financial management requirements;
- Eliminates current work-around processes necessary to support adjustments and reimbursable receivables activities not provided in the current system;
- Eliminates the year-end blackout period and multiple budget versions; and
- Eliminates the month-end accrual process because liabilities would post upon receipt.

IFS runs on SAP 4.6C, which is more than ten years old, and the IRS is the only federal agency using this old software. Since January 2007, SAP no longer provides functional updates for Version 4.6C and will not make changes to accommodate new legislative or other federal accounting requirements, including CGAC and GWA standards. SAP provided support through an extended maintenance contract through December 2010. Beginning in 2011, SAP is providing only customer-specific support, charging maintenance plus time and materials to keep 4.6C operational. Thus, IRS is paying a premium to maintain the current level of maintenance support. Upgrade implementation will take approximately 18 months, and therefore, FY 2012 funding would result in implementation in FY 2014.

If the IRS cannot implement subsequent new federal accounting requirements, such as CGAC or changes to existing standards, IRS compliance with federal financial management standards will be jeopardized. Attempts to change the base code of the unsupported software could increase upgrade costs or be so invasive as to prohibit future upgrades, as occurred with the IRS legacy accounting system.

The risks of moving to SAP ERP 6.0 are low because it requires limited data conversion, limited configuration management, and minimal changes to business processes, interfaces, and reports. Over the past five years, 13 federal agencies successfully moved from SAP 4.6C to 6.0, thus demonstrating the low-risk nature of the move. This was validated by a contractor study that indicated that updating to SAP ERP 6.0 was the best option for IRS.

Other Direct Costs

There are no other direct costs associated with this initiative.

Leveraging Data to Improve Compliance
+$1,400,000 / +5 FTE

Funding for Leveraging Data to Improve Compliance will capitalize on the recent significant increase in data reported to the IRS, with the goal of increasing compliance.

Position Type/Other Costs	FTE	$000
Office of Research Analysis & Statistics	5	$1,400
Computer Scientist	5	965
Contractor Services		435
Total	5	$1,400

The IRS is focused on using a data-driven approach to continually innovate and improve its programs. This investment will capitalize on the recent significant increase in data reported to the IRS, with the goal of increasing compliance and evaluating IRS-administered programs. The IRS is administering multiple new tax provisions and programs in an increasingly complex tax system. Inadequate analysis of the information generated by these new activities will hamper improvements in compliance and tax administration.

While the IRS has robust analytical programs and capabilities, they align with existing organizational structures and address tactical performance targets. The existing programs have difficulty merging and mining the increased amount of data now reported to the IRS.

This initiative will use advances in analytical techniques, such as machine learning, neural networks, and data mining, to integrate business and technology aspects to improve core business operations and tax programs. The IRS will establish an office dedicated to new methods of analysis not tied to annual performance targets with a goal of achieving breakthrough insights into compliance.

To facilitate this effort, the IRS must merge large volumes of disparate data elements into a format usable by advanced business analytics. This initiative will:

- Identify emerging areas of non-compliance;
- Promote the use of advanced modeling techniques that, in combination with IRS databases, will provide new insights into taxpayer behavior and into how different types of tax-related provisions affect compliance rates among taxpayers; and
- Address the changing nature of IRS's workload and result in improvements in current analytical techniques to support existing programs. For example, current machine-learning algorithms developed for workload selection for high-income audits would be improved through new techniques.

<u>Other Direct Costs</u>

There are no other direct costs associated with this initiative.

Enhance Physical Security for Federal Employees
+$15,481,000 / +10 FTE

The February 2010 attack against the IRS in Austin, Texas, killed one IRS employee and injured several others. Funding for Enhance Physical Security for Federal Employees will provide the investments needed to update and/or upgrade the physical security of IRS facilities. The investments enhance the overall security of IRS employees in the work place, while maintaining open access for the taxpayers that they serve.

Position Type/Other Costs	FTE	$000
Enhance Security Guard Services		$10,000
Improve Security Facility		$1,569
Address Security Threats	10	$3,912
Special Agent	8	1,852
Attorney	1	196
Support Staff	1	152
IT Equipment		1,712
Total	10	$15,481

Enhance Security Guard Services (+$10.0 million)

The additional resources will enhance security by providing guard presence in Taxpayer Assistance Centers (TACs) during the filing season. IRS employees are more exposed to irate or disgruntled taxpayers in TACs. The presence of a security guard can assist in preventing or defusing dangerous situations.

The IRS currently operates 401 TACs of which 26 sites have a permanent guard presence and an additional 36 sites have guards during the January 1 through April 15 filing season only. The IRS developed criteria to identify the TAC sites with the greatest risk. These criteria considered the following:

- The number of incidents;
- Presence of Criminal Investigation (CI) at the site;
- Potentially dangerous taxpayers among contact taxpayer population; and
- Neighborhood crime statistics.

The requested resources fund expanded guard services at those sites with the greatest risk.

Improve Facility Security (+$1.6 million)

As a result of the Austin attack, the IRS is conducting a security reassessment of all facilities to identify vulnerabilities to employees, information, equipment, and structures. Risk assessments address all layers of security measures, including geography, demographics, crime statistics, effectiveness of existing security, and the age and types of security equipment in place. The resources will be used to purchase and install equipment to address vulnerabilities identified through the reassessment process.

Address Security Threats (+$3.9 million / +10 FTE)

There has been an increase in threats against the U.S. Government in general, and the IRS is one of the most public faces of government. The IRS must ensure that its contacts with individuals whose intention may be to incite violence are identified, evaluated, and dealt with quickly and appropriately. CI works closely with partners at Treasury Inspector General for Tax Administration (TIGTA) involved in the domestic terrorism arena to address external security risks and protect against external threats to the IRS. This initiative not only addresses threats to the IRS, but also encompasses all domestic terrorism.

This initiative will provide additional resources to identify and investigate individuals or entities whose anti-government or anti-tax rhetoric exhibit behavioral traits associated with domestic terrorism. CI will focus on the recognition of potential threats or activities that imperil the safety of IRS and other government employees or the physical security of their facilities.

This initiative will allow the IRS to evaluate leads on potential targets and threats; develop financial investigations that detect and disrupt domestic terrorist fundraising and support networks; work with other law enforcement partners to identify and investigate individuals and groups that violate criminal charges within IRS's jurisdiction; and support the following activities:

- Staff fully the Joint Terrorism Task Forces (JTTFs) and the Attorney General's Advisory Counsels (AGACs) nationwide;
- Train and develop agents with the skill sets necessary to carry out assignments, rapidly follow-up on leads developed by the Garden City Counterterrorism Lead Development Center (LDC) in Garden City, New York; and
- Obtain secure network computers that will allow the IRS to communicate securely and efficiently with the intelligence and law enforcement communities, as well as allow Special Agents to communicate classified information within the IRS.

Funding for 29 Treasury Secure Data Network (TSDN) computers will allow the secure and efficient communication of classified information within the IRS and between IRS and other intelligence and law enforcement communities. The new computer and network infrastructure system will provide access to Secret Internet Protocol Router Network (SIPRNet) and the Department of Defense classified communications network.

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement Individual Coverage Requirement and Employer Responsibility Payments
+$62,477,000 / +65 FTE

This initiative will fund the development of the information technology, infrastructure, and systems to implement the provisions of Subtitle F of Title I of the Affordable Care Act (ACA) (Public Law 111-148) that establish shared responsibility payments for both individuals and employers.

Position Type/Other Costs	FTE	$000
Implement Affordable Care Act (ACA)	65	$62,477
Administer Individual Coverage Requirement and Employer Responsibility Payments		
IT Project Specialist	62	10,823
Program Management	3	600
Contractor Services		42,980
Computer Equipment		7,033
Software		1,041
Total	65	$62,477

Beginning in 2014, the ACA requires individuals who are able to afford health insurance to obtain minimum essential coverage or pay a penalty. If affordable coverage is not available, they will be eligible for an exemption. Other exemptions also may apply.

Also beginning in 2014, the ACA requires large employers – those with 50 or more full-time employees – to make a shared responsibility payment if they do not provide affordable coverage to their employees, and at least one of their employees has enrolled in an qualified health plan on an exchange with respect to which a premium assistance tax credit is allowed or paid.

This initiative will fund the significant revisions to existing tax administration information technology systems, as well as development of new systems to administer these provisions. For example, the IRS must make modifications to existing tax systems as well as forms and publications to administer these provisions. Additionally, both provisions involve new information reporting that will streamline IRS verification and compliance efforts. Finally, the IRS must implement appropriate business rules for document matching, conduct penalty calculations and send notices to individuals and employers, and integrate ACA requirements into current collection, case management, and fraud detection systems.

Other Direct Costs

There are no other direct costs associated with this initiative.

Continue Migration from Aging Tax Administration System

The FY 2012 BSM request of $333.6 million and 453 FTE will fund the activities of the BSM projects as described in the table below.

This funding will improve taxpayer service and enforcement, and reduce the costs and risks of operating parallel tax processing systems. The IRS will update and settle individual taxpayer accounts in 24 to 48 hours with current, complete and authoritative data, and will facilitate expanded opportunities for compliance, increase analytical capabilities and accelerate the identification of fraudulent trends.

BSM FY 2012 funding allocation is as follows:

FY 2012 BSM Project Activities

Dollars in Thousands

Business Systems Modernization Projects/Initiatives	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2011 President's Budget Request	FY 2012 Request[1,2]	$ Change FY 2011 President's Budget to FY 2012 Request	$ Change FY 2011 Annualized CR Level to FY 2012 Request
Application Migration to CADE 2 *(Taxpayer Account Database)* • Address Federal Financial Management System Requirements (FFMSR) compliance for most individual taxpayer accounts. • Implement a modular application platform for Penalty and Interest (P&I) calculation with documented standard posting rules to be used by all systems. • Replace portions of current CADE 2 applications with state-of-the-art modular applications using a modern programming language (e.g., Java) and tools.	$58,100	$70,008	$152,119	$156,800	$4,681	$86,792
Current CADE Implement tax law changes and enhance the overall security posture.	38,000	38,000	40,000	19,000	(21,000)	(19,000)
Modernized e-File Continue the development of Form 94X family of forms, *Employment/ Unemployment Tax* and begin the logical design of Form 1041, *U.S. Income Tax Return for Estates and Trusts*.	50,000	39,100	39,100	20,500	(18,600)	($18,600)
Core Infrastructure Provide services in architecture, engineering and deployment of standardized, consolidated, virtual and secure modernized development environments (DITE) and shared infrastructure components (Employee User Portal, Registered User Portal, and Security) of the production environments.	32,000	32,000	38,500	37,700	(800)	5,700
Architecture, Integration and Management Provide system engineering management capabilities including systems strategy, architecture, and engineering capabilities across IT Infrastructure, Business Applications, Data Management and IT Security. Provide portfolio control and management processes and tools including governance, enterprise lifecycle support, tiered program management, business rules and requirements, transition management, cost estimation, configuration/change management and risk management.	28,085	28,085	37,000	27,645	(9,355)	($440)
Management Reserve	11,712	10,000	10,000	2,622	(7,378)	(7,378)
Subtotal Capital Investments	**$217,897**	**$217,193**	**$316,719**	**$264,267**	**($52,452)**	**$47,074**
BSM Labor[3]	46,000	46,704	70,189	69,333	(856)	22,629
Total BSM	**$263,897**	**$263,897**	**$386,908**	**$333,600**	**($53,308)**	**$69,703**

[1]The BSM appropriation excludes $52,000,000 for the operations and maintenance of deployed modernization project releases. These costs are included in the Operations Support appropriation.

[2]The BSM appropriation includes a $1,026,000 program efficiency reduction.

[3]The BSM appropriation includes a $450,000 decrease to reflect the FY 2011 pay freeze and a $168,000 increase for the FY 2012 inflation adjustment for health benefits and FERS.

Customer Account Data Engine 2 (CADE 2) ($156.8 million)

The IRS request will continue the development of the CADE 2 Program. The CADE 2 Program will provide an authoritative database with daily processing capabilities for all individual taxpayers and build the foundation for a more efficient and effective tax administration program. An analytical data store will provide business users with tools to use the CADE 2 authoritative database more effectively for improved compliance and customer service.

CADE 2 establishes a set of capabilities that will allow the IRS to achieve business benefits across the tax processing lifecycle:

- Daily processing/posting of individual taxpayer returns filed and other transactions to provide faster processing of taxpayer refunds and payments and prompt adjustments to taxpayer accounts reducing the credit interest paid by government;
- Exception processing/posting of individual taxpayer returns filed to prevent or reduce erroneous refunds;
- Operational database that supports enterprise-wide data access strategy to provide efficiencies, multiple account analysis, and more current and timely account balance information;
- Analytical data store, Integrated Production Model (IPM), to support the enterprise-wide data access strategy; fraud detection through data analytics and filtering (i.e., expanding capabilities to analyze data and establish patterns against which all individual taxpayer data can be compared); enhanced compliance workload selection and resource allocation; and advanced data analytics and data mining (i.e., expanding capabilities to more timely and effectively analyze taxpayer data from different perspectives and summarize it into useful information); and
- Integrated, state-of-the-art processing and data infrastructure to improve service and reduce risk, providing:
    - A single set of authoritative, modular applications that will facilitate system maintenance and allow for greater flexibility and faster response to legislative changes;
    - A common module for a single, authoritative penalty and interest computation resulting in consistent and accurate calculations that allow daily updates to the Integrated Data Retrieval System (IDRS) for early viewing of posted information;
    - Enhanced security capabilities to guard from threats and violations of system data; and
    - Comprehensive disaster recovery capabilities.

The CADE 2 Program will be implemented in two stages:

- Transition State 1 (TS 1) – In January 2012, the IRS will deliver a database that will house all individual taxpayer accounts and update daily from the individual taxpayer account core-processing applications, resulting in faster refunds for millions of individual taxpayers. The key IRS customer service operational database, IDRS, will have the benefit of more timely posted data.

  The solution will populate the IPM analytical data store and provide business users with enhanced tools to more effectively use the data from compliance and customer service.

  The TS1 solution will:

  - Implement required security controls;
  - Leverage security capabilities that are available in the Security and Communications System (SACS) for account viewing;
  - Improve information security; and
  - Provide analytical access to the CADE 2 data residing in the analytical data store and enhanced tools to access the data and provide opportunities for enhanced compliance and improved service.

- Transition State 2 (TS 2) – In FY 2012, the IRS will build upon the foundation established in TS 1 and begin the development of TS 2. TS 2 will focus on resolving financial material weaknesses and building or modifying existing applications for direct interaction with the target database. This solution will leverage elements of the current Individual Master File and current CADE for some functions. A combination of current state and transitional components will be used to fill the function needs of individual taxpayer account processing.

  Key elements of Transition State 2 will:

  - Incorporate Federal Financial Management Systems Requirements (FFMSR) compliance for most individual taxpayer accounts;
  - Implement a modular application platform for Penalty and Interest (P&I) calculation with documented standard posting rules to be used by all systems, to ensure integrity of financial data and more consistent treatment of taxpayers;
  - Replace portions of current CADE 2 applications with state-of-the-art, modular applications using a modern programming language (e.g., Java) and tools;
  - Establish a standardized, integrated platform and environments for development, integration, testing, and production; and
  - Implement essential changes to downstream systems required to support TS 2, with limited capabilities for enhanced data analytics leveraging individual taxpayer account database for improved compliance.

Current Customer Account Data Engine ($19.0 million)

The IRS request will implement the necessary tax law changes for deployment during the 2012 Filing Season and begin the shutdown process for the eventual retirement of this system.

Modernized e-File (MeF) ($20.5 million)

The IRS request will complete the final phase (Release 7) of a three-phased implementation of the 1040 family of forms. This includes the 125 remaining 1040-related forms and schedules, including Forms 1040A and 1040EZ. MeF provides a standard filing structure for all IRS return types, a robust platform that can meet performance and capacity needs, enhanced and up-to-date technologies, and service benefits to external stakeholders. With MeF, the IRS stores all tax return data in an XML format in a modernized Tax Return Database (MTRDB) so authorized viewers see an entire tax return online.

The $20.5 million request for MeF will:

- Complete Release 8 physical design and development of Forms 94X, *Employment / Unemployment Tax*, to the MeF platform ($10.5 million). Forms that would be implemented include Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return,* Form 941, *Employer's Quarterly Federal Tax Return,* Form 943, *Employer's Annual Federal Tax Return for Agricultural Employees*, Form 944, *Employer's Annual Federal Tax Return*, and Form 945, *Annual Return of Withheld Federal Income Tax*.
- Complete Release 9, logical design implementation of Form 1041, *U.S. Income Tax Return for Estates and Trusts*, ($10 million).

By adding Form 94X and Form 1041 to the MeF platform, the trading partners and taxpayers realize the following benefits:

- Extensive business rule validation and error checking to help ensure the accuracy of the tax return;
- Sophisticated math error validation to increase the likelihood that the tax return will be successfully processed;
- Ability to attach all documents supporting the data on the tax returns; and
- Ability to provide a justification to the taxpayer/trading partner when the IRS rejects the tax return.

Productivity and efficiency gains include:

- Improving Taxpayer Service – IRS customer service representatives will provide responses to taxpayers more quickly by viewing the original Forms 94X and 1041 online and in real-time, eliminating back-end rekeying and data entry.

Without MeF, only a limited subset of these documents would be available and would result in a time-consuming process of source document retrieval.

- Enhancing Compliance and Enforcement Operations – Online capabilities and 100 percent data access to 94X and 1041 forms enhance compliance and enforcement activities by allowing access to taxpayer data in a timely and accurate manner.
- Increasing the Production Volumes – A return submitted through the MeF encounters fewer processing errors than do paper returns.
- Eliminating the need for the legacy 94X e-File system – The IRS will be able to disable the capability for the legacy Electronic Management System to accept this family of returns.

Core Infrastructure ($37.7 million)

The request will continue to support Core Infrastructure in providing mission critical services in designing, engineering, testing and deploying standardized, consolidated, virtual and secure modernized development and production environments for use by BSM projects.

The IRS is modernizing taxpayer applications to take advantage of web-based technologies that allow taxpayers to communicate with the IRS through the internet using commercially available technology. The modernized infrastructure provides a complete environment (hardware, software, processes, and management) for developing, testing, deploying, operating and monitoring both customer and internal applications in support of business practices. This includes updating the access portals and standardizing telecommunication services, security, and operations management.

This approach facilitates IRS's ability to develop shared infrastructure and common business service solutions that are usable across multiple BSM projects. The core infrastructure consists of two primary program elements – Infrastructure Shared Services (ISS), and the Development, Integration and Testing Environment (DITE):

- ISS provides integrated architectural and engineering services required to deploy and deliver the BSM projects, including infrastructure requirements identification and management, security engineering, systems engineering, performance engineering, capacity planning, transition management support, and configuration management. The continued development and management of this infrastructure incorporates the identification and development of common infrastructure, security, and application integration services for use and reuse by the BSM projects and reduces delivery time, application development, and operations and maintenance costs.

  In FY 2012, ISS will place increased emphasis on effectively engineered common IT infrastructure services, security, and infrastructure enhancement initiatives that affect the BSM projects, while continuing to support efforts begun in FY 2010 related to enhanced availability and portal improvements. ISS will continue to provide capacity planning and performance engineering services for BSM projects to address their effect on the modernized infrastructure environments because of an increase in the number of electronic documents, on-line transactions, and on-line tax filers.

- DITE is comprised of a Virtual Development Environment (VDE) and an Enterprise Integration and Test Environment (EITE). The VDE provides a software development environment for modernization projects such as MeF, CADE, and CADE2 that allows geographically distributed developers access to standardized tools, information, and services. EITE provides a more structured, production-like, comprehensive integration and testing environment necessary to rigorously test end-to-end system capabilities and performance before release into the BSM production environment.

  In FY 2012, DITE will continue to support the BSM projects through deployment and acceptance in the production environment; improve the efficiency of server administration; and engineer, install, maintain and support core DITE infrastructure to include web portals and common IT infrastructure services. It also will provide a mechanism for remote access to core DITE data by authorized users; and provide maintenance of a suite of standard software development and testing tools for use on BSM projects.

Architecture, Integration and Management ($27.7 million)

The IRS request will provide continued support to the AI&M program. This program provides the engineering management capabilities essential to delivering a program of the magnitude, nature, and complexity of BSM and delivers essential IRS systems strategy, architecture, and engineering capabilities to the major modernization projects across all technology platforms: IT Infrastructure, Business Applications, Data Management, and IT Security. AI&M translates enterprise and project objectives into targeted, actionable investments to provide the necessary enterprise technical framework and direction for cohesive and successful modernization.

Management Reserve ($2.6 million)

The IRS request provides funds for the management reserve to cover unanticipated cost adjustments and fluctuates from year to year to accommodate changes in funding levels.

Labor ($69.3 million / 453 FTE)

The IRS requests a total of $69.3 million ($69.2 million for BSM labor and $0.1 million for inflation costs) to provide the government labor costs associated with the development of projects within the BSM portfolio.

O&M of Deployed Modernization Systems (+$52.0 million / +5 FTE)

This increase provides funding in the Operations Support appropriation for the operations and maintenance (O&M) costs of deployed modernization systems. BSM systems are developed and deployed incrementally. The IRS will use these funds to pay for the O&M costs of the deployed BSM systems.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2010 Enacted Level [1,2]	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level [2]	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level [2]	% Change FY 2011 to FY 2012
FTE	**94,766**	**96,419**	**0**	**94,766**	**0**	**94,766**	**99,878**	**5.4%**
Object Classification:								
11.1 Full-Time Permanent Positions	$6,402,855	$6,394,057	$0	$6,402,855	$0	$6,402,855	6,893,278	7.7%
11.3 Other than Full-Time Permanent Positions	103,681	423,013	0	103,681	0	103,681	126,721	22.2%
11.5 Other Personnel Compensation	286,434	308,396	0	286,434	0	286,434	316,749	10.6%
11.8 Special Personal Services Payments	18,173	18,445	0	18,173	0	18,173	18,264	0.5%
11.9 Personnel Compensation (Total)	**$6,811,143**	**$7,143,911**	**$0**	**$6,811,143**	**$0**	**$6,811,143**	**$7,355,012**	**8.0%**
12.0 Personnel Benefits	1,814,796	1,937,543	0	1,814,796	0	1,814,796	2,034,508	12.1%
13.0 Benefits to Former Personnel	55,579	57,106	0	55,579	0	55,579	51,392	-7.5%
21.0 Travel	284,016	255,980	0	284,016	0	284,016	259,269	-8.7%
22.0 Transportation of Things	31,517	33,170	0	31,517	0	31,517	33,144	5.2%
23.1 Rental Payments to GSA	646,393	676,738	0	646,393	0	646,393	685,010	6.0%
23.2 Rent Payments to Others	16,039	592	0	16,039	0	16,039	15,569	-2.9%
23.3 Communications, Utilities, & Misc	482,440	434,883	0	482,440	0	482,440	461,617	-4.3%
24.0 Printing & Reproduction	72,030	67,503	0	72,030	0	72,030	64,063	-11.1%
25.1 Advisory & Assistance Services	175,611	126,385	0	175,611	0	175,611	119,869	-31.7%
25.2 Other Services	649,390	718,802	0	649,390	0	649,390	1,028,350	58.4%
25.3 Purchase of Goods & Services from Govt. Accounts	190,552	204,826	0	190,552	0	190,552	174,263	-8.5%
25.4 Operation & Maintenance of Facilities	157,258	217,899	0	157,258	0	157,258	168,478	7.1%
25.5 Research & Development Contracts	8,506	8,478	0	8,506	0	8,506	8,482	-0.3%
25.6 Medical Care	18,716	12,616	0	18,716	0	18,716	13,498	-27.9%
25.7 Operation & Maintenance of Equipment	89,245	129,660	0	89,245	0	89,245	157,566	76.6%
25.8 Subsistence & Support of Persons	6,644	6,500	0	6,644	0	6,644	6,788	2.2%
26.0 Supplies and Materials	96,145	70,555	0	96,145	0	96,145	84,092	-12.5%
31.0 Equipment	456,779	476,244	0	456,779	0	456,779	444,096	-2.8%
32.0 Lands and Structures	47,569	17,857	0	47,569	0	47,569	88,141	85.3%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	28,100	28,105	0	28,100	0	28,100	22,605	-19.6%
42.0 Insurance Claims & Indemn	2,737	2,712	0	2,737	0	2,737	2,746	0.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	4,918	5,205	0	4,918	0	4,918	5,349	8.8%
Total Budget Authority	**$12,146,123**	**$12,633,270**	**$0**	**$12,146,123**	**$0**	**$12,146,123**	**$13,283,907**	**9.4%**
Appropriations:								
Taxpayer Services	$2,278,830	$2,321,975	$0	$2,278,830	$0	$2,278,830	$2,345,133	2.9%
Enforcement	5,504,000	5,797,400	0	5,504,000	0	5,504,000	5,966,619	8.4%
Operations Support	4,083,884	4,108,000	0	4,083,884	0	4,083,884	4,620,526	13.1%
Business Systems Modernization	263,897	386,908	0	263,897	0	263,897	333,600	26.4%
Health Insurance Tax Credit Administration	15,512	18,987	0	15,512	0	15,512	18,029	16.2%
Total Budget Authority	**$12,146,123**	**$12,633,270**	**$0**	**$12,146,123**	**$0**	**$12,146,123**	**$13,283,907**	**9.4%**

[1] FY 2010 Enacted represents the approved FY 2010 Operating Plan.

[2] Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

2.3 – Appropriation Detail Table

Dollars in Thousands

Internal Revenue Service Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted[1]		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Taxpayer Services	31,607	$2,258,882	31,063	$2,278,830	31,063	$2,278,830	31,686	$2,345,133	2.01%	2.91%
Enforcement	50,400	5,492,985	50,983	5,504,000	50,983	5,504,000	54,582	5,966,619	7.06%	8.41%
Operations Support	12,262	4,008,115	12,372	4,083,884	12,372	4,083,884	13,142	4,620,526	6.22%	13.14%
Business Systems Modernization	337	177,208	333	263,897	333	263,897	453	333,600	36.04%	26.41%
Health Insurance Tax Credit Administration	12	15,478	15	15,512	15	15,512	15	18,029	0.00%	16.23%
Subtotal New Appropriated Resources	**94,618**	**$11,952,668**	**94,766**	**$12,146,123**	**94,766**	**$12,146,123**	**99,878**	**$13,283,907**	**5.39%**	**9.37%**
Other Resources:										
Recoveries				6,338						
Offsetting Collections - Reimbursable	659	135,505	659	137,758	659	137,279	659	138,272		0.72%
Available multi-year/no-year funds		164,836		196,181		184,630		41,248		-77.66%
50% Carryover		33,767		35,947						
Transfers In/Out				(12,371)						
Mandatory Appropriations - User Fees	93	175,529	93	175,529		204,428		204,428		
Subtotal Other Resources	**752**	**$509,637**	**752**	**$539,382**	**659**	**$526,337**	**659**	**$383,948**	**0.00%**	**-27.05%**
Total Resources Available for Obligation	**95,370**	**$12,462,305**	**95,518**	**$12,685,505**	**95,425**	**$12,672,460**	**100,537**	**$13,667,855**	**5.36%**	**7.85%**

[1] The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

2B – Appropriation Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE **TAXPAYER SERVICES** (including transfer of funds) *For necessary expenses of the Internal Revenue Service to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, $2,345,133,000, of which not less than $5,100,000 shall be for the Tax Counseling for the Elderly Program, of which not less than $9,500,000 shall be available for low-income taxpayer clinic grants, of which not less than $8,000,000, to remain available until September 30, 2013, shall be available for a Community Volunteer Income Tax Assistance matching grants program for tax return preparation assistance, and of which up to $6,000,000 may be transferred as necessary from this account to "Health Insurance Tax Credit Administration" upon advance notification of the Committees on Appropriations: Provided, That this transfer of authority shall be in addition to any other transfer authority provided in this Act.* **ENFORCEMENT** (including transfer of funds) *For necessary expenses for tax enforcement activities 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 passenger motor vehicles (31 U.S.C. 1343(b)), and to provide other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, $5,966,619,000, of which not less than $60,257,000*	The IRS supports adequate funding for the Taxpayer Advocate Service. Specifying the TAS funding level in law prevents the IRS from proposing an operating plan that allocates resources in the best interest of taxpayers. Several subsequent laws have extended this program, provided additional funding to implement and administer the program, and increased the amount of the subsidy to 80 percent of premium costs, the most recent being the Omnibus Trade Act of 2010 (Public Law 111-344). This change represents a contingency in case the increased workload continues in FY 2012.

shall be for the Interagency Crime and Drug Enforcement program: Provided, That of the amount provided under this heading, not less than $936,000,000 shall be for the additional appropriation for Internal Revenue Service tax compliance activities included as an adjustment to the discretionary spending limits pursuant to the Concurrent Resolution on the Budget. **OPERATIONS SUPPORT** (including transfer of funds)	
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 other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; $4,620,526,000, of which up to $250,000,000 shall remain available until September 30, 2013, for information technology support; of which up to $65,000,000 shall remain available until expended for acquisition of real property, equipment, construction and renovation of facilities; of which not to exceed $1,000,000 shall remain available until September 30, 2014, for research; of which not to exceed $2,000,000 shall be for the Internal Revenue Service Oversight Board; of which not to exceed $25,000 shall be for official reception and representation: Provided, That of the amounts provided under this heading, such sums as are necessary shall be available to fully support tax enforcement activities, including not less than $321,000,000 for the additional appropriation for Internal Revenue Service tax compliance activities included as an adjustment to the discretionary spending limits pursuant to the Concurrent Resolution on the Budget. **BUSINESS SYSTEMS MODERNIZATION** (including transfer of funds) *For necessary expenses of the Internal Revenue Service's business systems modernization program,*	This FY 2012 two-year authority increase for information technology will ensure IRS's ability to obligate funds for the IT projects needed to implement the Affordable Care Act of 2010.

$333,600,000, to remain available until September 30, 2014, 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 received by the Government Accountability Office; and (6) complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the Federal Government. **HEALTH INSURANCE TAX CREDIT ADMINISTRATION** (including transfer of funds) *For expenses necessary to implement the health insurance tax credit included in the Trade Act of 2002 (Public Law 107-210), $18,029,000.* **ADMINISTRATIVE PROVISIONS - INTERNAL REVENUE SERVICE** (including transfer of funds) *Sec. 101. 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. 102. 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. 103. The Internal Revenue Service shall institute and enforce policies and procedures that will safeguard the confidentiality of taxpayer information.* *Sec. 104. Funds made available by this or any other Act to the Internal Revenue Service shall be available for improved facilities and increased staffing to provide sufficient and effective 1-800 help line service for taxpayers. The Commissioner shall continue to make the improvement of the Internal Revenue Service 1-800 help line service a priority and allocate resources necessary to increase phone lines and staff to improve the Internal Revenue Service 1-800 help line service.* *Sec. 105. Of the funds made available by this Act to the Internal Revenue Service, not less than $8,490,000,000 shall be available only for tax compliance, of which not less than $1,257,000,000 shall be available for the additional appropriation for Internal Revenue Service tax compliance activities included as an adjustment to the discretionary spending limits in the Concurrent Resolution on the Budget.*	

2C – Legislative Proposals

The FY 2012 Budget Request includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will specifically target the tax gap and generate more than $10 billion over the next ten years. The implementation cost for the proposals included in the FY 2011 President's Budget is estimated to be $50.4 million over three years and includes the initial startup, processing and compliance operational costs. Among other proposals, the Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

Expand information reporting – Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:

- Require information reporting for private separate accounts of life insurance companies; and
- Require a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding.

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

- Provide Treasury with the regulatory authority to require that information returns be filed electronically;
- Require corporations and partnerships with assets of $10 million or more that are required to file Schedule M-3 to file their tax returns electronically;
- Provide Treasury with the regulatory authority to reduce the current threshold of filing 250 or more returns during a calendar year to require electronic filing of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations);
- Provide Treasury with the regulatory authority to require electronic filing of all Form 5500 Annual Report information (new in FY 2012);
- Implement standards that clarify when employee leasing companies can be held liable for their clients' federal employment taxes;
- Increase certainty about the rules pertaining to classification of employees as independent contractors;
- Repeal special estimated tax payment provision for certain insurance companies (new in FY 2012); and
- Eliminate special rules modifying the amount of estimated tax payments by corporations (new in FY 2012).

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:

- Expand IRS access to information in the National Directory of New Hires for tax administration purposes;
- Make repeated willful failure to file a tax return a felony;
- Facilitate tax compliance with local jurisdictions;
- Extend statutes of limitations where state tax adjustments affect federal tax liability;
- Improve the investigative disclosure statute;
- Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a 2-D bar code (new in FY 2012);
- Allow the IRS to collect information from the U.S. Bureau of Prisons to reduce fraudulent claims (new in FY 2012);
- Allow the IRS to absorb credit and debit card processing fees for certain tax payments (new in FY 2012); and
- Repeal the requirement of a partial payment with an application for an offer-in-compromise.

Expand penalties – Penalties play an important role in discouraging intentional noncompliance. A specific proposal to expand penalties would:

- Impose a penalty on failure to comply with electronic filing requirements; and
- Increase the penalty imposed on paid preparers who fail to comply with EITC due diligence requirements. (new in FY 2012)

Section 3 – Budget and Performance Plan

Taxpayer Services

Appropriation Description

The Taxpayer Services appropriation provides funding for taxpayer service activities and programs. This includes printing forms and publications, processing tax returns and related documents, offering filing and account services, ensuring the availability of taxpayer assistance, and providing taxpayer advocacy services.

The Taxpayer Services Budget Request for FY 2012 is $2,345,133,000 in direct appropriations and 31,686 FTE. This is an increase of $66,303,000, or 2.91 percent, and 623 FTE more than the FY 2010 enacted level of $2,278,830,000 and 31,063 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Taxpayer Services	FTE	Amount
FY 2010 Enacted Budget[1]	**31,063**	**$2,278,830**
FY 2011 Annualized CR Level	**31,063**	**$2,278,830**
Changes to Base:		
Adjustment to Reach FY 2011 President's Policy Level	**(395)**	**$23,254**
Maintaining Current Levels		**$12,908**
Other Adjustments	**614**	
Technical FTE Adjustments	614	
Efficiencies/Savings	**(483)**	**($41,333)**
Increase e-File Savings	(416)	(21,404)
Reduce Contracts		(4,522)
Reduce Administrative Expenses	(26)	(5,557)
Reduce Training, Travel and Programs	(41)	(9,850)
Reinvestment		**$1,486**
Consolidate Submission Processing Site (Atlanta)		1,486
Subtotal Changes to Base	**(264)**	**($3,685)**
Total FY 2012 Base	**30,799**	**$2,275,145**
Program Changes:		
Program Increases:		
Taxpayer Service Initiatives	**518**	**$44,078**
Improve Taxpayer Service	518	44,078
Enforcement Initiatives	**369**	**$25,910**
Increase Collection Coverage	37	2,201
Implement Merchant Card and Basis Reporting	189	10,475
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	87	7,229
Ensure Accurate Delivery of Tax Credits	49	4,946
Administer New Statutory Reporting Requirements	7	1,059
Subtotal Program Changes	**887**	**$69,988**
Total FY 2012 Request	**31,686**	**$2,345,133**
Adjustments to Request		
User Fees		130,962
Total FY 2012 Request	**31,686**	**$2,476,095**

[1]FY 2010 Enacted represents the approved FY 2010 Operating Plan

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2010 Enacted Level [1,2]	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level [2]	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level [2]	% Change FY 2011 to FY 2012
FTE	**31,063**	**30,668**		**31,063**		**31,063**	**31,686**	**2.0%**
Object Classification:								
11.1 Full-Time Permanent Positions	$1,549,331	$1,309,132	$0	$1,549,331	$0	$1,549,331	$1,574,187	1.6%
11.3 Other than Full-Time Permanent Positions	37,423	304,283	0	37,423	0	37,423	56,752	51.7%
11.5 Other Personnel Compensation	87,129	98,503	0	87,129	0	87,129	110,851	27.2%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	**$1,673,883**	**$1,711,918**	**$0**	**$1,673,883**	**$0**	**$1,673,883**	**$1,741,790**	**4.1%**
12.0 Personnel Benefits	372,622	391,504	0	372,622	0	372,622	399,278	7.2%
13.0 Benefits to Former Personnel	7,362	8,199	0	7,362	0	7,362	1,603	-78.2%
21.0 Travel	39,267	31,269	0	39,267	0	39,267	27,452	-30.1%
22.0 Transportation of Things	1,871	5,564	0	1,871	0	1,871	1,988	6.3%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	37	46	0	37	0	37	172	364.9%
23.3 Communications, Utilities, & Misc	2,457	3,607	0	2,457	0	2,457	7,526	206.3%
24.0 Printing & Reproduction	9,117	9,091	0	9,117	0	9,117	12,468	36.8%
25.1 Advisory & Assistance Services	20,275	3,923	0	20,275	0	20,275	19,590	-3.4%
25.2 Other Services	27,428	46,993	0	27,428	0	27,428	23,703	-13.6%
25.3 Purchase of Goods & Services from Govt. Accounts	68,337	67,939	0	68,337	0	68,337	67,123	-1.8%
25.4 Operation & Maintenance of Facilities	29	95	0	29	0	29	0	-100.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	2	0	0	2	0	2	0	0.0%
25.7 Operation & Maintenance of Equipment	0	673	0	0	0	0	10	0.0%
25.8 Subsistence & Support of Persons	1,628	1,487	0	1,628	0	1,628	1,509	-7.3%
26.0 Supplies and Materials	25,227	10,899	0	25,227	0	25,227	16,605	-34.2%
31.0 Equipment	525	587	0	525	0	525	290	-44.8%
32.0 Lands and Structures	183	0	0	183	0	183	1,341	632.8%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	28,100	28,100	0	28,100	0	28,100	22,600	-19.6%
42.0 Insurance Claims & Indemn	480	81	0	480	0	480	85	-82.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
Total Budget Authority	**$2,278,830**	**$2,321,975**	**$0**	**$2,278,830**	**$0**	**$2,278,830**	**$2,345,133**	**2.9%**
Budget Activities:								
Pre-filing Taxpayer Assistance & Education	$679,924	$693,753	$0	$679,924	$0	$679,924	$701,035	3.1%
Filing & Account Services	1,598,906	1,628,222	0	1,598,906	0	1,598,906	1,644,098	2.8%
Total Budget Authority	**$2,278,830**	**$2,321,975**	**$0**	**$2,278,830**	**$0**	**$2,278,830**	**$2,345,133**	**2.9%**

[1] FY 2010 Enacted represents the approved FY 2010 Operating Plan.

[2] Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

2.3 – Appropriation Detail Table

Dollars in Thousands

Taxpayer Services Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted[1]		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Pre-Filing Taxpayer Assistance and Education	25,592	$667,840	6,189	$679,924	6,189	$679,924	6,375	$701,035	3.01%	3.10%
Filing and Account Services	6,015	1,591,042	24,874	1,598,906	24,874	1,598,906	25,311	1,644,098	1.76%	2.83%
Subtotal New Appropriated Resources	**31,607**	**$2,258,882**	**31,063**	**$2,278,830**	**31,063**	**$2,278,830**	**31,686**	**$2,345,133**	**2.01%**	**2.91%**
Other Resources:										
Recoveries				781						
Offsetting Collections - Reimbursable	444	22,855	444	22,855	444	22,889	444	22,924	0.00%	0.15%
Available multi-year/no-year funds		8,000		8,011		12,786		8,792		-31.24%
50% Carryover		19,993		20,000						
Transfers In/Out										
Mandatory Appropriations - User Fees	61	121,512	61	121,512		128,966		130,962		1.55%
Subtotal Other Resources	**505**	**$172,360**	**505**	**$173,159**	**444**	**$164,641**	**444**	**$162,678**	**0.00%**	**-1.19%**
Total Resources Available for Obligation	**32,112**	**$2,431,242**	**31,568**	**$2,451,989**	**31,507**	**$2,443,471**	**32,130**	**$2,507,811**	**1.98%**	**2.63%**

[1] The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

3A – Pre-Filing Taxpayer Assistance and Education *($701,035,000 in direct appropriations and an estimated $863,000 from reimbursable programs):* This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication production, and advocate services. This includes the following program activities:

- *Pre-Filing Services Management* supports headquarters management associated with Customer Assistance Relationship and Education (CARE). CARE provides pre-filing taxpayer assistance and education.
- *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, websites, broadcasting, and advertising.
- *Media and Publications* develops and produces notices, forms, and publications for printed and electronic tax materials, and provides media production services to taxpayers.
- *Taxpayer Advocacy* provides advocate services to taxpayers by identifying the underlying causes of taxpayer problems and participating in the development of systematic and/or procedural remedies.
- *Account Management and 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* provides advocate services to taxpayers to resolve taxpayer problems through prompt identification, referral, and settlement.
- *W&I HQ Management and Administration* provides staffing, training, and direct support for Wage and Investment management activities of strategic planning,

communications and liaison, finance, human resources, EEO and diversity, business modernization, and embedded training.

- *National Distribution Center* processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Taxpayer Services Pre-filing Taxpayer Assistance and Education	FTE	Amount
Taxpayer Service Initiatives	**15**	**$10,552**
Improve Taxpayer Service	15	10,552
Enforcement Initiatives	**87**	**$10,607**
Increase Collection Coverage	3	270
Implement Merchant Card and Basis Reporting	16	1,437
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	33	4,172
Ensure Accurate Delivery of Tax Credits	28	3,669
Administer New Statutory Reporting Requirements	7	1,059
Total FY 2012 Request	**102**	**$21,159**

3.2.1 – Budget and Performance Plan

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education Budget Activity Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$628,286	$648,685	$667,840	$679,924	$679,924	$701,035
Reimbursable Resources	774	876	862	862	862	863
Mandatory Appropriations - User Fees	12,827	18,703	5,514	5,514		
Total Resources	**$641,887**	**$668,264**	**$674,216**	**$686,300**	**$680,786**	**$701,898**
Budget Activity Total	**$641,887**	**$668,264**	**$674,216**	**$686,300**	**$680,786**	**$701,898**

[1]The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Pre-Filing Taxpayer Assistance & Education Budget Activity Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	92.4%	96.8%	95.3%	94.0%	94.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public (Ot)	89.5%	95.2%	97.7%	90.0%	91.0%	93.0%
Taxpayer Self Assistance Rate (E) (L)	66.8%	69.3%	64.4%	61.3%	68.7%	68.7%
Percent of Eligible Taxpayers Who File for EITC (Oe)	*	*	*	75-80%	75-80%	75-80%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and L -
*The methodology for estimating the eligibility rate is being revised. Data not available.

Description of Performance

The IRS partners with state taxing authorities, volunteer groups, and other organizations to enhance taxpayer outreach and education. The IRS and its partners provide free tax assistance to the elderly, disabled, and limited English proficient individuals and families at Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites. The IRS also provides grants to support low-income taxpayer clinics to help individuals who need assistance on tax-related issues. In FY 2010, the IRS awarded more than $13.5 million in VITA and TCE Grants to 171 organizations, 17 percent more than the number of organizations in 2009. Consequently, assistors at the more than 12,000 VITA and TCE sites throughout the nation prepared more than 3.1 million returns, including 360,500 returns for individuals with disabilities and/or families with disabled dependents.

The IRS and its partners hosted five Open House events at more than 200 IRS Tax Assistance Centers (TACs) and partner sites nationwide to help taxpayers prepare returns and resolve tax issues. The IRS assisted more than 31,400 taxpayers and prepared more than 7,700 returns. The IRS also:

- Held two special Saturday events assisting more than 9,500 taxpayers and preparing more than 4,000 returns;

- Created a system that allows taxpayers to self-screen and make on-line appointments for return preparation in the TACs;

- Provided a dedicated toll-free telephone line and hosted a Gulf Coast Assistance Day at seven TACs in the Gulf region to provide guidance to taxpayers affected by the oil spill in the Gulf of Mexico; and

- Expanded the state income tax return preparation service for low-income taxpayers from 20 to 27 states, contributing to more than 57,000 returns being prepared.

During the FY 2010 filing season, taxpayers used IRS.gov to get current filing information:

- More than 1.7 billion web pages were viewed;
- More than 66.9 million taxpayers used *Where's My Refund?,* a 23.8 percent increase from 2009;
- More than 213.3 million downloads of various tax products by taxpayers, an increase of almost 12 percent; and
- More than 108.8 million electronic payments totaling over $1.9 trillion were processed through the Electronic Federal Tax Payment System.

The IRS also expanded outreach and educational services to improve information, news and taxpayer interaction through social media networks (Facebook, Twitter, and YouTube, etc.). The IRS produced and posted 258 YouTube videos on a variety of subjects including the Education Tax Credit, Making Work Pay, Health Care, Return Preparer, and the Homebuyer Credit. These videos attracted more than 963,800 upload views and were available in English, Spanish, and American Sign Language.

The Earned Income Tax Credit (EITC) is one of the federal government's largest benefit programs for working families and individuals. In FY 2010, the IRS conducted its fourth annual EITC Awareness Day to educate the public on the availability and benefits of this important tax credit. As part of a national outreach strategy, the IRS reached out to qualifying taxpayers by communicating the benefits of EITC through:

- Interviews in prominent newspapers with nationwide audience bases;
- More than 50 satellite television media tours in English and Spanish;
- Interviews with radio networks reaching more than 1,000 radio stations; and
- 72 news conferences held around the country.

3B – Filing and Account Services *($1,644,098,000 in direct appropriations, an estimated $22,061,000 from reimbursable programs, and an estimated $130,962,000 from user fees)*: This budget activity funds programs that provide filing and account services to taxpayers, processes paper and electronically-submitted tax returns, issues refunds, and maintains 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 revenue, processes information documents, and issues refunds and tax notices.
- *Account Management and Assistance – Electronic/Correspondence Assistance* provides education and assistance to taxpayers through telephone, paper, and internet correspondence to resolve account and notice inquiries.
- *Electronic Products and Services Support* provides centralized operations and support capabilities for the IRS suite of electronic products, including e-help desk, technology support, and operations support.
- *Electronic Tax Administration (ETA)* markets and administers electronic tax administration products and services.
- *Pre-Refund* provides coordination support for the pre-refund activities to ensure timely issuance of refunds and credits that are legally due to taxpayers.
- *Joint Operations Center (JOC)* provides service, support, and technology for telephone, correspondence, and electronic media inquiries; real time monitoring

and routing of inbound calls; monitoring of Customer Service Representative accuracy; and management of the enterprise telephone database.

- *Files Most Efficient Organization (MEO)* provides staffing, training, and direct support for the management associated with the MEO for files in Submission Processing. This organization stores the administrative files and the most recent tax returns in process, which are the returns most often requested for research by various IRS organizations before forwarding to federal records centers.

FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service Filing and Account Services	FTE	Amount
Taxpayer Service Initiatives	**503**	**$33,526**
Improve Taxpayer Service	503	33,526
Enforcement Initiatives	**282**	**$15,303**
Increase Collection Coverage	34	1,931
Implement Merchant Card and Basis Reporting	173	9,038
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	54	3,057
Ensure Accurate Delivery of Tax Credits	21	1,277
Total FY 2012 Request	**785**	**$48,829**

3.2.2 – Budget and Performance Plan

Dollars in Thousands

Filing and Account Services Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$1,545,478	$1,631,121	$1,591,042	$1,598,906	$1,598,906	$1,644,098
Reimbursable Resources	36,037	23,578	21,993	21,993	22,027	22,061
Mandatory Appropriations - User Fees	139,109	104,297	115,998	115,998	128,966	130,962
Total Resources	**$1,720,624**	**$1,758,996**	**$1,729,033**	**$1,736,897**	**$1,749,899**	**$1,797,121**
Budget Activity Total	**$1,720,624**	**$1,758,996**	**$1,729,033**	**$1,736,897**	**$1,749,899**	**$1,797,121**

[1]The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Filing and Account Services Measures	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
Percent Individual Returns Processed Electronically (Oe) (L)	57.6%	65.9%	69.3%	70.2%	74.0%	76.0%
Percent of Business Returns Processed Electronically (Oe) (L)	19.4%	22.8%	25.5%	24.3%	27.0%	28.0%
Customer Accuracy - Tax Law Phones (Ot)	91.2%	92.9%	92.7%	91.2%	92.7%	92.7%
Customer Accuracy - Accounts (Phones) (Ot)	93.7%	94.9%	95.7%	93.7%	95.0%	95.0%
Customer Contacts Resolved per Staff year (E)	12,634	12,918	10,744	9,398	12,074	12,061
Customer Service Representative Level of Service (Oe) (L)	52.8%	70.0%	74.0%	71.0%	71.0%	80.0%
Refund Timeliness - Individual (paper) (Ot)	99.1%	99.2%	96.1%	98.4%	97.0%	97.5%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal

Description of Performance

The IRS delivered a successful 2010 filing season, rising to challenges posed by the implementation of provisions in the American Reinvestment and Recovery Act of 2009 (Recovery Act), the Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA), and increased telephone demand for Economic Recovery Payment inquiries. Results of the 2010 filing season include:

- Processed 141.9 million individual returns and issued more than 109.5 million refunds totaling $366 billion compared to 144.4 million returns resulting in 111.4 million refunds totaling over $339.6 billion in 2009;
- Achieved a 74.0 percent telephone level of service, an increase from 70.0 percent in 2009, while answering 36.7 million assistor calls;
- Answered 35.1 million automated calls, a 21 percent increase from 2009, reflecting a growing public appetite for quality self-service options;

- Responded correctly to 92.7 percent of tax law questions and 95.7 percent of account questions; and
- Processed more than 2.9 million Free File returns.

Millions of taxpayers continue to file their returns electronically using both paid preparers and home computers. As a result:

- Home computer filing increased to 34.6 million returns, 2.4 million more than in 2009;
- Individual returns filed electronically increased to 69.3 percent, 3.4 percent more than in 2009, with the total number of individual returns filed electronically reaching 98.4 million;
- Business returns filed electronically reached 25.5 percent, 11.9 percent more than in 2009; and
- Tax professionals filed 62.3 million returns electronically.

Enforcement

Appropriation Description

The Enforcement appropriation provides funding for 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 underreporting of tax obligations; securing of unfiled tax returns; and collecting unpaid accounts.

The Enforcement Budget Request for FY 2012 is $5,966,619,000 in direct appropriations and 54,582 FTE. This is an increase of $462,619,000, or 8.41 percent, and 3,599 FTE more than the FY 2010 enacted level of $5,504,000,000 and 50,983 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Enforcement	FTE	Amount
FY 2010 Enacted Budget[1]	**50,983**	**$5,504,000**
FY 2011 Annualized CR Level	**50,983**	**$5,504,000**
Changes to Base:		
Adjustment to Reach FY 2011 President's Policy Level	**1,880**	**$242,275**
Maintaining Current Levels		**$30,691**
Other Adjustments	**(296)**	
Technical FTE Adjustments	(296)	
Efficiencies/Savings	**(35)**	**($21,996)**
Reduce Contracts		(325)
Reduce Administrative Expenses	(35)	(8,271)
Eliminate Lockbox Fees		(4,000)
Reduce Training, Travel and Programs		(9,400)
Subtotal Changes to Base	**1,549**	**$250,970**
Total FY 2012 Base	**52,532**	**$5,754,970**
Program Changes:		
Program Increases:		
Enforcement Initiatives	**2,040**	**$209,668**
Increase International Service and Enforcement	373	48,363
Increase Collection Coverage	372	30,275
Implement Merchant Card and Basis Reporting	225	17,495
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	266	33,936
Ensure Accurate Delivery of Tax Credits	563	49,083
Administer New Statutory Reporting Requirements	48	5,061
Leverage Return Preparer Program to Reduce Noncompliance	107	14,240
Address Appeals Workload Growth	66	7,450
Implement Uncertain Tax Position Reporting Requirements	20	3,765
Infrastructure Initiatives	**10**	**$1,981**
Enhance Physical Security for Federal Employees	10	1,981
Subtotal Program Changes	**2,050**	**$211,649**
Total FY 2012 Request	**54,582**	**$5,966,619**
Adjustments to Request		
User Fees		
Total FY 2012 Request	**54,582**	**$5,966,619**

[1]FY 2010 Enacted represents the approved FY 2010 Operating Plan

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Enforcement	FY 2010 Enacted Level [1,2]	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level [2]	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level [2]	% Change FY 2011 to FY 2012
FTE	**50,983**	**52,863**		**50,983**		**50,983**	**54,582**	**7.1%**
Object Classification:								
11.1 Full-Time Permanent Positions	$3,744,545	$3,938,661	$0	$3,744,545	$0	$3,744,545	$4,084,707	9.1%
11.3 Other than Full-Time Permanent Positions	52,993	91,365	0	52,993	0	52,993	57,151	7.8%
11.5 Other Personnel Compensation	164,191	173,549	0	164,191	0	164,191	170,898	4.1%
11.8 Special Personal Services Payments	18,173	18,445	0	18,173	0	18,173	18,264	0.5%
11.9 Personnel Compensation (Total)	**$3,979,902**	**$4,222,020**	**$0**	**$3,979,902**	**$0**	**$3,979,902**	**$4,331,020**	**8.8%**
12.0 Personnel Benefits	1,084,382	1,173,634	0	1,084,382	0	1,084,382	1,231,973	13.6%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0.0%
21.0 Travel	197,877	181,570	0	197,877	0	197,877	184,863	-6.6%
22.0 Transportation of Things	5,824	6,607	0	5,824	0	5,824	8,808	51.2%
23.1 Rental Payments to GSA	30	0	0	30	0	30	0	-100.0%
23.2 Rent Payments to Others	1,003	502	0	1,003	0	1,003	496	-50.5%
23.3 Communications, Utilities, & Misc	5,818	4,131	0	5,818	0	5,818	4,402	-24.3%
24.0 Printing & Reproduction	6,530	6,546	0	6,530	0	6,530	6,848	4.9%
25.1 Advisory & Assistance Services	56,970	25,464	0	56,970	0	56,970	21,238	-62.7%
25.2 Other Services	62,489	72,609	0	62,489	0	62,489	72,197	15.5%
25.3 Purchase of Goods & Services from Govt. Accounts	49,243	49,902	0	49,243	0	49,243	42,792	-13.1%
25.4 Operation & Maintenance of Facilities	193	196	0	193	0	193	195	1.0%
25.5 Research & Development Contracts	3,124	3,007	0	3,124	0	3,124	3,049	-2.4%
25.6 Medical Care	123	78	0	123	0	123	79	-35.8%
25.7 Operation & Maintenance of Equipment	1,421	2,110	0	1,421	0	1,421	2,185	53.8%
25.8 Subsistence & Support of Persons	4,716	4,692	0	4,716	0	4,716	4,966	5.3%
26.0 Supplies and Materials	32,862	29,733	0	32,862	0	32,862	34,963	6.4%
31.0 Equipment	4,414	7,301	0	4,414	0	4,414	8,134	84.3%
32.0 Lands and Structures	425	0	0	425	0	425	934	119.8%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	5	0	0	0	0	5	100.0%
42.0 Insurance Claims & Indemn	1,736	2,088	0	1,736	0	1,736	2,123	22.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	4,918	5,205	0	4,918	0	4,918	5,349	8.8%
Total Budget Authority	**$5,504,000**	**$5,797,400**	**$0**	**$5,504,000**	**$0**	**$5,504,000**	**$5,966,619**	**8.4%**
Budget Activities:								
Investigations	$639,363	$651,966	0	$639,363	$0	$639,363	$678,849	6.2%
Exam & Collections	4,700,345	4,974,618	0	4,700,345	0	4,700,345	5,103,420	8.6%
Regulatory	164,292	170,816	0	164,292	0	164,292	184,350	12.2%
Total Budget Authority	**$5,504,000**	**$5,797,400**	**$0**	**$5,504,000**	**$0**	**$5,504,000**	**$5,966,619**	**8.4%**

[1] FY 2010 Enacted represents the approved FY 2010 Operating Plan.

[2] Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

2.3 – Appropriation Detail Table

Dollars in Thousands

Enforcement Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted[1]		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Investigations	4,364	$644,061	4,170	$639,363	4,170	$639,363	4,442	$678,849	6.52%	6.18%
Exam and Collections	44,802	4,683,200	45,424	4,700,345	45,424	4,700,345	48,772	5,103,420	7.37%	8.58%
Regulatory	1,234	165,724	1,389	164,292	1,389	164,292	1,368	184,350	-1.51%	12.21%
Subtotal New Appropriated Resources	**50,400**	**$5,492,985**	**50,983**	**$5,504,000**	**50,983**	**$5,504,000**	**54,582**	**$5,966,619**	**7.06%**	**8.41%**
Other Resources:										
Recoveries				537						
Offsetting Collections - Reimbursable	124	74,599	124	76,852	124	75,247	124	75,902		0.87%
Available multi-year/no-year funds		944		3,462		3,196		3,054		-4.44%
50% Carryover		3,498		5,600						
Transfers In/Out				172						
Mandatory Appropriations - User Fees		49		49						
Subtotal Other Resources	**124**	**$79,090**	**124**	**$86,672**	**124**	**$78,443**	**124**	**$78,956**		**0.65%**
Total Resources Available for Obligation	**50,524**	**$5,572,075**	**51,107**	**$5,590,672**	**51,107**	**$5,582,443**	**54,706**	**$6,045,575**	**7.04%**	**8.30%**

[1] The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

3C – Investigations *($678,849,000 in direct appropriations and an estimated $66,567,000 from reimbursable programs):* This budget activity funds the Criminal Investigation (CI) programs that explore potential criminal and civil violations of tax laws, enforce criminal statutes relating to violations of tax laws and other financial crimes, and recommend prosecution as warranted and campus support of the Questionable Refund program. This includes the following program activities:

- *General Management and Administration* supports the headquarters management activities of strategic planning, communications, finance, and human resources for CI activities.
- *Criminal Investigations* supports the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes. CI investigates cases of suspected intent to defraud that involve both legal and illegal sources of income and recommends prosecution as warranted. This activity includes the investigation and prosecution of tax and money laundering violations associated with narcotics organizations.
- *Criminal Tax Legal Support* provides staffing, training, and direct support to Counsel and CI.
- *International Investigations* supports international investigations involving U.S. citizens residing abroad, non-resident aliens, expatriates, and investigations involving other international issues including legal support (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion).
- *Accounts Management Taxpayer Assurance Program* provides support to Accounts Management for the review of questionable refunds.

FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service Investigations	FTE	Amount
Enforcement Initiatives	**66**	**$13,423**
Increase International Service and Enforcement	43	8,999
Leverage Return Preparer Program to Reduce Noncompliance	23	4,424
Infrastructure Initiatives	**10**	**$1,981**
Enhance Physical Security for Federal Employees	10	1,981
Total FY 2012 Request	**76**	**$15,404**

3.2.3 – Budget and Performance Plan

Dollars in Thousands

Investigations Budget Activity Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$601,436	$615,544	$644,061	$639,363	$639,363	$678,849
Reimbursable Resources	49,404	39,639	65,296	67,549	65,928	66,567
Mandatory Appropriations - User Fees						
Total Resources	**$650,840**	**$655,183**	**$709,357**	**$706,912**	**$705,291**	**$745,416**

[1]The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Investigations Budget Activity Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
Criminal Investigations Completed (Ot) (L)	4,044	3,848	4,325	3,900	3,900	3,880
Number of Convictions (Oe) (L)	2,144	2,105	2,184	2,135	2,135	2,135
Conviction Rate (Oe) (L)	92.3%	87.2%	90.2%	92.0%	92.0%	92.0%
Conviction Efficiency Rate ($) (E) (L)	$315,751	$327,328	$324,776	$331,000	$350,000	$360,000

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long Term Goal

Description of Performance

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

- Completed more than 4,300 criminal investigations, 12 percent more than in 2009;

- Maintained a Department of Justice acceptance rate of 93.9 percent, with a U.S. Attorney acceptance rate of 91.8 percent, which compares favorably with other Federal law enforcement agencies;
- Achieved a conviction rate of more than 90 percent; and
- Obtained 2,184 convictions.

In an effort to deter financial crime and enhance voluntary tax compliance, the IRS uses media and other outreach opportunities to maximize publicity of investigations. Publicity focuses on informing the American public about enforcement efforts and educating the public about fraud schemes and scams that they should avoid.

In FY 2010, IRS representatives participated in more than 500 outreach events. Audiences included tax and accounting professionals, representatives from financial institutions, business and industry managers, government representatives, educational institutions, and the public. Topics included general fraud awareness, tax and accounting fraud, money laundering, Bank Secrecy Act, and other financial fraud. These outreach events were attended by more than 27,800 individuals and businesses.

3D – Exam and Collections *($5,103,420,000 in direct appropriations and an estimated $8,761,000 from reimbursable programs)*: This budget activity funds programs that enforce tax laws through examination and collection programs that ensure proper payment and tax reporting. This 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 IRS collection activities by initiating contact and collecting delinquent taxpayer liabilities through written notices and other means.
- *Automated Collections and Support* provides support to the centralized Automated Collection System (ACS) by initiating contact and collecting 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 interest of the federal government in delinquent tax liability situations.
- *Tax Reporting Compliance – Document Matching* supports 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* initiates written correspondence with taxpayers related to tax issues arising from claims on their tax returns.

- *Tax Reporting Compliance – Field Exam* compares taxpayer income levels and corresponding tax liabilities to ensure the accuracy of taxpayer returns.
- *Fraud/Bank Secrecy Act* enforces the anti-money laundering provisions of the Bank Secrecy Act of 1970 (BSA) and the USA Patriot Act of 2001. It examines non bank financial institutions for compliance with these laws, receives and processes more than 15 million financial reports annually, 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.
- *Appeals* provides an administrative review process that provides a channel for impartial case settlement before a case is docketed in a court of law.
- *Litigation* provides legal support for the IRS in litigation of cases, including interpretation of the tax law.
- *Specialty Programs – Exams* examines federal tax returns of businesses and individuals responsible for the filing and payment of employment, excise, estate and gift taxes.
- *International 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 and Foreign Earned Income Exclusion).
- *International Exams* supports the international exam program involving U.S. citizens residing abroad, non-resident aliens, expatriates and other examinations involving other international issues including legal support (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion).
- *Unit General Management and Administration* provides staffing, training, and direct support for headquarters management activities of strategic planning, communication and liaison, finance, human resources, EEO and diversity, business system planning, and embedded training.
- *EITC Management and Administration* supports headquarters management associated with administering the EITC program service-wide.
- *Whistleblower* provides staffing, training, and direct support to process, assess, and analyze tips from individuals who identify tax problems in the course of their daily personal business, regardless of where encountered (including the workplace).
- *Communications and Liaison* coordinates local government and liaison relationships; manages congressional, state, and national stakeholder relationships and issues; coordinates crosscutting issues, including audit management and legislative implementation; manages national media contacts and local media relationships; and ensures IRS compliance with disclosure and privacy laws.

FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service Exam and Collections	FTE	Amount
Enforcement Initiatives	**1,878**	**$182,682**
Increase International Service and Enforcement	322	37,980
Increase Collection Coverage	372	30,275
Implement Merchant Card and Basis Reporting	225	17,495
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	213	27,809
Ensure Accurate Delivery of Tax Credits	553	47,566
Administer New Statutory Reporting Requirements	43	4,291
Leverage Return Preparer Program to Reduce Noncompliance	84	9,816
Address Appeals Workload Growth	66	7,450
Total FY 2012 Request	**1,878**	**$182,682**

3.2.4 – Budget and Performance Plan

Dollars in Thousands

Exam and Collections Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$4,030,648	$4,342,021	$4,683,200	$4,700,345	$4,700,345	$5,103,420
Reimbursable Resources	8,302	8,970	8,729	8,729	8,745	8,761
Mandatory Appropriations - User Fees	12,679	3,103	49	49		
Total Resources	**$4,051,629**	**$4,354,094**	**$4,691,978**	**$4,709,123**	**$4,709,090**	**$5,112,181**

[1]The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Exam and Collections Budget Activity Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
Examination Coverage - Individual (Oe) (L)	1.01%	1.0%	1.1%	1.1%	1.1%	1.1%
Field Exam National Quality Review Score (Oe) (L)	86.0%	85.1%	84.9%	86.3%	83.7%	84.9%
Office Exam National Quality Review Score (Oe) (L)	90.0%	92.1%	91.6%	90.9%	90.4%	90.9%
Examination Quality - Industry (Oe) (L)	88.0%	88.0%	87.0%	89.0%	89.0%	89.0%
Examination Quality - Coordinated Industry (Oe) (L)	97.0%	95.0%	95.0%	96.0%	96.0%	96.0%
Examination Coverage - Business (Oe) (L)	6.1%	5.6%	5.7%	5.1%	5.3%	5.2%
AUR Efficiency (E) (L)	1,982	1,905	1,924	1,868	1,980	2,017
AUR Coverage (E) (L)	2.55%	2.6%	3.0%	3.0%	3.3%	4.0%
Examination Efficiency - Individual (E) (L)	138	138	140	132	134	126
Collection Coverage - Units (Ot) (L)	55.2%	54.2%	50.1%	50.5%	49.1%	47.9%
Collection Efficiency - Units (E) (L)	1,926	1,845	1,822	1,898	1,824	1,752
Field Collection National Quality Review Score (Ot) (L)	79.0%	80.5%	80.6%	81.0%	81.0%	81.0%
Automated Collection System (ACS) Accuracy (Oe)	95.3%	94.3%	95.9%	92.5%	94.0%	94.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, L - Long Term Goal, Ot -

Description of Performance

Enforcement of the tax laws is an integral component of the IRS effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, target elements of the tax gap and will always remain a high priority. In FY 2010, the IRS placed extraordinary focus on detecting and bringing to justice those who hide assets overseas to avoid paying tax. The IRS also continued its pursuit of high-wealth noncompliant taxpayers and initiated actions to implement the return preparer strategy.

The IRS collected $57.6 billion in revenue in FY 2010, $8.7 billion, or 18 percent, more than in FY 2009. The IRS showed steady progress, building on its FY 2009 successes in key enforcement programs:

- Total individual audits increased 11 percent to 1.58 million;
- Automated underreporter contact closures increased 19.8 percent to 4.3 million;
- Collection case closures increased 6 percent to 3 million;
- High income audits increased to more than 5 percent to 153,000; and
- Large corporate audits increased 8.1 percent to almost 15,000, a significant achievement given the size (more than $10 million) and complexity of these corporate entities.

As part of an overall strategy to improve offshore compliance, the IRS continued to take aggressive steps to track tax evaders who hide their wealth by engaging in tax evasion schemes using offshore accounts.

The IRS voluntary disclosure program (VDP), offered in 2009, combined with powerful whistle-blower initiatives, yielded information on banks and professionals, including foreign professionals, who facilitate tax evasion. Thousands of taxpayers with offshore accounts voluntarily came forward during the VDP partial amnesty period to disclose information as the result of the initiative.

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

- A large Swiss bank entering into a deferred prosecution agreement on charges of conspiring to defraud the United States. Investigations resulted in indictments or guilty pleas of clients and bankers on federal income tax related charges, including filing false income tax returns, failing to report foreign bank accounts, and concealing millions in income subject to taxation.
- A bank in Scotland agreeing to forfeit $500 million as part of a deferred prosecution agreement. The bank violated the Bank Secrecy Act (BSA) and conspired to defraud the U.S. Certain offices, branches, affiliates, and subsidiaries altered or removed names and references from payment messages to

sanctioned countries thereby allowing these entities to move hundreds of millions of dollars through the U.S. financial system without identification.

- A Swiss corporation agreeing to forfeit $536 million to the United States. The violations relate to transactions illegally conducted on behalf of customers and other countries sanctioned in programs administered by the Department of the Treasury. The corporation deliberately removed material information from payment messages so that wire transfers would pass undetected through filters at U.S. financial institutions.

Through the offshore voluntary disclosure program, the IRS identified previously unreported foreign bank accounts from every continent except Antarctica.

Additionally, the Accounts Management Taxpayer Assurance Program (AMTAP) and Questionable Refund Program (QRP) identify fraudulent returns and stop payment of fraudulent refunds. In FY 2010, the IRS:

- Identified 807,898 potentially fraudulent returns claiming more than $5.2 billion in fraudulent refunds through the AMTAP; and
- Identified 1,576 schemes in potentially fraudulent refund claims through the QRP.
    - Initiated 504 investigations, achieved a 92.4 percent conviction rate, an 83.8 percent incarceration rate, and an 84.6 percent publicity rate on adjudicated cases.

Setting higher standards for the tax return preparer community will significantly enhance protections and services for taxpayers, increase confidence in the tax system and result in greater compliance with tax laws. In FY 2010, as part of a Tax Return Preparer Strategy developed in FY 2009, the IRS began implementing a number of the recommendations to ensure that more than one million tax return preparers are competent. Key elements of the strategy include:

- Requiring registration for all paid tax return preparers (through December 31, 2010, more than 523,000 return preparers received PTINs utilizing the new application system);
- Establishing mandatory testing and continuing education;
- Developing a public database for tax return preparer registration with the IRS;
- Making all tax return preparers subject to ethical standards; and
- Increasing the IRS enforcement presence in the tax return preparer community. In FY 2010, the IRS made a number of due diligence visits to tax return preparers and conducted more than 5,000 field visits to ensure compliance with the tax laws. The IRS also conducted 265 undercover visits to tax return preparers. During these visits, IRS agents posed as taxpayers to seek out and stop unscrupulous preparers from filing inaccurate returns.

3E – Regulatory *($184,350,000 in direct appropriations and an estimated $574,000 from reimbursable programs):* This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; advice on general legal servicing, ruling and agreements; enforcement of regulatory rules, laws, and approved business practices; and support for taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. This includes the following program activities:

- *Tax Law Interpretation and Published 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.
- *International Regulatory Legal Support* supports Counsel's work in tax law interpretation and rulings and agreements related to international issues.
- *Return Preparer Strategy* provides staffing, training, and direct support associated with the Return Preparer Strategy initiative.
- *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, including attorneys, Certified Public Accountants (CPAs), enrolled agents, enrolled actuaries and appraisers, and other professionals.

FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service Regulatory	FTE	Amount
Enforcement Initiatives	**96**	**$13,563**
Increase International Service and Enforcement	8	1,384
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	53	6,127
Ensure Accurate Delivery of Tax Credits	10	1,517
Administer New Statutory Reporting Requirements	5	770
Implement Uncertain Tax Position Reporting Requirements	20	3,765
Total FY 2012 Request	**96**	**$13,563**

3.2.5 – Budget and Performance Plan

Dollars in Thousands

Regulatory Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$145,036	$152,115	$165,724	$164,292	$164,292	$184,350
Reimbursable Resources	435	469	574	574	574	574
Mandatory Appropriations - User Fees	168					
Total Resources	**$145,639**	**$152,584**	**$166,298**	**$164,866**	**$164,866**	**$184,924**

[1]The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Regulatory Budget Activity Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
TE/GE Determination Case Closures (Ot)	100,050	96,246	105,247	140,465	97,151	85,471

Key: Ot - Output/Workload Measure

Description of Performance

In 2010, the IRS continued to help pension plans, exempt organizations, and government entities comply with the tax law by:

- Developing an Indian Tribal consultation policy with the Department of the Treasury, pursuant to a November 2009 Presidential Memorandum. The IRS held consultation meetings with stakeholder groups to allow tribes an opportunity to discuss the consultation policy and a new section on Tribal Policy was developed and added to the Treasury website. In addition, the IRS piloted a specialty course designed to ensure that IRS employees will have the necessary skills to interact effectively with Tribal governments on a government-to-government basis.
- Releasing an interim report on compliance of college and universities for unrelated business taxable income and compensation. Based on responses from the surveys received from the colleges/universities, IRS opened examinations focusing on unrelated business income and executive compensation.
- Implementing Section 301 of the Small Business and Infrastructure Jobs Tax Act of 2010 that expanded the Build America Bond (BAB) direct payment regime to include four types of specified tax credit bonds. This initiative included:
    - Expeditious issuance of formal guidance and educational materials related to the new bond provisions;
    - Issuance of a new return, Form 8038-TC, *Information Return for Tax Credit Bonds and Specified Tax Credit Bonds*, and instructions, and revision and reissuance of the Form 8038-CP, *Return for Credit Payments to Issuers of Qualified Bonds*, and instructions;
    - Implementation of new programming to ensure direct payments are made contemporaneously with the bonds' interest payment dates; and
    - Conducting several HIRE Act related outreach presentations.

In FY 2010, IRS closed more than 41,400 tax-exempt compliance contacts, 19 percent more than in 2009.

General Legal Services (GLS) worked on promulgation of guidance in connection with the administration of the whistleblower program and was responsible for litigating cases before the Tax Court filed by whistleblowers challenging the IRS award determination.

In FY 2010, GLS handled 20 cases before the Tax Court and expects this number will increase substantially as the IRS completes the investigation of whistleblower claims and the Whistleblower Office begins to make award determinations. GLS has litigated and provided advice with respect to protection of taxpayers regarding tax practitioners, tax preparers and various novel personnel issues implicating both individuals and groups of employees. GLS provided advice on the implementation of the Affordable Care Act (ACA) legislation regarding such matters as funding and authority; and advice on numerous matters arising from the Austin tragedy and the IRS efforts to provide the best relief appropriate for affected IRS employees and taxpayers.

Operations Support

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 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's information systems.

The Operations Support Budget Request for FY 2012 is $4,620,526,000 in direct appropriations and 13,142 FTE. This is an increase of $536,642,000, or 13.14 percent, and 770 FTE more than the FY 2010 enacted level of $4,083,884,000 and 12,372 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Operations Support	FTE	Amount
FY 2010 Enacted Budget[1]	**12,372**	**$4,083,884**
FY 2011 Annualized CR Level	**12,372**	**$4,083,884**
Changes to Base:		
Adjustment to Reach FY 2011 President's Policy Level	**12**	**$10,128**
Maintaining Current Levels		**$41,755**
Other Adjustments	**154**	
Technical FTE Adjustments	154	
Efficiencies/Savings	**(5)**	**($124,440)**
Non-Recur Savings		(22,090)
Increase e-File Savings		(1,040)
Reduce IT Infrastructure		(75,000)
Reduce Contracts		(15,907)
Reduce Administrative Expenses	(5)	(503)
Reduce Certain Mailings		(4,000)
Reduce Training, Travel and Programs		(5,900)
Subtotal Changes to Base	**161**	**($72,557)**
Total FY 2012 Base	**12,533**	**$4,011,327**
Program Changes:		
Program Increases:		
Taxpayer Service Initiatives	**16**	**$70,229**
Improve Taxpayer Service	1	37,229
Expand Online Options through IRS.gov Improvements	15	33,000
Enforcement Initiatives	**508**	**$370,093**
Increase International Service and Enforcement	4	24,233
Increase Collection Coverage	4	19,524
Implement Merchant Card and Basis Reporting	1	7,760
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	144	55,553
Ensure Accurate Delivery of Tax Credits	222	206,264
Administer New Statutory Reporting Requirements	132	52,385
Leverage Return Preparer Program to Reduce Noncompliance	1	2,360
Address Appeals Workload Growth		1,650
Implement Uncertain Tax Position Reporting Requirements		364
Infrastructure Initiatives	**80**	**$116,877**
Enhance Security and Disaster Recovery Systems Capability	5	12,000
Update Integrated Financial System (IFS)	5	27,500
Leveraging Data to Improve Compliance	5	1,400
Enhance Physical Security for Federal Employees		13,500
Implement Individual Coverage Requirement and Employer Responsibility Payments	65	62,477
Business Systems Modernization (BSM) Initiative	**5**	**$52,000**
Continue Migration from Aging Tax Administration System	5	52,000
Subtotal Program Changes	**609**	**$609,199**
Total FY 2012 Request	**13,142**	**$4,620,526**
Adjustments to Request		
User Fees		73,466
Total FY 2012 Request	**13,142**	**$4,693,992**

[1]FY 2010 Enacted represents the approved FY 2010 Operating Plan

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Operations Support	FY 2010 Enacted Level [1,2]	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level [2]	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level [2]	% Change FY 2011 to FY 2012
FTE	**12,372**	**12,384**		**12,372**		**12,372**	**13,142**	**6.2%**
Object Classification:								
11.1 Full-Time Permanent Positions	$1,072,547	$1,089,960	$0	$1,072,547	$0	$1,072,547	$1,182,167	10.2%
11.3 Other than Full-Time Permanent Positions	12,480	26,496	0	12,480	0	12,480	11,693	-6.3%
11.5 Other Personnel Compensation	34,437	35,147	0	34,437	0	34,437	33,586	-2.5%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	**$1,119,464**	**$1,151,603**	**$0**	**$1,119,464**	**$0**	**$1,119,464**	**$1,227,446**	**9.6%**
12.0 Personnel Benefits	346,939	357,973	0	346,939	0	346,939	387,046	11.6%
13.0 Benefits to Former Personnel	48,217	48,907	0	48,217	0	48,217	49,789	3.3%
21.0 Travel	46,639	42,852	0	46,639	0	46,639	46,282	-0.8%
22.0 Transportation of Things	23,822	20,999	0	23,822	0	23,822	22,348	-6.2%
23.1 Rental Payments to GSA	646,363	676,738	0	646,363	0	646,363	685,010	6.0%
23.2 Rent Payments to Others	14,999	44	0	14,999	0	14,999	14,901	-0.7%
23.3 Communications, Utilities, & Misc	474,165	426,745	0	474,165	0	474,165	449,668	-5.2%
24.0 Printing & Reproduction	56,383	51,666	0	56,383	0	56,383	44,544	-21.0%
25.1 Advisory & Assistance Services	98,366	96,998	0	98,366	0	98,366	79,041	-19.6%
25.2 Other Services	411,244	390,480	0	411,244	0	411,244	740,967	80.2%
25.3 Purchase of Goods & Services from Govt. Accounts	72,972	86,985	0	72,972	0	72,972	64,348	-11.8%
25.4 Operation & Maintenance of Facilities	157,036	217,608	0	157,036	0	157,036	168,283	7.2%
25.5 Research & Development Contracts	5,382	5,471	0	5,382	0	5,382	5,433	0.9%
25.6 Medical Care	18,591	12,538	0	18,591	0	18,591	13,419	-27.8%
25.7 Operation & Maintenance of Equipment	77,246	110,905	0	77,246	0	77,246	94,389	22.2%
25.8 Subsistence & Support of Persons	300	321	0	300	0	300	313	4.3%
26.0 Supplies and Materials	38,048	29,916	0	38,048	0	38,048	32,453	-14.7%
31.0 Equipment	380,226	360,851	0	380,226	0	380,226	408,472	7.4%
32.0 Lands and Structures	46,961	17,857	0	46,961	0	46,961	85,836	82.8%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	521	543	0	521	0	521	538	3.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
Total Budget Authority	**$4,083,884**	**$4,108,000**	**$0**	**$4,083,884**	**$0**	**$4,083,884**	**$4,620,526**	**13.1%**
Budget Activities:								
Infrastructure	$895,202	$889,929	0	$895,202	$0	$895,202	$986,045	10.1%
Shared Services & Support	1,311,127	1,337,776	0	1,311,127	0	1,311,127	1,313,050	0.1%
Information Services	1,877,555	1,880,295	0	1,877,555	0	1,877,555	2,321,431	23.6%
Total Budget Authority	**$4,083,884**	**$4,108,000**	**$0**	**$4,083,884**	**$0**	**$4,083,884**	**$4,620,526**	**13.1%**

[1] FY 2010 Enacted represents the approved FY 2010 Operating Plan.

[2] Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

2.3 – Appropriation Detail Table

Dollars in Thousands

Operations Support Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted[1]		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Infrastructure		$894,288		$895,202		$895,202		$986,045		10.15%
Shared Services and Support	5,830	$1,299,008	5,992	1,311,127	5,992	1,311,127	6,082	1,313,050	1.50%	0.15%
Information Services	6,432	$1,814,819	6,380	1,877,555	6,380	1,877,555	7,060	2,321,431	10.66%	23.64%
Subtotal New Appropriated Resources	**12,262**	**$4,008,115**	**12,372**	**$4,083,884**	**12,372**	**$4,083,884**	**13,142**	**$4,620,526**	**6.22%**	**13.14%**
Other Resources:										
Recoveries				863						
Offsetting Collections - Reimbursable	91	38,051	91	38,051	91	39,143	91	39,446		0.77%
Available multi-year/no-year funds		48,697		68,454		70,629		7,738		-89.04%
50% Carryover		10,276		10,347						
Transfers In/Out				(12,543)						
Mandatory Appropriations - User Fees	32	53,968	32	53,968		75,462		73,466		-2.65%
Subtotal Other Resources	**123**	**$150,992**	**123**	**$159,140**	**91**	**$185,234**	**91**	**$120,650**		**-34.87%**
Total Resources Available for Obligation	**12,385**	**$4,159,107**	**12,495**	**$4,243,024**	**12,463**	**$4,269,118**	**13,233**	**$4,741,176**	**6.18%**	**11.06%**

[1] The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

3F – Infrastructure *($986,045,000 in direct appropriations, an estimated $516,000 from reimbursable programs and an estimated $22,095,000 from user fees):* This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-IT equipment. This includes the following program activities:

- *Building Delegation* oversees and manages the IRS GSA-delegated buildings, including cleaning, maintenance, utilities, protection, administrative, and recurring and one-time repair costs.
- *Rent* provides resources for all IRS rent needs.
- *Space and Housing/Non-IT Equipment* provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and non-IT equipment.
- *Security* covers building security costs related to contract guard services.

FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service Infrastructure	FTE	Amount
Taxpayer Service Initiatives		**$11,775**
Improve Taxpayer Service		11,682
Expand Online Options through IRS.gov Improvements		93
Enforcement Initiatives		**$23,062**
Increase International Service and Enforcement		2,337
Increase Collection Coverage		2,560
Implement Merchant Card and Basis Reporting		2,241
Increase Coverage to Address Tax Law Changes and Other Compliance Issues		1,855
Ensure Accurate Delivery of Tax Credits		12,404
Administer New Statutory Reporting Requirements		618
Leverage Return Preparer Program to Reduce Noncompliance		583
Address Appeals Workload Growth		356
Implement Uncertain Tax Position Reporting Requirements		108
Infrastructure Initiatives		**$10,426**
Enhance Security and Disaster Recovery Systems Capability		31
Update Integrated Financial System (IFS)		31
Leveraging Data to Improve Compliance		27
Enhance Physical Security for Federal Employees		10,070
Implement Individual Coverage Requirement and Employer Responsibility Payments		267
Business Systems Modernization (BSM) Initiative		**$56**
Continue Migration from Aging Tax Administration System		56
Total FY 2012 Request		**$45,319**

3.2.6 – Budget and Performance Plan

Dollars in Thousands

Infrastructure Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$809,039	$859,093	$894,288	$895,202	$895,202	$986,045
Reimbursable Resources	149	14,120	505	505	511	516
Mandatory Appropriations - User Fees	13,049				24,277	22,095
Total Resources	**$822,237**	**$873,213**	**$894,793**	**$895,707**	**$919,990**	**$1,008,656**

[1]The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Description of Performance

The IRS achieved cost savings in FY 2010 by completing nine space reduction projects, releasing a total of 22,370 square feet with an annualized savings of $429,910.
The FY 2010 savings, coupled with those from previous years, have helped to offset the increased costs associated with GSA rate increases, as well as infrastructure improvement initiatives such as the consolidation of the Philadelphia campus operations. Workstation utilization continued to increase in 2010 as the IRS placed most new employees into existing space.

For FY 2011, 26 space reduction projects are planned with a projected release of an additional 111,338 square feet. The IRS plans to place any new hires in existing space and renew leases at existing sites rather than moving to new locations. These and other actions will help IRS absorb projected FY 2011 rent increases.

3G – Shared Services and Support *($1,313,050,000 in direct appropriations and an estimated $20,577,000 from reimbursable programs):* This budget activity funds policy and management, 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 employee benefits programs. This includes the following program activities:

- *National Headquarters Management and 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 IRS and builds partner relationships with key stakeholders (Congress, GAO, OMB). 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 human resources. It also includes official reception and representation expenses.
- *Real Estate and Facilities Management* provides services and supplies required to manage IRS facilities.
- *Procurement* supports the procurement function of the IRS.
- *EEO and Diversity Field Services* plans and manages the IRS EEO and Diversity Program.
- *Communications and 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 IRS-wide compliance with disclosure and privacy laws.
- *Employee Support Services* plans and manages financial services, including relocation, travel, imprest fund, purchase cards, corporate express, and employee clearances.
- *Treasury Complaint Centers* plan and manage the Treasury Complaint Centers.
- *Shared Support not provided by Agency-Wide Shared Services* provides resources for shared cross-functional support such as copiers, postage meters, shredders, courier services, and post office boxes.
- *Printing and Postage – Media and Publications* provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials.

- *Statistics of Income* provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations.
- *Research* provides resources for market-based research to identify compliance issues, for conducting tests of treatments to address noncompliance, and for the implementation of successful treatments of taxpayer non-compliant behavior.
- *Security Administration and Management* manages and oversees the staffing, training, equipment, and direct support for the protection of IRS employees, facilities, assets, and the availability of taxpayer services.
- *Wage and Investment (W&I) Business Modernization Support* provides staffing, training, and direct support for W&I's enterprise-wide business modernization efforts including Customer Account Data Engine (CADE), and Account Management Services (AMS) technology solutions, and re-engineered business processes.
- *Benefit Payments* provides resources to fund Workers' Compensation benefits and Unemployment Compensation for federal employee payments.
- *Shared Services* provides additional services such as Public Transit Subsidy and Career Counselor Contract.

FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service Shared Services and Support	FTE	Amount
Taxpayer Service Initiatives	**1**	**$3,339**
Improve Taxpayer Service	1	3,252
Expand Online Options through IRS.gov Improvements		87
Enforcement Initiatives	**29**	**$40,652**
Increase International Service and Enforcement	4	6,824
Increase Collection Coverage		4,185
Implement Merchant Card and Basis Reporting	1	3,664
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	6	5,297
Ensure Accurate Delivery of Tax Credits	3	13,910
Administer New Statutory Reporting Requirements	14	4,318
Leverage Return Preparer Program to Reduce Noncompliance	1	1,400
Address Appeals Workload Growth		878
Implement Uncertain Tax Position Reporting Requirements		176
Infrastructure Initiatives	**8**	**$4,136**
Enhance Security and Disaster Recovery Systems Capability		29
Update Integrated Financial System (IFS)		29
Leveraging Data to Improve Compliance	5	1,359
Enhance Physical Security for Federal Employees		1,695
Implement Individual Coverage Requirement and Employer Responsibility Payments	3	1,024
Business Systems Modernization (BSM) Initiative		**$50**
Continue Migration from Aging Tax Administration System		50
Total FY 2012 Request	**38**	**$48,177**

3.2.7 – Budget and Performance Plan

Dollars in Thousands

Shared Services and Support Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$1,279,800	$1,257,040	$1,299,008	$1,311,127	$1,311,127	$1,313,050
Reimbursable Resources	30,796	20,763	20,315	20,315	20,445	20,577
Mandatory Appropriations - User Fees	19,114	2	17,887	17,887		
Total Resources	**$1,329,710**	**$1,277,805**	**$1,337,210**	**$1,349,329**	**$1,331,572**	**$1,333,627**

[1]The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Description of Performance

Through support activities that include management and administration of human resources, security, and research, the IRS provides shared services to all IRS tax administration programs.

Human Capital

In FY 2010, the IRS continued its focus on attracting, retaining, and developing a quality workforce to support workforce management activities that contribute to making the IRS one of the best places to work in government. To attract the best and increase the number of qualified and diverse applicants, the IRS enhanced its recruitment programs and introduced a new recruitment brand, "Count on Me!" on print materials, USAjobs.gov, IRS Careers website, Internet advertisements, and social media.

One of the key initiatives that contribute to making the IRS the best place to work was the establishment of the Workforce of Tomorrow (WOT) group. In FY 2010, the IRS completed 41 of 58 recommendations outlined in the 2009 WOT report. The recommendations address the most significant challenges facing current employees and managers. Implementation included the recognition of employee successes through the web, issuing anniversary congratulations messages, enhancing the Career Management Resource Center website, and developing a comprehensive on-boarding strategy for new IRS employees, which includes providing forms and benefit information, as well as orientation information.

Results of the annual IRS employee engagement survey are used to improve the workplace. The level of employee engagement affects the overall ability of the organization to meet goals, minimize attrition, and increase productivity. In FY 2010, a record 79 percent of employees participated in the annual survey, with overall employee satisfaction increasing from 73.7 percent in FY 2009 to 74.4 percent in FY 2010. In addition, the IRS also improved its Federal Employee Viewpoint scores ranking from 79 out of 224 government agencies compared to 127 out of 216 agencies in 2008.

Leadership competencies are the foundation for hiring, promoting, developing, and evaluating IRS leaders. The IRS uses leadership competencies to assess employee skills, abilities, and knowledge to determine their readiness for leadership in the IRS. For 2010, the IRS phased in a new and improved leadership competency model that comprises four leadership competencies, each of which has three or more supporting behaviors. The new model replaces the old model that had 21 competencies, reducing managerial burden associated with employee assessment, and making the overall process easier to use.

Security

The IRS collects a tremendous amount of sensitive information, and protecting this information is vital to maintaining the public trust. The IRS takes the issue of identity theft very seriously. In FY 2010, to preserve and enhance public confidence, the IRS advocated the protection and proper use of identity information by:

- Placing markers on more than 284,000 taxpayer accounts to alert employees that the account belongs to a substantiated identity theft victim; and

- Ensuring identity theft indicators and business rules isolate returns for additional screening to validate whether the true taxpayer filed the return. More than 82,000 returns were selected for additional screening and closed, and $245 million was protected from being refunded to perpetrators on more than 48,000 fraudulent returns.

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

Research

The IRS remains committed to finding ways to increase compliance and reduce the tax gap. In FY 2010, the IRS began developing new methodologies for estimating the corporate income tax gap, updating the estate and gift tax nonfiling and underreporting tax gap estimates, and developing a new basis for estimating the individual income tax non-filer gap. Updated tax gap estimates will be released in 2011 based on new National Research Program (NRP) data, including reporting compliance estimates using tax year (TY) 2006 and TY 2007 NRP data. Tax gap estimates will also incorporate updated filing and payment estimates. Updated methodologies to detect non-compliance will be used.

The IRS NRP allows the IRS to target specific areas of noncompliance to improve voluntary compliance and allocate resources more effectively to reduce the tax gap. In FY 2010, NRP efforts included a study to assess the reporting compliance of employment taxes. The study will span three tax years, from 2008 through 2010, examining approximately 2,200 randomly selected taxpayers each year. This new study complements the ongoing study of individual reporting compliance.

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

3H – Information Services *($2,321,431,000 in direct appropriations, an estimated $18,353,000 from reimbursable programs and an estimated $51,371,000 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. This includes the design and operation of security controls and disaster recovery planning. This budget activity funds the development and maintenance of the millions of lines of programming code that support all aspects and phases of tax processing and the operation and administration of the mainframes, servers, personal computers, networks, and a variety of management information systems.

Modernization and Information Technology Services (MITS) is responsible for information systems and technology, ranging from cyber security and networks to applications development and end user equipment and services. This includes the following program activities:

- *Security Services* ensures effective security policies and programs to safeguard taxpayer records, IRS employees, facilities, business processes, systems and other resources. The program is responsible for corrective action efforts to establish adequate service-wide security, including Security Policy Support and Oversight, Mission Assurance, and Modernization Security. Policies are set using a governance process including executive steering committees. Compliance review teams perform vulnerability assessments. Mission assurance activities include operation of the Computer Systems Incident Response and Situation Awareness and Management Centers, as well as coordination of service-wide disaster recovery and business continuity planning. Operational programs include security training and awareness, sensitive system certification and accreditation with Treasury on the federal Critical Infrastructure Protection Program.
- *Tier B* provides support to single-owner, small to medium investment projects using core data to support specialized functions.
- *Management Services* provides for the design, development, delivery, and evaluation of a wide range of human resource programs for the MITS organization. These programs include workforce planning, recruitment and retention, career management, performance management, labor/employee relations, position management, workplace improvement, succession management and service-wide IT training and education.
- *National Headquarters (NHQ) IT Management* provides for the management and oversight of investments in IT for the Chief of Staff and Research, Analysis and Statistics (RAS). The program allows NHQ to manage and leverage IT solutions that are responsive to IRS-wide management, tax compliance, enforcement, and strategic and tactical research projects.

- *Affordable Care Act Project Management Office* will manage the strategic planning, development, and implementation of new information systems in support of business requirements with regard to the healthcare reform initiative.
- *MITS Executive Oversight* provides support to the immediate office of the Chief Technology 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 IT solutions that are responsive to customer business priorities and effectively meet functional and operational needs.
- *Application Development* performs the analysis, design, development, testing, and implementation of approximately 85,000 application programs supporting critical tax processing, management information reporting and financial management support systems for the IRS. This program 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 IT that supports critical tax processing, management information reporting and financial management support systems for the IRS. The program supports data exchanges with external organizations, such as other federal agencies, state and local governments, and external entities (e.g., employers and banks), and includes a comprehensive disaster recovery capability to ensure continued operations 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 of the telecommunications environment. This includes the operation of equipment and services to meet business user needs and the execution of routine changes for scheduled and unscheduled 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.
- *End User Equipment and Services* maintains the IRS automated business processes at headquarters and field sites, effectively allowing the IRS to fulfill its missions. The support includes technical systems and applications software support to end users, maintaining legacy operations, local and corporate systems administration activities, email and domain user account maintenance. This activity monitors IRS network and systems administration by utilizing automated

management tools. It performs asset management activities, and maintenance of the voice and data infrastructure at the territory offices.

- *Strategy and Planning* provides the management and oversight of investments in IT, demand analysis, project reporting, portfolio management and other MITS operational priorities.
- *IT Security Certification and Accreditation* provides design and operations of security controls and the technical mechanisms used by the IRS systems and applications as part of the development of the system security plan, system risk assessment, and IT contingency plan. It also supports security testing and evaluation as part of the certification process, including time preparing system documentation, interviewing with contractors, and responding to information requests.
- *Disaster Recovery* supports activities related to Enterprise Disaster Recovery planning, including testing, evaluations, plan development, and technical and business impact assessments.
- *IT Security Training* provides training for FISMA reporting purposes.
- *IT Homeland Security Presidential Directive-12* oversees the use of Personal Identity 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.
- *IT Infrastructure* funds the replacement of IRS IT infrastructure that has reached or surpassed its useful life cycle. The resources achieved through efficiencies in various parts of MITS are centralized to ensure that replacement of the aging infrastructure is addressed corporately.
- *Treasury Working Capital Fund* is a centralized functional area for separating from the Information Services base budget the resources required to pay Treasury billings for services provided through the working capital fund.
- *Integrated Document Solutions Enterprise (IDSE) Campus Operations Most Efficient Organization (MEO)* captures savings resulting from IDSE MEO activities.

FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service Information Services	FTE	Amount
Taxpayer Service Initiatives	**15**	**$55,115**
Improve Taxpayer Service		22,295
Expand Online Options through IRS.gov Improvements	15	32,820
Enforcement Initiatives	**479**	**$306,379**
Increase International Service and Enforcement		15,072
Increase Collection Coverage	4	12,779
Implement Merchant Card and Basis Reporting		1,855
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	138	48,401
Ensure Accurate Delivery of Tax Credits	219	179,950
Administer New Statutory Reporting Requirements	118	47,449
Leverage Return Preparer Program to Reduce Noncompliance		377
Address Appeals Workload Growth		416
Implement Uncertain Tax Position Reporting Requirements		80
Infrastructure Initiatives	**72**	**$102,315**
Enhance Security and Disaster Recovery Systems Capability	5	11,940
Update Integrated Financial System (IFS)	5	27,440
Leveraging Data to Improve Compliance		14
Enhance Physical Security for Federal Employees		1,735
Implement Individual Coverage Requirement and Employer Responsibility Payments	62	61,186
Business Systems Modernization (BSM) Initiative	**5**	**$51,894**
Continue Migration from Aging Tax Administration System	5	51,894
Total FY 2012 Request	**571**	**$515,703**

3.2.8 – Budget and Performance Plan

Dollars in Thousands

Information Services Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$1,678,744	$1,680,279	$1,814,819	$1,877,555	$1,877,555	$2,321,431
Reimbursable Resources	14,310	5,481	17,231	17,231	18,187	18,353
Mandatory Appropriations - User Fees	50,000	9,543	36,081	36,081	51,185	51,371
Total Resources	**$1,743,054**	**$1,695,303**	**$1,868,131**	**$1,930,867**	**$1,946,927**	**$2,391,155**

[1]The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Description of Performance

The IRS continues to replace its IT infrastructure using an ongoing review process that prioritizes funding of business unit needs using a risk assessment framework. In FY 2010, IRS reduced the quantity of aged IT hardware assets by 17 percent, from 42 percent on October 1, 2009 to 25 percent on September 30, 2010. During FY 2010, the IRS spent more than $117 million to replace 38,346 of these aged assets, which include network equipment, end-user equipment, and servers and storage equipment.

Future funding will be used to replace aging IT and telecommunication equipment in line with current business standards. Without investment in an ongoing replacement program for the backlog of aged and outdated IT and telecommunication equipment, the IRS runs the risk of increased maintenance costs, an inability to meet increased demand for interaction and information exchange with taxpayers and tax preparers, and failure to comply with government-wide standards and industry best practices.

Business Systems Modernization

Appropriation Description

The Business Systems Modernization (BSM) appropriation provides resources for the planning and capital asset acquisition of IT to modernize the IRS business systems.

The BSM Budget Request for FY 2012 is $333,600,000 in direct appropriations and 453 FTE. This is an increase of $69,703,000, or 26.4 percent, and 120 FTE more than the FY 2010 enacted level of $263,897,000 and 333 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Business Systems Modernization	FTE	Amount
FY 2010 Enacted Budget[1]	**333**	**$263,897**
FY 2011 Annualized CR Level	**333**	**$263,897**
Changes to Base:		
Adjustment to Reach FY 2011 President's Policy Level	**156**	**$122,561**
Maintaining Current Levels		**$168**
Other Adjustments	**29**	
Technical FTE Adjustments	29	
Efficiencies/Savings		**($1,026)**
Reduce Training, Travel and Programs		(1,026)
Subtotal Changes to Base	**185**	**$121,703**
Total FY 2012 Base	**518**	**$385,600**
Program Changes:		
Program Increases:		
Business Systems Modernization (BSM) Initiative	**(65)**	**($52,000)**
Continue Migration from Aging Tax Administration System	(65)	(52,000)
Subtotal Program Changes	**(65)**	**($52,000)**
Total FY 2012 Request	**453**	**$333,600**
Adjustments to Request		
User Fees		
Total FY 2012 Request	**453**	**$333,600**

[1]FY 2010 Enacted represents the approved FY 2010 Operating Plan

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Business Systems Modernization	FY 2010 Enacted Level [1,2]	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level [2]	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level [2]	% Change FY 2011 to FY 2012
FTE	**333**	**489**		**333**		**333**	**453**	**36.0%**
Object Classification:								
11.1 Full-Time Permanent Positions	$34,079	$53,905	$0	$34,079	$0	$34,079	$49,843	46.3%
11.3 Other than Full-Time Permanent Positions	785	869	0	785	0	785	1,125	43.3%
11.5 Other Personnel Compensation	643	1,173	0	643	0	643	1,390	116.2%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	**$35,507**	**$55,947**	**$0**	**$35,507**	**$0**	**$35,507**	**$52,358**	**47.5%**
12.0 Personnel Benefits	10,493	14,058	0	10,493	0	10,493	15,835	50.9%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0.0%
21.0 Travel	100	78	0	100	0	100	469	369.0%
22.0 Transportation of Things	0	0	0	0	0	0	0	0.0%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	0	0	0	0	0	0	0	0.0%
23.3 Communications, Utilities, & Misc	0	0	0	0	0	0	0	0.0%
24.0 Printing & Reproduction	0	0	0	0	0	0	0	0.0%
25.1 Advisory & Assistance Services	0	0	0	0	0	0	0	0.0%
25.2 Other Services	135,605	193,348	0	135,605	0	135,605	176,700	30.3%
25.3 Purchase of Goods & Services from Govt. Accounts	0	0	0	0	0	0	0	0.0%
25.4 Operation & Maintenance of Facilities	0	0	0	0	0	0	0	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	10,578	15,972	0	10,578	0	10,578	60,982	476.5%
25.8 Subsistence & Support of Persons	0	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials	0	0	0	0	0	0	56	0.0%
31.0 Equipment	71,614	107,505	0	71,614	0	71,614	27,200	-62.0%
32.0 Lands and Structures	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	0	0	0	0	0	0	0	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
Total Budget Authority	**$263,897**	**$386,908**	**$0**	**$263,897**	**$0**	**$263,897**	**$333,600**	**26.4%**
Budget Activities:								
IT Investments	$263,897	$386,908	$0	$263,897	$0	$263,897	$333,600	26.4%
Total Budget Authority	**$263,897**	**$386,908**	**$0**	**$263,897**	**$0**	**$263,897**	**$333,600**	**26.4%**

[1] FY 2010 Enacted represents the approved FY 2010 Operating Plan.

[2] Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

2.3 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted[1]		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Business Systems Modernization	337	$177,208	333	$263,897	333	$263,897	453	$333,600	36.04%	26.41%
Subtotal New Appropriated Resources	**337**	**$177,208**	**333**	**$263,897**	**333**	**$263,897**	**453**	**$333,600**	**36.04%**	**26.41%**
Other Resources:										
Recoveries				2,980						
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds		107,195		116,254		98,019		21,664		-77.90%
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
Subtotal Other Resources		**$107,195**		**$119,234**		**$98,019**		**$21,664**		**-77.90%**
Total Resources Available for Obligation	**337**	**$284,403**	**333**	**$383,131**	**333**	**$361,916**	**453**	**$355,264**	**36.04%**	**-1.84%**

[1] The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

3I – Business Systems Modernization *($333,600,000 in direct appropriations):* This budget activity funds the planning and capital asset acquisition of IT to modernize IRS business systems, including labor and related contractural costs. The IRS is required to submit an annual BSM expenditure plan that justifies the projects for which resources are requested.

BSM uses best practices and expertise in business solutions and internal management from the IRS, businesses, and technology sectors to develop a world-class tax administration system. The program provides value to taxpayers, the business community, and government and it plays an integral role in reducing the tax gap. This program has delivered improved taxpayer service, electronic filing capacity, and data analysis capability and it has maintained successful performance in delivering projects within acceptable cost, schedule and performance estimates.

The FY 2012 BSM request of $333.6 million funds the projects listed in the table below:

Project	FY 2012 Budget Request
Customer Account Data Engine 2	$156.8
Current Customer Account Data Engine	19.0
Modernized e-File	20.5
Core Infrastructure	37.7
Architecture, Integration and Management	27.6
Management Reserve	2.6
Labor	69.3
Total	**$333.6**

Customer Account Data Engine 2 (CADE 2) (Taxpayer Account Database): The CADE 2 Program will implement an authoritative database for all individual taxpayers and provides the foundation for more efficient and effective tax administration. An analytical data store will provide business users with tools to use taxpayer data more effectively for enhanced compliance and taxpayer service.

The primary purpose of the CADE 2 Program is to implement a data-centric solution that provides daily processing of taxpayer accounts. The CADE 2 Program will move from the current-state solution to the target-state solution through multiple major transition states. The transition states allow the IRS to make marked progress towards the target state in an incremental manner.

The target state of CADE 2 will focus on completing the transition of all applications and eliminating transitional components that were required during the transition states and achieving the business benefits allowed by the target solution. This final step will enhance the long-term viability of the CADE 2 platform.

Current Customer Account Data Engine(CADE): Current CADE allows for the replacement of the IRS's current master files and serves as the repository of all taxpayer information.

Modernized e-File (MeF): MeF provides a standard filing structure for all IRS return types, a robust platform that can meet performance and capacity needs, enhanced and up-to-date technologies, and customer service benefits that are of great appeal to external customers and stakeholders. With MeF, the IRS stores all tax return data in XML format in a Modernized Tax Return Database (MTRDB) allowing all authorized viewers of the data to see an entire tax return online over the internet. Once fully implemented, all tax returns and transmission files will adhere to IRS rules/schemas.

The first release of MeF went into production in February 2004, when Form 1120, *U.S. Corporation Income Tax Return,* Form 1120-S, *U.S. Income Tax Return for an S corporation,* and Form 990, *Return of Organization Exempt from Income Tax* were accepted on the modernized platform. Subsequent releases added Form 1065, *U.S. Return of Partnership Income,* Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation,* and *Federal Form 990 N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or 990-EZ.*

The first phase of the implementation of Form 1040, *U.S. Individual Income Tax Return,* onto the MeF platform took place in January 2010. In FY 2011, the IRS will implement the second phase by providing enhanced Disaster Recovery capabilities to ensure appropriate management of operational risk and the optimization code necessary to support the anticipated volume of returns in 2012. The third and final phase will take place in FY 2012 by migrating the 125 remaining 1040 family forms and schedules, including Forms 1040A, *Making Work Pay and Government Retiree Credits,* and 1040EZ, *Income Tax Return for Single and Joint Filers With No Dependents.* This phase will expand the reach of MeF to all of the e-File population, or approximately 98.3 million filers by January 2012.

Core Infrastructure: The Core Infrastructure will provide mission-critical services to BSM projects and consists of two primary program elements – Infrastructure Shared Services (ISS), and the Development, Integration and Testing Environment (DITE).

- ISS provides mission-critical services in designing, engineering, developing, and deploying a standardized, consolidated, virtual, and secure modernized production environment for use by BSM projects. The continued development and management of this infrastructure incorporates (1) the identification and development of common architecture, infrastructure, and security; (2) virtualization; and (3) application integration services for use and reuse by BSM projects—thus reducing delivery time as well as application development and operations and maintenance costs.
- DITE is a standardized environment composed of all modernized infrastructure components and applications needed by projects that plan to use and integrate into the modernized production environment. DITE uses streamlined processes and standard tools that allow thorough development and testing in a controlled environment, ensuring projects work effectively and seamlessly within the modernized production environment. DITE provides ongoing infrastructure support to all BSM projects on Level of Effort (LOE) basis and supports the development, test, integration, and deployment of each project on a release-by-release basis.

  DITE is an integral part of the approved IRS Enterprise Architecture (EA). Use of this modernized, enterprise-level component allows modernized systems to comply with IRS standards.

Architecture, Integration and Management (AI&M): AI&M activities ensure that systems solutions meet IRS business needs and effectively integrate modernization projects/programs (current CADE, Customer Account Data Engine (CADE 2), and MeF). To ensure the success of the planned business change, AI&M provides a single authoritative source of guidance for integrating each project as it moves from the development environment to the business environment. Major AI&M components are:

- Architecture and Integration (A&I) – The A&I activities ensure systems solutions meet business needs and provide a single authoritative source of guidance for effectively integrating each project as it moves from the development to the business environment. This program produces the principles, strategies, and standards to guide the construction and delivery of coherent and integrated enterprise systems.
- Enterprise Architecture (EA) – EA ensures that the IRS follows mandated requirements in developing its EA. This includes business and technical architecture, enterprise data management/architecture, enterprise transition strategy, release architecture and security architecture.

- Systems Architecture and Engineering (SAE) – SAE supports the BSM projects in the conceptual design of the architectures to ensure that they comply with EA-mandated Guidelines. SAE also is responsible for providing systems architecture and engineering support, which includes outlining the design and ensuring performance metrics are established.
- Enterprise Data Management (EDM) – The EDM manages the XML vocabulary along with the naming and design rules used on all BSM projects. This is accomplished through the development of Enterprise Data Models and the Enterprise Data Architecture. In addition, the EDM defines the data strategy and supports the data components and activities that in part define the IRS Enterprise Architecture. EDM documents this process through the publication and enforcement of data management policies, standards (including XML standards) and procedures at both the enterprise and project levels.
- Integrated Process Management (IPM) – IPM supports the continued implementation of an end-to-end process management framework, through refinement of the Process Asset Library (PAL) and Integrated Process Framework (IPF) to support implementation of the Capability Maturity Model Integration (CMMI) and Information Technology Information Library (ITIL) disciplines. The IRS plans to implement a three-phased migration (process centralization, process integration, and process analysis) to an IPM framework. It is responsible for leveraging the research and development expertise of industry experts to implement the plan to transition from the current fragmented state to the integrated framework.
- Change and Configuration Management (CCM) – CCM provides program support and oversight to key information technology projects and is responsible for developing and implementing IT Service Management in accordance with MITS direction and ITIL best practices. In addition, CCM develops and conducts configuration management (CM) training for program management, project managers, and CM representatives MITS-wide; conducts CM compliance assessments and oversight on all CM practitioners; assists PRIME modernization projects in planning, developing and integrating reasonable, manageable, and attainable release schedules and release packages; and tracks and facilitates resolution of risks, issues, schedule, and resource conflicts.
- Portfolio Governance and Control (PG&C) – PG&C processes and standards allow the IRS to define, manage, and deliver its IT portfolio successfully. Activities include IT portfolio investment management, cost estimation, transition management and risk management. The IRS will develop an IT risk management strategy to establish a consistent enterprise approach for identification and mitigation of risks for BSM projects and releases. PG&C also will provide an integrated IT portfolio assessment of organizational capacity for delivering BSM capabilities. This IT portfolio assessment is critical to ensure the technical impact of BSM program decisions on the current production environment are understood and considered fully. Engineering analyses and resource estimates are integral to ensuring organizational capacity needs are incorporated into both plans and budgets to deliver an integrated portfolio, including maintaining current

operations, delivering filing season readiness, addressing significant legislative proposals, and supporting BSM initiatives.

- Requirements Management (RM) – RM improves the conduct of business analysis, process redesign, business rules harvesting and management, and business requirements elicitation, definition and management. RM standards and expertise allow the IRS to incorporate requirements engineering industry best practices into the Enterprise Life Cycle for consistent systems development processes; apply business rules methods, tools and processes to BSM projects; and develop enterprise policy and standards for requirements and business rules management.

  RM provides requirements planning and management support, business process redesign, rules and requirements development, business modeling, requirements training and outreach, requirements baseline management, and solution development support. In addition, RM allows for integrating the technical requirements engineering process into requirements management methodology.

- Management Processes (MP) – MP provides management disciplines leading to consistent quality, managed risk, increased stakeholder satisfaction, and delivery of modernized business systems within established cost and schedule parameters. The IRS is continually working to strengthen its management processes through the development and deployment of processes and procedures such as Earned Value Management (EVM) and Enterprise Life Cycle (ELC). The dynamic nature of modernization drives BSM to continually assess its operation and implement continuous improvements.

- Program Management (PM) – PM provides centralized services for the PRIME task orders to ensure consistency and quality of the products delivered to the IRS and to assist PRIME staff in providing timely and efficient services to the IRS. The PRIME contractor will continue to provide overall executive and contractual support for the task orders, with the IRS integrating the task orders' results and measuring program-critical success factors. The PRIME task order provides the management data and IT infrastructure that supports risk management activities, high-level project cost and schedule estimates, contracts and procurement management, and security services for the PRIME contract and associated task orders. This funding will provide the IRS with the high quality, timely data necessary to evaluate and report overall contract performance from a perspective that balances cost, schedule, technical requirements, and customer satisfaction.

- Federally Funded Research and Development (FFRDC) – The IRS has undertaken a complete redesign and modernization of its computer-based information processing system through its modernization program. The IRS must improve its procedures and practices through the injection of public and private sector expertise. The FFRDC provides national experts in systems engineering, architectural design and development, information technology, security, and other technical disciplines that are critical to the modernization success. The FFRDC also provides support services to promote consistency with enterprise goals and objectives to ensure efficient operations. Areas of support include Security

Architecture; Data Strategy; System Architecture and Engineering; IRS Enterprise Architecture, consisting of the Enterprise Architecture, Enterprise Requirements, and Enterprise Transition components.

Management Reserve: The management reserve funds are not designated for specific projects or programs and allow the IRS flexibility to cover unanticipated cost adjustments.

Labor: This activity provides the labor costs associated with the development of projects within the BSM portfolio.

FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service Information Technology Investments	FTE	Amount
Business Systems Modernization (BSM) Initiative	**(65)**	**($52,000)**
Continue Migration from Aging Tax Administration System	(65)	(52,000)
Total FY 2012 Request	**(65)**	**($52,000)**

3.2.9 – Budget and Performance Plan

Dollars in Thousands

Business Systems Modernization Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$170,576	$131,138	$177,208	$263,897	$263,897	$333,600
Reimbursable Resources						
Mandatory Appropriations - User Fees						
Total Resources	**$170,576**	**$131,138**	**$177,208**	**$263,897**	**$263,897**	**$333,600**
Budget Activity Total	**$170,576**	**$131,138**	**$177,208**	**$263,897**	**$263,897**	**$333,600**

[1]The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Business Systems Modernization Budget Activity Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
Percent of BSM Projects within +/- 10% Cost Variance (E)	92.0%	60.0%	40.0%	90.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance (E)	92.0%	90.0%	100.0%	90.0%	90.0%	90.0%

Key: E - Efficiency Measure

Description of Performance

IRS modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and IRS employees. The following highlights IRS accomplishments in FY 2010:

- Customer Account Data Engine (CADE) – CADE posted more than 41.2 million tax returns and processed more than 35.8 million refunds. For the first time, CADE posted more than 7.2 million payments submitted with taxpayer returns and, at the taxpayers' request, issued 8,128 U.S. Savings Bonds using their federal tax refund.

- Modernized e-File (MeF) – The IRS deployed an additional release that allowed for filing of individual Forms 1040 (federal and state returns), Form 4868, *Application for Automatic Extensions of Time to File U.S. Individual Income Tax Return*, extensions, and 21 other supporting 1040 forms and schedules. In FY 2010, MeF accepted more than 6.9 million returns.

- Accounts Management Services (AMS) – The final AMS Release provided all users with the ability to view correspondence images online in real-time, eliminating reliance on the manual processes to obtain copies. Direct access to images reduced the case cycle time from 10 to 14 days to zero. In 2010, over 1.3 million images were viewed.

CADE to CADE2

The IRS launched the Customer Account Data Engine (CADE) in 2000 as one of the cornerstones of the Business Systems Modernization (BSM) programs. Since its inception, CADE has made significant progress towards replacing the IRS aged master file processing system. It has delivered increased value to taxpayers as well as operational efficiencies for the IRS.

An assessment conducted by IRS senior technologists and respected external advisors resulted in a revised path forward for CADE, leveraging existing systems as well as new development and focusing on the end state – "getting to done."

As a result, CADE 2 was commissioned to execute a revised plan to modernize IRS's core taxpayer account processing systems that would build on the substantial progress that the current CADE processing platform had created. The CADE 2 solution will provide daily processing capability, timely access to authoritative individual taxpayer account information, an enhanced ability to address technology security and IRS financial material weaknesses, and long-term architecture planning and viability.

Completion of a taxpayer account database under CADE 2 is the prerequisite for other major initiatives, including significant expansion of online services and transactions and the next generation of enforcement technologies.

Health Insurance Tax Credit Administration

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 Coverage Tax Credit (HCTC) included in the Trade Adjustment Assistance Act (Trade Act of 2002) (Public Law 107-210).

The IRS administers the enrollment, payment, and compliance components of this credit. The Department of Labor, state workforce agencies, and the Pension Benefit Guaranty Corporation determine who might be eligible for HCTC. This credit was expanded by the Recovery Act and is proposed for extension in the FY 2012 Budget.

The HITCA Budget Request for FY 2012 is $18,029,000 in direct appropriations and 15 FTE. This is an increase of $2,517,000, or 16.23 percent, more than the FY 2010 enacted level of $15,512,000 and 15 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Health Insurance Tax Credit Administration	FTE	Amount
FY 2010 Enacted Budget[1]	15	$15,512
FY 2011 Annualized CR Level	15	$15,512
Changes to Base:		
Adjustment to Reach FY 2011 President's Policy Level		$3,447
Maintaining Current Levels		$232
Other Adjustments		
Technical FTE Adjustments		
Efficiencies/Savings		($1,162)
Reduce Training, Travel and Programs		(1,162)
Subtotal Changes to Base		$2,517
Total FY 2012 Base	15	$18,029
Program Changes:		
Subtotal Program Changes		
Total FY 2012 Request	15	$18,029
Adjustments to Request		
User Fees		
Total FY 2012 Request	15	$18,029

[1]FY 2010 Enacted represents the approved FY 2010 Operating Plan

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Health Insurance Tax Credit Administration	FY 2010 Enacted Level [1,2]	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level [2]	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level [2]	% Change FY 2011 to FY 2012
FTE	**15**	**15**		**15**		**15**	**15**	**0.0%**
Object Classification:								
11.1 Full-Time Permanent Positions	$2,353	$2,399	$0	$2,353	$0	$2,353	$2,374	0.9%
11.3 Other than Full-Time Permanent Positions	0	0	0	0	0	0	0	0.0%
11.5 Other Personnel Compensation	34	24	0	34	0	34	24	-29.4%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	**$2,387**	**$2,423**	**$0**	**$2,387**	**$0**	**$2,387**	**$2,398**	**0.5%**
12.0 Personnel Benefits	360	374	0	360	0	360	376	4.4%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0.0%
21.0 Travel	133	211	0	133	0	133	203	52.6%
22.0 Transportation of Things	0	0	0	0	0	0	0	0.0%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	0	0	0	0	0	0	0	0.0%
23.3 Communications, Utilities, & Misc	0	400	0	0	0	0	21	100.0%
24.0 Printing & Reproduction	0	200	0	0	0	0	203	100.0%
25.1 Advisory & Assistance Services	0	0	0	0	0	0	0	0.0%
25.2 Other Services	12,624	15,372	0	12,624	0	12,624	14,783	17.1%
25.3 Purchase of Goods & Services from Govt. Accounts	0	0	0	0	0	0	0	0.0%
25.4 Operation & Maintenance of Facilities	0	0	0	0	0	0	0	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	0	0	0	0	0	0	0	0.0%
25.8 Subsistence & Support of Persons	0	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials	8	7	0	8	0	8	15	87.5%
31.0 Equipment	0	0	0	0	0	0	0	0.0%
32.0 Lands and Structures	0	0	0	0	0	0	30	100.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	0	0	0	0	0	0	0	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
Total Budget Authority	**$15,512**	**$18,987**	**$0**	**$15,512**	**$0**	**$15,512**	**$18,029**	**16.2%**
Budget Activities:								
Health Insurance Tax Credit Administration	$15,512	$18,987	$0	$15,512	$0	$15,512	$18,029	16.2%
Total Budget Authority	**$15,512**	**$18,987**	**$0**	**$15,512**	**$0**	**$15,512**	**$18,029**	**16.2%**

[1] FY 2010 Enacted represents the approved FY 2010 Operating Plan.

[2] Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

2.3 – Appropriation Detail Table

Dollars in Thousands

Health Insurance Tax Credit Administration Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted[1]		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Health Insurance Tax Credit Administration	12	$15,478	15	$15,512	15	$15,512	15	$18,029		16.23%
Subtotal New Appropriated Resources	**12**	**$15,478**	**15**	**$15,512**	**15**	**$15,512**	**15**	**$18,029**		**16.23%**
Other Resources:										
Recoveries				1,177						
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds										
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
Subtotal Other Resources				**$1,177**						
Total Resources Available for Obligation	**12**	**$15,478**	**15**	**$16,689**	**15**	**$15,512**	**15**	**$18,029**		**16.23%**

[1] The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

3J – Health Insurance Tax Credit Administration *($18,029,000 in direct appropriations):* The HITCA budget activity funds costs to administer a refundable tax credit created by the Trade Act of 2002 to purchase health insurance for eligible taxpayers. This activity maintains the administrative and direct support for the HITCA program office and the staff charged with managing the program for the IRS.

3.2.10 – Budget and Performance Plan

Dollars in Thousands

Health Insurance Tax Credit Administration Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted[1]	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	$15,223	$15,374	$15,478	$15,512	$15,512	$18,029
Reimbursable Resources						
Mandatory Appropriations - User Fees						
Total Resources	**$15,223**	**$15,374**	**$15,478**	**$15,512**	**$15,512**	**$18,029**

[1]The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Health Insurance Tax Credit Administration Budget Activity Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
Cost per Taxpayer Served ($) (E)	$16.94	$13.79	$9.52	Baseline[1]	$10.00	$11.00
Sign-up Time (days) - Customer Engagement (Ot)	94.0	91.3	124.0	Baseline[1]	124.0	137.0

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

[1]An increase in participation occurred due to the Recovery Act. IRS established a new baseline in FY 2010.

Description of Performance

The IRS administers the HCTC by working with health plan administrators to arrange for direct payment of health plan premiums on behalf of taxpayers and is dependent upon the Department of Labor, state workforce agencies, and the Pension Benefit Guaranty Corporation who determine HCTC candidates.

Over the past two years, the HCTC program has undergone several changes. The economic downturn led to an increased number of candidates and increased operational volumes while the ARRA provisions improved the accessibility and affordability of the HCTC program.

In FY 2010, the IRS promoted communication of program changes, expanding outreach with special mailings and targeted presentations to educate participants and to encourage them to enroll. The IRS also worked closely with other agencies to ensure eligible candidates receive the HCTC.

In FY 2010, the IRS processed almost 11 million HCTC eligibility records, made more than 279,000 HCTC payments (60 percent more than in 2009) on behalf of taxpayers, handled approximately 233,000 (77 percent more than in 2009) HCTC telephone calls, and mailed more than 1.1 million (72 percent more than in 2009) pieces of correspondence. While volumes were significantly higher than in FY 2009, the IRS maintained a customer satisfaction level of 90 percent.

In addition, the Cost per Taxpayer Served (CPTS) decreased from $13.79 in 2009 to $9.52 in 2010 because of the significant increase in the number of new candidates, enrollees and people contacting the program. While the CPTS decreased, sign-up time (the median number of days between the first program kit mailing and the first payment received from the participant) increased 36 percent from 91 days to 124 days as a result of the additional time needed to process more registrations because of the increased numbers of eligible taxpayers.

Section 4 – Supporting Materials

4A – Human Capital Strategy

In FY 2010 the IRS completed the IRS Human Capital Business Plan (HCBP) for 2010-2014. This plan expands upon the IRS Strategic Plan and outlines IRS's dedication to make effective investments in the IRS workforce. The HCBP highlights the strategic vision and direction to achieve IRS's FY 2012 goals and objectives with collaboration, leadership, connectivity, and delivery of a cutting-edge workforce with measured results to showcase IRS as the "best place to work in government."

To achieve the strategic goals and objectives, the IRS is faced with the following business challenges:

- Increasing complexity of tax administration that requires new and enhanced employee competencies;
- Growing numbers of employees eligible for retirement; and
- Managing an increasingly diverse and mobile workforce.

To address the challenges, the IRS must:

- **Recruit, Hire, and Onboard –** Supports the IRS priority to achieve both the optimum mix of employee skill sets and diversity by continuing efforts to improve recruiting, hiring transition, and other processes to ensure the right person is in the right job.
- **Engage, Develop, and Retain** – Supports the IRS commitment to improve employee skills, address retention efforts, and increase employee engagement. It also reflects a commitment to support top quality managers with effective resources, recognition, and tools to lead an engaged workforce.
- **Develop and Promote Leaders –** Addresses the crucial support needed to provide leadership with effective resources, recognition, and tools to lead the IRS workforce. Without a stable, knowledgeable managerial infrastructure, IRS's ability to carry out its mission is compromised.
- **Facilitate Collaborative Environment** – Fosters an open exchange of innovative ideas and leveraging relationships to ensure that human capital plans and implementation efforts are fully integrated with the IRS mission, strategies and program goals.

The FY 2012 IRS key objectives are:

- Enhance productivity through expanded use of technology;
- Continue process improvements to simplify hiring;
- Close skill and competency gaps in critical occupations;
- Implement recommendations from annual workforce summits;

- Focus recruitment on the most critical hiring needs by using a more targeted approach to college recruiting and leveraging partnerships with external organizations and internal affinity groups; and
- Create new ways for candidates to learn about and apply for IRS jobs through the use of an employee referral program and electronic media.

Mission Critical Occupations Facing Critical Deficiencies

Leadership continuity continues to be one of the IRS key areas of focus because of the growing numbers of employees in leadership positions who are eligible to retire. Retirement eligibility among experienced employees who would otherwise be candidates for leadership positions also is growing.

Retirement Eligibility[1]

Management Level	Number of Employees	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	
Executive	297	19	109	130	149	170	57.2%
Senior	1,677	94	522	626	748	857	51.1%
Department	363	13	54	74	88	113	31.1%
Front Line	6,639	241	1,542	1,863	2,185	2,558	38.5%
Non-Management	99,200	2,577	15,982	19,286	22,803	26,634	26.8%
Total	**108,176**	**2,944**	**18,209**	**21,979**	**25,973**	**30,332**	**28.0%**

[1]Based on retirement eligibility statistics as of November 30, 2010

To address this challenge, the IRS identifies potential leaders through competency assessments, leadership succession review, and leadership development programs such as Frontline, Senior, and Executive Readiness Programs.

The IRS has no major hiring gaps with non-management positions. To ensure this trend continues, the Recruitment Office will:

- Continue to ensure that mission critical occupation, geography, and diversity needs are met;
- Maintain candidate relationships from the beginning to the end of the recruiting process using a data tracking system;
- Continue to standardize materials and messages, tailored to candidate segments;
- Use diverse hiring sources to increase employment of disabled, veteran, and student applicants; and
- Develop a strong online presence at relevant social media sites.

Closing Competency Gaps in Mission Critical Positions

The IRS completed its pilot of a skills assessment process called *Assess 4 Success* (A4S). A draft report was completed and will be presented to leadership for review.

Human Capital Occupations/Functions Contracted

The IRS uses contractor employees to fill short-term needs and obtain technical and expert information technology skills that are not available within the current workforce. To support surges in hiring workload, the IRS plans to continue to leverage temporary contractor support and re-employed annuitants.

Organizational Changes

The Large and Mid-Size Business Division completed an organizational change initiative to consolidate international expertise and staffing into one organization to enhance efficiencies and effectiveness by creating direct line authority, and facilitating consistency of treatment of issues and employee training. The organizational changes were accomplished within available resources and resulted in the new Large Business and International (LB&I) Division.

The End User Equipment & Services organization is reorganizing to meet Federal Information Technology Infrastructure Line-of-Business target levels. Full transition is expected to continue through September 30, 2012. The new organization structure will:

- Reduce cost and increase service delivery performance by changing the support model to a leaner model focused on a centralized service desk;
- Consolidate onsite support in high-density customer locations; and
- Allow for contracted support for low-density customer locations.

Best Place to Work in Government

Several key initiatives helped IRS make significant progress toward becoming the “best place to work in government.” For example, a strategic business relationship was developed with the Partnership for Public Service to advise the IRS on strategies to increase its stature as the “best place to work in government.” In addition, an Action Planning Team (HCO, Business Unit, and NTEU representatives) was formed to focus on three key areas for organizational improvement:

- Effective Leadership;
- Family-Friendly Culture and Benefits; and
- Employee Skills/Mission Match.

The results from the Federal Employee Viewpoint Survey, used to rank agencies across the federal government and encourage "the best and brightest" to work in government, ranked the Department of the Treasury, with the IRS as the key driver, as one of the top 10 most improved agencies in government in all four of the survey indices. The IRS was ranked 79th among the 224 federal agencies.

Employee Engagement

Based on key initiatives recommended by the *Workforce of Tomorrow*, the IRS annual employee satisfaction survey (ESS) results, and the Federal Human Capital Survey (FHCS) results, IRS is taking the following steps to increase employee satisfaction:

- **Reduction of Managerial Burden** – IRS has taken the following steps to allow managers to spend more time developing their employees:

    - Established a **Managers Resource Center** to answer manager questions and provide information. IRS is piloting an iManage website with over 2,800 managers that provides information, advice, and interactive features. Implementation of the iManage website is scheduled for early 2011. IRS also is pursuing technology such as instant messaging and online help to reduce wait times for issue resolution. An online Hotline service, "Direct Connect" will be a pilot project in FY 2011.
    - Completed a **Recognition Toolkit** in April 2010 to provide the options and instructions for monetary and non-monetary recognition and recognition ceremonies.
    - Developing **Managerial Training Enhancements**, including the following improvements in training for readiness program participants, new managers, existing managers, and administrative professionals:

        - Redesigned the Front Line Readiness Program;
        - Developed the New Managers Orientation course;
        - Developed Fundamental Management Skills course; and
        - Redesigned Front Line Managers course.

    The next phase will focus on training for managers after they have been in their positions with completion planned in FY 2011.

    - Established a **Service-wide Managerial Burden Council** in April 2010, which is currently working on developing solutions to managerial burdens.
    - Designed and conducted a **Managerial Burden Survey** (July 2010) to identify ways to reduce burden to ensure measurable progress in reducing burden so managers can instruct and coach employees on job performance and career goals. Reducing burden also will affect how employees view the prospect of becoming a manager. Approximately 20 percent of managers completed the survey and an analysis of the results is underway.

- **Increase Communications to Employees –** IRS is taking steps to better inform employees of IRS and division level initiatives. Senior leaders use town halls, blogs, streaming videos and all-employee messages to reach staff. Leaders also share best practices and success stories on their internal websites and recognize those who are achieving IRS goals and objectives.
- **Improve Employee Recognition** – The IRS is revising the awards and recognition program to reach more employees and to create a standard protocol for employee recognition. Recognition activities such as using the web to recognize employee successes were implemented throughout FY 2010.
- **Improve Training for New Employees** – The IRS is improving its new employee training. The IRS is updating its on-boarding program for new employees from a one-day orientation to a 12-month corporate on-boarding strategy. In addition, IRS is initiating an ambassador program to help familiarize new employees with their job. Many of these programs were created with input from the National Treasury Employees Union (NTEU). In May 2010, the IRS completed a redesign of the Career Management Resource Center to support and enhance employees' career development process.
- **Address Results of the IRS Annual Employee Survey** – The IRS received its 2010 survey results with a record 79 percent employee participation and overall employee satisfaction increased from 73.7 percent in FY 2009 to 74.4 percent in FY 2010. Each division within the agency conducted meetings with their workgroups to discuss results and devise specific plans for addressing any issues. The IRS also is working with the Partnership for Public Service to further enhance its service-wide action planning process.

Wellness Program

The IRS wellness initiative links to and supports the goals of the President's Federal Employee Worksite Wellness Initiative and Office of Personnel Management (OPM) and Office of Management and Budget directives requiring agencies to inventory current wellness activities, initiate plans to enhance wellness programs, and establish health and wellness performance targets.

The wellness initiative supports employee health and wellness through education and awareness programs, encourages healthy lifestyle choices, and raises awareness and commitment to health and wellness as part of work-life balance. Benefits to employees include fewer work-related injuries, improved attendance, reduced turnover, and increased morale.

To meet the FY 2011 performance target, the IRS completed an inventory of current wellness and health services/activities; researched external health resources and tools to supplement internal wellness activities; and developed a detailed communication strategy and wellness website that highlights the availability and benefits of wellness services.

In FY 2012, the IRS will continue to build upon its education and awareness efforts. New wellness activities include:

- Continuing and expanding efforts to increase employee awareness of internal and external services and resources;
- Maximizing use of services and resources available under the Federal Occupational Health and Employee Assistance Program contracts;
- Participating in OPM-sponsored government-wide wellness activities (e.g., FedsGetFit challenges and events);
- Developing a more robust and interactive wellness website for use by managers and employees upon implementation of IConnect, the new IRS employee portal;
- Partnering with specific demographic groups and employee organizations to promote wellness programs and services; and
- Promoting extended (4 to 6 weeks) physical activity campaigns (link to events such as President's Physical Challenge and National Employee Health and Fitness Day) and campaigns that focus on healthy eating and weight management (link to events such as Healthy Weight Week and National Nutrition Month).

To evaluate the progress of the IRS Wellness Initiative, the IRS will measure and track use of Federal Occupational Health and Employee Assistance Program services. The OPM Employee Viewpoint Survey results, Best Place to Work in Government and, if feasible, the IRS Employee Engagement Survey also will be used to collect data and assess the effectiveness of the IRS Wellness.

Hiring Reform

The IRS Hiring Reform initiative is directly linked to and fully supports the goals of the Presidential Budget and Performance Plans (June 2009) and Presidential Improving the Federal Recruitment and Hiring Process (May 2010) directives. This initiative will include:

- **Development/enhancement of assessment tools**

  Key activities for developing and enhancing assessment tools include:

  - Development of automated ranking templates for 75 percent of the hiring volume in FY 2011.
  - Implementation of more than 200 CareerConnector templates to improve the hiring process using the Treasury CareerConnector recruitment system.
  - Implementation of the Presidential Improving the Federal Recruitment and Hiring Process directives by November 1, 2010, as mandated.
    - Deployment of CareerConnector templates to eliminate KSA/Essay questions and revision of instructions so applicants can apply using resumes and cover letters.

        - Expanding use of category ratings on CareerConnector announcements. Category ratings increases the number of qualified applicants while preserving veterans' preference rights.
    - Development of a process to convert manual external announcements to category ratings.
    - Implementation of an experience calculator to assist applicants in determining basic and specialized experience qualifications.
    - Continued use of the OPM hiring survey for internal and external announcements to measure the quality of the recruitment actions.

- **Education/Training of HR Specialists and Hiring Managers**

  The IRS began training human resources specialists and assistants on hiring reform and key aspects of the hiring process to improve technical knowledge and skills. The IRS completed the development of manager training on the hiring process in October 2010. The "just in time" online training can be taken at the time managers begin the recruitment process. Early involvement ensures accountability and participation in every facet of the hiring process.

- **Outreach/Communications to Applicants**

  IRS is developing a Hiring Reform Alert document share within and outside of the IRS Human Capital Office and a communications plan that includes web notices and alerts to educate and communicate with employees.

- **Workforce Planning**

  IRS also is analyzing its collective workforce needs by developing a corporate approach with appropriate measures to integrate the planning function with other core workforce management functions, including recruitment, hiring, retention, development, and succession planning. The IRS is developing common guidelines and processes for collecting and analyzing workforce data, identifying and prioritizing workforce gaps and developing strategies to address gaps and prepare for future workforce needs.

Veterans' Employment

The IRS Veterans Employment and Recruitment Operational Plan supports key aspects of the Veterans Employment Initiative. Current and planned initiatives in support of promoting employment opportunities for veterans include:

- **Recruitment and increased hiring of veterans**
    - Continue outreach efforts by organizing and coordinating recruitment opportunities throughout the U.S. for wounded service members, veterans, and their spouses;

- Provide one-on-one resume writing assistance, interviewing skills and other career search services through corporate immersion workshops and various information sessions;
- Design a professional development/career-building intern program for veterans to meet mission critical needs;
- Contribute to the development of an interactive program to translate military skills to civilian occupations;
- Develop a transitioning service member and veteran resume database/skills inventory with appropriate business partners;
- Develop an IRS marketing campaign highlighting veteran and transitioning service member skills, leadership, dedication and how these attributes support the IRS in meeting mission objectives; and
- Integrate IRS marketing efforts with transition assistance program offices on military installations and other targeted marketing efforts underway at Treasury and Veterans Affairs.

- **Retention to include veteran training, mentoring and job counseling**
  - Maximize career counseling opportunities and career search activities for veterans and transitioning service members through social network platforms;
  - Train and educate veterans and transitioning service members to meet the staffing needs of IRS's high-demand occupations;
  - Validate programs and policies that ensure veterans and transitioning service members are trained, educated and informed on hiring authorities, veterans preferences and employment opportunities;
  - Design an IRS Veterans website to better provide information on employment opportunities, veterans' preference, Q&As, hiring authorities as well as a calendar of recruitment events for veterans, transitioning service members and hiring managers; and
  - Provide interaction via email to transitioning service members/veterans for job search assistance.

- **Fulfillment of mandatory annual training of hiring managers and human resource specialists**
  - Conduct training incorporating Treasury training module (under development) for HR professionals and hiring officials on veterans' employment, including the strategic use of special hiring authorities, employment of military spouses, and reasonable accommodations for disabled veterans.

Hiring Individuals with Disabilities

The IRS uses specific recruitment efforts to reach individuals with disabilities, including targeted disabilities through partnerships with the National Federation for the Blind, American Council for the Blind; National Federation for the Blind; Association for Higher Education and Disabilities; Jobs Accommodations Network and Employee Assistance Resource Network. IRS Affinity Groups also are a way to increase opportunities to recruit and hire a diverse applicant pool. Some specific activities include:

- Job counseling to facilitate successful matching of applicants to jobs in the IRS;
- Working with the Workforce Recruitment Program that connects federal and private sector employers nationwide with postsecondary students and recent graduates with disabilities;
- Partnering with a university to develop a new "feeder program" for hiring employees with disabilities, emulating some of the aspects of the Lions World Services for the Blind Model; and
- Incorporating a mentoring program component for employees with disabilities and establishing a cadre of formally trained mentors. The mentors will help develop employee skills and experience levels to promote career growth and improve networking and communications for employees with disabilities.

The IRS continues to take steps to educate managers and employees on the hiring and retention of individuals with disabilities. The IRS is using different communications channels such as town halls, the internal website, streaming videos, and all employee emails to reach the IRS workforce.

Labor-Management Forums

IRS and NTEU senior leadership continue discussions regarding formulation of a collaborative forum with senior leadership participation. Associated with the development of this forum is identifying a more progressive approach to obtain pre-decisional input from IRS employees through their elected representatives on all workplace issues. Once these determinations have been made, the IRS will provide appropriate training to managers and other participants in the processes. Evaluative metrics will be developed to allow for review of processes and modifications as appropriate.

Long-standing labor relations management committees continue to operate within the provisions of the IRS National Agreement II, Article 46. These forums provide a venue for addressing matters of concern or interest regarding personnel policies, practices and working conditions as well as building and strengthening relationships between the union and the IRS. Issues identified at the local level that may have IRS-wide impact are reviewed at the national level.

Finally, the IRS and NTEU have sponsored two on-going national collaborative initiatives for the purpose of program review and have identified opportunities for process improvement.

4B – Information Technology (IT) Strategy

The IRS information systems support all aspects of tax administration and are essential tools for taxpayer communications and transactions within the IRS. Major IT activities address both internal and external priorities, through a balanced investment portfolio that is fully aligned with the IRS Strategic Plan 2009-2013. IRS strategic priorities are determined by the IRS Senior Executive Team (SET) and are expected to provide the foundation for making sound decisions to meet both IRS and business IT needs.

Information Technology Process Improvement

The IRS plans to direct resources to the enrichment of specific business processes. This will enable the standardization of program management and service delivery methods according to industry best practices and move the IRS closer to its goal of managing its IT processes and infrastructure more efficiently.

A few of these processes include:

- Capability Maturity Model Integration (CMMI) – An approach that provides organizations with the essential elements of effective software engineering processes. CMMI is being used to guide process improvement across projects to:
    - Produce quality products or services;
    - Create value for the business stakeholders;
    - Enhance customer satisfaction; and
    - Gain an industry-wide recognition for excellence.
- Information Technology Infrastructure Library (ITIL) – A proven method based on industry standards for planning common processes, roles and activities with appropriate references to each other defining how communication lines should exist between processes. Benefits include:
    - Improved quality service provisioning;
    - Cost-justified service quality;
    - Integrated centralized processes; and
    - Demonstrated performance indicators.
- Project Management Institute (PMI) – PMI sets the project management standard for how projects are planned and executed. The PMI organization certifies individuals who understand and practice these standards. The benefits of PMI-certified project management include:
    - Common method to manage risk across projects;
    - Better decision making by evaluating a project's triple constraints – cost, time, and scope; and
    - Enhanced and more comprehensive project planning.

CyberSecurity

The IRS, through the CyberSecurity organization, offers a robust organizational structure with associated tools and processes to ensure annual compliance with FISMA requirements. Specific tracking of required deliverables and year-to-date progress is communicated to management decision-makers on a monthly basis via the FISMA Dashboard product. This dashboard tracks FISMA progress in the following program areas:

- Security Assessment & Authorization
- Information Technology Contingency Plans (ITCP) Testing
- Security Controls Testing (Continuous Monitoring/SCAs)
- Plan of Action and Milestones (POA&M) Mitigation
- Privacy Impact Assessments (PIA)
- System of Record Notices (SORN)
- FISMA Contractor System Reviews
- Employee Awareness Training
- Contractor Awareness Training
- Specialized IT Security Training
- Security Configuration Management

Executive review of the dashboard and management of follow-up actions ensures that sufficient year-to-date progress is made and to implement mitigation strategies to address documented areas of shortcoming.

IT Infrastructure

The IRS Data Center Consolidation Plan was prepared in response to the Office of OMB's Federal Data Center Consolidation Initiative (FDCCI). Additionally, the FDCCI is a key component to achieve Goal 9 - Electronic Stewardship - of the IRS Sustainability plan. The IRS is committed to ensuring policies and practices reduce the environmental impact of IRS operations and are critical for long-term economic fiscal responsibility to reduce operating costs. Adopting Green IT and migrating to more efficient infrastructure operations are key focus areas for the IRS in the coming years.

The IRS Data Center Consolidation Initiative (DCCI) approach is to centralize, virtualize, and decommission server resources to meet the following goals:

- Consolidate the governance of all servers;
- Reduce the IRS Data Center footprint;
- Enhance the IRS Disaster Recovery capabilities; and
- Streamline IRS processes to reach a more mature level of ITIL.

The IRS will perform a business case study to determine the most cost effective approach to meet the goal of doubling the effective use of the available Data Center raised floor over the next five years. Essentially, the IRS will reduce the Data Center square footage by 50 percent over a five-year period and make that capacity available for other uses. As a long-term approach, after reviewing the business case, the IRS will be able to better identify the 10 year goals for efficient use of available raised floor resources.

The IRS will, through a business case study, determine a cost effective approach to reducing Data Center square footage and allow Treasury to consolidate its Bureaus Data Center needs inside of IRS Data Centers. The business study will focus on two major approaches – a reduction in the number of data centers and/or a reduction in the current data center footprints. Both methods will allow the IRS to reach its goal of operating more efficiently through better utilization of resources.

The FDCCI serves as a foundation for expanding the use of shared services. The IRS is building a foundation to Centralize Information, Improve Platform Portability, and Improve User Mobility. The IRS goal to have "All applications run on all systems and all systems see all the data with integrity" will be achieved by implementing a scalable Service-Oriented Infrastructure with information portability and manual workload distribution across services. The IRS is evaluating Cloud Computing technology, including Infrastructure as a Service, Platform as a Service, and Software as a Service. IRS is continuously evaluating utilization of this technology for various tax administration and employee productivity tools.

Another initiative is the Enterprise Storage Strategy with a goal to move from a project based allocation to a "storage-as-a-service" model. The Enterprise Storage Strategy is a utility-on-premise storage model where storage will be procured based on a usage model meeting IRS performance and operational service level agreements. The goal is to save 20 to 30 percent of the annual IT budget for storage acquisition and maintenance, reduce reliance on vendors and manage data as a valued asset. The objective is to consolidate a majority of storage to the three IRS data centers, Martinsburg/Memphis/Detroit, and reduce the necessary footprint through consolidation and virtualization of IRS storage pools. In FY 2011, the contract will be awarded and implementation will begin with completion scheduled in FY 2012.

IT Project Management

The IRS MITS Strategy and Capital Planning Office is responsible for prioritizing the IT investment portfolio according to the Senior Executive Team strategic priorities. This is accomplished by utilizing a Pre-Select/Select process that considers available resources. This process provides a level playing field when evaluating investment proposals by using a business case approach and driving IT investment decisions from the top down to ensure that investments deliver strategic benefits for the organization.

- The Pre-Select/Select process requires that each IT investment proposal:
  - Maintain executive sponsorship;
  - Include an executive synopsis (business case) that states the business problem to be solved, identifies alternative solutions to solving the problem, reflects a cost analysis with a documented basis of estimate for the lifecycle, identifies known risks, applicable benefits and return on investment; and
  - Align to the SET investment priorities.
- Governance Process

  The IRS uses an integrated governance model that reflects industry best practices. IT projects are assigned to an appropriate governance body for oversight. The enterprise governance model:
  - Considers IT projects or systems, from selection through retirement, regardless of dollar value or life cycle phase;
  - Empowers governance bodies to make project cost, schedule, and scope decisions for "at risk" projects that require escalation within the tiered governance model to boards with greater authority to intervene for corrective actions; and
  - Promotes accountability and decision-making at the enterprise and project level, specifying the appropriate thresholds and governance bodies for elevating issues.
- Health Assessments

  The IRS has implemented a standardized health assessment process as a key component of the governance framework. The health assessment process uses:
  - Common criteria or Enterprise Key Performance Indicators (KPIs) to rate project performance and identify potential risks;
  - A color-coded rating for EKPIs to rate projects in the areas of cost, schedule, risk, scope, technical, organizational readiness, and overall performance; and
  - Control and governance organizations to review the EKPPI rating and take corrective actions as appropriate.

Potential issues are identified for remediation through the analysis of project specific data. IRS governance and control organizations guide project managers in remediation activities to assess the issues at hand and determine the appropriate actions to be taken. Project assistance teams are formed, as needed, to identify and remediate those project issues. Metrics regarding cost and schedule variances are reported both internally and externally to oversight organizations. As of the October 2010 Oversight Reporting cycle, 100 percent of the non-BSM IT Portfolio had risk and contingency management plans; and, approximately 98 percent of non-BSM projects are within established thresholds for cost variance and schedule slippage. For those projects exceeding established thresholds, mitigation strategies are underway as appropriate. In addition, IRS IT organizations conduct quality assurance reviews of project data to monitor compliance with methodologies and assist project managers in implementing components of the IRS Enterprise Lifecycle methodology.

4C – Government Wide Initiatives

Improper Payments Reductions

The IRS has made a number of improvements to the Earned Income Tax Credit (EITC) program. The IRS strategy with respect to EITC improper payments is to intervene early to ensure compliance with the rules. Thus, the IRS has expanded outreach and education to taxpayers and preparers so that they are aware of the legal requirements for EITC eligibility. Efforts also include improved examination selection processes and data matching using third-party data, reducing taxpayer burden while increasing revenue protected. Most recently, the IRS has begun to concentrate more on regulating the preparer community.

In January 2010, the IRS announced a plan that will register, license and create enforcement tools that affect the paid return preparer community more broadly. The IRS believes new regulation of tax return preparers will drive increased EITC compliance, decrease fraud and affect the improper payment rate. Currently, tax preparers complete 66 percent of EITC returns and by focusing on this area, compliance and payment accuracy is expected to improve. As part of the EITC focused paid return preparer effort, the IRS developed a risked-based scoring and selection system to identify preparers for several types of enforcement treatment based on a preparer's level of egregiousness such as Due Diligence Visits, Knock and Talk Visits, Streamline Injunctions, Notices, Undercover Shopping, and Expanded Contact Approach. These activities will continue and expand in FY 2012.

In addition, the Department of the Treasury is conducting a pilot project using funds from the Partnership Fund for Program Integrity Innovation to test how fraud and error in EITC might be significantly improved by sharing information with state-based programs to better determine eligibility up front. This pilot, which will conclude in the second quarter of FY 2012, simulates the benefits of data sharing in order to inform whether additional authority to implement such data sharing may be warranted.

Efficient Use of Energy

The IRS is promoting the sustainable use of energy resources by increasing the efficiency of facilities to reduce greenhouse gas emissions. The IRS is conducting energy and water audits of delegated facilities, as directed by the Energy Independence and Security Act of 2007 (Public Law 110-140). These audits identify energy efficiency improvements called actionable Energy Conservation Measures (ECMs). At multiple IRS campuses, IRS implemented ECM improvements such as data center support equipment upgrades. These energy program improvements reduced energy use by 12.3 percent from the 2003 baseline.

The IRS also improved building water efficiency by implementing water management best practices to reduce potable water consumption that decreased water consumption by 17 percent from FY 2007 to FY 2009. The IRS continues to meet renewable energy utilization goals by purchasing Renewable Energy Credits on an annual basis. Furthermore, the IRS is working to reduce emissions through fleet initiatives. In FY 2009, the IRS decreased the general fleet by 6 percent.

IRS strives to improve agency facilities and foster high-performing buildings. To meet the Guiding Principles for Federal Leadership in High Performance and Sustainable Buildings as required by Executive Order 13514 ("Federal Leadership in Environmental, Energy, and Economic Performance"), the IRS is developing a sustainable buildings implementation strategy and has achieved Leadership in Energy and Environmental Design (LEED) certification at three facilities. IRS is exploring pursuing the LEED certification at additional facilities. To use space more efficiently and realize associated gains, the IRS is developing a Data Center Consolidation Plan and examining opportunities in underused space.

Through acquisition policies, IRS also is improving the sustainability of procured goods and services. IRS is using the Green Procurement Plan and Buying Green Program and environmental workshops and training to ensure that 95 percent of new contracts for products and services are energy and water efficient, environmentally preferable, and generally more sustainable. Finally, three IRS facilities comply with Environmental Management Systems (EMS), which meet or exceed the International Organization for Standardization's "ISO 14001" requirements for environmental management. IRS is pursuing the EMS or Compliance Management Program designation at facilities nationwide to promote environmentally favorable, sustainable buildings and practices.

4D – Summary of FY 2010 Savings Realized

In FY 2010 the IRS President's Budget identified $118.1 million and 1,504 FTE in reductions to the IRS base budget as a result of increased electronic filing (e-File) and non-recurring and one-time costs associated with the FY 2009 enforcement initiatives and the Economic Stimulus Act of 2008 (Public Law 110-185). In addition, the IRS identified in the FY 2011 President's Budget $58.3 million in savings to be realized in FY 2010 (generated from the Reduce Procurement/Contracting and a portion of Information Technology (IT) Infrastructure and Process Improvements savings initiatives).

During the preparation of the budget request, the IRS reduced the requested level by the amount of the presented savings, and if the enacted budget level includes those reductions, the IRS operates at the reduced level. Thus, projected savings become actual savings upon enactment.

FY 2010 Savings

Increase e-File Savings -$8,360,000 / -182 FTE

The IRS projected to generate this savings by receiving 4.6 million fewer returns filed on paper (2.9 million individual and 1.7 million business) in FY 2010. For FY 2010, the IRS received 6.3 million (4.9 million individual and 1.4 million business) fewer returns in FY 2010 compared to FY 2009. The actual savings was $10,078,050 and 223 FTE.

Non-Recur Savings -$27,074,000 / 0 FTE

The IRS base budget was reduced by the $27 million in non-recurring, one-time (e.g., ADP equipment and training) costs associated with the hiring of over 3,000 enforcement employees funded by the FY 2009 enforcement initiatives.

Non-Recur Stimulus Savings -$67,900,000 / -1,322 FTE

The non-recur Stimulus funds received in FY 2009 were removed from the FY 2010 budget. The dedicated toll free line added to handle Stimulus-related calls is now being used for the new Recovery Act legislation issues. The line added to the 2008 tax year tax return to facilitate reconciliation of the payment was removed from the 2009 tax year return.

Non-Recur FY 2009 Reduction Adjustment/Correspondence Inventory -13,439,000 / 0 FTE

The non-recur funds received in FY 2009 to handle the increased adjustment/ correspondence workload that resulted from diverting staff from paper correspondence to telephone service to meet the requirements of the Stimulus Act was removed from the FY 2010 budget. The IRS correspondence inventory, comparing August 2009 to

August 2010 dropped 1,254,796 to 775,960, a decrease of 478,836. Note: these adjustment/ correspondence inventory levels do not include First Time Homebuyer Credit, Worker Homeownership and Business Assistance Act, and Recovery Act inventory.

Non-Recur Pension Plan -$1,352,000 / 0 FTE

The non-recur funds received in FY 2009 to fund one-time, non-recurring costs associated with testing the IRS ERISA (Employee Retirement Income Security Act of 1974) Residual Solution (IERS) system were removed from the FY 2010 budget. The IRS ERISA Residual Solution (IERS) allows the IRS to receive and audit pension benefit data (Form 5500 series) for compliance purposes. Testing was successful, and the system became operational to receive and process returns on December 30, 2009.

Reduce Procurement/Contracting (Reduction was taken in the FY 2011 President's Budget)

Information Technology (IT) Infrastructure and Process Improvements

FY 2010 Projected Savings -$58,300,000 / 0 FTE

In accordance with Presidential guidance on controlling contract costs, the IRS planned to generate $58.3 million in savings in FY 2010. In FY 2010, the IRS realized savings of $61.6 million by renegotiating contracts for more favorable pricing and changing contract vehicles to firm fixed price type contracts. Most of this savings was generated from IT hardware, software licensing and maintenance, and telecommunication contracts.

4.1 – Summary of IT Resources Table

Dollars in Millions

Major IT Investments / Funding Source	Budget Activity	FY 2009 Actuals	FY 2010 Actuals	% Change from FY09 to FY10	FY 2011 CR Rate (FY 2010 Enacted)	% Change from FY10 to FY11	FY 2012 Request	FY 2012 Innovation Investments	% Change from FY11 to FY12
Account Management Services (AMS)	IT Investments	**$22,807**	**$27,988**	22.7%	**$17,037**	-39.1%	**$15,107**	**$15,107**	-11.3%
IRS BSM 20-0921-0-1-803	IT Investments	10,650	6,688	-37.2%	000	-100.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	12,157	21,300	75.2%	17,037	-20.0%	15,107	15,107	-11.3%
Automated Collection System (ACS) - Major	Information Services	**$6,892**	**$7,872**	14.2%	**$10,145**	28.9%	**$7,885**	**$7,885**	-22.3%
Business Master File (BMF)	Information Services	**$12,259**	**$7,287**	-40.6%	**$8,410**	15.4%	**$8,267**	**$8,267**	-1.7%
IRS Operations Support 20-0919-0-1-803	Information Services	12,259	7,189	-41.4%	8,410	17.0%	8,267	8,267	-1.7%
External Funding (incl. Reimbursable Agreements) *	Information Services	000	097	100.0%	000	-100.0%	000	000	0.0%
Counsel Automated Systems Environment (CASE)	Information Services	**$26,513**	**$22,742**	-14.2%	**$27,951**	22.9%	**$27,951**	**$27,951**	0.0%
Criminal Investigation Management Information System (CIMIS) - Major	Information Services	**$3,776**	**$1,159**	-69.3%	**$4,273**	268.8%	**$1,169**	**$1,169**	-72.7%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	1,009	1,000	-0.9%	1,626	62.6%	1,000	1,000	-38.5%
IRS Operations Support 20-0919-0-1-803	Information Services	2,767	159	-94.3%	2,647	1569.6%	169	169	-93.6%
Current CADE (previously known as Customer Account Data Engine (CADE))	IT Investments	**$61,430**	**$68,569**	11.6%	**$46,356**	-32.4%	**$24,223**	**$24,223**	-47.7%
IRS BSM 20-0921-0-1-803	IT Investments	58,100	67,810	16.7%	45,937	-32.3%	23,460	23,460	-48.9%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	000	000	0.0%	000	0.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	3,330	758	-77.2%	419	-44.7%	763	763	82.1%
Customer Account Data Engine (MTA) / CADE 2	IT Investments	**$33,150**	**$77,687**	134.3%	**$85,733**	10.4%	**$198,832**	**$198,832**	131.9%
IRS BSM 20-0921-0-1-803	IT Investments	33,150	77,524	133.9%	85,733	10.6%	198,451	198,451	131.5%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	000	000	0.0%	000	0.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	000	163	0.0%	000	-100.0%	381	381	0.0%
e-Services	Information Services	**$14,648**	**$16,518**	12.8%	**$14,007**	-15.2%	**$8,666**	**$8,666**	-38.1%
IRS BSM 20-0921-0-1-803	IT Investments	000	005	100.0%	000	-100.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	14,648	16,513	12.7%	14,007	-15.2%	8,666	8,666	-38.1%
Electronic Fraud Detection System (EFDS)	Information Services	**$12,392**	**$13,737**	10.9%	**$12,251**	-10.8%	**$14,341**	**$14,341**	17.1%
IRS Operations Support 20-0919-0-1-803	Information Services	8,754	10,021	14.5%	8,594	-14.2%	10,632	10,632	23.7%
IRS Operations Support (EITC) 20-09E9	Information Services	3,639	3,657	0.5%	3,657	0.0%	3,709	3,709	1.4%
IRS BSM 20-0921-0-1-803	IT Investments	000	010	100.0%	000	-100.0%	000	000	0.0%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	000	050	100.0%	000	-100.0%	000	000	0.0%
Electronic Management System (EMS)	Information Services	**$4,742**	**$4,282**	-9.7%	**$5,761**	34.5%	**$4,318**	**$4,318**	-25.0%
Enterprise Data Access Strategy (EDAS) (Formerly:Enterprise Data Warehouse)	Information Services	**$8,369**	**$8,086**	-3.4%	**$6,995**	-13.5%	**$7,367**	**$7,367**	5.3%
IRS BSM 20-0921-0-1-803	IT Investments	000	014	100.0%	000	-100.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	8,369	8,072	-3.5%	6,995	-13.3%	7,367	7,367	5.3%
Excise Files Information Retrieval System (ExFIRS) - Major / Externally Funded	Information Services	**$13,022**	**$1,145**	-91.2%	**$6,632**	479.0%	**$097**	**$097**	-98.5%
External Funding (incl. Reimbursable Agreements) *	Information Services	13,018	000	-100.0%	6,139	100.0%	000	000	-100.0%
IRS Operations Support 20-0919-0-1-803	Information Services	004	1,145	28075.7%	493	-57.0%	097	097	-80.3%
Financial Management Information System (FMIS)	Information Services	**$6,801**	**$5,825**	-14.3%	**$5,186**	-11.0%	**$6,069**	**$6,069**	17.0%
Implement RRP (incorporates EFDS replacement)	Information Services	**$0,000**	**$18,383**	100.0%	**$17,947**	-2.4%	**$20,905**	**$20,905**	16.5%
Individual Master File (IMF)	Information Services	**$13,357**	**$8,995**	-32.7%	**$10,982**	22.1%	**$11,393**	**$11,393**	3.7%
IRS Operations Support (EITC) 20-09E9	Information Services	142	000	-100.0%	000	0.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	13,215	8,923	-32.5%	10,982	23.1%	11,393	11,393	3.7%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	000	072	100.0%	000	-100.0%	000	000	0.0%
Information Reporting and Document Matching (IRDM)	Information Services	**$5,119**	**$18,824**	267.7%	**$23,000**	22.2%	**$23,255**	**$23,255**	1.1%
IRS Operations Support 20-0919-0-1-803	Information Services	5,119	15,905	210.7%	23,000	44.6%	23,255	23,255	1.1%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	000	2,920	100.0%	000	-100.0%	000	000	0.0%
Information Returns Processing (IRP)	Information Services	**$7,654**	**$6,402**	-16.4%	**$6,775**	5.8%	**$5,976**	**$5,976**	-11.8%
IRS Operations Support 20-0919-0-1-803	Information Services	7,654	6,388	-16.5%	6,775	6.1%	5,976	5,976	-11.8%
External Funding (incl. Reimbursable Agreements) *	Information Services	000	014	100.0%	000	-100.0%	000	000	0.0%

Major IT Investments / Funding Source	Budget Activity	FY 2009 Actuals	FY 2010 Actuals	% Change from FY09 to FY10	FY 2011 CR Rate (FY 2010 Enacted)	% Change from FY10 to FY11	FY 2012 Request	FY 2012 Innovation Investments	% Change from FY11 to FY12
Integrated Collection System (ICS)	Information Services	**$7,484**	**$9,823**	31.3%	**$9,854**	0.3%	**$10,173**	**$10,173**	3.2%
IRS Operations Support 20-0919-0-1-803	Information Services	7,484	9,823	31.3%	9,104	-7.3%	10,173	10,173	11.7%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	000	000	0.0%	750	100.0%	000	000	-100.0%
Integrated Customer Communications Environment (ICCE)	Information Services	**$12,082**	**$16,752**	38.6%	**$16,618**	-0.8%	**$14,892**	**$14,892**	-10.4%
IRS Operations Support 20-0919-0-1-803	Information Services	12,082	16,680	38.1%	16,618	-0.4%	14,892	14,892	-10.4%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	000	072	100.0%	000	-100.0%	000	000	0.0%
Integrated Data Retrieval Systems (IDRS)	Information Services	**$20,231**	**$20,351**	0.6%	**$19,550**	-3.9%	**$20,795**	**$20,795**	6.4%
Integrated Financial System/CORE Financial System (IFS)	IRS Business Systems Modernization	**$18,167**	**$18,357**	1.0%	**$17,449**	-4.9%	**$44,798**	**$44,798**	156.7%
IRS BSM 20-0921-0-1-803	IT Investments	000	000	0.0%	000	-100.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	18,167	18,051	-0.6%	17,449	-3.3%	44,798	44,798	156.7%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	000	306	100.0%	000	-100.0%	000	000	0.0%
Integrated Submission and Remittance Processing System (ISRP)	Information Services	**$18,981**	**$17,311**	-8.8%	**$17,939**	3.6%	**$17,098**	**$17,098**	-4.7%
Internal Revenue Service.gov (IRS.gov)	Information Services	**$56,479**	**$51,825**	-8.2%	**$55,380**	6.9%	**$113,380**	**$113,380**	104.7%
IRS Operations Support 20-0919-0-1-803	Information Services	56,479	39,779	-29.6%	55,380	39.2%	113,380	113,380	104.7%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	000	12,046	100.0%	000	-100.0%	000	000	0.0%
Redesign Revenue Accounting Control System (RRACS) - formerly Interim Revenue Accounting Cost System (IRACS) (Includes "Redesign IRACS" Tier B initiative)	Information Services	**$5,137**	**$4,198**	-18.3%	**$1,495**	-64.4%	**$2,618**	**$2,618**	75.1%
Modernized e-File (MeF)	IT Investments	**$47,117**	**$89,127**	89.2%	**$61,143**	-31.4%	**$33,851**	**$33,851**	-44.6%
IRS BSM 20-0921-0-1-803	IT Investments	29,500	70,585	139.3%	46,489	-34.1%	27,939	27,939	-39.9%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	000	364	100.0%	000	-100.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	17,617	18,178	3.2%	14,654	-19.4%	5,912	5,912	-59.7%
Report Generation Software (RGS)	Information Services	**$7,961**	**$8,260**	3.8%	**$7,709**	-6.7%	**$7,780**	**$7,780**	0.9%
IRS Operations Support (EITC) 20-09E9	Information Services	3,384	2,798	-17.3%	2,785	-0.5%	2,825	2,825	1.5%
IRS Operations Support 20-0919-0-1-803	Information Services	4,578	5,462	19.3%	4,924	-9.9%	4,955	4,955	0.6%
Reporting Compliance Case Management System (RCCMS) (Formerly TE/GE Reporting and Electronic Exmaination System (TREES)	Information Services	**$2,140**	**$4,175**	95.1%	**$4,030**	-3.5%	**$4,340**	**$4,340**	7.7%
Service Center Recognition/Image Processing System (SCRIPS)	Information Services	**$16,632**	**$19,693**	18.4%	**$16,818**	-14.6%	**$15,385**	**$15,385**	-8.5%
Tax Return Database (TRDB) - BAC 99	Information Services	**$4,250**	**$4,759**	12.0%	**$5,212**	9.5%	**$2,565**	**$2,565**	-50.8%
IRS Operations Support 20-0919-0-1-803	Information Services	4,250	4,383	3.1%	5,212	18.9%	2,565	2,565	-50.8%
External Funding (incl. Reimbursable Agreements) *	Information Services	000	376	100.0%	000	-100.0%	000	000	0.0%
Travel Reimbursement and Accounting System (TRAS) - BAC 99	Information Services	**$000**	**$000**	0.0%	**$000**	0.0%	**$000**	**$000**	0.0%
Web Currency and Banking Retrieval System (WebCBRS)	Information Services	**$7,550**	**$6,372**	-15.6%	**$7,756**	21.7%	**$6,853**	**$6,853**	-11.7%
IRS Operations Support 20-0919-0-1-803	Information Services	1,029	1,365	32.6%	2,009	47.2%	1,685	1,685	-16.1%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfieture	Information Services	6,521	5,007	-23.2%	5,747	14.8%	5,167	5,167	-10.1%
Web Requisition Tracking System /Integrated Procurement System (WebRTS/IPS)	Information Services	**$5,246**	**$6,074**	15.8%	**$5,770**	-5.0%	**$1,895**	**$1,895**	-67.2%
Subtotal, Major IT Investments		**$482,390**	**$592,578**	22.8%	**$556,165**	-6.1%	**$682,245**	**$682,245**	22.7%
Non-Major IT Investments		**$500,340**	**$580,145**	16.0%	**$569,598**	-1.8%	**$994,198**	**$994,198**	74.5%
- Total (FY 10 includes $3.553 of external funding)		**$986,392**	**$1,079,565**	9.4%	**$1,053,699**	-2.4%	**$997,187**	**$997,187**	-5.4%
Enterprise Architecture		**$2,443**	**$000**	-100.0%	**$2,491**	100.0%	**$000**	**$000**	-100.0%
Sub-Total IT Investments		**$1,971,564**	**$2,252,288**	14.2%	**$2,181,954**	-3.1%	**$2,673,629**	**$2,673,629**	22.5%
*** MINUS Externally Funded Major Investments**		**$13,018**	**$4,041**	-69.0%	**$6,139**	51.9%	**$000**	**$000**	0.0%
TOTAL IT Investments		**$1,958,546**	**$2,248,247**	14.8%	**$2,175,815**	-3.2%	**$2,673,629**	**$2,673,629**	22.9%

4.3 – IRS Performance Measure Table

The following table shows IRS performance measures achieved and projected from FY 2010 through FY 2012.

Performance Measures	Type of Measure	FY 2010 Target	FY 2010 Actual	FY 2011 Planned	FY 2012 Planned
Customer Service Representative Level of Service	Oe, L	71.0%	74.0%	71.0%	80.0%
Customer Contacts Resolved per Staff Year	E	9,398	10,744	12,074	12,061
Percent of Eligible Taxpayers Who File for EITC	Oe	75% - 80%	NA	75% - 80%	75% - 80%
Customer Accuracy - Tax Law (Phones)	Ot	91.2%	92.7%	92.7%	92.7%
Customer Accuracy - Accounts (Phones)	Ot	93.7%	95.7%	95.0%	95.0%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	94.0%	95.3%	94.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public	Ot	90.0%	97.7%	91.0%	93.0%
Percent Individual Returns Processed Electronically	Oe, L	70.2%	69.3%	74.0%	76.0%
Cost per Taxpayer Served ($) (HCTC)	E	Baseline[1]	$9.52	$10.00	$11.00
Sign-Up Time (Days) - Customer Engagement (HCTC)	Ot	Baseline[1]	124.0	124.0	137.0
Percent of Business Returns Processed Electronically	Oe, L	24.3%	25.5%	27.0%	28.0%
Refund Timeliness - Individual (Paper)	Ot	98.4%	96.1%	97.0%	97.5%
Taxpayer Self-Assistance Rate	E, L	61.3%	64.4%	68.7%	68.7%
Examination Coverage - Individual	Oe, L	1.1%	1.1%	1.1%	1.1%
Field Exam Nat'l Quality Review Score	Oe, L	86.3%	84.9%	83.7%	84.9%
Office Exam Nat'l Quality Review Score	Oe, L	90.9%	91.6%	90.4%	90.9%
Examination Quality - Industry	Oe, L	89.0%	87.0%	89.0%	89.0%
Examination Quality - Coordinated Industry	Oe, L	96.0%	95.0%	96.0%	96.0%
Examination Coverage - Business	Oe, L	5.1%	5.7%	5.3%	5.2%
Examination Efficiency - Individual	E, L	132	140	134	126
Automated Underreporter Efficiency	E, L	1,868	1,924	1,980	2,017
Automated Underreporter Coverage	E, L	3.0%	3.0%	3.3%	4.0%
Collection Coverage (Units)	Ot, L	50.5%	50.1%	49.1%	47.9%
Collection Efficiency (Units)	E, L	1,898	1,822	1,824	1,752
Field Collection Nat'l Quality Review Score	Ot, L	81.0%	80.6%	81.0%	81.0%
Automated Collection System Accuracy	Oe	92.5%	95.9%	94.0%	94.0%
Criminal Investigations Completed	Ot, L	3,900	4,325	3,900	3,880
Number of Convictions	Oe, L	2,135	2,184	2,135	2,135
Conviction Rate	Oe, L	92.0%	90.2%	92.0%	92.0%
Conviction Efficiency Rate ($)	E, L	$331,000	$324,776	$350,000	$360,000
TE/GE Determination Case Closures	Ot	140,465	105,247	97,151	85,471
Percent of BSM Projects within +/- 10% Cost Variance	E	90.0%	40.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance	E	90.0%	100.0%	90.0%	90.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long-Term Goal

[1] An increase in participation occurred due to the Recovery Act. IRS established a new baseline in FY 2010.

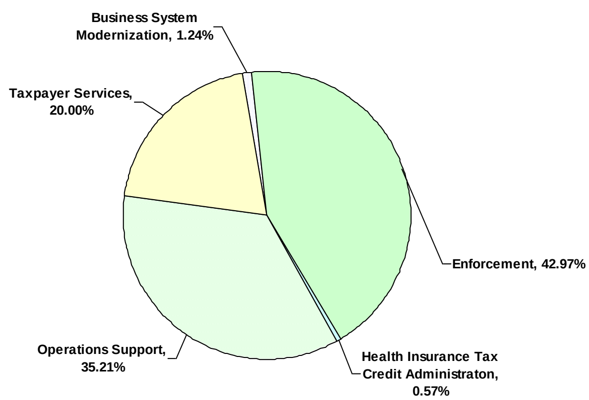
Budget Level Performance Measurement Descriptions	
Customer Service Representative (CSR) Level of Service	The number of toll free callers that either speak to a Customer Service Representative or receive informational messages divided by the total number of attempted calls.
Customer Contacts Resolved per Staff Year	The number of Customer Contacts resolved in relation to staff years expended.
Percent of Eligible Taxpayers Who File for EITC	The number of taxpayers who claim the Earned Income Tax Credit (EITC) compared to the number of taxpayers who appear to be eligible for the EITC.
Customer Accuracy – Tax Law Phones	The percentage of correct answers given by a live assistor on Toll-free tax law inquiries.
Customer Accuracy – Customer Accounts (Phones)	The percentage of correct answers given by a live assistor on Toll-free account inquiries.
Timeliness of Critical Individual Filing Season Tax Products to the Public	The percentage of critical individual filing season tax products (tax forms, schedules, instructions, publications, tax packages, and certain notices required by a large number of filers to prepare a complete and accurate tax return) available to the public in a timely fashion.
Timeliness of Critical TE/GE & Business Tax Products to the Public	Percentage of critical other tax products, paper and electronic, available to the public in a timely fashion.
Percent Individual Returns Processed Electronically	The percentage of electronically filed individual tax returns divided by the total individual returns filed.
Cost per Taxpayer Served ($) (HCTC)	The costs associated with serving the taxpayers including program kit correspondence, registration and program participation.
Sign-Up Time (Days) – Customer Engagement (HCTC)	The length of time between the first Program Kit mailing and first payment received.
Percent Business Returns Processed Electronically	The percentage of electronically filed business tax returns divided by the total business returns filed.
Refund Timeliness – Individual (Paper)	The percentage of refunds resulting from processing Individual Master File paper returns issued within 40 days or less.
Taxpayer Self Assistance Rate	The percentage of taxpayer assistance requests resolved using self-assisted automated services.
Examination Coverage – Individual (1040)	The sum of all individual 1040 returns closed by Small Business/Self Employed (SB/SE), Wage & Investment (W&I), and Large and Mid-Sized Business (LMSB) (Field Exam and Correspondence Exam programs) divided by the total individual return filings for the prior calendar year.
Field Exam Nat'l Quality Review Score	The score awarded to a reviewed field examination case by a Quality Reviewer using the National Quality Review System (NQRS) quality attributes.
Office Exam Nat'l Quality Review Score	The score awarded to a reviewed office examination case by a Quality Reviewer using the NQRS quality attributes.
Examination Quality – Industry	Average of the scores of Industry Cases reviewed. Case scores are based on the percentage of elements passed within each auditing standard.
Examination Quality – Coordinated Industry	Average of the scores of Coordinated Industry Cases reviewed. Case scores are based on the percentage of elements passed within each auditing standard.
Examination Coverage – Business (Corps. >$10M)	The number of LMSB “customer base” returns (C and S Corporations with assets over $10 million and all partnerships) examined and closed by LMSB during the current fiscal year divided by the number of filings for the preceding calendar year.
Examination Efficiency – Individual (1040)	The sum of all individual 1040 returns closed by SB/SE, W&I, and LMSB (Field Exam and Correspondence Exam programs) divided by the total Full-Time Equivalent (FTE) expended in relation to those individual returns.
Automated Underreporter (AUR) Efficiency	The total number of W&I and SB/SE contact closures (a closure resulting from a case where we made contact) divided by the total FTE, including overtime.
Automated Underreporter (AUR) Coverage	A percentage representing the total number of W&I and SB/SE contact closures (a closure resulting from a case where SBSE and W&I made contact) divided by the total return filings for the prior year.
Collection Coverage – Units	The volume of collection work disposed compared to the volume of collection work available.
Collection Efficiency – Units	The sum of all modules disposed by Automated Collection System (ACS) (SB/SE & W&I) and by SB/SE Field Collection divided by the total collection FTE.
Field Collection Nat'l Quality Review Score	The score awarded to a reviewed collection cases by a Quality Reviewer using the NQRS quality attributes.
Automated Collection System (ACS) Accuracy	The percent of taxpayers who receive the correct answer to their ACS question.
Criminal Investigations Completed	The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice as well as those discontinued due to a lack of prosecution potential.
Number of Convictions	The number of criminal convictions.
Conviction Rate	The percent of adjudicated criminal cases that result in convictions.
Conviction Efficiency Rate ($)	The cost of Criminal Investigation’s (CI's) program divided by the number of convictions. The number of convictions is the total number of cases with the following statuses: guilty plea, nolo contendere, judge guilty or jury guilty. The CI financial plan includes direct and reimbursable costs, including employees’ salaries, benefits, and investigative expenses, as well as facility costs (office space, heating, cleaning, computers, security, etc.), and other overhead costs.
TE/GE Determination Case Closures	The number of cases closed in the Employee Plans or Exempt Organizations Determination programs, regardless of type of case or type of closing.
Percent of BSM Projects within +/- 10% Cost Variance	The percentage of BSM projects that are within the +/-10% threshold for cost. The cost variance is measured from the initial cost estimate versus current cost estimate.
Percent of BSM Projects within +/- 10% Schedule Variance	The percentage of BSM projects that are within the +/-10% threshold for schedule. The schedule variance is measured from the initial schedule estimate to the current schedule estimate.

4.4 – Cost of IRS Operating Activities

FY 2010 Cost of IRS Operating Activities

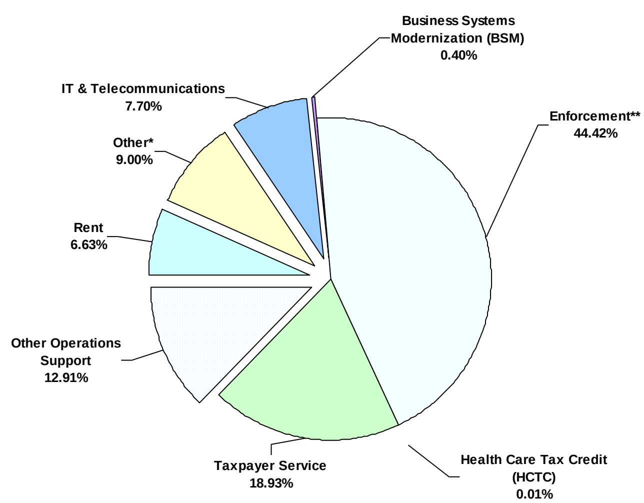
The following charts provide the FY 2010 cost of IRS operating activities by appropriation and by major expense category. The charts include all expenditures, regardless of the fiscal year the funds were appropriated, that occurred in FY 2010 except for imputed costs (i.e., costs associated with services obtained by other agencies such as the Department of the Treasury and the Office of Personnel Management that are provided to the IRS, but are not reimbursed).

FY 2010 Expenses by Appropriation
(Excluding Imputed Costs)



The second chart shows the FY 2010 actual costs by major expense category.

FY 2010 Expenses by Category
(Excluding Imputed Costs)



Notes:
[1]Other includes Contractual Services, Supplies, Printing, Postage, Travel, and Training
[2]Enforcement includes Non-Labor Enforcement Expense of $306M (2.5%)
[3]Labor Costs represent 74.13 % of total expenses and include Taxpayer Service, Operations Support, Enforcement, BSM, and HCTC

4.5 – Summary of IRS FY 2012 Budget Request

Bureau: Internal Revenue Service Summary of Proposed FY 2012 Budget Request	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		HITCA		TOTAL	
	$000	FTE	$000	FTE	$000	FTE	$000	FTE	$000	FTE	$000	FTE
FY 2010 Enacted[1]	$2,278,830	31,063	$5,504,000	50,983	$4,083,884	12,372	$263,897	333	$15,512	15	$12,146,123	94,766
Total FY 2011 Annualized CR Level	$2,278,830	31,063	$5,504,000	50,983	$4,083,884	12,372	$263,897	333	$15,512	15	$12,146,123	94,766
Changes to Base												
Adjustment to Reach FY 2011 President's Policy Level	$23,254	(395)	$242,275	1,880	$10,128	12	$122,561	156	$3,447		$401,665	1,653
Maintaining Current Levels (MCLs)	$12,908		$30,691		$41,755		$168		$232		$85,754	
Workers Compensation/Health Benefits/FERS	10,242		25,067		5,482		168		5		40,964	
Non-Pay Inflation Adjustment (1.4%)	2,666		5,624		36,273				227		44,790	
Other Adjustments		614		(296)		154		29				501
Technical FTE Adjustments[2]		614		(296)		154		29				501
Efficiencies/Savings	($41,333)	(483)	($21,996)	(35)	($124,440)	(5)	($1,026)		($1,162)		($189,957)	(523)
Non-Recur Savings					(22,090)						(22,090)	
Increase e-File Savings	(21,404)	(416)			(1,040)						(22,444)	(416)
Reduce IT Infrastructure					(75,000)						(75,000)	
Reduce Contracts	(4,522)		(325)		(15,907)						(20,754)	
Reduce Administrative Expenses	(5,557)	(26)	(8,271)	(35)	(503)	(5)					(14,331)	(66)
Eliminate Lockbox Fees			(4,000)								(4,000)	
Reduce Certain Mailings					(4,000)						(4,000)	
Reduce Training, Travel and Programs	(9,850)	(41)	(9,400)		(5,900)		(1,026)		(1,162)		(27,338)	(41)
Reinvestment	1,486										$1,486	
Consolidate Submission Processing Site (Atlanta)	1,486										1,486	
Subtotal, FY 2012 Changes to the Base	($3,685)	(264)	$250,970	1,549	($72,557)	161	$121,703	185	$2,517		$298,948	1,631
FY 2012 Current Services (Base)	$2,275,145	30,799	$5,754,970	52,532	$4,011,327	12,533	$385,600	518	$18,029	15	$12,445,071	96,397
Program Changes												
Program Increases												
Taxpayer Service Initiatives												
Improve Taxpayer Service	44,078	518			37,229	1					81,307	519
Expand Online Options through IRS.gov Improvements					33,000	15					33,000	15
Subtotal, Taxpayer Service Initiatives	$44,078	518			$70,229	16					$114,307	534
Enforcement Initiatives												
Increase International Service and Enforcement			48,363	373	24,233	4					72,596	377
Increase Collection Coverage	2,201	37	30,275	372	19,524	4					52,000	413
Implement Merchant Card and Basis Reporting	10,475	189	17,495	225	7,760	1					35,730	415
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	7,229	87	33,936	266	55,553	144					96,718	497
Ensure Accurate Delivery of Tax Credits	4,946	49	49,083	563	206,264	222					260,293	834
Administer New Statutory Reporting Requirements	1,059	7	5,061	48	52,385	132					58,505	187
Leverage Return Preparer Program to Reduce Noncompliance			14,240	107	2,360	1					16,600	108
Address Appeals Workload Growth			7,450	66	1,650						9,100	66
Implement Uncertain Tax Position Reporting Requirements			3,765	20	364						4,129	20
Subtotal, Enforcement Initiatives	$25,910	369	$209,668	2,040	$370,093	508					$605,671	2,917
Infrastructure Initiatives												
Enhance Security and Disaster Recovery Systems Capability					12,000	5					12,000	5
Update Integrated Financial System (IFS)					27,500	5					27,500	5
Leveraging Data to Improve Compliance					1,400	5					1,400	5
Enhance Physical Security for Federal Employees			1,981	10	13,500						15,481	10
Implement Individual Coverage Requirement and Employer Responsibility Payments					62,477	65					62,477	65
Subtotal, Infrastructure Initiatives			$1,981	10	$116,877	80					$118,858	90
Business Systems Modernization (BSM) Initiative												
Continue Migration from Aging Tax Administration System					52,000	5	(52,000)	(65)				(60)
Subtotal, BSM					$52,000	5	($52,000)	(65)				(60)
Subtotal, FY 2012 Program Changes	$69,988	887	$211,649	2,050	$609,199	609	($52,000)	(65)			$838,836	3,481
Total FY 2012 Budget Request	$2,345,133	31,686	$5,966,619	54,582	$4,620,526	13,142	$333,600	453	$18,029	15	$13,283,907	99,878
Dollar/FTE Change	$66,303	623	$462,619	3,599	$536,642	770	$69,703	120	$2,517		$1,137,784	5,112
Percent Change	2.91%	2.0%	8.41%	7.1%	13.14%	6.2%	26.41%	36.0%	16.23%		9.37%	5.39%

[1] FY 2010 Enacted represents the approved FY 2010 Operating Plan.

[2] Technical FTE adjustments to ensure FTE levels are fully funded in the base budget.

Overview

Mission Statement

The mission of the Office of Financial Stability (OFS) is to carry out the authorities granted to the Secretary of the Treasury to implement the Troubled Assets Relief Program (TARP). These authorities were vested to the Treasury Secretary by the Emergency Economic Stabilization Act of 2008 (EESA), which authorized the Secretary of the Treasury to establish the TARP to purchase, and to make and fund commitments to purchase, and guarantee troubled assets from any financial institution, on terms and conditions as are determined by the Secretary.

The purposes of the EESA are to—
(1) immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States; and
(2) ensure that such authority and such facilities are used in a manner that —

(A) protects home values, college funds, retirement accounts, and life savings;
(B) preserves homeownership and promotes jobs and economic growth;
(C) maximizes overall returns to the taxpayers of the United States; and
(D) provides public accountability for the exercise of such authority.

TARP ON-BUDGET ACCOUNTS
Dollars in Thousands

Total TARP
Program Summary by Budget Activity

	2010 Actual	2011 Estimated	2012		
			Estimated	$ Change	% Change
Obligations:					
Housing Account	$18,560,000	$0	$0	**$0**	**0%**
Equity Program Account	$4,457,016	$329,228	$0	**($329,228)**	**-100%**
TARP Account	$23,048	$1,556,633	$0	**($1,556,633)**	**-100%**
TARP Negative Receipt Account	($116,556,538)	($43,473,633)	$0	**$43,473,633**	**-100%**
TARP Administrative Account	$365,044	$393,449	$311,241	**($82,208)**	**-21%**
Total Obligations	**($93,151,431)**	**($41,194,323)**	**$311,241**	**$41,505,564**	**-101%**
Budget Authority:					
Housing Account	$18,560,000	$0	$0	**$0**	**0%**
Equity Program Account	$4,457,907	$329,228	$0	**($329,228)**	**-100%**
TARP Account	$23,048	$1,566,633	$0	**$0**	**0%**
TARP Negative Receipt Account	($116,556,538)	($43,473,633)	$0	**$0**	**0%**
TARP Administrative Account	$365,044	$393,449	$311,241	**($82,208)**	**-21%**
Total Budgetary Authority	**($93,150,540)**	**($41,184,323)**	**$311,241**	**($411,436)**	**1%**
Outlays:					
Housing Account	$543,000	$9,813,000	$13,230,000	**$3,417,000**	**35%**
Equity Program Account	$8,450,887	$4,634,144	$0	**($4,634,144)**	**-100%**
TARP Account	$22,380	$2,366,712	$0	**($2,366,712)**	**-100%**
TARP Negative Receipt Account	($116,904,810)	($43,343,632)	$0	**$0**	**0**
TARP Administrative Account	$238,998	$536,000	$327,683	**($208,317)**	**-39%**
Total Outlays	**($107,649,545)**	**($25,993,776)**	**$13,557,683**	**($3,792,174)**	**15%**

PROGRAM DISBURSEMENTS AND COST/SAVINGS
Dollars in Thousands

	FY 2009	FY 2010	Total Disbursements[1]	Cost/(Savings) BA Outlays[2]
Capital Purchase Program	$204,617,573	$277,153	$204,894,726	($12,424,572)
Public-Private Investment Program	$3,689,583	$18,716,901	$22,406,484	($212,771)
AIG Investment Program	$69,835,000	$0	$69,835,000	$8,038,208
Consumer and Business Lending Initiative	$4,300,000	$939,581	$5,239,581	($39,186)
Home Affordable Modification Program	$27,065,760	$18,560,021	$45,625,781	$45,625,781
Targeted Investment Program	$40,000,000	$0	$40,000,000	($3,805,048)
Automotive Industry Financing Program	$77,968,009	$3,790,000	$81,758,009	$14,800,582
Asset Guarantee Program[3]	$5,000,000	$0	$5,000,000	($3,707,147)
Total	**$432,475,926**	**$42,283,655**	**$474,759,581**	**$48,275,847**

[1]Amount applied to the Section 115 Purchase Cap (i.e., the portion of the $475 billion cap expected to be disbursed).
[2] Estimated lifetime program costs or savings (-) including interest effects, but excluding administrative costs.
[3] Treasury guaranteed up to $5 billion of potential losses incurred on a $301 billion portfolio of loans.

FY 2012 Priorities

During FY 2012, the Office of Financial Stability will be primarily in the maintenance phase of the TARP; which includes managing assets, repayments, repurchases, warrant liquidation, dividend collection, corporate actions, collateral management, exchanges, etc. Under the terms of EESA, Treasury's authority to enter into new commitments to purchase troubled assets expired October 3, 2010. While Treasury is now unable to implement new TARP programs in FY 2012, disbursements for a limited number of programs will continue to occur based upon existing commitments.

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Section 1 – Purpose

1A – Description of Office Vision and Priorities

Section 101 of the Emergency Economic Stabilization Act of 2008 (EESA) authorized the Secretary of the Treasury to establish the Troubled Assets Relief Program (TARP) to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on terms and conditions as are determined by the Secretary." The EESA further authorized that the Secretary implement the programs under section 101 through an Office of Financial Stability (OFS). Section 102 also provided the Secretary authority to guarantee troubled assets.

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

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

1B – Program History and Future Outlook

To administer the programs under TARP, the EESA established the OFS in October 2008, which is designed to be temporary in nature, but highly skilled and well equipped to handle the complexity of TARP initiatives. EESA was originally proposed as a means to buying mortgage loans, mortgage-backed securities and certain other assets from financial institutions. However, the authorities granted under EESA were broadened in the legislative process to cover any financial instrument whose purchase the Secretary of the Treasury, after consultation with the Chairman of the Federal Reserve, determined necessary to promote financial market stability.

The OFS was established in response to the financial crisis faced by the nation in 2007 and 2008. At that time, the nation was in the midst of one of the worst financial crises in our history and for the first time in 80 years, the U.S. financial system was at risk of collapse. To address these problems, Treasury created programs under the TARP. These programs have provided much needed capital to the financial system, helped struggling homeowners stay in their homes, initiated the recovery of the markets for consumer and business lending and provided a mechanism for removing legacy toxic assets from the balance sheets of financial institutions.

Through January 31, 2010, the OFS disbursed $410 billion of the authorized $700 billion, most of it in the form of investments. The Dodd-Frank Wall Street Reform and Consumer

Protection Act (the Dodd-Frank Act) was enacted on July 21, 2010. The Dodd-Frank Act reduced the TARP authority to purchase troubled assets from $700 billion to $475 billion; requires that repayments of amounts invested under TARP cannot be used to increase the purchase authority and are dedicated to reducing the Federal debt; and prohibits new obligations for any program or initiative that was not already initiated prior to June 25, 2010.

Over the past two years, emergency actions taken through TARP and other financial stability initiatives have helped prevent catastrophe by unfreezing the markets for credit and capital; bringing down the cost of borrowing for businesses, individuals, and state and local governments; restoring confidence in the financial system; and restarting economic growth. The conditions of most security markets and large financial institutions have improved substantially. Borrowing costs for large banks, nonfinancial businesses, and state and local governments have returned to near normal levels. Frozen securities markets have reopened. Prices for legacy securities have improved. Large banks are better capitalized than they were before the crisis and restructuring in the financial industry is well underway.

Further, as a result of improved financial conditions and careful stewardship of the program, the ultimate cost to the taxpayer of TARP investments is estimated to be significantly lower than initially expected. The FY 2010 MSR budget total impact of the program on the deficit was projected to be $341 billion, but it is now expected to total only $48.3 billion (see Program Caps and Obligations table above) as of November 30, 2010. The authority for the administrative budget for OFS is provided in Section 118 of EESA. In FY 2011 OFS plans to obligate almost $394 million and use 251 FTE, an increase of $29 million and 41 FTE from the FY 2010 estimates. The increases are primarily due to the continued staffing of OFS' compliance and legal departments and a $35 million increase in funding of the Making Home Affordable (MHA) Program Administrator. The potential accelerated disposition of assets requires additional legal support and OFS is still fully staffing its compliance department to ensure that recipients of TARP funds comply with program requirements. These increases are offset by savings in other outside contracts as OFS matures as an organization that no longer has the authority to make new commitments. Further, the FY 2011 increase in outlays is primarily due to the payment of prior year obligations, most notably for FY 2010 services received from the MHA Program Administrator and Compliance Agent. In FY 2012 OFS plans to obligate almost $311 million and use 270 FTE, a decrease of $83 million and an increase of 19 FTE from the FY 2011 estimates. The increase in FTE reflects the assumption that the newly hired individuals will be on-board for a full fiscal year while the outside contracts continue to decrease primarily due to the reduction of the MHA Program Administrator's budget.

Troubled Asset Relief Programs

Capital Purchase Program

OFS launched the Capital Purchase Program (CPP), its largest program under EESA, on October 14, 2008 to stabilize the financial system by providing capital to viable banks through the purchase of preferred shares from qualifying financial institutions and subordinated debentures from Subchapter S corporations. The CPP was designed to bolster the capital position of viable institutions and, in doing so, build confidence in these institutions and the financial system as a whole. With the additional capital, CPP participants were better equipped to undertake new lending, even while absorbing write downs and charge-offs on loans that were not performing.

Of the initial $250 billion commitment to CPP, OFS invested $125 billion in eight of the country's largest financial institutions. The remaining $125 billion was made available to qualifying financial institutions (QFIs) of all sizes and types across the country, including banks, savings associations, bank holding companies and savings and loan holding companies. QFIs interested in participating in the program had to submit an application to their primary federal banking regulator. The minimum subscription amount available to a participating institution was 1 percent of risk-weighted assets. The maximum subscription amount was the lesser of $25 billion or 3 percent of risk-weighted assets.

OFS ultimately provided a total of $205 billion in capital to 707 institutions in 48 states, including more than 300 small and community banks, enabling them to absorb losses from bad assets while continuing to lend to consumers and businesses. The largest investment was $25 billion while the smallest was $301,000. To encourage continued participation by small and community banks, the application window for CPP was reopened during the period from May 13, 2009 to November 21, 2009, for banks with less than $500 million in assets.

OFS purchased senior preferred stock from most banks that participated in the CPP, receiving a dividend rate of 5 percent per year which will increase to 9 percent per year after the first five years. In the case of S-corporations, OFS acquired 30 year maturity subordinated debentures yielding 7.7 percent per year, which will increase to 13.8 percent after the first five years.

In addition to the senior preferred stock, OFS received warrants from public QFIs to purchase a number of shares of common stock, as required by EESA. These warrants include customary anti-dilution provisions. OFS may exercise any warrants held in whole or in part at any time.

OFS received warrants from non-public QFIs for the purchase of additional senior preferred stock (or subordinated debentures if appropriate) with a stated dividend rate of 9.0 percent (13.8 percent interest rate for subordinate debentures) and a liquidation value equal to 5.0 percent of the total senior preferred stock (additional subordinate debenture) investment. These warrants were immediately exercised and resulted in OFS holding additional senior preferred stock (subordinated debentures collectively referred to as "warrant preferred stock") of non-public QFIs.

The EESA Amendments also allow the Secretary to liquidate warrants associated with repurchased senior preferred stock at the market price. In addition, a QFI, upon the repurchase of its senior preferred stock, has the contractual right to repurchase the common stock warrants at the market price.

On December 31, 2009, the CPP was closed as part of Treasury's winding down of TARP. As of September 30, 2010, CPP participants (i.e. financial institutions) have redeemed almost $153 billion in principal repayments and paid over $20 billion in dividends, interest, warrants and fees.

American International Group, Inc. (AIG) Investment Program

OFS provided assistance to certain systemically significant financial institutions that were at substantial risk of failure on a case by case basis in order to provide stability to institutions that are critical to a functioning financial system and prevent broader disruption to financial markets. Starting in September 2008, the Federal Reserve and OFS took a series of actions related to AIG in order to prevent AIG's disorderly failure and mitigate systemic risks. These actions addressed the liquidity and capital needs of AIG, helping to stabilize the company. OFS provided this assistance by purchasing preferred shares in AIG and also received warrants to purchase common shares in the institution. The assistance provided to AIG was deemed "exceptional assistance" which means that the recipient is subject to greater restrictions under the rules relating to executive compensation.

The Federal Reserve Board, through the Federal Reserve Bank of New York (FRBNY), provided an $85 billion credit facility in the form of secured loans to AIG on September 16, 2008 to contain the financial panic at minimal cost to the American taxpayer. The FRBNY has also provided additional assistance to AIG by funding special purpose entities which purchased certain derivative contracts from AIG. In connection with its assistance to AIG, the FRBNY received convertible preferred stock representing approximately 79.77 percent of the fully diluted voting power of the AIG common stock. This preferred stock was deposited in a trust, which exists for the benefit of the U.S. taxpayers. The FRBNY has appointed three independent trustees who have the power to vote the stock and dispose of the stock with prior approval of FRBNY and after consultation with Treasury. The Department of the Treasury does not control the trust and cannot direct the trustees.

In November 2008, this assistance was restructured so that AIG had more equity and less debt. OFS purchased $40 billion in cumulative preferred stock from AIG under the TARP, the proceeds of which were used to repay the Federal Reserve loan in part. In April 2009, OFS exchanged the $40 billion in cumulative preferred stock for $41.6 billion in non-cumulative preferred stock and created an additional equity capital facility, under which AIG may draw up to $29.8 billion as needed in exchange for issuing additional preferred stock to OFS. As of September 30, 2010, AIG had drawn approximately $7.5 billion from the additional facility. The preferred stock pays a noncumulative quarterly dividend, if declared, of 10 percent per annum.

On September 30, 2010, the OFS, Federal Reserve Bank of New York and AIG announced plans for a restructuring of the Federal Government's investments in AIG. The restructuring plan provided for, among other items, the conversion of outstanding Series E & F preferred stock to 1.092 billion shares of AIG common stock. Under the plan, the undrawn portion of Series F was made available to AIG for the repayment of certain amounts owed to the Federal Reserve Bank of New York and for general corporate liquidity. The plan was subject to a number of conditions which had to be met in order to close. OFS management believed that the restructuring plan, if completed as announced, would accelerate the timeline for the federal government's recovery of its investment in AIG and would put Treasury in a considerably stronger position to recoup Treasury's investment in the company. On December 8, 2010 the parties entered into a master transaction agreement that supersedes, but does not represent a significant departure from, the September 30, 2010 agreement in principle. On January 14, 2011 AIG drew down $20.3 billion from the Series F credit facility and AIG repaid the Federal Reserve Bank of New York a total of $47 billion, including the outstanding balance on the original $85 billion credit facility provided to AIG in September 2008 at the height of the financial crisis, fully repaying all AIG borrowings from the FRBNY. In exchange for the $20.3 billion OFS received interest in two Special Purpose Vehicles valued at significantly more than $20.3 billion. OFS converted the Series E and F preferred stock to 1.092 million shares of AIG common stock the Trust that had been established for the benefit of the taxpayers was terminated and the Department of the Treasury received 562.9 million shares of AIG common stock not discussed in this chapter. These actions provide the Treasury ownership of 92% of the common stock of AIG. AIG also issued $2 billion of Series G preferred stock that remains available for AIG to draw upon. Treasury will continue to evaluate its options for an exit of the investment in AIG as soon as practical while protecting taxpayers.

Targeted Investment Program

OFS established the Targeted Investment Program (TIP) under the TARP in December 2008. Through TIP, OFS sought to prevent a loss of confidence, which could have resulted in significant financial market disruptions, threatened the financial strength of similarly situated financial institutions, impaired broader financial markets, and undermined the overall economy, by providing additional or new funding to financial institutions.

OFS invested $20.0 billion in each of Bank of America and Citigroup under the TIP. Under each agreement, OFS purchased $20.0 billion of cumulative perpetual preferred stock and received a warrant for the purchase of common stock. The preferred stock purchased contained a stated annual dividend rate of 8 percent, payable quarterly if declared, and imposed greater reporting requirements and harsher restrictions on the companies than under the CPP terms. In June 2009, OFS and Citigroup agreed to exchange the cumulative perpetual preferred stock issued under the TIP for a new series of trust preferred securities. Both Bank of America and Citigroup repaid the amounts invested by OFS along with dividends through December 2009. The amounts remaining represent the value of the Citigroup warrants still held by the program.

As of December 31, 2009, the TIP was closed as part of Treasury's winding down of TARP. The Budget reflects that both Citigroup and Bank of America fully redeemed the Government's TIP investments of $40 billion during 2010. During FY 2010, and FY 2009, the OFS received approximately $1.2 and $1.9 billion in dividends under the TIP, respectively. In addition, the OFS received proceeds of approximately $1.2 billion from the auction of the Bank of America warrants.

Automotive Industry Financing Program

OFS established the Automotive Industry Financing Program (AIFP) on December 19, 2008, to help prevent a significant disruption to the American automotive industry, which would have posed a substantial disruption to financial market stability and had a negative effect on the economy. Under the AIFP, OFS made emergency loans to General Motors Corporation (GM) and Chrysler LLC (Chrysler) to provide a path for these companies to go through orderly restructurings and achieve viability.

OFS' investments in the auto companies were determined to be consistent with both the purpose and specific requirements of EESA. OFS determined that the auto companies were and are interrelated with entities extending credit to consumers and dealers because of their financing subsidiaries and other operations, and that a disruption in the industry or an uncontrolled liquidation would have had serious effects on financial market stability, employment, and the economy as a whole. In addition, Congress provided the Secretary of the Treasury broad authority by defining "financial institutions" in EESA flexibly so as not to be limited to banks, savings institutions, insurance companies and similar entities. The auto companies, as well as their respective financing entities, qualified as "financial institutions" under EESA.

OFS initially provided loans of $13.4 billion to GM and $4 billion to Chrysler under the AIFP to give the companies time to negotiate with creditors and other stakeholders in order to prevent disorderly bankruptcies. This short-term funding was initially provided to GM and Chrysler on the condition that they develop plans to achieve long-term viability. In cooperation with the Administration, GM and Chrysler developed satisfactory viability plans and successfully conducted sales of their assets to new entities in bankruptcy proceedings. Chrysler completed its sale process in 42 days and GM in 40 days. Treasury provided additional assistance during these periods.

Under the terms of the loans, each company was required to prepare a restructuring plan that included specific actions aimed at assuring: (i) the repayment of the loan extended by TARP; (ii) the ability of the company to comply with applicable federal fuel efficiency and emissions requirements and commence the domestic manufacturing of advanced technology vehicles in accordance with federal law; (iii) achievement of a positive net present value; (iv) rationalization of costs, capitalization, and capacity with respect to the manufacturing workforce, suppliers and dealerships of the company; and (v) a product mix and cost structure that is competitive in the U.S. marketplace. On March 31, 2009, the Administration determined that each company's initial restructuring plans failed to meet requirements for long term funding. Ultimately, Chrysler and GM worked to obtain more fundamental restructurings in plans resubmitted on April 30, 2009 and May 31, 2009, respectively.

To date, the OFS has provided approximately $82 billion in loans and equity investments to GM, Chrysler, and their respective financing entities. In August 2010, GM filed a registration statement with the U.S. Securities and Exchange Commission for a proposed IPO consisting of common stock to be sold by certain of its stockholders, including Treasury. In November and December 2010, Treasury received $13.5 billion for the sale of over 400 million shares of GM, reducing Treasury's ownership percentage of GM common stock from 60.8% to 33.3%. Treasury also accepted an offer from GM to repurchase $2.1 billion of preferred stock, a deal which was closed in December 2010.

Auto Supplier Support Program

Because of the credit crisis and the rapid decline in auto sales, many of the nation's auto parts suppliers were struggling to access credit and faced uncertainty about the prospects for their businesses. On March 19, 2009, OFS announced the Auto Supplier Support Program (ASSP) to help address this problem by providing up to $5 billion, which was later decreased to $413 million, to domestic auto manufacturers to purchase supplier receivables. This program was closed with OFS funding $413 million under the ASSP. The full $413 million was repaid in FY 2010 along with approximately $9 million in interest and $101 million in fees and other income.

Warranty Commitment Program

On March 30, 2009, OFS announced an Auto Warranty Program designed to give consumers considering new car purchases from domestic manufacturers the confidence that warranties on those cars would be honored regardless of the outcome of the restructuring process. The $640 million advanced to GM and Chrysler under the program has been repaid to OFS; Chrysler repaid the full amount with $3.1 million in interest while GM repaid only principal.

The AIFP is now closed.

Asset Guarantee Program

Pursuant to section 102 of EESA, OFS established the Asset Guarantee Program (AGP) with the same objective as the TIP of preserving financial market stability. The AGP was to provide protection against the risk of significant loss in a pool of assets held by a systemically significant financial institution that faces a risk of losing market confidence due in large part to its holdings of distressed or illiquid assets. By helping limit the institution's exposure to losses on illiquid or distressed assets, the AGP helped the institution maintain the confidence of its depositors and other funding sources and continue to meet the credit needs of households and businesses. The AGP involved participation with the Federal Reserve Bank of New York and the FDIC.

The AGP was applied with extreme discretion before being closed in December 2009. OFS used this program to assist Citigroup and began negotiations with Bank of America (BofA), which BofA subsequently terminated.

Citigroup

As a premium for the guarantee, Citigroup issued $7.0 billion of cumulative perpetual preferred stock (subsequently converted to Trust Preferred Securities with similar terms) with an 8.0 percent stated dividend rate and a warrant for the purchase of common stock; approximately $4.0 billion and the warrants were issued to the OFS, and approximately $3.0 billion was issued to the FDIC. The OFS has received approximately $298.8 million in dividends on the preferred stock received as compensation for this arrangement.

On December 22, 2009, the U.S. Government Parties and Citigroup terminated the guarantee agreement. Under the terms of the termination agreement the OFS cancelled approximately $1.8 billion of the previously issued preferred stock. The U.S. government parties did not pay any losses under the agreement, and kept $5.2 billion of $7.0 billion in trust preferred securities as well as warrants for common shares that were issued by Citigroup as consideration for the guarantee. On September 30, 2010, OFS agreed to sell the trust preferred securities for approximately $2.25 billion and on October 5, 2010, the transaction was consummated.

Bank of America

In January 2009, the U.S. government parties and Bank of America entered into a term sheet pursuant to which the U.S. government parties contemplated guaranteeing or lending against a pool of up to $118.0 billion of financial instruments consisting of securities backed by residential and commercial real estate loans and corporate debt and related derivatives. In May 2009, prior to completing definitive documentation, Bank of America announced its intention to terminate negotiations with respect to the guarantee. All parties agreed that Bank of America received value for entering into the term sheet and that the U.S. government parties should be compensated for out-of-pocket expenses and a fee equal to the amount Bank of America would have paid for the guarantee from the date of the signing of the term sheet through the termination date. Under the terms of the settlement, OFS received $276.0 million of the $425.0 million termination fee.

The AGP is closed for new guarantees.

The Consumer and Business Lending Initiative (CBLI)

The Consumer and Business Lending Initiative was intended to help unlock the flow of credit to consumers and small businesses. Three programs were established to help accomplish this: The Term Assets-Backed Securities Loan Facility was created to help jump-start the market for securitized consumer, commercial and small business loans. The Community Development Capital Initiative was created to provide additional low cost capital to small banks to encourage more lending to small businesses. The SBA 7(a) Securities Purchase Program was created to provide additional liquidity to the SBA 7(a) market so that banks are able to make more small business loans. Each program is discussed in more detail below.

Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) was created by the Federal Reserve Board (FRB) to provide low cost funding to investors in certain classes of Asset Backed Securities (ABS). The TALF's objective was to stimulate investor demand for certain types of eligible ABS, specifically those backed by loans to consumers and small businesses, and ultimately to bring down the cost and increase the availability of new credit to consumers and businesses. The OFS agreed to participate in the program by providing up to $20 billion of TARP funds in liquidity and credit protection to the FRB for losses arising under TALF loans. On July 20, 2010, OFS' commitment was reduced to $4.3 billion.

The program was terminated on June 30, 2010. As such, no additional loans will be granted by the FRBNY. At the time of termination, there were approximately $43 billion of loans outstanding. As of September 30, 2010 $29.7 billion of loans remain outstanding.

Community Development Capital Initiative

In February 2010, the OFS announced the Community Development Capital Initiative (CDCI) to invest lower cost capital in Community Development Financial Institutions (CDFI) that lend to small businesses in the country's hardest-hit communities. Under the terms of the program, CDFI banks and thrifts, which must be certified by Treasury as targeting more than 60 percent of their small business lending and other economic development activities to underserved communities, are eligible to receive investments of capital with an initial dividend rate of 2 percent. CDFIs may apply to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years.

CDFI credit unions may apply for subordinated debt at rates equivalent to those offered to CDFI banks and thrifts and with similar terms. These institutions may apply for up to 3.5 percent of total assets - an amount approximately equivalent to the 5 percent of risk-weighted assets available to banks and thrifts. In cases where an institution might not otherwise be approved by its regulator, it will be eligible to participate so long as it can raise sufficient private capital that - when matched with Treasury capital up to 5 percent of risk-weighted assets (RWA) - it can reach viability. The private capital must be junior to Treasury's investment and the CDFI must be in compliance with any other regulatory mandates.

CDFIs that participated in CPP and were in good standing were eligible to exchange those investments into this program. As of September 30, 2010, the OFS invested $570 million in 84 CDFI’s ($363 million a result of exchanges from CPP).

SBA 7(a) Security Purchase Program

In March 2010, Treasury announced the SBA 7(a) Securities Purchase Program to help restore the confidence needed for financial institutions to increase lending to small business, and to ensure that credit flows again to entrepreneurs and small business owners. The OFS began the purchase of securities backed by the Small Business Administration 7(a) loans (7(a) Securities), which is SBA’s most widely used loan program, as part of the Unlocking Credit for Small Business Initiative. Under this program OFS purchased 7(a) securities collateralized with 7(a) loans packaged on or after July 1, 2008. As of December 30, 2010, OFS had purchased and settled $368.1 million of these securities.

Public-Private Investment Program

OFS, in conjunction with the Federal Reserve and the FDIC, announced the Public-Private Investment Program (PPIP) on March 23, 2009, as a part of the Financial Stability Plan. The Public-Private Investment Program (PPIP) is part of the OFS’s efforts to help restart the market by enabling financial institutions to make new loans available to households and businesses, and by providing liquidity for legacy securities.

Under this program, the OFS makes equity and debt investments in newly-formed investment vehicles (referred to as Public Private Investment Funds or “PPIFs”) established by private investment managers for the purpose of purchasing legacy securities. By providing this financing, PPIP was designed to help restart the market for these securities, thereby helping financial institutions begin to remove these assets from their balance sheets and allowing for a general increase in credit availability to consumers and small businesses. The program has facilitated price discovery in the markets for mortgage-backed securities, which has reduced uncertainty regarding the value of such securities among the banks and other financial institutions holding them and enabled these financial institutions to sell such assets and raise new private capital. The equity investments have been used to match private capital and will not equal more than 50.0 percent of the total equity invested. The debt investment can be, at the option of the investment manager, equal to 50.0 percent or 100.0 percent of the total equity (including private equity). As of June 30, 2010, all PPIFs have elected to receive debt equal to 100 percent of total equity. The debt investments bear interest at 1 Month Libor, plus 1.5 percent and mature at the termination of the PPIF, which is 10 years, subject to a 2 year extension. The loan agreement also requires cash flows into the PPIFs to be distributed in accordance with a priority of payments schedule (waterfall) designed to ensure secured parties are paid before equity holders. As a condition of its investment, the OFS also received a warrant from the PPIFs providing it with the right to receive additional compensation upon satisfaction of certain requirements set out in the PPIF agreements.

The PPIFs are only allowed to purchase commercial mortgage-backed securities and non-agency residential mortgage-backed securities issued prior to January 1, 2009 that were originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without external credit enhancement and that are secured directly by the actual mortgage loans, leases or other assets and not other securities (eligible assets). The PPIFs may invest in the aforementioned securities for a period of 3 years using proceeds from capital contributions, debt investments and amounts generated by previously purchased investments (subject to the requirements of the waterfall). The PPIFs are also permitted to invest in certain temporary securities, including bank deposits, U.S. Treasury securities, and certain money market mutual funds. At least 90 percent of the assets underlying any eligible asset must be situated in the United States.

As of June 30, 2010, the OFS signed definitive limited partnership and loan agreements with 9 investment managers, committing to potentially disburse up to $30.4 billion. The program was closed to new closings as of July 30, 2010 with its commitment reduced to a maximum of $22.4 billion. As of September 30, 2010, approximately $4.9 billion has been disbursed by OFS in the form of equity and $9.2 billion in the form of debt.

Treasury Housing Programs Under TARP

Fiscal year 2010 has seen an expansion of programs designed to provide stability for both the housing market and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes while they get back on their feet or relocate to a more sustainable living situation. These programs fall into three initiatives:

1) Making Home Affordable Program (MHA);
2) Housing Finance Agency (HFA) Hardest-Hit Fund; and
3) Federal Housing Administration (FHA)-Refinance Program.

Under MHA, the initial programs rolled out in the period ended September 30, 2009 were the Home Affordable Modification Program (HAMP) including the Home Price Decline Protection Program (HPDP).

MHA includes HAMP, FHA-HAMP, Second Lien Program (2MP), Treasury/FHA Second Lien Program (FHA 2LP) (extinguishment of 2nd lien portion of the program), and Rural Development (RD-HAMP). The HAMP includes first lien modifications, the HPDP, the Principal Reduction Alternative Waterfall Program (PRA), the Unemployment Program (UP), and the Home Affordable Foreclosure Alternatives Program (HAFA). The HAMP first lien modification program provides incentive payments to servicers, borrowers, and investors who participate in the program, whereby the investor and OFS share the costs of modifying qualified first liens. The HPDP provides incentives to investors to partially offset losses from home price declines. In fiscal year 2010, additional programs have been introduced under HAMP to complement the first lien modification program and HPDP. The Principal Reduction Alternative Waterfall Program (PRA) offers mortgage relief to eligible homeowners whose homes are worth significantly less than the remaining amounts outstanding under their first-lien mortgage. The Unemployment Program (UP) offers assistance to unemployed homeowners through temporary forbearance of a portion of their mortgage payments. The UP will not have a financial impact on the OFS because no incentives are paid by OFS. Finally, the Home Affordable Foreclosure Alternatives Program (HAFA) is designed to assist eligible borrowers unable to retain their homes through a HAMP modification by simplifying and streamlining the short sale and deed in lieu of foreclosure processes and providing incentives to borrowers, servicers and investors to pursue short sales and deeds in lieu.

Fiscal year 2010 has also seen the introduction of additional programs under MHA. These programs include the FHA-HAMP which provides the same incentives as HAMP for Federal Housing Administration (FHA) guaranteed loans. The 2MP provides additional incentives to servicers to extinguish second liens on first lien loans modified under HAMP. The FHA 2LP provides for incentives to servicers for extinguishment of second liens for borrowers who refinance their FHA-insured first lien mortgages under the FHA-Refinance Program. The RD-HAMP Program provides HAMP incentives for USDA guaranteed mortgages.

All MHA disbursements are made to servicers either for themselves or for the benefit of borrowers and investors. Furthermore, all payments are contingent on borrowers remaining current on their mortgage payments. Servicers have until December 31, 2012 to enter into mortgage modifications with borrowers. As of September 30, 2010, the OFS had entered into agreements with 144 active servicers to provide approximately $29.9 billion for the MHA program. Nearly 500,000 borrowers, of which over 220,000 are non-GSE, have been awarded official modifications. One hundred forty-four active non-GSE servicers have received $483.9 million in OFS incentive payments under the program.

The Housing Finance Agency (HFA) Hardest-Hit Fund was implemented in 2010 and provides targeted aid to families in the states hit hardest by the housing market downturn and unemployment. States and districts that meet the criteria for this program consist of Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, and Washington D.C. Approved states develop and roll out their own programs targeting the specific needs and economic conditions of their state. States have until December 31, 2017 to enter into agreements with borrowers. As of September 30, 2010, $7.6 billion has been allocated to the Hardest-Hit Fund and a total of $56.12 million has been disbursed to eligible entities of the participating HFAs.

The FHA-Refinance Program is a joint initiative with the Department of Housing and Urban Development (HUD) and is intended to encourage refinancing of existing underwater (i.e. the borrower owes more than the home is worth) mortgage loans not currently insured by FHA into FHA-insured mortgages. In order to be eligible, the lender must write-down the principal balance of the original first lien by at least 10 percent and down to 97.75 percent of the current loan-to-value. Additionally, the cumulative loan-to-value (including any subordinate loans) cannot exceed 115 of the current market value of the home. OFS established an $8.1 billion Letter of Credit with Citigroup to fund the OFS portion of any claims associated with the FHA Refinance insured mortgages. Homeowners can refinance into FHA-guaranteed mortgages through December 31, 2012 and OFS will honor its share of claims against the Letter of Credit through 2020. As of September 30, 2010, no loans had been refinanced under this program as the joint initiative was entered into late in the fiscal year. However, in fiscal year 2010, OFS paid $3 million in administrative fees to establish the Letter of Credit.

1C – Credit Reform

Section 123 of EESA requires the cost of TARP programs to be calculated using the methods required by the Federal Credit Reform Act of 1990 ("credit reform"). Under credit reform, the net present value expected cost of a loan or loan guaranty is budgeted for at the time of obligation. Under EESA Section 101(a)(1), Treasury is authorized to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on such terms and conditions as are determined by the Secretary..." Under this authority, Treasury can enter into equity investments and other financial transactions in addition to loans and loan guarantees. Based on Section 123 of EESA, Treasury is budgeting for its equity investments under credit reform.

To comply with the credit reform requirements, Treasury has established seven credit program accounts: TARP Equity Purchase Program Account, TARP Equity Purchase Financing Account, TARP Home Affordable Modification Program Account, TARP Home Affordable Modification Financing Account, TARP Program Account, Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account, and TARP Direct Loan Financing Account.

Credit Reform Accounts Descriptions

TARP Equity Purchase Program Account

The TARP Equity Purchase Program Account records the subsidy costs (cost to the government) associated with Federal equity injections into qualifying financial institutions. Subsidy costs are calculated on a net present value basis.

TARP Equity Purchase Financing Account

The TARP Equity Purchase Financing Account (EPFA) is a non-budgetary account that records all financial transactions to and from the government resulting from equity purchases. The EPFA primarily tracks each cohort year’s purchase activity (dividend payments, the exercise of warrants, Treasury borrowings, interest paid to or received from Treasury, etc.) and is not included in the budget totals when calculating total government spending.

TARP Home Affordable Modification Program Account

The TARP Home Affordable Modification Program Account records the subsidy costs (cost to the government) and cash outlays associated with Treasury's housing programs. The MHA and Hardest Hit housing programs are recorded on a cash basis and the FHA-Refinance Program is subject to the Federal Credit Reform Act of 1990 whereby its subsidy cost is calculated on a net present value basis.

TARP Home Affordable Modification Program Financing Account

The TARP Home Affordable Modification Financing Account is a non-budgetary account that records all financial transactions to and from the government resulting from Treasury's FHA Short Refinance Program. Like other financing accounts, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals.

TARP Program Account

The TARP Account records the subsidy costs (cost to the government) associated with direct loans obligated and guaranteed loans committed to qualifying institutions. Subsidy costs are calculated on a net present value basis.

Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account

The Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account (GLFA) is a non-budgetary account that records all financial transactions to and from the government resulting from guarantees committed. Like EPFA, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals.

TARP Direct Loan Financing Account

The TARP Direct Loan Financing Account (DLFA) is a non-budgetary account that records all financial transactions to and from the government resulting from direct loans. Like EPFA and GLFA, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals.

Office of Financial Stability Administrative Account

This account provides for the administrative costs for the OFS.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Office of Financial Stability	FTE	Amount
FY 2011 Estimate	251	$393,449
Changes to Base:		
Maintaining Current Levels (MCLs):		$4,179
Maintaining Current Levels		$4,179
FTE Adjustment	19	0
Efficiency Savings:		($86,388)
Procurement and Other Savings	-	($86,388)
Subtotal FY 2011 Changes to Base	19	($82,209)
Total FY 2012 Base	**270**	**$311,240**
Total FY 2012 Budget Estimated	**270**	**$311,240**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$4,179,000 / +0 FTE

Non-Pay Inflation Adjustment +$4,179,000 / +0 FTE

Funds are required for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

FTE Adjustment………………………………………………………..$0 / +19 FTE

FTE Adjustment -$0/+19FTE

The FTE adjustment is due to increased compliance and legal activities associated with all OFS programs.

Efficiencies Savings ....-$86,388,000 / +0 FTE

Procurement Savings -$86,388,000 / +0 FTE

Savings were identified primarily from reductions of contractual services associated with the development of the MHA Housing Program's system of record and compliance, asset managers, legal counsel, accounting and internal controls.

2.2 Operating Levels Table

(Dollars in Thousands)				
Office of Financial Stability Account	**2010 Obligations**	**2011 Estimated**	**2012 Estimated**	**Increase (+) Decrease (-)**
FTE	**210**	**251**	**270**	**19**
Object Classification:				
11/12 Salary & Benefits	$30,120	$37,594	$41,266	$3,672
21 Travel	$551	$831	$899	$68
22 Transportation	$0	$0	$0	$0
23 Rent, Communications, Utilities	$556	$566	$545	($21)
24 Printing	$0	$0	$0	$0
25 Contracts and Other Misc. Services	$333,468	$354,094	$268,170	($85,924)
26 Supplies	$348	$351	$360	$9
31 Equipment	$0	$13	$0	($13)
43 Interest and Dividends	$0	$0	$0	$0
Total	$365,043	$393,449	$311,240	($82,209)

2.2.1 Operating Levels Table by Treasury Reimbursements

(Dollars in Thousands)				
Office of Financial Stability Account	**2010**	**2011**	**2012**	**Increase (+)**
Direct Program Activity	$320,938	$363,648	$290,301	**($73,347)**
Reimbursements:				
Congressional Oversight Panel	$4,800	$5,200	$0	($5,200)
GAO	$7,305	$7,600	$6,000	($1,600)
Treasury and non-Treasury Agencies	$32,000	$17,001	$14,939	($2,062)
Total	$365,043	$393,449	$311,240	($82,209)

2.3 Financing Accounts - Non-Budgetary Summary

Financing Accounts – Non-Budgetary Financial Summary Dollars in Thousands					
	2010 Actual	2011 Estimate	2012		
			Estimate	$ Increase (+) Decrease (-)	% Increase (+) Decrease (-)
TARP Guaranteed Loans:					
Obligations	$2,057,622	$702,286	$2,384	($699,902)	-100%
Collections	$285,557	$2,250,401	$0	($2,250,401)	-100%
Financing Authority (net)	$1,658,403	($1,617,041)	$2,384	$1,619,425	0%
Financing Disbursements (net)	$1,772,064	($1,548,115)	$2,384	$1,550,499	-100%
TARP Direct Loans:					
Obligations	$34,306,025	$14,400,772	$5,716,585	($8,684,187)	-60%
Collections	$10,744,134	$20,959,739	$5,572,339	($15,387,400)	-73%
Financing Authority (net)	$23,296,562	$1,205,681	$144,247	($1,061,434)	-88%
Financing Disbursements (net)	$18,822,226	$1,205,681	$144,247	($1,061,434)	-88%
Equity Purchases:					
Obligations	$113,894,118	$48,780,101	$9,052,653	($39,727,448)	-81%
Collections	$145,082,240	$57,551,218	$28,186,127	($29,365,091)	-51%
Financing Authority (net)	($25,509,474)	$7,652,074	($21,241,531)	($28,893,605)	-378%
Financing Disbursements (net)	($28,528,088)	$15,566,547	($19,133,474)	($34,700,021)	-223%
Housing:					
Obligations	$0	$8,000	$166,000	$158,000	1975%
Collections	$0	$2,621,000	$4,103,000	$1,482,000	57%
Financing Authority (net)	$0	($2,613,000)	($3,948,000)	($1,335,000)	51%
Financing Disbursements (net)	$0	($2,613,000)	($3,948,000)	($1,335,000)	51%
TARP Financing Accounts Totals:					
Obligations	$150,257,765	$63,891,159	$14,937,622	($49,111,537)	-77%
Collections	$156,111,931	$83,382,358	$37,861,466	($47,002,892)	-56%
Financing Authority (net)	($554,509)	$4,627,714	($25,042,900)	($28,335,614)	-612%
Financing Disbursements (net)	($7,933,798)	$12,611,113	($22,934,843)	($34,210,956)	-271%

2.4 TARP Summary

Summary of TARP Activity Dollars in Thousands		
	Amount towards $475B purchase limit	Net impact on the deficit
Total Equity Transactions	$339,096,127	($6,145,183)
Total Direct Loans	$85,037,673	$12,502,396
Guaranteed Loans:	$5,000,000	($3,707,147)
Home Affordable Modification Program	$45,625,781	$45,625,781
Total Amount of TARP Activity	**$474,759,581**	**$48,275,847**

2B – Enacting Legislation

Public Law 110-343, Emergency Economic Stabilization Act of 2008, provides such sums as necessary, including administrative expenses, for the cost to purchase and insure certain types of troubled assets for the purposes of providing stability to and preventing disruption in the economy and financial system. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted on July 21, 2010, reduced the TARP authority to purchase troubled assets from $700 billion to $475 billion; required that repayments of amounts invested under TARP cannot be used to increase the purchase authority and are dedicated to reducing the Federal debt; and prohibited new obligations for any program or initiative that was not already initiated prior to June 25, 2010.

2C –Legislative Proposals

OFS has no legislative proposals.

Section 3 – Budget and Performance Plan

This table lists all FY 2010 resources by strategic goal, objective and outcome.

3.1 – Budget by Operational Goal

Treasury Operational Goals (dollars in thousands)	**FY 2009/2010 Estimated AMOUNT**	**FY 2011 Estimated AMOUNT**	**Percent Change AMOUNT**
Ensure the Overall Stability and Liquidity of the Financial System	$429.4B	$ 0	-100 %
Prevent Avoidable Foreclosures by Providing and Preserving Homeownership	$ 45.6B	$ 0	-100 %

Ensure the Overall Stability and Liquidity of the Financial System

The primary objective of the EESA is to ensure the overall stability and liquidity of the financial system. To achieve that objective, OFS developed several programs under the TARP that were broadly available to financial institutions. Under the Capital Purchase Program (CPP), OFS provided capital infusions directly to financial institutions and insurance companies deemed viable by their Federal regulators. This program is now closed, and of the $205 billion invested, approximately $153 billion was repaid as of September 30, 2010. Treasury projects that the CPP program will result in a positive return for taxpayers. The Capital Assistance Program (CAP) was developed to supplement the Supervisory Capital Assessment Program (SCAP), or "stress test" of the largest U.S. financial institutions. On November 9, 2009, the CAP closed with no investments having been made. 18 of the 19 banks participating in the SCAP were shown to be adequately capitalized or fulfilled their capital needs through the private market. Only one institution, GMAC (now Ally Financial), indicated a need for capital from Treasury, and GMAC accessed the Automotive Industry Financing Program to meet its capital need.

In addition, OFS provided direct aid to certain financial industry participants through the Targeted Investment Program (TIP), the Asset Guarantee Program (AGP), and the American International Group, Inc. (AIG) Program [originally known as the Systemically Significant Failing Institutions (SSFI) program]. These programs were designed to mitigate the potential risks to the system as a whole from the difficulties facing these firms.

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

The Legacy Securities Public Private Investment Program (PPIP), another key component of the Financial Stability Plan, was designed to purchase troubled legacy securities (i.e., non-agency residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS")) that were central to the problems facing the U.S. financial system, and thereby driving the U.S. toward economic recovery. The purpose of PPIP was to draw new private capital into the market for legacy RMBS and CMBS by providing financing at attractive terms, as well as a matching equity investment made by the Treasury Department. By providing this financing, PPIP was designed to help restart the market for these securities, thereby helping financial institutions begin to remove these assets from their balance sheets and allowing for a general increase in credit availability to consumers and small businesses. The profits generated by a PPIF, net of expenses, will be distributed to the investors, including Treasury, in proportion to their equity capital investments. Treasury also receives warrants from the PPIFs, which gives Treasury the right to receive a percentage of the profits that would otherwise be distributed to the private partners that are in excess of their contributed capital. The program structure spreads risk between the private investors and Treasury, and provides taxpayers with the opportunity for substantial gain.

In addition to these initiatives, OFS implemented the Consumer and Business Lending Initiative (CBLI) to enhance liquidity and restore the flow of credit to consumers and small businesses. The primary program through which the CBLI operated in 2009 was the Term Asset-Backed Securities Loan Facility (TALF). TALF was designed to provide borrowers with term loans of up to five years against AAA rated securities, which are forfeited in the event of default. TALF is widely credited for achieving its purpose of encouraging lending to consumers and businesses while operating under a conservative structure that protects taxpayer interests. The facility has ceased making new loans as noted above. By improving credit market functioning and adding liquidity to the system, TALF has provided critical support to the financial system. This has allowed lenders to meet the credit needs of consumers and small businesses, and has strengthened the overall economy. The CBLI also includes the Community Development Capital Initiative (CDCI) and the SBA 7(a) Securities Purchase Program. Treasury launched the CDCI to help viable certified Community Development Financial Institutions (CDFI) and the communities they serve cope with the effects of the financial crisis. Under this program, CDFI banks and thrifts received investments of capital with an initial dividend or interest rate of 2 percent, compared to the 5 percent rate offered under the CPP. CDFI banks and thrifts applied to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years, compared to five years under CPP. Treasury completed funding under this program in September 2010. The total investment amount for the CDCI program under TARP is approximately $570 million for 84 institutions. Of this amount, approximately $363.3 million from 28 banks was exchanged from investments under the CPP into the CDCI. Treasury developed the SBA 7(a) Securities Purchase Program to purchase SBA guaranteed securities from pool assemblers. By purchasing these securities in the open market, Treasury injected liquidity - providing cash to pool assemblers - to the market enabling those entities to purchase additional loans from loan originators. In this manner, Treasury acted as a patient provider of incremental liquidity to foster a fluid secondary market, which in turn benefits small business lending. As of December 30, 2010, OFS had purchased and settled $368.1 million of these securities.

Prevent Avoidable Foreclosures and Preserve Homeownership

To prevent avoidable foreclosures and preserve homeownership, Treasury used authority granted under EESA to establish Treasury Housing Programs starting in February 2009. Other government policies have helped keep home mortgage rates at historic lows and allowed millions of Americans to refinance and stay in their homes. But because of falling housing prices, many responsible homeowners are unable to refinance. Meanwhile, job losses and reductions in working hours and benefits are making it harder for Americans to pay their mortgages. The Home Affordable Modification Program (HAMP) provides incentives to mortgage servicers, investors, and eligible homeowners to work together to reduce an eligible homeowner's monthly payments to levels that are affordable in light of the homeowner's current income. As of December 31, 2010, 1,711,002 HAMP trial period plans have been extended to borrowers. And 1,466,448 borrowers have started trial mortgage modifications. Of this number, nearly 600,000 borrowers have been granted permanent mortgage modifications through HAMP. This plan also aims to help stabilize home prices for homeowners in neighborhoods hardest hit by the recession. To track the success of these programs OFS is tracking the following measures and indicators.

Performance metrics *(includes GSE and non-GSE modifications)*[1]	**FY 2009 Result**	**FY 2010 Result**
Reduction in median payment for homeowners in permanent modifications *Includes Trial and Permanent for FY2009 only	$497*	$521
Number of modifications entered into • Trial • Permanent	 902,620 66,465	 466,794 429,433
9-month re-default rate for Permanent Modifications (60+ days delinquency rate for loans seasoned 9 months)	NA	15.6%
Number of trial period plans extended to borrowers	1,164,507	439,529

[1]Items in *italics* are indicators.

Protect Taxpayer Interests

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

Further, EESA stipulated that the taxpayer should benefit as the institutions which received TARP funds recovered. Therefore, in connection with most investments, OFS receives warrants for additional securities in the institutions. This gives taxpayers the ability to share in the potential upside along with existing shareholders.

Finally, OFS seeks to achieve the goal of protecting the taxpayer through the effective management and disposition of all TARP investments. To evaluate the success of these efforts OFS tracks the following measures and indicators.

Performance metrics[1]	**FY 2009 Result**	**FY 2010 Results**	**FY 2011 Target**	**FY2012 Target**
Number of public CPP banks that repurchased warrants from Treasury during period (excludes warrants auctioned by Treasury)	21	37	N/A	N/A
Proceeds from warrant repurchases as percent of aggregate CPP preferred investment amount (plus median for the selected banks)	7.1% (3.0%)	4.1% (3.5%)	N/A	N/A
<u>Clean audit opinion on TARP financials</u>	Yes	Yes	Yes	Yes
<u>Percentage of SIGTARP and GAO oversight recommendations responded to on time</u>	100%	93%	100%	100%

[1]Items in *italics* are indicators; those <u>underlined</u> are measures.

Promote Transparency

EESA requires transparency and accountability. Specifically, EESA requires OFS to provide Congress with a variety of reports. These include a monthly report to Congress on TARP activity and transaction reports posted within two days detailing every TARP transaction. In carrying out its operations, the OFS has sought to not only meet the statutory requirements but also to be creative and flexible with respect to additional transparency initiatives. The OFS proactively provided to the public Dividends and Interest Reports reflecting dividends and interest paid to OFS from TARP investments, loans, and asset guarantees, as well as monthly reports detailing the lending activity of participants in the Capital Purchase Program. All of these reports are publicly available on *www.FinancialStability.gov.*

EESA also provided for extensive oversight of the TARP, including by the Congressional Oversight Panel, the Special Inspector General for the TARP, the Financial Stability Oversight Board, and the Government Accountability Office. In addition, OFS officials frequently testify before Congress on the progress of TARP programs, and OFS staff provides briefings to Congressional staff on programmatic developments. OFS is tracking its performance using several measures related to this Transparency objective.

Performance metrics[1]	**FY 2010 Result**	**FY 2011 Target**	**FY 2012 Target**
On time reporting percentage	100 %	100%	100%
Website satisfaction	63%	65%	71%
Timeliness of responses • Average business days to close a FOIA case • Percentage of Congressional correspondence responses drafted within 48 hours	95 days 97%	80 days 93%	70 days 90%

[1]Items are measures. Targets are provided only for measures.

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Human Capital Strategy is designed to position the Office of Financial Stability to meet the human capital management challenges necessary to support its mission. The key aspects of OFS's FY 2011 human capital strategy include using:

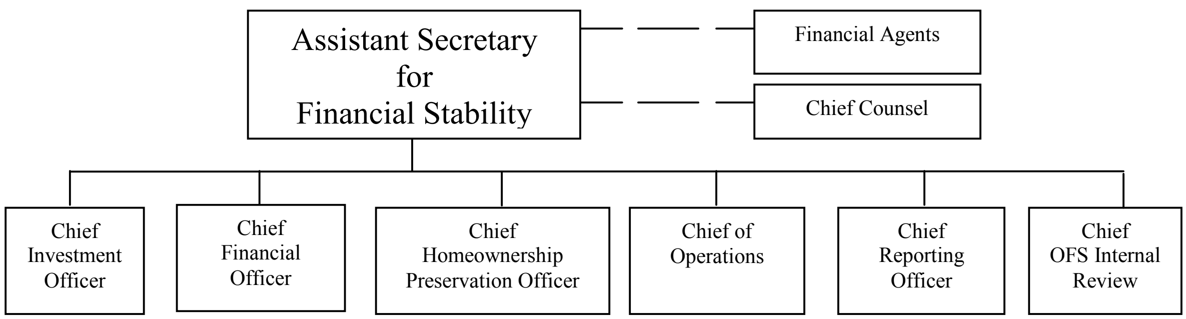
- Office of Personnel Management HR flexibilities and authorities to recruit new employees for short and long term assignments and to retain needed current employees
- Experts, consultants, or detailees for temporary or intermittent employment
- Training and development interventions to ensure existing staff is engaged and possesses the requisite skill set and want to continue with OFS
- Regularly scheduled strategic workforce assessments designed to refine the organization and identify and eliminate competency gaps of its workforce needed to achieve OFS's mission

The OFS organization required a rapid ramp up in staffing during its first year of operation in FY 2009 and utilized term employees and detailees where possible. Additionally, as diverse legal and financial asset management expertise, which was not available within the government, became essential to support some programs, it became necessary to contract with outside organizations to supplement Treasury's in-house counsel. This was required because it is not practicable or economical for OFS to employ the staff of full-time legal practitioners and support personnel with the necessary required technical expertise to advise on and address the complex legal issues that arise under programs authorized by the EESA.

The Treasury also issued an open notice soliciting financial institutions to provide asset management services needed for its portfolio of securities issued by Financial Institutions participating in programs under EESA. Those services included but were not limited to valuing of the assets issued by those Financial Institutions; analyzing the on-going financial condition, capital structure, and risks of those Financial Institutions; advising on the optimal disposition of Treasury's assets; and providing Treasury with analysis and recommendations on other business events connected with those Financial Institutions that could impact Treasury's ownership stake. These services required outside entities who were capable of gathering and analyzing market inputs, trends, and transactions that are relevant when determining the market value and market impact of Treasury's investments and decisions. Due to the potential impact of Treasury's investments in the Financial Institutions and the broader market, this is an additional area where the Government does not possess the depth and breadth, or the in-house personnel resources, to provide the type of analysis required to fully monitor the value and risks of such investments.

OFS is headed by an Assistant Secretary of the Treasury, appointed by the President with the advice and consent of the Senate. Reporting to the Assistant Secretary for Financial Stability are six major entities: the Offices of the Chief Investment Officer, Chief Financial Officer, Chief Homeownership Preservation Officer, Chief of Operations, Chief Reporting Officer, and Chief for OFS Internal Review. The Chief Counsel's Office reports to the Office of the General Counsel in the Department of Treasury.

The OFS organization chart is shown below:



Description of OFS Structure

As of December 16, 2010, OFS had 218 full-time employees (97 career civil servants, 121 term appointments, and 1 detailee) who support the TARP. These employees include 15 employees who report through the Department of the Treasury's Office of General Counsel and 40 others outside of OFS who continue to provide support to the office on an as-needed basis. OFS continues to use the Direct Hire Authority and other appointments to expedite hiring of highly-qualified candidates, which has enabled OFS to reduce the number of temporary and contract staff and strengthen the continuity and institutional knowledge of the workforce.

OFS is made up of six entities:

The Chief Investment Office (CIO) is responsible for program development and the execution and management of all investments made pursuant to EESA. The CIO relies on contracted asset managers and a custodian to assist in the management of acquired or insured assets.

The Office of the Chief Financial Officer (CFO) manages the OFS budget, cash flow requirements and accounting support activities for all of OFS concentrating on accounting and reporting activities required by the Federal Credit Reform Act to include modeling of cash flows and all required re-estimates. The Office serves as liaison with

Government Accountability Office (GAO) staff for financial statement reporting and internal controls.
The Office of the Chief of Homeownership Preservation is responsible for identifying opportunities to help homeowners while also protecting taxpayers. The priorities of the Office are to: implement the Administration's loss mitigation program; develop and implement a robust outreach program targeted to at-risk homeowners; outline and implement strategies to regularly update the Administration, Congress, the public, and other key stakeholders, on results; and monitor, analyze and report on the results of the loan modification program.

The Office of the Chief of Operations (OCoO) is responsible for developing an office infrastructure and managing internal operations in OFS. The OCoO works with each OFS organizational entity to effectively manage facilities, information technology (IT), acquisition management oversight, document flows, physical security and privacy, and workforce planning.

The Office of Reporting is responsible for coordinating OFS' work with the external oversight entities including the GAO, Special Inspector General for TARP, Financial Stability Oversight Board and the Congressional Oversight Panel. The Office also prepares periodic, statutory reports to the Congress under EESA.

The Office of Internal Review (OIR) is responsible for management controls such as program compliance, policies and procedures designed to help program and financial managers achieve results, mitigate risk, and safeguard the integrity of TARP programs.

The Office of the Chief Counsel provides legal advice to the Assistant Secretary for Financial Stability.

OFS STAFF AS OF DECEMBER 16, 2010

Office	ES/SL/EF	15	14	13	12	11	09	07	06	Grand Total
A/S	1	1	1		1	1				5
CFO	2	10	11	3	1	1	2			30
CIO	3	8	11	3	1	4	2			32
COO	2	5	18	8	8	2	1		1	45
CRO		4	4	2	1	1	4			16
HPO	1	5	8		4	4	3	2		27
OCC		7	2	5	1					15
OFA		2	3	2	4					11
OIR	2	9	17	3	1	1	2	2		37
Grand Total	**11**	**51**	**75**	**26**	**22**	**14**	**14**	**4**	**1**	**218**

4B – Summary of IT Resources and Information Technology Strategy

The Office of Financial Stability uses Departmental Offices systems, and is part of DO's information technology strategy. As an organization embedded in Domestic Finance, OFS has leveraged technologies and services provided by the Treasury Department Office of the Chief Information Officer (OCIO) as much as possible. In its second year of operation, OFS continued to utilize OCIO-provided infrastructure/applications (e.g., LAN, WAN, telephones) and contractor personnel to develop and support the current infrastructure and applications. In addition, OFS focused on seven core activities:

- Developed a governance structure (program and project management)
- Developed fundamental transaction records and ledgers to better support the Middle Office and Chief Financial Officer's Office
- Built a robust data warehouse to support end user questions, reporting and analysis
- Enhanced unstructured document management capabilities
- Managed a variety of IT operational issues supported by either OFS or OCIO
- Implemented a portfolio analytics platform
- Built out a shared portal for collaborative work and information sharing

To successfully achieve these objectives, OFS has expanded its on-board IT staff to include a Chief Technology Officer and other key personnel. In addition external contractors/consultants have been sourced to provide short-term/specialized skills.

During FY 2011 and FY 2012, OFS will continue to refine its shared portal initiative to improve productivity across all business areas using collaboration, workflow and document management capabilities. In addition, OFS has evaluated additional hardware and software needed to ensure continued performance of all OFS IT functions. These new requirements will be implemented throughout FY 2012. All OFS support technologies are in concert with the Treasury Optimized Enterprise IT Infrastructure.

Housing Government Sponsored Enterprise Programs

Mission Statement

To provide stability to financial markets and promote mortgage affordability while at the same time protecting the taxpayer, Treasury has implemented five programs with respect to two Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, as well as the Federal Home Loan Banks (FHLBs). These programs include Preferred Stock Purchase Agreements (PSPAs) with Fannie Mae and Freddie Mac, a Mortgage-Backed Securities (MBS) Purchase Program limited to such securities issued by Fannie Mae and Freddie Mac, and a credit facility for all three entities. In addition to these programs, Treasury has purchased securities of Fannie Mae and Freddie Mac backed by new housing bonds issued by the Housing Finance Agencies (HFAs), through the New Issue Bond Program ("NIBP"). Treasury also purchased participation interests in temporary credit and liquidity facilities which are obligations of Fannie Mae and Freddie Mac as part of the Temporary Credit and Liquidity Program ("TCLP") to provide backstop liquidity and credit for state and local HFAs. Together, the TCLP and the NIBP comprise the Housing Finance Agencies Initiative ("HFA Initiative").

Program Summary by Budget Activity

(Dollars in Thousands)

Housing GSEs	FY 2010 Enacted	FY 2011 Estimated	FY 2012 Estimated	Change FY10 to FY12 $ Change	% Change
Preferred Stock Purchase Agreements	$52,600,000	$47,500,000	$28,700,000	($18,800,000)	-39.58%
GSE MBS Purchase Program	$29,877,874	$0	$0	$0	0%
GSE Credit Facility	$0	$0	$0	$0	0%
New Issue Bond Purchase Program	$15,308,598	$0	$0	$0	0%
Temporary Credit and Liquidity Program	$8,209,840	$0	$0	$0	0%

FY 2012 Priorities

- To provide stability to financial markets.
- To prevent disruptions to the availability of mortgage credit to American homebuyers.
- To maintain investor confidence in the GSEs and in state and local HFAs.
- To restore the capacity of state and local HFAs to provide affordable housing resources to working families at the state and local level.

Table of Contents

Section 1 – Purpose

1A-Description of Bureau Vision and Priorities

Preferred Stock Purchase Agreements
The PSPAs were created to instill confidence in investors that Fannie Mae and Freddie Mac would remain viable entities critical to the functioning of the housing and mortgage markets. Investors have purchased securities issued or guaranteed by Fannie Mae and Freddie Mac in part because ambiguities in their Congressional charters created a perception of government backing. These ambiguities fostered enormous growth in the obligations issued or guaranteed by the two housing GSEs and the breadth of these holdings posed a systemic risk to global financial markets.

Vision: The function of the PSPAs is to enhance market stability by providing additional confidence to holders of Fannie Mae and Freddie Mac securities that the GSEs will remain viable entities, which, in turn, leads to increased mortgage affordability. This commitment also eliminates any mandatory triggering of receivership. To this end, the PSPAs are an effective means of averting systemic risk while at the same time protecting the taxpayer.

***Priorities*:** Market stability is a priority for the Department of the Treasury. In this regard, Treasury has identified the following priorities for mission success:

- To provide stability to the GSE securities market.
- To maintain the viability of the GSEs.

GSE MBS Purchase Program
The GSE MBS Purchase Program was created to help support the availability of mortgage credit by temporarily providing additional capital to the mortgage market.

Vision: Treasury's investment in GSE MBS, with the size and timing subject to the discretion of the Secretary of the Treasury, was another element of its comprehensive plan to address challenges in the housing markets. By purchasing these credit-guaranteed securities, Treasury sought to broaden access to mortgage funding for current and prospective homeowners as well as to promote secondary market stability. The scale of the program was based on developments in the capital markets and housing markets. Given that Treasury can hold these securities to maturity, the spreads between Treasury's cost of funds and GSE MBS yield should result in a positive return to the taxpayer.

Priorities:

- To prevent disruptions to the availability of mortgage credit to American homebuyers.
- To mitigate pressures in mortgage markets.
- To provide stability to the mortgage market.

GSE Credit Facility
The GSE Credit Facility was created to ensure credit availability to Fannie Mae, Freddie Mac, and the FHLBs by providing secured funding on an as-needed basis under terms and conditions established by the Treasury Secretary.

Vision: The funding was to be provided directly by Treasury from its general fund held at the Federal Reserve Bank of New York in exchange for eligible collateral which was limited to guaranteed MBS issued by Fannie Mae and Freddie Mac as well as advances made by the FHLBs. All such assets pledged against loans were to be accepted with appropriate collateral margins as determined by Treasury. Loans were to be for short-term durations and would in general be expected to be for less than one month, but no shorter than one week. The fee, if the GSE Credit Facility was used, was to be LIBOR + 50 basis points.

Priorities:

- To maintain credit availability to the GSEs.
- To instill confidence in investors that these entities can finance themselves.

Housing Finance Agencies Initiative
State and local Housing Finance Agencies (collectively, the "HFAs") are agencies or authorities created by state law that are charged with helping persons and families of low or moderate income attain affordable housing. State and local HFAs operate in all 50 states and many cities across the country. HFAs also provide refinancing and modification opportunities to homeowners at risk of foreclosure, to enable them to convert to more affordable and sustainable mortgages. In addition, HFAs serve other functions related to providing affordable housing resources, such as providing homeownership education and allocating low income housing tax credits.

HFAs have historically played a central role in providing a safe, sustainable path to homeownership for working families across the country. State and local HFAs have experienced a number of challenges in the course of the housing downturn, including a lack of liquidity support for existing variable rate bonds, credit and cash flow concerns stemming from losses on mortgages and downgrades of re-insurance providers, and an inability to issue new bonds to fund single-family and multi-family loans. Historically, HFAs have funded their activities by issuing tax-exempt mortgage revenue bonds (MRBs), keeping the associated mortgage collateral produced on HFA balance sheets. The bond performance of HFAs has generally been strong. However, due to the uncertainties and strain throughout the housing sector and the widening of spreads in the tax-exempt market, HFAs have experienced challenges in issuing new bonds to fund new mortgage lending. They have also faced difficulties in renewing required liquidity facilities on non-punitive terms.

Overall, market conditions have undermined the ability of the HFAs to maintain their important, Congressionally supported role in the housing market, providing access to affordable mortgage credit for low and moderate-income Americans.

To provide stability to the financial markets and promote mortgage affordability while at the same time protecting the taxpayer, Treasury has implemented two programs as part of the Housing Finance Agencies Initiative – the New Issue Bond Purchase Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP).

New Issue Bond Program

The New Issue Bond Program (NIBP) provides temporary financing for HFAs to issue new housing bonds. Treasury purchased securities of Fannie Mae and Freddie Mac backed housing bonds and escrowed funds that may be converted to housing bonds prior to the end of calendar year 2011. This temporarily allows the HFAs to issue an amount of new housing bonds equal to what they would ordinarily have been able to issue with the allocations provided them by Congress but are unable to issue given the challenges in housing and related markets. The program is sized to support several hundred thousand new mortgages to first time homebuyers, as well as refinancing opportunities to put at-risk, but responsible and performing, borrowers into more sustainable mortgages. The NIBP also supports development of tens of thousands of new rental housing units for working families.

Vision: The NIBP provided stability to financial markets and prevent disruptions in mortgage finance availability by providing a temporary supplemental market for newly issued HFA housing bonds. By temporarily supplementing private demand for HFA production until the market recovered, the NIBP enables HFAs to keep their lending programs active while they adapted to changing market conditions. The program supports the availability of mortgage credit and affordable rental properties for low and moderate income Americans. Facilitating supply and demand in the housing markets helps to stabilize the housing markets, thereby reducing losses to the Housing GSEs.

***Priorities*:**

- To provide stability to the housing market.
- To maintain the viability of the GSEs and state and local Housing Finance Agencies.
- To promote availability and affordability of housing resources for low and moderate income Americans.

Temporary Credit and Liquidity Program
Fannie Mae and Freddie Mac administer a Temporary Credit and Liquidity Program (TCLP) for HFAs to help relieve financial strains and enable them to continue to serve their important role in providing housing resources to working families. Treasury purchased a participation interest in the Temporary Credit and Liquidity Facilities (TCLFs) provided to HFAs under the program, providing a credit and liquidity backstop. These temporary credit and liquidity facilities will help the HFAs maintain their financial health and preserve the viability of the HFA infrastructure so that that HFAs can continue their Congressionally supported role in helping provide affordable mortgage credit to low and moderate income Americans, as well as continue their other important activities in communities.

Vision: The TCLP provides stability to financial markets and prevent disruptions in mortgage finance availability by helping HFAs relieve financial strains and enabling them to continue to serve their important role in providing housing resources to working families. The TCLP supports the HFAs through the downturn and gives them time to develop and implement more sustainable financing structures that preserve their critical role in extending mortgage credit to low- and moderate-income Americans.

***Priorities*:**

- To provide stability to the housing market.
- To maintain the viability of the GSEs and state and local Housing Finance Agencies.
- To promote availability and affordability of housing resources for low and moderate income Americans.

1B – Program History and Future Outlook
Section 1117 of the Housing and Economic Recovery Act of 2008 (Act) authorizes the Treasury to purchase any obligations and other securities issued by Fannie Mae, Freddie Mac, and any Federal Home Loan Bank on such terms and conditions as the Treasury may determine and in such amounts as the Treasury may determine. On September 7, 2008, the Secretary of the Treasury made the determination that the Treasury's exercise of its purchase authority under the Act was necessary to provide stability to the financial markets, prevent disruptions in the availability of mortgage finance, and protect taxpayers.

Prior to Treasury's exercise of authority, the overall conditions in the mortgage and housing markets were challenging for many market participants. Both Fannie Mae and Freddie Mac were exposed to these markets through their guarantees of mortgage backed securities and mortgage investments in their portfolios. As the assets supporting Fannie Mae's and Freddie Mac's guarantee and investment portfolios deteriorated, the costs of raising additional capital and funding themselves had increased, and both companies had experienced challenges in raising capital under these conditions. In addition to the challenges experienced by Fannie Mae and Freddie Mac, the FHLBs' borrowing costs were also affected, which had repercussions on the availability of mortgage credit in the overall economy.

As noted above, investors have purchased securities issued or guaranteed by Fannie Mae and Freddie Mac in part because ambiguities in their Congressional charters created a perception of government backing, which fostered enormous growth by these two housing GSEs. Fannie Mae and Freddie Mac were so large and so interwoven in the U.S. financial system that a failure of either of them would have caused significant turmoil in U.S. financial markets and financial markets around the globe. Thus, Treasury exercised its purchase authority under this Act, and created the first three programs described above to avoid the negative impact that the failure of Fannie Mae and Freddie Mac (and the diminished role of the FHLBs) would have on financial markets and the U.S. economy.

In order to further provide stability to financial markets, prevent disruptions in mortgage finance availability, and protect the taxpayers, Treasury exercised its authority under the Act in December 2009 by amending the PSPAs in three ways. First, Treasury replaced the existing fixed $200 billion cap on Treasury advances with a formulaic cap for the next two years that will automatically adjust upwards quarterly by the cumulative amount of any losses realized by either GSE and downward by the cumulative amount of any gains, but not below $200 billion, and will become fixed at the end of two years. Second, Treasury adjusted the retained portfolio runoff requirements such that any reduction will be measured from the $900 billion total permitted portfolio size for each GSE and the target date for the first 10% reduction was postponed to December 31, 2010. Third, Treasury delayed the periodic commitment fee setting process to December 10, 2010.

The PSPAs provide for purchases in senior preferred stock from each GSE to help ensure that they each maintain a positive net worth. The three changes to the PSPAs described above will further provide market stability by providing additional confidence to GSE debt holders and will further prevent disruptions in mortgage availability by providing additional confidence to investors in GSE mortgage-backed securities.

In designing these three changes to the PSPAs, specific steps were taken to protect the taxpayer. In particular, consideration was given to the six factors set forth in the Act.

The need for preferences or priorities – The PSPAs continue to protect the taxpayer by providing the Treasury with senior preferred stock that has a liquidation preference over all other classes of equity, including existing preferred stock. The PSPAs also continue to protect the taxpayer by: (i) prohibiting Fannie Mae and Freddie Mac from issuing any additional subordinated debt; and (ii) restricting Fannie Mae and Freddie Mac from increasing the aggregate amount of their indebtedness to more than 120% of the amount of their permitted mortgage portfolio size as of December 31, 2010. In addition, the terms of the PSPAs require Fannie Mae and Freddie Mac to remit to Treasury the net proceeds from the issuance of any equity which is to be applied to redeem amounts outstanding under the liquidation preference (and which shall be applied first against any accrued and unpaid dividends).

Limits on maturity or disposition of obligations or securities – In considering the appropriate limits on the duration of the PSPAs, it was determined that, in order to facilitate market stability, the PSPAs should continue until the earlier of reaching a formulaic cap that will automatically adjust upwards quarterly by the cumulative amount of any losses realized by either GSE and downward by the cumulative amount of any gains, but not below $200 billion or until all liabilities of Fannie Mae and Freddie Mac have been satisfied. In addition, beginning in 2011 the Treasury will charge the GSEs a periodic commitment fee that is payable quarterly to compensate the taxpayers for the ongoing support provided to the GSEs under the terms of the PSPAs.

Enterprise plans for orderly resumption of private market funding or capital market access – Under conservatorship, the PSPAs allow for Fannie Mae and Freddie Mac to continue operating as going concerns by maintaining a positive net worth in each company, which allows for continued access to debt markets and preserves potential future capital market access.

Probability of the Enterprises and the FHLBs fulfilling the terms of their obligations – The structure of the PSPAs, with their liquidation preference over all other equity, including preferred equity, combined with the PSPAs' restrictions on debt issuance, enhance the probability of both Fannie Mae and Freddie Mac ultimately repaying amounts owed.

Need to maintain the Enterprises' and the FHLBs' status as private shareholder-owned companies – Fannie Mae and Freddie Mac may emerge from conservatorship to resume independent operations, or they may emerge in some other form reflecting legislative changes to their congressional charters. Conservatorship preserves the status and claims of the preferred and common shareholders. The value of the warrants issued to the government under the terms of the PSPAs could potentially increase, thereby providing enhanced value to the taxpayers. Upon the government's exercise of the warrants, the GSEs would be required under the terms of the PSPAs to apply the net cash proceeds to pay-down the liquidation preference of the senior preferred stock.

Restrictions on the use of corporation resources – The terms of the PSPAs prohibit Fannie Mae and Freddie Mac from declaring any dividends on outstanding preferred or common stock until the senior preferred stock has been fully redeemed. The PSPAs also prohibit the redemption of any outstanding preferred or common stock without the prior consent of the Treasury until the senior preferred stock has been fully redeemed. The PSPAs require that the Director of FHFA consult with the Treasury before entering into any new compensation arrangements or increasing amounts or benefits payable under existing compensation agreements with certain executive officers.

Preferred Stock Purchase Agreements

Program History: During FY 2008, the Department of the Treasury entered into agreements with Fannie Mae and Freddie Mac. The agreements are indefinite in duration and have a funding commitment limit of $100 billion each. These agreements were subsequently amended to have a funding commit limit of $200 billion each, and further amended in December, 2009, to replace the fixed-dollar-amount funding commitment limit with a formulaic limit that will automatically adjust upward quarterly by the amount of any cumulative reduction in net worth over the next three years. In exchange for entering into these agreements with these two GSEs, Treasury immediately received $1 billion of senior preferred stock in each GSE and warrants for the purchase of common stock of each GSE representing 79.9 percent of the common stock of each GSE on a fully-diluted basis at a nominal price. No taxpayer money was spent to receive the senior preferred stock.

Program Outlook: Treasury estimates that it will make $47.5 billion in payments under its funding commitment in FY 2011 and $28.7 billion in FY 2012.

GSE MBS Purchase Program

Program History: During September 2008, Treasury designated private sector firms as its financial agents to act as asset managers and custodian. Treasury began to fund the GSE MBS purchase program in September 2008, and the first purchases were made by Treasury's agents in the third week of September 2008. Program activity was initially reported in the Monthly Treasury Statement but is now also published in a more detailed form on FinancialStability.gov.

Program Outlook: Treasury purchased nearly $29.9 billion under its authority for this program in FY 2010 which was the last fiscal year in which purchase authority was available. Treasury's authority to purchase securities under the program expired on December 31, 2009.

GSE Credit Facility

Program History: This program would have provided liquidity if needed until December 31, 2009, but it was not been needed.

Program Outlook: Treasury did not use this program in FY 2011 as Treasury's authority to originate loans under the program expired on December 31, 2009.

Housing Finance Agencies Initiative
The Housing and Economic Recovery Act of 2008 signed into law on July 30, 2008, included authority for the Secretary of the Treasury to purchase obligations of the Housing GSEs. These entities include: Fannie Mae, Freddie Mac, and the FHLBs. On October 19, 2009, Treasury announced the Housing Finance Agencies Initiative, including the New Issue Bond Program and the Temporary Credit and Liquidity Program.

In designing these two initiatives, specific steps were taken to protect the taxpayer. In particular, consideration was given to the six factors set forth in the Act as discussed below.

The need for preferences or priorities – The Housing GSEs are participating in the TCLP and NIBP based on an assessment by the Housing GSEs and the FHFA that these are commercially reasonable transactions for the Housing GSEs to undertake. Under both the TCLP and the NIBP, participating HFAs pay the Housing GSEs and Treasury a fee designed to credit cover risk posed by the HFA. In addition, both the TCLP and the NIBP are designed to maintain the health of the HFAs while still protecting the taxpayer. The fee for HFAs to use the TCLP increases over time. This increasing cost to the HFAs will encourage the HFAs to transition from the TCLP to private market financing alternatives as quickly as possible. Before the HFAs can use the NIBP to issue bonds purchased by the GSEs, they are required to sell to the private market an amount of shorter-term bonds in a ratio equal to 40 percent of aggregate bond proceeds, with the other 60 percent of bonds represented by the bonds purchased through NIBP.

Limits on maturity or disposition of obligations or securities – The duration and maturities of the obligations undertaken by the Housing GSEs have been set in a manner that is consistent with commercially reasonable practices. Treasury can at any time, e.g., when the secondary market for HFA housing bonds recovers, instruct the issuing Housing GSE to dissolve any GSE security that Treasury has purchased, at which time the Housing GSE will deliver the underlying HFA housing bonds to Treasury's designee for resale.

Housing GSEs' plans for orderly resumption of private market funding or capital market access – Under conservatorship, Fannie Mae and Freddie Mac continue to operate as going concerns, and the issuance of the Senior Preferred Stock Purchase Agreement, and Treasury's corresponding commitment of funding for the next two years so that each Housing GSE maintains a positive net worth, should continue to strengthen their ability to secure financing in the capital markets. The Housing GSEs and FHFA have assessed the NIBP and TCLP programs as being commercially reasonable, so the Housing GSEs will be executing these programs through commercially reasonable capital markets transactions. We don't envision any negative impact on the Housing GSEs' resumption of private market funding or capital market access from executing the HFA Initiative.

Probability of the Housing GSEs fulfilling the terms of their obligations - The pricing and fee structure of the TCLP and NIBP were designed to be commercially reasonable, and allow the Housing GSEs to fully cover all costs of the programs. Therefore, it is expected that the Housing GSEs will be able to fulfill all of their obligations under the HFA Initiative. The HFA Initiative will be funded by fees paid by the HFAs to the Housing GSEs.

Need to maintain the Housing GSEs' status as private shareholder-owned companies – Both the TCLP and NIBP have been entered into by the Housing GSEs with the approval of FHFA on commercially reasonable terms. Based on pricing and the fee schedule for both programs, the Housing GSEs expect a commercially reasonable return from participating in these programs. We don't envision any negative impact to the Housing GSEs or shareholders from executing the HFA Initiative.

Restrictions on the use of corporation resources – Fannie Mae and Freddie Mac have already been made subject to executive compensation restrictions. The TCLP and NIBP do not place additional restrictions on the use of corporation resources.

New Issue Bond Program

Program History: During FY 2009, the Department of the Treasury entered into a Memorandum of Understanding with Fannie Mae, Freddie Mac and the Federal Housing Finance Agency (FHFA) outlining the obligations of each party with regard to the HFA Initiative transactions. The Housing GSEs are participating in the NIBP based on an assessment by the Housing GSEs and the FHFA that these are commercially reasonable transactions for the Housing GSEs to undertake. Under the terms of the NIBP, Treasury has purchased GSE securities backed by housing bonds issued by the state and local HFAs as well as some proceeds which are in escrow pending the issuance of additional HFA housing bonds.

Program Outlook: Treasury purchased approximately $15.3 billion under its authority for this program in FY 2010. Treasury's authority to enter additional purchase commitments under the program expired on December 31, 2009, however the funds remaining in escrow may continue to be used for the issuance of new housing bonds through December 31, 2011.

Temporary Credit and Liquidity Program

Program History: During FY 2009, the Department of the Treasury entered into a Memorandum of Understanding with Fannie Mae, Freddie Mac and the Federal Housing Finance Agency (FHFA) outlining the obligations of each party with regard to the HFA Initiative transactions. The Housing GSEs are participating in the TCLP based on an assessment by the Housing GSEs and the FHFA that these are commercially reasonable transactions for the Housing GSEs to undertake. Under the terms of the TCLP, Treasury purchased participation interests in GSE liquidity facilities available for outstanding housing bonds issued by state and local HFAs. $8.2 billion has been allocated to state and local HFAs through the TCLP to use the credit and liquidity facilities.

Program Outlook: Treasury incurred nearly $8.2 billion in obligations in FY 2010 that will remain open in FY 2011 and FY 2012. However, this obligation will diminish over time as HFAs redeem the bonds in the program or transition to private market liquidity providers. Treasury's authority to enter additional obligations under the program expired on December 31, 2009.

Section 2 – Budget Adjustments and Appropriation Language

2.1 Summary of Appropriation Highlights

Total Housing GSE Assistance Program
Summary of Appropriation Highlights
(dollars in thousands)

Preferred Stock and Program Accounts	**2010 Actual**	**2011 Estimate**	**2012 Estimate**
Obligations:			
Preferred Stock Purchase Account	$52,600,000	$47,500,000	$28,700,000
HFA Initiative and GSE MBS Purchase Program Account	$21,000	$27,920	$17,000
Total Obligations	**$52,821,000**	**$47,527,920**	**$28,717,000**
Budget Resources:			
Preferred Stock Purchase Account	$304,400,000	$251,800,000	$204,300,000
HFA Initiative and GSE MBS Purchase Program Account	$29,000	$27,920	$17,000
Total Budgetary Authority	**$304,429,000**	**$251,827,920**	**$204,317,000**
Outlays:			
Preferred Stock Purchase Account	$52,600,000	$47,500,000	$28,700,000
HFA Initiative and GSE MBS Purchase Program Account	$29,000	$27,920	$17,000
Total Outlays	**$52,689,000**	**$47,527,920**	**$28,717,000**

2.2 Financing Accounts- Non-Budgetary Summary

Financing Accounts – Non-Budgetary Financial Summary
(dollars in thousands)

	2010 Actual	**2011 Estimate**	**2012 Estimate**
GSE MBS Direct Loans:			
Obligations	$45,292,000	$5,336,000	$6,512,000
Collections	$48,602,000	$41,397,000	$39,201,000
Financing Authority(net)	$8,791,000	-$33,742,000	-$35,008,000
Financing Disbursements(net)	-$3,310,000	-$39,270,000	-$32,229,000
HFA Initiative:			
Obligations	$23,739,000	$225,000	$261,000
Collections	$223,000	$1,976,000	$3,097,000
Financing Authority(net)	$24,684,000	-$1,976,000	-$2,836,000
Financing Disbursements(net)	$15,943,000	$1,373,000	-$2,836,000

2B – Appropriations Language and Explanation of Changes

The Housing Government Sponsored Enterprise Programs and the Housing Finance Agencies Initiative Programs do not receive any discretionary appropriation authority from the Congress. Therefore, no appropriations language is proposed.

2C – Legislative Proposals

There are no current proposals for amending the enacting legislation.

2D – Probability of Repayment

At the end of December, 2009, Treasury closed on all GSE MBS, NIBP and TCLP transactions. All three programs had a negative subsidy estimate at the time of purchase/obligation meaning anticipated net receipts for the government is in excess of outlays. Subsequent re-estimates have led to a positive subsidy estimate for the NIBP. Such changes in the NIBP estimate were a result of cash flows on actual bond issuances being timed in a manner different from the timing originally modeled as well as the fact that the present value factors used to model Treasury's cost of capital changed. Future re-estimates pending the formulation of a disposition strategy may cause the subsidy to return to being negative. The subsidy estimates for the TCLP and MBS Purchase program, however, remain negative.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/offices/management/budget/strategic_plan.shtml

3.1 – Budget by Strategic Outcome

(Dollars in Thousands)

Treasury Strategic Outcome	FY 2010 Actual	FY 2011 Estimate	FY 2012 Estimate	% Change FY11 to FY12
Stabilizing Economy- PSPA	$52,600,000	$47,500,000	$28,700,000	**-39.58%**
Stabilizing Economy- MBS	0	0	0	**0%**
Stabilizing Economy- Credit Facility	0	0	0	**0%**
Stabilizing Economy- NIBP	0	0	0	**0%**
Stabilizing Economy- TCLP	0	0	0	**0%**

3A – Preferred Stock Purchase Agreements *(No funding):* The function of the PSPAs is to instill confidence in investors that Fannie Mae and Freddie Mac will remain viable entities critical to the functioning of the housing and mortgage markets. Treasury entered into a PSPA with each GSE to ensure that each enterprise maintains a positive net worth.

This measure enhances market stability by providing additional confidence to holders of Fannie Mae and Freddie Mac securities, which, in turn, leads to increased mortgage affordability. This commitment also eliminates any mandatory triggering of receivership. To this end, the PSPAs are an effective means of averting systemic risk while at the same time protecting the taxpayer. They are more efficient than a one-time equity injection, in that Treasury will use them only as needed and on terms that the Treasury deems appropriate.

In exchange for entering into these agreements with the GSEs, Treasury received $1 billion on senior preferred stock in each GSE and warrants for the purchase of common stock of each GSE representing 79.9 percent of the common stock of each GSE on a fully-diluted basis at a nominal price. The senior preferred stock accrues dividends at 10 percent per year. The rate will increase to 12 percent if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid in cash.

Beginning March 31, 2011, the GSEs shall pay the Treasury on a quarterly basis a periodic commitment fee that will compensate the Treasury for the explicit support provided by the agreement. The Secretary of the Treasury and the Conservator shall determine the periodic commitment fee in consultations with the Chairman of the Federal Reserve. This fee may be paid in cash or may be added to the senior preferred stock.

3.2.1 – Preferred Stock Purchase Agreement Budget and Performance Plan

Description of Performance:
PSPA program offices track metrics to assess Fannie Mae and Freddie Mac's health and contribution to mortgage market stability. To assess the contribution of Fannie Mae and Freddie Mac to mortgage availability, the Housing GSE program tracks the percentage of agency MBS issuance of total MBS issuance and the dollar volume of mortgage purchases by the GSEs. During FY 2009, the majority of MBS were originated by the GSEs, contributing substantially to the stabilization of housing markets. To assess program management and ensure the stability of the GSEs, the program tracks the condition of the GSEs in coordination with the FHFA and makes PSPA disbursements as necessary. Increasing stability in the housing market has resulted in declining disbursements to the GSEs in recent quarters. Projected disbursements for FY 2011 and FY 2012 are $47.5 billion and $28.7 billion, respectively.

3B – GSE MBS Purchase Program (*No funding):* The function of the GSE MBS Purchase Program was to help improve the availability of mortgage credit to American homebuyers and mitigate pressures on mortgage rates. To promote the stability of the mortgage market, Treasury purchased GSE MBS in the open market. By purchasing these guaranteed securities, Treasury sought to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability.

The size and timing of this program was subject to the discretion of the Secretary of the Treasury. The scale of the program was based on developments in the capital markets and housing markets. Given that Treasury can hold these securities to maturity, the spreads between Treasury issuances and GSE MBS should result in a positive return to the Taxpayer.

Treasury has designated independent asset managers as financial agents to undertake the purchase and management of portfolio of GSE MBS on behalf of Treasury. The portfolios are managed with clear investment guidelines and investment objectives. The primary objectives of this portfolio are to promote market stability, ensure mortgage availability, and protect the taxpayer.

Treasury purchases of GSE MBS were deemed as outlays, and the debt incurred to fund the purchases is subject to the statutory debt limit. However, Treasury is receiving an income producing asset in return for its invested funds.

Treasury does not have the authority to purchase GSE MBS beyond December 31, 2009.

3.2.2 – GSE MBS Purchase Program Budget and Performance Plan

Description of Performance:
The MBS Purchase Program utilizes a broad range of market indicators in daily operations to ensure funds support mortgage availability for both current and prospective homeowners and promote secondary market stability. The program also utilizes risk assessment techniques, including scenario analysis and cash flow forecasts, to ensure zero principal loss on outlays. Risk management practices will constitute the bulk of program operations in FY 2012, as no additional purchases beyond December 31, 2009 are currently permitted under law.

3C – GSE Credit Facility *(No funding):* The function of the GSE Credit Facility was to maintain credit availability to the housing GSEs by providing secured funding on an as needed basis under terms and conditions established by the Secretary of the Treasury to protect taxpayers. Fannie Mae, Freddie Mac, and FHLBs were eligible to borrow under this program if needed. This facility offered liquidity if needed until December 31, 2009. Treasury did not use this program in FY 2010.

Funding was to be provided directly by Treasury from its general fund held at the Federal Reserve Bank of New York in exchange for eligible collateral from the GSEs which was limited to guaranteed mortgage backed securities issued by Freddie Mac and Fannie Mae as well as advances made by the FHLBs. All such assets pledged against loans were to be accepted with appropriate collateral margins as determined by Treasury.

Loans were to be for short-term durations and were in general expected to have been for less than one month but no shorter than one week. The rate on a loan request ordinarily was to be based on the daily LIBOR fix for a similar term of the loan plus 50 basis points. The rate was to be set at the discretion of the Secretary of the Treasury with the objective of protecting the taxpayer, and was to be subject to change. All loans were to be collateralized and collateral was limited to mortgage backed securities issued by Freddie Mac and Fannie Mae and advances made by the FHLBs. Loans were not to have been made with a maturity date beyond December 31, 2009.

3.2.3 – GSE Credit Facility Budget and Performance Plan

Description of Performance:
As the Credit Facility has been terminated, there are no related performance metrics for this program.

3D – New Issue Bond Program *(No funding):* The function of the NIBP is to provide stability to financial markets and prevent disruptions in mortgage finance availability by providing a temporary supplemental market for newly issued HFA housing bonds. By temporarily supplementing private demand for HFA production until the market can recover, the NIBP enables HFAs to keep their lending programs active while they adapt to changing market conditions. The program will support the availability of mortgage credit and affordable rental properties for low and moderate income Americans.

Program sized to meet demand. HFAs submitted detailed program participation requests to Treasury's financial agents. In order to haircut the NIBP requests to an acceptable level that could be recommended for adoption, a methodology was developed and applied to arrive at final allocation recommendations under the program for state and local HFAs. The allocation methodology was based primarily on the 2008 HERA allocations to HFAs and historical HFA issuance.

Support for both single-family and multi-family bonds. HFAs were able to request that a portion or all of their NIBP allocation be used to issue single or multi-family bonds. The amount of multi-family bond issuance is subject to a cap at the program level. Two types of multi-family bonds are allowed under the program: bonds that finance single-projects and bonds where proceeds can be used to finance multiple-projects that are approved or guaranteed by Fannie Mae, Freddie Mac, or the Federal Housing Administration. Both single-family and multi-family bond issuance are also subject to additional requirements.

Protecting taxpayers. HFAs pay the GSEs and Treasury an amount intended to cover both the cost of financing the newly issued bonds as well as a fee designed to cover risk posed by the HFA. Generally speaking, the interest rate on newly issued HFA bonds will be set to equal a short-term Treasury interest rate for the period in which the proceeds are held in reserve before being drawn down by the HFAs to originate mortgages. Within 60 days of the proceeds being drawn down, the interest rate on the bond will increase to cover Treasury's cost of financing (set at the 10-year Treasury rate) plus the additional fee designed to offset risk to the taxpayer.

Required sale of bonds to private market to impose market discipline and further leverage investment. The proceeds from issued bonds were placed in escrow until used by the HFAs to fund new mortgages in 2010 or 2011. Before the HFAs can use the proceeds, they are required to sell to the private market an amount of shorter-term bonds in a ratio equal to 40 percent of aggregate bond proceeds, with the other 60 percent of bonds represented by the bonds purchased through NIBP. This means that our temporary investment will be leveraged to create even more low-rate mortgages for working families, while at the same time using market discipline to help mitigate risk to the taxpayer.

3.2.4 – New Issue Bond Program Budget and Performance Plan

Description of Performance:
Treasury and its financial agents continue to monitor the housing markets as well as other indicators which have an impact on the HFAs. Through monitoring these indicators, as well as the performance of the HFAs, Treasury will assess the relative health of the HFAs in FY 2012. No additional assistance beyond December 31, 2009 is currently permitted under law.

3E – Temporary Credit and Liquidity Program *(No funding):* The function of the TCLP is to help relieve current financial strains for HFAs and enable them to continue to serve their important role in providing housing resources to working families. The TCLP provides HFAs with temporary credit and liquidity facilities to preserve the viability of the HFA infrastructure so that HFAs can continue their Congressionally supported role in helping provide affordable mortgage credit to low and moderate income Americans, as well as continue their other important activities in communities.

Reducing costs of maintaining existing financing for HFAs. Through Fannie Mae and Freddie Mac, the TCLP provides replacement credit and liquidity facilities to HFAs that will help reduce the costs of maintaining existing financing for the HFAs. Treasury backstops the replacement liquidity by purchasing a participation interest in the GSE temporary credit and liquidity facilities for the HFAs using HERA authority.

Program sized to meet demand. HFAs submitted detailed program participation requests to Treasury's financial agents for the Temporary Credit and Liquidity Program (TCLP). No allocation process was required because requests came in at a total below the program cap.

Protecting Taxpayers. The HFAs pay the GSEs and Treasury a fee designed to cover risk posed by the HFA. Other specific features of the program are also designed to maintain the health of the HFAs while still protecting the taxpayer, such as limiting the requirement for accelerated amortization of principal for bonds that end up being put to the GSEs under the program.

Temporary solution, with incentives for HFAs to quickly transition back to market financing. The fee for HFAs to use the TCLP increases over time. This increasing cost to the HFAs encourages the HFAs to transition from the TCLF to private market financing alternatives as quickly as possible.

Terms designed to facilitate sustainable business models for housing agencies. The liquidity facilities under the TCLP program are only available for outstanding bonds.

3.2.5 – Temporary Credit and Liquidity Program Budget and Performance Plan

Description of Performance:
Treasury and its financial agents continue to monitor the housing markets as well as other indicators which have an impact on the HFAs. Through monitoring these indicators, as well as the performance of the HFAs, Treasury will assess the relative health of the HFAs in FY 2012. No additional assistance beyond December 31, 2009 is currently permitted under law.

Financial Stability Oversight Council and Office of Financial Research

Program Summary by Budget Activity

Dollars in Thousands

	FY 2010	FY 2011	FY 2012		
	Actual	Estimated	Estimated	$ Change	% Change
Financial Stability Oversight Council	$0	$7,435	$7,885	$450	6%
Office of Financial Research	$0	$33,890	$74,468	$40,578	120%
Total Resources	**$0**	**$41,325**	**$82,353**	**$41,028**	**99%**
Total FTE	**0**	50	192	**142**	**284%**

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

Financial Stability Oversight Council

Prior to the financial crisis of 2008-2009, the existing regulatory framework focused narrowly on individual institutions and markets, which allowed supervisory gaps to grow and regulatory inconsistencies to emerge – in turn, allowing arbitrage and weakened standards. The *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* (Dodd-Frank Act) established the Financial Stability Oversight Council (FSOC) with a clear statutory mandate that created for the first time collective accountability for identifying and responding to emerging threats to financial stability. FSOC is a collaborative body chaired by the Secretary of the Treasury that brings together the expertise of the federal financial regulators, an insurance expert appointed by the President, and state regulators.

The FSOC has important new authorities under the Dodd-Frank Act to:

- Collect information across the system: The FSOC has a duty to collect information across the U.S. financial system, drawing first from its member agencies, and to direct the Office of Financial Research (OFR) to collect additional information to assess risks to the financial system. The collection and analysis of that information will aid the FSOC and OFR in their shared goal of removing blind spots in the financial system so that regulators will be better able to see the entire landscape and be better equipped to identify systemic risks and other emerging threats.

- Designate nonbank financial companies for consolidated supervision: In the run-up to the financial crisis, some of the firms that posed the greatest risk to the financial system were not subject to tough consolidated supervision. The Dodd-Frank Act gives the FSOC the authority to require consolidated supervision of nonbank financial companies, regardless of their corporate form.

- Designate systemic financial market utilities and systemic payment, clearing, or settlement activities: The Dodd-Frank Act authorizes the FSOC to designate certain financial market utilities and payment, clearing, or settlement activities as systemically important, requiring them to meet prescribed risk management standards and submit to heightened oversight by the Federal Reserve, the Securities and Exchange Commission, or the Commodities Futures Trading Commission.

- Recommend stricter standards: The FSOC has the authority to recommend stricter standards for the largest, most interconnected firms, including nonbank financial institutions designated by the FSOC for Federal Reserve supervision. Moreover, where the FSOC determines that certain practices or activities pose a threat to financial stability, the FSOC may make recommendations to the primary federal financial regulatory agency to establish new or heightened standards.

- Limit the activities of firms that pose a "grave threat" to financial stability: The FSOC has a significant role in determining whether action should be taken to break up those firms that pose a "grave threat" to the financial stability of the United States.

- Facilitate regulatory coordination: The FSOC has a statutory duty to facilitate information sharing and coordination among the member agencies regarding domestic financial services policy development, rulemaking, examinations, reporting requirements, and enforcement actions. Through this role, the FSOC will help eliminate gaps and weaknesses within the regulatory structure, to promote a safer and more stable system.

The FSOC is an executive agency of Government and is not an office or bureau of the Department of the Treasury. However, under the Dodd-Frank Act, FSOC administrative expenses are considered expenses of the OFR and are paid for by the OFR's Financial Research Fund. The OFR is an office within the Department of the Treasury.

Office of Financial Research

The Office of Financial Research (OFR) was established by the Dodd-Frank Act to support the FSOC and its members in its identification and analysis of risks in the financial system. To accomplish this, OFR will collect and standardize financial data, develop and publish key reference databases, and conduct research on financial market activities to identify potential sources of systemic risk. OFR's principal tasks are to:

- Standardize the types and formats of data reported and collected by the OFR to assist the FSOC in analyzing systemic risk;

- Develop data collection, processing, and distribution capabilities to ensure that the Federal Government has the information it needs to identify risks in the financial system, being mindful to coordinate with regulators, mitigate reporting burden by utilizing existing data where possible, seek input from industry, and protect confidentiality and privacy rights;

- Develop and publish reference databases of financial companies and instruments, which can be used by regulators, private firms, and academics to assess risk, inform policy, and promote market discipline;

- Conduct analysis for FSOC and its member agencies to help identify concentrations of risk in the financial system and enable appropriate and timely Government response to emerging threats;

- Submit to Congress regular reports on significant market developments and potential emerging threats to financial stability; and

- Provide certain data to financial industry participants and to the general public to increase market transparency and facilitate research on the financial system, being mindful to respect intellectual property rights and to protect business confidential information, privacy rights, and the stability of the U.S. financial system.

OFR has two primary divisions: a Data Center and a Research and Analysis Center. The Data Center will in part set standards for financial reporting and work to improve the quality of financial data that is collected so it can be organized in ways that are more meaningful for identifying vulnerabilities in the system as a whole. The Research and Analysis Center will in part monitor, investigate, and report on systemic risk.

One of the OFR's first priorities is improving data standards. The problem of monitoring systemic risk is closely related to the risk management challenges that individual firms face. To monitor systemic risk, positions in thousands of diverse financial products, involving thousands of individual financial firms, have to be aggregated across the entire financial system. Standardizing the way financial transactions are reported, and the consistent use of robust reference data, can greatly facilitate this process for regulators and individual firms. The OFR will, in consultation with relevant stakeholders, develop standards for financial data and publish reference databases of financial entities and instruments that will be made available to the public. These industry-wide standards will help FSOC monitor systemic risk and improve risk management, reporting and other business functions at individual financial firms.

1B – Program History and Future Outlook

Financial Stability Oversight Council

The FSOC held its first meeting on October 1, 2010, and successive meetings on November 23, 2010 and January 18, 2011. Future meetings will be held on at least a quarterly basis. An integrated roadmap was released following the first meeting combining member agencies internal implementation plans, including timeframes for key deliverables. Over the next year, the FSOC is working to establish processes for designating nonbank financial companies and financial market utilities, to develop recommendations for stricter standards for monitoring and reporting on systemic risk, and to develop tools for monitoring the financial system for emerging risks. In the near term, the staffs of FSOC member agencies are focused on fulfilling its statutory mandate to complete required reports related to the impact of regulatory policy changes. Transparency on FSOC decisions will be provided through annual reports to Congress and the public and testimony by the Chairperson on FSOC activities and emerging threats to financial stability.

Office of Financial Research

The OFR's initial efforts have focused on facilitating development of data standards. OFR published its first policy statement in the Federal Register related to legal entity identifiers on November 30, 2010. The intent of the policy statement was to promote industry to develop by consensus a universal standard for identifying parties to financial contracts. Defining a common legal entity identifier for financial transactions will not only improve financial regulators' ability to track market activity and an individual financial firm's ability to manage market information, but will also provide market participants greater visibility into the risks that individual firms take.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

	FY 2010 Estimated	FY 2011 Estimated	FY 2012 Estimated
FTE	**-**	**50**	**192**
Object Classification:			
11.1 Full-Time Permanent Positions....................................	$0	$6,284	$21,549
12.0 Personnel Benefits...	0	3,042	11,190
21.0 Travel..	0	260	773
23.1 Rental Payments to GSA...	0	4,672	4,772
23.3 Communications, Utilities, & Mi................................	0	1,260	3,262
25.0 Contractual Services..	0	14,671	25,167
26.0 Supplies and Materials...	0	7,049	14,111
31.0 Equipment..	0	4,087	1,529
Total Operating…………………………………………………	**$0**	**$41,325**	**$82,353**
Budget Activities:			
Financial Stability Oversight Council	0	7,435	7,885
Office of Financial Research	0	33,890	74,468
Total Budget Authority…………………………………………	**$0**	**$41,325**	**$82,353**

2.3 – Resource Detail Table

Dollars in Thousands

	FY 2010 Estimated		FY 2011 Estimated		FY 2012 Estimated		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Revenue / Offsetting Collections								
Assessments		$0		$0		$20,588		N/A
Transfers-in		$0		$41,325		$61,765		49.46%
Total Revenue / Offsetting Collections		**$0**		**$41,325**		**$82,353**		**99.28%**
Unobligated balances, Start of year		$0		$0		$0		0.00%
Recoveries of prior year obligations		0		0		0		0.00%
Net transfers *(includes capital transfers)*		0		0		0		0.00%
Total Budgetary Resources Available		**$0**		**$41,325**		**$82,353**		**99.28%**
Expenses/Obligations								
Financial Stability Oversight Council	0	$0	17	$7,435	24	$7,885	41.18%	6.05%
Office of Financial Research	0	$0	33	$33,890	168	$74,468	409.09%	119.73%
Total Expenses / Obligations	**0**	**$0**	**50**	**$41,325**	**192**	**$82,353**	**284.00%**	**99.28%**

Section 3 – Budget and Performance Plan

This table lists FYs 2011-2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/offices/management/budget/strategic_plan.shtml

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Goal	FY 2011 Estimated	FY 2012 Estimated	Percent Change
U.S. and World Economies Perform at Full Economic Potential	$41,325	$82,353	99.28%
Total	**$41,325**	**$82,353**	**99.28%**

3A – Financial Stability Oversight Council *($7,885,000 from mandatory programs)*: FSOC has a clear statutory mandate to improve coordination among financial regulators and identify risks and respond to emerging threats to financial stability. FSOC has ten voting members, including nine federal financial regulatory agencies and an independent member with insurance expertise, and five non-voting members. As a coordinative body, FSOC is an executive agency of the Federal Government and is not a bureau or office of the Department of the Treasury.

There are no measures specified for managing FSOC performance at this time. Information on FSOC is provided on www.treasury.gov, www.financialstability.gov, and member agency websites to provide transparency and accountability.

3B – Office of Financial Research *($74,468,000 from mandatory programs)*: The Dodd-Frank Act established OFR within the Treasury Department to support the FSOC and its members by improving the quality of financial data available to policymakers and by facilitating more robust and sophisticated analysis of the financial system. The data and analysis provided by OFR will enhance the FSOC's ability to identify emerging threats in financial markets.

There are no measures specified for managing OFR operations at this time. OFR is currently working on developing a performance plan for office operations.

Small Business Lending Fund

Mission Statement

Public Law 111-240, also known as the Small Business Jobs Act (hereafter "the Act"), established the Small Business Lending Fund (SBLF). The SBLF is a program designed to increase the availability of credit to small businesses by providing capital to eligible institutions with assets of less than $10 billion.

Program Summary

Section 4108 of the Act provides that the cost of purchases of preferred stock and other financial instruments made as capital investments shall be determined as provided under the Federal Credit Reform Act (FCRA) of 1990 (2 U.S.C. 661 et seq.). Per the terms of the Act, all investment activity will occur in FY 2011. After analysis of demand for the program and anticipated uptake by eligible institutions, the program is expected to provide $17.4 billion in investments designed to increase the availability of credit to small business. Treasury has calculated that, using FCRA methodology, the program's subsidy cost will be $1.26 billion.

FY 2011 Estimates (in millions)		
Program Level	**Subsidy Amount**	**Subsidy Rate**
$17,399	$1,260	7.24%

The Act also provides for the reasonable costs of administering the program, including making, holding, managing, and selling the capital investments. These activities will occur in FY 2011 and beyond.

SBLF	FY 2010 Estimated	FY 2011 Estimated	FY 2012 Estimated	FY 2012 $ Change	FY 2012 % Change
Program*	0	1,260,000	0	(1,260,000)	-100.00%
Administration	0	54,649	72,603	17,954	32.85%
Total Outlays	**$0**	**$1,314,649**	**$72,603**	**($1,242,046)**	**-94.48%**
Total FTE	**0**	**41**	**55**	**14**	**34.15%**

* Reflects only on-budget amounts.

FY 2011 and 2012 Priorities

- Process all received applications by September 27, 2011 in strict adherence to the eligibility requirements of the legislation
- Execute a compliance regimen to ensure that all Fund participants abide with the terms of the program
- Install an asset management capability to effectively monitor the Fund and minimize risk to Treasury.

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Section 1 – Purpose

1A – Description of Vision and Priorities

Enacted into law as part of the Small Business Jobs Act (P.L. 111-240), the Small Business Lending Fund (SBLF) encourages lending to small businesses by providing Tier 1 capital to qualified community banks with assets of less than $10 billion. Through the SBLF, Main Street banks and small businesses can work together to help create jobs and promote economic growth in local communities across the nation.

1B – Program Description and Future Outlook

The SBLF is intended to increase the availability of credit to small businesses by providing capital to eligible institutions with assets of less than $10 billion. The dividend or interest rate a bank pays for SBLF funding will be reduced as the institution's qualified small business lending increases, relative to the bank's baseline small business lending established at the time the applicant is awarded SBLF funding by the Treasury. Because banks leverage their capital, the SBLF could help increase lending to small businesses in an amount that is multiples of the total capital provided to participating institutions. These new loans will help small businesses grow and create new jobs.

An insured depository institution is eligible if it has assets of less than $10 billion and it meets the other requirements for participation. If the institution is controlled by a holding company, the combined assets of the holding company determine eligibility. Community development loan funds are also eligible.

Banks that have total assets of $1 billion or less may apply for SBLF funding that equals up to 5% of risk-weighted assets. Banks that have assets of more than $1 billion, but less than $10 billion, may apply for SBLF funding that equals up to 3% of risk-weighted assets.
The Small Business Lending Fund also provides an option for eligible community banks to refinance preferred stock issued to the Treasury through the Capital Purchase Program (CPP) or the Community Development Capital Initiative (CDCI) under certain conditions.

An institution is not eligible if it is on the Federal Deposit Insurance Corporation's problem bank list (or similar list) or has been removed from that list in the previous 90 days.

With the approval of its regulator, an institution may exit the Small Business Lending Fund at any time simply by repaying the funding provided along with any accrued dividends.

Pursuant to the Act, all funds received by the Treasury in connection with purchases made, including interest payments, dividend payments, and proceeds from the sale of any financial instrument, will be used to pay down the public debt.

Though all investments will be occurring in FY 2011, the holding, managing, and selling the capital investments will require a staff presence in future years. The SBLF program office has been designed to ensure that strong internal controls are in place and that costs are minimized by leveraging existing Treasury infrastructure whenever possible.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table – Administration Costs

Dollars in Thousands

Small Business Lending Fund	FY 2010 Obligated	FY 2011 Estimated	FY 2012 Estimated
FTE	**-**	**41**	**55**
Object Classification:			
11.1 Full-Time Permanent Positions....................	$0	$5,488	$7,435
12.0 Personnel Benefits.......................................	0	1,537	2,509
21.0 Travel..	0	187	187
25.1 Advisory & Assistance Services..................	0	38,812	51,645
25.3 Purchase of Goods/Serv. from Govt. Accts.	0	8,625	10,827
Total..	**$0**	**$54,649**	**$72,603**
Activities:			
Administration	0	54,649	72,603
Total..	**$0**	**$54,649**	**$72,603**

2.3 – SBLF Financing Account Summary

Financing Accounts – Non-Budgetary Financial Summary (dollars in millions)	2010	2011	2012
Obligations	$0	$17,724	$628
Collections	$0	$2,162	$1,979
Financing Authority (net)	$0	$15,562	-$1,351
Financing Disbursements (net)	$0	$15,562	-$1,351

2.4 – SBLF Investment Level Summary

FY 2011 Estimates (in millions)		
Program Level	**Subsidy Amount**	**Subsidy Rate**
$17,399	$1,260	7.24%

2A – Enacting Legislation

Small Business Jobs Act of 2010 (P.L. 111-240).

2B – Legislative Proposals

There are no current proposals for amending the enacting legislation.

Section 3 – Budget and Performance Plan

This table lists FYs 2011-2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/about/budget-performance/strategic-plan/Documents/strategic-plan2007-2012.pdf

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome*	FY 2011 Estimated	FY 2012 Estimated	Percent Change
Prevented or mitigated financial and economic crises	$1,314,649	$72,603	-94.5%
Total	**$1,314,649**	**$72,603**	**-94.5%**

* Reflects only on-budget amounts.

3A – SBLF Program *($1,260,000,000 on-budget in FY 2011; $0 in FY 2012)*: Pursuant to the Act, all investment activity will occur in FY 2011. The Act also requires that the cost of purchases of preferred stock and other financial instruments made as capital investments shall be determined as provided under the Federal Credit Reform Act of 1990.

After careful analysis and credit modeling, Treasury estimates a total program volume of $17.4 billion. Treasury credit modeling also indicates a projected subsidy rate of 7.24% and a budget cost of $1.26 billion for SBLF.

The total program volume and anticipated repayments are reflected in the SBLF financing account. This non-budgetary account records all cash flows to and from the Government resulting from direct capital obligated in 2011 and beyond. The amounts in this account are a means of financing and are not included in the budget totals.

3.2.1 – SBLF Program Budget and Performance Plan

SBLF Program	FY 2008 Actual	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated	FY 2012 Estimated
SBLF Program Outlay Levels*	$0	$0	$0	$1,260,000	$0
Total Program Outlay Levels	**$0**	**$0**	**$0**	**$1,260,000**	**$0**

* Reflects only on-budget amounts.

Performance metrics are currently in development for the SBLF program and will be finalized in 2011.

3B – SBLF Administration *($54,649,000 in FY 2011; $72,603,000 in FY 2012)*: The authority to pay administrative expenses is provided by Section 4108(b) of the Act. Administrative expenses will include the costs of government employee salaries, contract support, and reimbursement to the Treasury Office of Inspector General for program audits. Pursuant to the Act, Treasury will be submitting semi-annual reports to the appropriate committees of Congress detailing administrative expenses.

3.2.2 – SBLF Administration Budget and Performance Plan

Administration	FY 2008 Actual	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated	FY 2012 Estimated
Administration Outlay Levels	$0	$0	$0	$54,649	$72,603
Total Administration Outlay Levels	**$0**	**$0**	**$0**	**$54,649**	**$72,603**

Performance metrics are currently in development for the SBLF program and will be finalized in 2011.

State Small Business Credit Initiative

Mission Statement

To increase the availability of credit for small business, to generate jobs and other economic development benefits for states, Treasury has implemented the State Small Business Credit Initiative.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2010	FY 2011	FY 2012		
Outlays	**Estimated**	**Estimated**	**Estimated**	**$ Change**	**% Change**
SSBCI Program	$0	$487,000	$732,000	$245,000	50.31%
Administration	0	6,410	7,488	$1,078	16.82%
Total Outlays	**$0**	**$493,410**	**$739,488**	**$246,078**	**49.87%**
Total FTE	**0**	**9**	**12**	**3**	**33.33%**

FY 2011 and 2012 Priorities

- To provide direct funding support to states for use in programs designed to increase access to credit for small businesses.
- To support state capital access programs (CAPs) and other credit support programs (OCSP) that support lending to small businesses and small manufacturers.

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Section 1 – Purpose

1A – Description of Vision and Priorities

The State Small Business Credit Initiative was created to fund new and existing state programs that support lending to small business in order to stimulate economic growth and new jobs.

Vision: Under the State Small Business Credit Initiative, participating states will use the federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy, but are not getting the loans they need to expand and create jobs. The State Small Business Credit Initiative will allow states to build on successful models for state small business programs, including CAPs, collateral support programs, and loan guarantee programs.

Priorities:

- To provide direct funding support to states for use in programs designed to increase access to credit for small businesses.
- To support state CAPs and other credit support programs (OCSP) that support lending to small businesses and small manufacturers.

1B – Program History and Future Outlook

On September 27, 2010, President Obama signed into law the Small Business Jobs Act of 2010 (the "Act"). Section 3003 of the Act authorizes and directs the Secretary of Treasury to establish a seven-year State Small Business Credit Initiative, which was funded with $1.5 billion to support state programs that support lending to small businesses and small manufacturers. The State Small Business Credit Initiative is expected to support new small business lending through local programs that help entrepreneurs expand their businesses and create new jobs.

Under the State Small Business Credit Initiative, states are offered the opportunity to apply for federal funds for programs that partner with private lenders to extend greater credit to small businesses. States are required to demonstrate a reasonable expectation that a minimum of $10 in new private lending will result from every $1 in federal funding. Accordingly, the $1.5 billion funding commitment that the federal government will make for this program is expected to result in $15 billion in additional private lending.

The State Small Business Credit Initiative allows states to build upon existing, successful state-level small business lending programs, including examples such as CAPs, collateral support programs, and loan guarantee programs.

- Capital Access Programs: CAPs, which are already up and running in over 20 states, are loan portfolio insurance programs in which states provide a matching contribution to bank loan loss reserves when lenders extend credit to qualified small businesses. These reserve enhancements allow lenders to expand credit to new borrowers at a time when many of these lenders might otherwise pull back.

- Collateral Support Programs for Small Manufacturers: Collateral support programs help viable businesses that are struggling to get credit because the value of the collateral they hold has fallen, often due to the decline in commercial real estate values. These programs – which set aside funds to augment collateral the borrower already holds – provide banks greater confidence in extending credit to these borrowers, particularly in some of the communities hardest hit by the economic downturn.

- Loan Guarantee Programs: Under loan guarantee programs, states provide partial guarantees on small business loans to give lenders greater confidence to extend credit.

If a state does not have an existing small business lending program, officials can establish one in order to access this funding.

The funding a state is eligible to apply for is determined based on formulas in the Small Business Jobs Act that take into account each state's unemployment rate and decline in employment relative to other states. Pursuant to the Act, funds are allocated to all fifty States along with the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of Northern Mariana Islands, Guam, American Samoa, and the United States Virgin Islands. If a State did not file a timely Notice of Intent or fails to meet the application deadline, municipalities within that State may apply for their pro rata share of the State's allocation, provided that such municipalities can meet all the program criteria. Up to three municipalities within a State may be eligible to receive SSBCI funds.

Treasury estimates that it will make at least one-third of the total $1.5 billion in payments in FY 2011 and most of the remaining funds in FYs 2012 and 2013. In addition, less than 3% of the appropriation has been allocated to administrative expenses. The administrative costs will be expended over the seven-year life of the program.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

State Small Business Credit Initiative	FY 2010 Obligated	FY 2011 Estimated	FY 2012 Estimated
FTE	**-**	**9**	**12**
Object Classification:			
11.1 Full-Time Permanent Positions....................	$0	$1,077	$1,498
12.0 Personnel Benefits..	0	378	526
21.0 Travel...	0	155	155
25.1 Advisory & Assistance Services...................	0	3,100	3,566
25.3 Purchase of Goods/Serv. from Govt. Accts.	0	1,700	1,743
41.0 Grants, Subsidies...	0	487,000	732,000
Total..	**$0**	**$493,410**	**$739,488**
Activities:			
SSBCI Program	0	487,000	732,000
Administration	0	6,410	7,488
Total..	**$0**	**$493,410**	**$739,488**

2A – Enacting Legislation

The Small Business Jobs Act of 2010 (P.L. 111-240).

2B – Legislative Proposals

There are no current proposals for amending the enacting legislation.

Section 3 – Budget and Performance Plan

This table lists FYs 2011-2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/about/budget-performance/strategic-plan/Documents/strategic-plan2007-2012.pdf

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2011 Estimated	FY 2012 Estimated	Percent Change
Prevented or mitigated financial and economic crises	$493,410	$739,488	49.9%
Total	**$493,410**	**$739,488**	**49.9%**

3A – State Small Business Credit Initiative Program *($732,000,000 in FY 2012)*: On September 27, 2010, President Obama signed into law the Small Business Jobs Act of 2010 (the "Act"). Section 3003 of the Act authorizes and directs the Secretary of Treasury to establish a seven-year State Small Business Credit Initiative, which was funded with $1.5 billion to support state programs that support lending to small businesses and small manufacturers. The State Small Business Credit Initiative is expected to support new small business lending through innovative local programs that help entrepreneurs expand their businesses and create new jobs.

Under the State Small Business Credit Initiative, participating states will use the federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy, but are not getting the loans they need to expand and create jobs. The State Small Business Credit Initiative will allow states to build on successful models for state small business programs, including CAPS, collateral support programs, and loan guarantee programs. Existing and new state programs are eligible for support under the State Small Business Credit Initiative.

The funding a state is eligible to apply for is determined based on formulas in the Small Business Jobs Act that take into account each state's unemployment rate and decline in employment relative to other states. Pursuant to the Act, funds are allocated to all fifty States along with the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of Northern Mariana Islands, Guam, American Samoa, and the United States Virgin Islands. If a State did not file a timely Notice of Intent or fails to meet the application deadline, municipalities within that State may apply for their pro rata share of the State's allocation, provided that such municipalities can meet all the program criteria. Up to three municipalities within a State may be eligible to receive SSBCI funds.

3.2.1 – State Small Business Credit Initiative Program Budget and Performance Plan

(Dollars in Thousands)

SSBCI Program	FY 2008 Actual	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated	FY 2012 Estimated
SSBCI Program Outlay Levels	$0	$0	$0	$487,000	$732,000
Total Program Outlay Levels	**$0**	**$0**	**$0**	**$487,000**	**$732,000**

Performance metrics are currently in development for the State Small Business Credit Initiative and will be finalized in 2011.

3B – Administration *($7,488,000 in FY 2012)*: The authority to pay administrative expenses is provided by Section 3009 (b) of the Act which appropriates $1.5B to carry out the state small business credit program "including to pay reasonable costs of administering the program." Administrative expenses include the costs of government employee salaries, contract support, and reimbursement to the Treasury Office of Inspector General for program audits.

3.2.2 – State Small Business Credit Initiative Administration Budget and Performance Plan

(Dollars in Thousands)

Administration	FY 2008 Actual	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated	FY 2012 Estimated
Administration Outlay Levels	$0	$0	$0	$6,410	$7,488
Total Administration Outlay Levels	**$0**	**$0**	**$0**	**$6,410**	**$7,488**

Performance metrics are currently in development for the State Small Business Credit Initiative and will be finalized in 2011.

Overview

Mission Statement

The mission of the Treasury Forfeiture Fund is to 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.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated	FY 2010 to FY 2012 $ Change	% Change
Asset Forfeiture Fund	$852,078	$750,520	$905,209	$53,131	6.2%
Total Resources	**$852,078**	**$750,520**	**$905,209**	**$53,131**	**6.2%**
Total FTE	**24**	**24**	**24**	**-**	**-**

Please note that the above table reflects obligations.

FY 2012 Priorities

The Treasury Forfeiture Fund will use high impact forfeiture to dismantle criminal enterprise by:

- Continuing to cultivate and strengthen relationships at the federal, state and local levels to use high impact asset forfeiture to disrupt and dismantle criminal enterprise.

- Educating and focusing stakeholders and others on the vision and mission of Treasury's multi-Departmental asset forfeiture program.

- Focusing resources in a high impact manner that enhances enforcement against terrorist financing, illegal immigration, bulk cash smuggling, and money laundering; and that provides support to the National Money Laundering and Southwest Border Strategies.

- Fostering and supporting the investment of forfeiture resources in the needs of our 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.

- Reinforcing 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.

- Developing and modifying 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 principal revenue-producing 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 CBP and ICE.

Vision: The focus of Fund management is on strategic cases and investigations that result in high impact forfeitures. 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 support 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 the Treasury, and is linked directly to the National Money Laundering and Southwest Border 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, Southwest Border Strategy and anti-terrorism financing efforts; and
- Foster and support the investment of forfeiture resources in the needs of our 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 2010, representing the forfeiture interests of 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 2010 was an exceptional revenue year for the Treasury Forfeiture Fund with income from forfeitures and recoveries totaling $1.193 billion. Among the FY 2010 major case forfeiture deposits was $500 million forfeited by the former ABN AMRO Bank N.V., now named the Royal Bank of Scotland N.V., as part of a Deferred Prosecution Agreement. ABN AMRO agreed to forfeit $500 million to the United States in connection with a conspiracy to defraud the United States, to violate the International Emergency Economic Powers Act (IEEPA) and to violate the Trading with the Enemy Act (TWEA), as well as a violation of the Bank Secrecy Act (BSA). Fifty percent of the revenue will be shared with the Department of Justice Assets Forfeiture Fund representing the joint investigative efforts of the Federal Bureau of Investigation (FBI) that lead to forfeiture in this case.

Another FY 2010 major case forfeiture deposit was an equitable share received from the Department of Justice Assets Forfeiture Fund in the amount of $134 million pursuant to a Deferred Prosecution Agreement (DPA) with Credit Suisse AG (Credit Suisse). Credit Suisse waived indictment and agreed to the filing of a one count criminal information charging that Credit Suisse knowingly and willfully violated and attempted to violate regulations issued under the International Emergency Economic Powers Act (IEEPA) in violation of Title 50 U.S.C. §1705. Pursuant to the signed DPA, Credit Suisse agreed to forfeit $268 million to the U.S. Government and pursuant to a separate DPA, forfeited another $268 million to the District Attorney of the County of New York, for total forfeitures for the violation of $536 million. The Treasury Forfeiture Fund's equitable share from the Department of Justice, the lead agency in this case, was $134 million. Forfeiture revenue from these two major cases alone totaled $634 million in FY 2010.

Future Outlook: Management forecasts a continued robust program for FY 2011 and FY 2012 with forfeiture revenue and recoveries estimated at $927 million and $1.124 billion, respectively. In FY 2010, the Treasury Forfeiture Fund experienced higher than usual revenues as a result of some unusually large forfeiture cases and that pattern is expected to continue into FY 2012. However, past that time frame, it is difficult to predict forfeiture revenue for the program. Much depends on the staffing and workload priorities of member bureaus. Fund management continues to monitor the status of high impact cases through performance measurement and monthly reporting by member bureaus.

FY 2011: For FY 2011, Fund management will remain 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 forfeiture cases. Fund management plans to continue investment in technologies and data collection and to 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 evaluate our basic method 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. As the result of pending major cases, the Fund will experience higher than average forfeiture revenue deposits during FY 2011. The Fund has allocated Super Surplus funds in the amount of $140 million during FY 2011.

FY 2012: The Treasury Forfeiture Fund is a vital, continuing, business enterprise that is essential in its importance to our member law enforcement bureaus. Given the priorities of the National Money Laundering and Southwest Border Strategies and the law enforcement priorities of our member bureaus, the outlook for FY 2012 is similar to FY 2011; management intends to maintain a dynamic and evolving asset forfeiture program that is responsive to the needs of member law enforcement bureaus.

The FY 2012 President's Budget proposes to permanently cancel $600 million in unobligated balances from the Treasury Forfeiture Fund, and to transfer an additional $30 million in unobligated balances to FinCEN for Bank Secrecy Act IT Modernization to remain available for 3 years after which any unobligated balances will be transferred back to the Treasury Forfeiture Fund (see Administrative Provision 125) to support continuing development and maintenance. This transfer allows Treasury to use asset forfeiture to support the development of a tool that will support law enforcement's anti-money laundering and counter-terrorism financing efforts.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table
Dollars in Thousands

Treasury Forfeiture Fund	FY 2010 Obligated	FY 2011 Estimated	FY 2012 Estimated
FTE	**24**	**24**	**24**
Object Classification			
25.2 - Other services	$198,983	$366,596	$185,136
25.3 - Other purchases of goods and services from Govt. accounts	$235,912	$236,124	$222,273
41 - Grants, subsidies, and contributions	$417,183	$147,800	$497,800
Total Budget Authority	**$852,078**	**$750,520**	**$905,209**
Budget Activities			
Asset Forfeiture Fund	$852,078	$750,520	$905,209
Total Budget Authority	**$852,078**	**$750,520**	**$905,209**

2.3 – Resource Detail Table
Dollars in Thousands

The Fund has no direct FTE.	FY 2010 Obligated	FY 2011 Estimated	FY 2012 Estimated	% Change FY 2011 to FY 2012
Revenue:				
Sources:				
Carryover from prior year	$299,970	$580,785	$757,265	30.39%
Restoration of temporary rescission	$30,000	$90,000	$90,000	
Current year forfeiture revenue	1,192,893	927,000	1,124,000	21.25%
Total Revenue	1,522,863	1,597,785	1,971,265	23.37%
Uses:				
Permanent Authority (Obligations)	852,078	750,520	905,209	20.61%
Total Obligations	852,078	750,520	905,209	20.61%
Rescission of Unobligated Balances:				
1. Public Law 111-117 Consolidated Appropriations Act, 2010	-90,000			
2. Continuing Appropriations Act, 2011 (to March 4, 2011)		-90,000		
Reduction to Unobligated balances:				
Transfer of Unobligated Balances to FinCEN				
1. BSA IT Modernization, available for 3 years			-30,000	
Cancellation of Unobligated Balances:				
1. Proposed Cancellation of Unobligated Balances			-600,000	
Subtotal, Reduction to Unobligated Balances	-90,000	-90,000	-630,000	600.00%
Carryover to next year [1]/	580,785	757,265	436,056	-42.42%

[1]/ The Fund incurs expenses immediately upon the start of the new year, including costs of an extensive array of property contracts which must be funded without delay. Therefore, a carryover is required each year.

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY TREASURY FORFEITURE FUND *Of the unobligated balances available under this heading, $600,000,000 are hereby permanently cancelled.*	For FY 2012, $600,000,000 of unobligated balances is proposed for permanent cancellation.

2C – Legislative Proposals

The Treasury Forfeiture Fund has no legislative proposals for FY 2012.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to:
http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated	% Change FY10 to FY12
Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks	852,078	750,520	905,209	20.61%
Total	**$852,078**	**$750,520**	**$905,209**	**20.61%**

3A - Asset Forfeiture Fund *($905,209,000 from reimbursable programs):* The function of the Treasury Forfeiture Fund (the 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 the Fund's revenue may be used. Forfeiture revenue on deposit in the Fund can be allocated and used as the result of a permanent indefinite appropriation provided by Congress.

A forfeiture process begins once property or cash is seized. Upon forfeiture, seized currency, initially deposited into a 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 operating 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 the operating costs 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

Asset Forfeiture Fund Budget Activity					
Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$597,287	$483,586	$852,078	$750,520	$905,209
Total Resources	**$597,287**	**$483,586**	**$852,078**	**$750,520**	**$905,209**
Budget Activity Total	**$597,287**	**$483,586**	**$852,078**	**$750,520**	**$905,209**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percent of Forfeited Cash Proceeds Resulting from High-Impact Cases (%) (Oe)	86.91	87.65	93.11	80.0	80.0

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

Description of Performance: For FY 2012, the Fund will continue to measure the 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, which includes those with currency forfeitures in excess of $100,000. Focusing on strategic case and investigations that result in high impact forfeitures 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 80 percent has been set for this performance measure. The target allows for those cases that may not be high impact in nature but are important to the exercise of law enforcement. The measure is calculated by dividing the total amount of forfeited cash proceeds from cases that are equal to or greater than $100,000 by the total amount of cash proceeds from all cash forfeiture cases. The data is regularly available to Fund management and provided through accounting systems that record the data and is audited annually as part of the annual financial statement audit process.

Performance Exceeds Target: Member law enforcement bureaus participating in the Treasury Forfeiture Fund have met or exceeded the performance target in seven of the nine fiscal years since inception of the measure in FY 2002.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please visit the Resources Tab of the following Link, and from there, select the Strategic Plan link.

http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The Treasury Forfeiture Fund is managed by the Treasury Executive Office for Asset Forfeiture (TEOAF), a policy office that reports to the Assistant Secretary for Terrorist Financing. TEOAF will reimburse Treasury's Departmental Offices covering the salaries and benefits of TEOAF staff, General Counsel positions, and Procurement Services Division positions.

The Departmental Offices (DO) Office of Human Resources (OHR) ensures the availability of tools required to manage the human capital that supports accomplishment of DO's strategic goals and mission. OHR does this through the provision of sound advice and guidance to managers and execution of processes related to staff employment, retention, recognition, employee and labor relations, benefits, performance management and development.

4B – Information Technology Strategy

The Treasury Forfeiture Fund uses Departmental Offices systems and is part of their information technology strategy. The Department is extremely reliant on its Information Technology infrastructure. The cost associated with this infrastructure represents one of the greatest opportunities the Department has for parlaying the savings from greater efficiency to the deployment of new capabilities. In light of this, the Treasury E-Board has endorsed the following multi-faceted strategy for assessing and executing against the opportunities that exist for reducing the cost of the Department's IT infrastructure:

- Converge our voice and data networks to a more capable and cost effective platform;
- Expand the usage of virtualization technologies to further improve the cost efficiency of our computing centers;
- Promote greater leverage of either Department-wide or multi-bureau IT capabilities (i.e., data centers, enterprise content management, etc.); and
- Ensure the usage of cross enterprise licensing for commodity software and hardware.

Overview

Mission Statement

To assist customer agencies in meeting their mission by providing responsive, customer-focused, cost-effective financial management and administrative support services.

Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated	FY 2010 to FY 2012 $ Change	FY 2010 to FY 2012 % Change
Financial Management Administrative Support Services	$93,046	$94,592	$98,732	$5,686	6.1%
Information Technology Services	$73,858	$74,006	$146,600	$72,742	98.5%
Total Resources	**$166,904**	**$168,598**	**$245,332**	**$78,428**	**47.0%**
Total FTE	**973**	**1,012**	**1,190**	**217**	**22.3%**

* The increase in Information Technology Services is due to the FMS-BPD data center consolidation (Fiscal IT).

FY 2012 Priorities

- Maintain outstanding operational service to customer agencies.
- Continue to identify and implement operational efficiencies with the goal of achieving sub-inflationary price increases.
- Promote and maximize shared services benefits in support of Treasury and government-wide initiatives.
- Consolidate data center operations with the Financial Management Service (FMS) to increase efficiency of combined IT assets.
- Participate in government-wide forums and support good government through maintaining and enhancing compliance and accountability.
- Continue to assess and report our performance and provide timely feedback to customers.
- Enhance human capital strategies to recruit, develop and provide for a challenging, rewarding and values based work environment.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities
The Treasury Franchise Fund's (The Fund) vision is to be a leader in providing responsible, effective administrative support services through commitment to service, efficient operations, openness to change and values based behavior. The Fund provides accounting, procurement, travel, human resources, and information technology (IT) services through the Bureau of the Public Debt (Public Debt), Administrative Resource Center (ARC). Services are provided to more than 70 federal customers, including most of the Department of the Treasury, on a reimbursable, fee-for-service basis. In FY 2010, 971 FTE are dedicated to servicing customers and are expected to generate over $180 million in earned revenue.

A major focus of The Fund is achieving sub-inflationary price increases for customers. The Fund leverages customer base expansion to help achieve economies of scale that support this priority. In addition, The Fund continues to identify and implement process improvement initiatives ranging from technology to staffing. Finally, other service efficiencies have resulted from changes such as implementing standard service level agreements that include a minimum of one year notice of service cessation clause. This extended notice period reduces the risk associated with loss of business, thus reducing reserve requirements and reserve charges to customers.

Another Fund priority is to support Treasury and government-wide initiatives by providing timely, high quality, cost effective, and value added administrative support services. This requires continual assessment of services offered to market demands and adherence to The Fund's "good government" vision. This vision ensures compliance with applicable rules and regulations, promotes cost savings through efficient and standardized service delivery while maintaining high customer satisfaction. Standardized internal business processes, and implementing customers consistent with the defined target are two specific means used by The Fund to support the vision. Specifically, during FY 2012, The Fund plans to consolidate data center operations with those of the FMS to increase utilization and efficiency of the combined IT assets. This consolidation supports the Office of Management and Budget's (OMB) E-gov data center consolidation guidance.

A major operational priority is to assess and report on service delivery performance and provide customers with timely performance feedback in areas in which The Fund and customers must work together to successfully perform administrative services. This includes improving and creating new Shared Service Provider (SSP) performance metrics and benchmarks and providing standardized feedback to customers on performance. The Fund will place additional focus in FY 2011 on establishing cost metrics. Performance feedback is critical to customers' ability to improve the efficiency of their own operations, which will lower the level of effort required to support them and maximize the benefits achieved through shared services.

Another operational priority is enhancing its shared service solution to better support customers in a SSP role. The Fund continues efforts to improve shared solutions including:

- Upgrade of Oracle E-Business Suite to Release 12 (FY 2012)

- Upgrade of E-Travel Solution – GovTrip – to version 2.0 (FY 2010)
- Upgrade of E-Procurement Solution – Procurement Request Information Systems Management (PRISM) – to version 6.5 (FY 2010)

In addition, the information technology business line implemented infrastructure changes necessary to serve the role of a Trusted Internet Connection Access Provider (TICAP) for Treasury. The Fund received authority to operate the upgraded infrastructure in January 2010 and was designated as Treasury's TICAP in May 2010. Application migrations into the upgraded infrastructure were completed in FY 2010. Through completion of these enhancements, The Fund will continue to work with customers to identify additional platform and service improvements in FY 2012.

As significant budgetary resources are used for salaries and benefits, human capital strategies such as recruiting and retention efforts are always a high priority. Our goal is to recruit high quality, dedicated employees that care about the success of The Fund and its customers. Additionally, The Fund focuses on development processes to educate and train staff on new responsibilities as federal stewards, and providing a challenging, rewarding and values based work environment. Emphasis is placed on information sharing demonstrated by regular town hall meetings and the presentation of customer feedback to employees.

1B – Program History and Future Outlook

Program History

The Government Management Reform Act of 1994 (GMRA) authorized the establishment of six Franchise Fund programs within the Federal Government. The franchise concept was built on OMB’s twelve operating principles for business-like organizations, including provider competition, customer’s voluntary exit, full cost recovery, initial capitalization and performance measurement and benchmarking.

In 1996, OMB designated the Department of the Treasury as one of the six Executive Branch agencies authorized to establish a franchise fund program. The Fund began operations in 1997 with six Franchise Business Activities (FBA), less than 80 FTE and earned revenue of $38 million.

In FY 2009, The Fund worked with FMS to migrate Treasury Agency Services (TAS) from The Fund, successfully transitioned Federal Consulting Group (FCG) to another federal host and substantially closed out the FedSource business activity. In FY 2010 and thereafter, administrative and IT support are the only services that are provided by The Fund.

During FY 2009 and FY 2010 The Fund enhanced its infrastructure by migrating Oracle E-Business Suite platforms to a commercial hosting provider. As planned, two of the platforms were successfully migrated in FY 2009, and the final platform was migrated in FY 2010. Overall, The Fund was able to hold FY 2011 costs at levels commensurate with FY 2010, thus resulting in true cost reductions for its customers. These economies were the result of transitioning hosting of Oracle E-Business Suite to a commercial provider and further implementation of standardized business practices.

The Fund's key challenge is maintaining high service and customer satisfaction levels while pursuing cost reduction and containment initiatives such as transitioning customers to the standardized service delivery model.

Future Outlook
In FY 2012, The Fund will maintain its commitment to excellence and continue to meet all strategic goals and benchmarks. The Fund continues to look for measured and controlled growth opportunities to expand existing service lines or add other value added, in-demand administrative services.

As a SSP, The Fund plays an important role in achieving the current administration's goals of improving efficiency, cost effectiveness, and accountability within the federal sector. This is attributable to demonstrated successes in reducing duplication, providing accurate and timely financial management information and providing responsive support for government-wide initiatives.

The Fund's estimated FY 2012 FTE and earned revenue are 1,190 and $245 million, respectively.

Demonstrated Success – Eliminating Duplication

Shared Platform and Services
The Fund reduces the number of federal administrative systems by providing access to an integrated system platform for accounting, travel, procurement, human resources, and information technology services. In addition, as a SSP, The Fund provides many customers with value added services, such as transaction processing and financial reporting.

The Fund was designated by the Office of Management and Budget (OMB) as a Center of Excellence for Financial Management Line of Business (FMLoB) and a Shared Services Center for Information Systems Security Line of Business (ISSLoB). In addition, The Fund has critical supporting roles in the Human Resources Line of Business (HRLoB) and Public Key Infrastructure (PKI) SSP designations of the Department of Treasury.

The Fund currently provides:
- 31 organizations with accounting services
- 35 organizations with travel services
- 36 organizations with procurement services
- 32 organizations with human resource services
- 17 organizations with information technology services

Providing shared services to federal customers results in cost savings and improved quality and compliance. Savings are achieved through consolidated buying power and cost sharing opportunities in the areas of operations and maintenance, enhancements and upgrades. Improved quality and compliance is achieved through The Fund's service model and standardized business processes that align with applicable laws, rules and regulations.

Specifically, during FY 2012, The Fund plans to consolidate data center operations with those of the FMS to increase utilization and efficiency of the combined IT assets. This consolidation supports the Office of Management and Budget's (OMB) E-gov data center consolidation guidance. Furthermore, in FY 2011, The Fund plans to consolidate two Oracle E-Business Suite environments. This consolidation is expected to result in further annual system hosting and maintenance cost savings.

Demonstrated success –Timeliness and Accuracy
The Fund provides timely and high quality services in the area of financial reporting. Using The Fund's Oracle E-Business Suite platform, federal managers have timely financial management information available for decision-making.

Internally, there is no better test for the accuracy and quality than annual financial statement and internal control audits. The Fund has received 14 consecutive unqualified audit opinions. In addition, The Fund undergoes a Type II SAS-70 audit annually and has received 8 consecutive unqualified opinions. The SAS-70 results enhances customer confidence in The Fund's systems and services and reduces agencies annual financial statement audit costs.

Demonstrated Success – Responsiveness
The Fund has demonstrated the ability to respond timely to government-wide priorities. For example, increased emphasis on information security led The Fund's information technology service line to become a leader in the federal government. On behalf of Treasury, The Fund hosts and maintains PKI SSP infrastructure and is an OMB designated shared service center for the ISSLoB.

During FY 2010, The Fund completed infrastructure changes necessary to serve the role of a Trusted Internet Connection Access Provider (TICAP) for Treasury in response to OMB's government-wide internet security initiative.

1C – Industry Outlook
There is a positive outlook for shared services in the federal government. The Fund anticipates further growth in this sector due to OMB's Line of Business (LoB) initiatives and increased budget constraints.

There is tremendous synergy between the business model established by the Treasury several years ago and recent OMB initiatives. Each model supports the concept of sharing costs across agencies to reduce each entity's cost burden, especially capital investments in systems. In addition, most of the Lines of Business use competition to keep the costs of service providers to a minimum and to allow customer agencies to shop around for the service provider that best satisfies their needs.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Treasury Franchise Fund	FTE	Amount
FY 2010 Actual	**973**	**$166,904**
FY 2011 Estimated	**1,012**	**$168,598**
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$2,877
Maintaining Current Levels	-	$2,877
Efficiencies, Savings & Base Reductions:	-	($1,732)
Efficiency Savings - Productivity Improvements	-	($1,732)
Subtotal FY 2012 Changes to Base	-	$1,145
Total FY 2012 Base	**1,012**	**$169,743**
Program Changes:		
Program Decreases:	-	($499)
Business Alignment	-	($499)
Program Increases:	178	$76,088
IT Consolidation Growth	178	$76,088
Subtotal FY 2012 Program Changes	178	$75,589
Total FY 2012 Estimated	**1,190**	**$245,332**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) .... +$2,877,000 / +0 FTE

Maintaining Current Levels +$2,877,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings & Base Reductions .... -$1,732,000 / +0 FTE

Efficiency Savings - Productivity Improvements -$1,732,000 / +0 FTE

The Franchise Fund will realize efficiency savings from productivity improvements.

Program Decreases .... -$499,000 / +0 FTE

Business Alignment -$499,000 / +0 FTE

Business Alignment

Program Increases .... +$76,088,000 / +178 FTE

IT Consolidation Growth +$76,088,000 / +178 FTE

During FY 2012, The Fund plans to consolidate data center operations with those of the FMS to increase utilization and efficiency of the combined IT assets.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

Treasury Franchise Fund	FY 2010 Obligated	FY 2011 Estimated	FY 2012 Estimated
FTE	**973**	**1,012**	**1,190**
Object Classification			
11.1 - Full-time permanent	$66,909	$72,259	$89,426
11.3 - Other than full-time permanent	$596	$0	$0
11.5 - Other personnel compensation	$94	$0	$0
11.6 - Overtime	$1,255	$1,058	$1,393
11.7 - Other Personnel Compensation	$1,490	$1,879	$2,329
12 - Personnel benefits	$20,421	$21,756	$29,528
13 - Benefits for former personnel	$168	$0	$0
21 - Travel and transportation of persons	$1,129	$1,421	$1,774
22 - Transportation of things	$9	$37	$38
23.2 - Rental payments to others	$56	$0	$0
23.3 - Communication, utilities, and misc charges	$933	$3,157	$5,183
25.2 - Other services	$6,527	$18,561	$47,826
25.3 - Other purchases of goods and services from Govt. accounts	$38,819	$28,822	$29,605
25.4 - Operation and maintenance of facilities	$79	$0	$0
25.7 - Operation and maintenance of equip	$12,126	$9,453	$20,732
26 - Supplies and materials	$488	$1,359	$1,691
31 - Equipment	$12,852	$7,237	$9,043
32 - Land and structures	$0	$0	$5,457
Total Budget Authority	**$166,904**	**$168,598**	**$245,332**
Budget Activities:			
Financial Management Administrative Support Services	$93,046	$94,592	$98,732
Information Technology Services	$73,858	$74,006	$146,600
Total Budget Authority	**$166,904**	**$168,598**	**$245,332**

2.3 – Resource Detail Table

Dollars in Thousands

	FY 2009 Actual		FY 2010 Actual		FY 2011 Estimated		FY 2012 Estimated		% Change FY 2010 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:										
Revenue / Offsetting Collections										
Administrative Services		$85,045		$99,742		$93,799		$98,732		-1.01%
Information Technology Services		$63,398		$75,903		$71,443		$146,600		93.14%
Total Revenue / Offsetting Collections	**0**	**$148,443**	**0**	**$175,645**	**0**	**$165,242**	**0**	**$245,332**	**0.00%**	**39.67%**
Unobligated balances, Start of year		51,521		61,722		77,766		81,086		31.37%
Recoveries of prior year obligations		4,410		7,303		6,676		6,744		-7.65%
Net transfers *(includes capital transfers)*		3,748		0		0		0		0.00%
Total budgetary resources available	**0**	**$208,122**	**0**	**$244,670**	**0**	**$249,684**	**0**	**$333,162**	**0.00%**	**36.17%**
Expenses/Obligations										
Administrative Services	605	89,933	628	93,046	644	94,592	670	98,732	6.69%	6.11%
Information Technology Services	326	56,467	345	73,858	368	74,006	520	146,600	50.72%	98.49%
Total Expenses / Obligations	**931**	**$146,400**	**973**	**$166,904**	**1,012**	**$168,598**	**1,190**	**$245,332**	**22.30%**	**46.99%**
Net Results		**$2,043**		**$8,741**		**($3,356)**		**$0**		**-100.00%**

2B – Appropriations Language and Explanation of Changes

The Fund receives no appropriated funds from Congress.

2C – Legislative Proposals

The Fund has no legislative proposals for FY 2012.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2011 Estimated	FY 2012 Estimated	Percent Change
A citizen-centered, results-oriented and strategically aligned organization	168,598	245,332	45.51%
Total	**$168,598**	**$245,332**	**45.51%**

3A - Financial Management Administrative Support Services *($98,731,720 from reimbursable programs):* The Administrative Services Activity supports OMB's shared services concept and furthers "good government" by standardizing the administrative financial systems and processes required to operate federal organizations.

Value is provided through cost sharing opportunities in systems capital investments as well as reduced operating costs through providing consolidated high quality, value added services. The Fund, a Center of Excellence for the FMLoB and a support organization for Treasury's HRLoB designation, provides administrative support functions with a focus on financial management, procurement, travel and human resources. The program has been very successful in meeting its mission goals as evidenced by the increasing demand for services and the level of satisfaction expressed by customers.

3.2.1 Financial Management Administrative Support Services Budget and Performance Plan

Financial Management Administrative Support Services Budget Activity					
Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$96,952	$89,933	$93,046	$94,592	$98,732
Total Resources	**$96,952**	**$89,933**	**$93,046**	**$94,592**	**$98,732**
Budget Activity Total	**$96,952**	**$89.933**	**$93,046**	**$94,592**	**$98,732**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Cust. Satisfaction Index - Financial Mgmt Admin	97.0	89.0	80.0	81.0	80.0	80.0
Operating Expense % (E)	NA	7%	8%	8%	8%	8%

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

Description of Performance:

Administrative Services established an outcome measure and target of 80 percent to determine performance in satisfying the needs of customer agencies. Annually, The Fund conducts a customer satisfaction survey to assess performance within all service lines. For FY 2010, two thirds of The Fund's customers responded to the survey, and an overall customer satisfaction rating of 81 percent was achieved.

Administrative Services has reduced the target for operating expenses as a percentage of total expenses from 12 percent to 8 percent due to efficiencies realized in operations. This provides franchise management with a measure that encourages efficiency in administrative operations and helps to assure services are provided at the lowest possible cost. Administrative Services again met this performance measure in FY 2010 with an 8 percent operating expense ratio.

3B - Information Technology Services *($146,600,280 from reimbursable programs):* The IT Services Activity provides low-cost, shared services to a diverse portfolio of federal customers: Treasury bureaus, independent agencies, boards and commissions, and Inspectors General organizations. Value is provided through IT infrastructure consolidation and standardized IT service delivery in a modern, technically innovative, and secure environment. Customers avoid costly, long-term development projects when they take advantage of our shared services and environments. Services include information systems security, hosting, and software engineering. Additionally, end-user support and professional services are provided to Public Debt and The Fund.

The Fund, designated by the OMB as a SSC for Information Systems Security Line of Business (ISSLoB), provides agencies with proven Certification and Accreditation (C&A) and Continuous Monitoring (CM) services. The Fund delivers information security support to other federal agencies, while improving quality, accelerating delivery, and reducing customer costs.

Secure hosting services are provided for production, contingency, and disaster recovery systems, and development/and test regions. The Fund has critical supporting roles in the PKI SSP designation of the Department of Treasury. The Fund's PKI and directory experience makes end-to-end identity management solutions available to customers.

Rapid Application Development (RAD) techniques and a demonstrated ability to integrate commercially available solutions combine to provide high quality software engineering services at a competitive price.

3.2.2 Information Technology Services Budget and Performance Plan

Information Technology Services Budget Activity

Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$0	$56,467	$73,858	$74,006	$146,600
Total Resources	**$0**	**$56,467**	**$73,858**	**$74,006**	**$146,600**
Budget Activity Total	**$0**	**$56,467**	**$73,858**	**$74,006**	**$146,600**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Cust. Satisfaction Index - Financial Mgmt Admin	NA	84.0	80.0	81.0	80.0	80.0
Operating Expense % (E)	NA	5%	8%	8%	8%	8%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, M - Management/Cust. Satisfaction, DISC - Discontinued, and B - Baseline, and B – Baseline

Information Technology established a management/customer service measure and target of 80 percent to determine performance in satisfying the needs of customer agencies. Annually, The Fund conducts a customer satisfaction survey to assess performance within all service lines. For FY 2010, two thirds of The Fund's customers responded to the survey, and an overall customer satisfaction rating of 81 percent was achieved.

Information Technology has reduced the target for operating expenses as a percentage of total expenses from 12 percent to 8 percent due to efficiencies realized in operations. Viewed over time, this measure shows that operations can be expanded without dramatically increasing expenses.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The Fund follows the human capital strategy of Public Debt, it's host organization. Public Debt's employees are its greatest asset and investment in the workforce is crucial. The bureau is recognized throughout the local and surrounding communities as a values-based employer where candidates want to work and employees want to stay. According to the report, *Best Places to Work in the Federal Government 20010*, the bureau ranked 6thth out of 224 federal agencies. Additionally, Public Debt has consistently improved its overall score in every *Best Places to Work in the Federal Government* survey over the last five years.

As a values-based organization, Public Debt also understands the benefits telework provides for enhancing employee morale. Telework has the potential to increase employee productivity and provides employees an additional method for balancing work and home life. Moreover, it has the added benefits of increasing the recruitment of new employees, retaining the current workforce and potentially cutting down on employee absences.

To ensure essential business functions are maintained during office closures due to weather-related situations or other emergency events, telework will be integrated into continuity of operations plans as an alternative way of conducting business. Several offices are piloting telework on a trial basis to ensure functionality of systems in the event of a real-world disaster.

Public Debt moved to a performance-based management system for non-supervisory, non-bargaining unit employees at the end of December 2008. The new appraisal system is aligned with Public Debt's strategic and annual performance plans. In December 2009, the bureau successfully completed the bargaining process to move the remaining non-supervisory employees to the same system. The date to transition bargaining unit employees is pending.

The use of statistical analysis continues to be a crucial part of workforce planning and deployment. Through FY 2015, 37 percent of Public Debt's permanent employees will be eligible for optional retirement. Thanks to the bureau's standing as an employer of choice and the large pool of highly qualified candidates in the local community, Public Debt can address the anticipated retirements successfully.

A closer analysis of the retirement data reveals 62 percent of Senior Executive Services (SES) level employee will be eligible to retire during the same period. Public Debt's SES Candidate Development Program concluded in March 2010, at which time, candidates applied for SES certification. The candidates, once certified, will be eligible for noncompetitive appointments in the Senior Executive Service. By planning ahead, the bureau will be able to counteract the potential impact of future SES retirements.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments Major IT Investments (Self Funded)	Budget Activity	FY 2009 Enacted		FY 2010 Actual	% Change FY 09 to 10	FY 2011 Estimated		% Change FY10 to 11	FY 2012 Estimated		% Change FY10 to 12
Franchise Financial and Administrative Services (FFAS)	Administrative Services	$19,468		$18,626	-4.3%	$23,568		26.5%	$23,859		28.1%
Government Agency Investment Service (GAIS)	Administrative Services	$0		$0	0.0%	$1,508	1/	100.0%	$1,531	1/	100.0%
Subtotal, Major IT Investments		$19,468		$18,626	-4.3%	$25,076		34.6%	$25,390		1.3%
Non-Major IT Investments		$0		$0	0.0%	$0		0.0%	$0		0.0%
Infrastructure Investments 2/		$31,767	3/	$45,948	44.6%	$41,134		-10.5%	$43,001		-6.4%
Enterprise Architecture		$1,899	4/	$2,503	31.8%	$2,861		14.3%	$2,947		17.7%
Total IT Investments		$53,134		$67,077	26.2%	$69,071		3.0%	$71,338		6.4%

1/ Represents costs incurred by The Fund that contribute to the GAIS investment managed by the Bureau of the Public Debt (BPD).

2/ Infrastructure Investments represent Treasury enterprise-wide investment in end user, mainframe and servers, telecommunications, and identity management services.

3/ Includes Infrastructure Investments of $16,621 previously reported in Bureau of the Public Debt (BPD) budget submission, Table 4.1 - Summary of IT Resources.

4/ Includes Enterprise Architecture Investments of $352 previously reported in Bureau of the Public Debt (BPD) budget submission, Table 4.1 - Summary of IT Resources.

4B – Information Technology Strategy

The Fund follows the information technology strategy of Public Debt, the host organization. To ensure the success of Public Debt's mission at the lowest cost to the taxpayer, the bureau continues to strengthen its strategic planning processes to make the best possible use of resources across all business lines and budget activities, including The Fund's Administrative Support and IT Administrative Support Services. Public Debt created the Enterprise Architecture Group (EAG) to promote strategic alignment across the Public Debt enterprise, optimize business processes by promoting an appropriate diversity and reuse of technology solutions and expose strategic planners to information that enables informed decisions. The EAG is charged with the following responsibilities:

- Evaluate program and support organization transition activities, focusing on need, enterprise alignment, impact, and constraints.
- Determine the most effective course of action for each presented transition activity.
- Develop and prioritize the Public Debt transition plan.
- Maintain Public Debt's business-related enterprise architecture models.
- Publish Enterprise Architecture information.
- Review and approve/disapprove capital planning investment documents.

During FY 2012, as The Fund consolidates data center operations with those of the FMS, additional governance processes will be established to ensure effective use of common information technology resources.

With this budget submission, The Fund unveils a restructured IT investment portfolio, further aligning budget activities and programs of Public Debt. The restructuring includes the movement of IT Infrastructure reporting to The Fund.

Modern and Secure Technical Environment

The IT strategy embraces a modern and secure technical environment to support The Fund's programs, workforce, and customers. The Fund's software engineering framework will leverage open source technologies. The Fund will expand its virtual infrastructure and will leverage virtual technologies in the delivery of end user services. Furthermore, social media technologies and data services (for both structured and unstructured data) will be available for use in a secure manner as a productive means of business collaboration.

As federal budget dollars shrink, federal program managers require cost effective IT services that align with business needs. The Funds Information Technology Services Activity must meet customers' requirements for quality and cost. The Fund adopts the principles of continuous service improvement (CSI) to find where improvements in the efficiency and effectiveness of IT infrastructures can be made. The goal is to increase the use and efficiency (optimization) of IT assets, while reducing IT service costs for customers.

Fiscal IT

In late 2009, the Office of the Fiscal Assistant Secretary asked the Commissioners of FMS and the Public Debt to assess where improvements could be made in the efficiency and effectiveness of IT infrastructures. As a result, FMS in partnership with Public Debt initiated a project to consolidate the data centers across the two bureaus to help achieve the Secretary's objective of increasing the utilization and efficiency of combined IT assets, while reducing technology costs. This effort also conforms to the Office of Management and Budget's Data Center Consolidation directive that all federal agencies review IT spending, placing emphasis on consolidating and sharing IT services to reduce expenditures. The Fiscal IT effort includes consolidation of five data centers into two shared by both bureaus, creation of a single corporate governing body, in-sourcing of select contracted functions, consolidation of application development methodologies and associated infrastructure, and importantly results in a more "green" approach to delivery of IT services. Both FMS and Public Debt anticipate savings due to reductions in energy consumption, equipment, software, and staff.

Overview

Mission Statement
The mission of the Bureau of Engraving and Printing (BEP) is to develop and produce United States currency notes, trusted worldwide.

Program Summary by Budget Activity
Dollars in Thousands

	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated	FY10 to FY12 $ Change	FY10 to FY12 % Change
Manufacturing	$555,000	$527,000	$582,050	$27,050	4.9%
Protection and Accountability of Assets	$61,000	$61,000	$0	($61,000)	(100.0%)
Total Resources	**$616,000**	**$588,000**	**$582,050**	**($33,950)**	**(5.5%)**
Total FTE	**1,889**	**1,950**	**1,925**	**36**	**1.9%**

BEP operations are financed by reimbursements to a revolving fund and as such the BEP is unaffected by a continuing resolution.

The Bureau of Engraving and Printing Protection and Accountability budget activity is being eliminated and consolidated into the Manufacturing budget activity beginning in FY 2012.

FY 2012 Priorities

- Efficiently and effectively produce and deliver the most secure currency for the nation.
- Continued production of the redesigned $100 note.
- Redesign the nation’s currency to better serve the needs of Americans and others around the world, including the blind and visually impaired.
- To research and develop state-of-the-art counterfeit deterrent features that will enhance and protect future generations of currency notes.
- Acquire equipment that will enable the addition of tactile features to U.S. currency.
- Provide hand-held assistive devices to denominate currency (or financial assistance to acquire such devices) to blind and visually impaired citizens.
- Train and prepare BEP’s workforce for increasingly sophisticated technology that will be integrated into future manufacturing processes.
- 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.
- Reduce the Bureau’s environmental impact through targeted investments in more efficient systems and waste reduction. The most significant project will enable waste water recycling, which will reduce water usage by several million gallons per year.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The mission of the Bureau of Engraving and Printing (BEP) is to develop and produce United States currency notes, trusted worldwide.

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 through a revolving fund established in 1950 in accordance with Public Law 81-656. This fund is reimbursed for direct and indirect costs of operations, including administrative expenses, through product sales. 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, eliminating the need for appropriations from Congress.

The Bureau's vision is to maintain its position as a world-class securities printer providing its customers and the public superior products through excellence in manufacturing and technological innovation. BEP strives to produce U.S. currency of the highest quality and also designs and produces security documents required by other Federal agencies. 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 deterrent features.

During FY 2012, BEP expects to produce and deliver 7.0 billion notes to the Federal Reserve Board to meet currency demand, a decrease of seven percent from the anticipated FY 2011 program.

Over the last ten years, the research and development of new technologies for possible use in currency production has become a priority at the Bureau as more sophisticated counterfeit deterrent features are needed to protect future generations of currency notes. Via its website, www.bep.gov, BEP is currently seeking information on technologies that would enhance the longevity and durability of currency notes in circulation, as well as new technologies or materials that could be developed for future use in counterfeit deterrence. BEP is also interested in products, materials and technologies to address all types of currency usage needs such as authentication and denomination.

The prevalent use of the $100 note throughout the world will require the production of the new $100 note to continue at increased levels through 2012. Production of the $100 note is in support of the transition from old note designs to new designs and to meet demand in the U.S. and abroad. It is estimated that as many as two-thirds of all $100 notes circulate outside the United States. The redesign of the $100 note marked the completion of a multi-year initiative to implement the most ambitious currency redesign in United States history.

Another initiative for FY 2012 is to continue efforts to produce tactile features that will enhance future note designs and serve the needs of currency users with visual impairments. A research group from the Bureau visited several foreign bank note printers to gather information on their progress in developing tactile features. Further testing is being conducted to determine which processes and features would work best at the production volumes needed for U.S. currency. While no timetable has been set for the introduction of this currency, the next redesign will incorporate changes to make U.S. currency more accessible to those who are blind and visually impaired.

In addition, because aggressive law enforcement, effective note design, and public education are all essential components in an effective anti-counterfeiting program, the Bureau will continue its work in 2012 with the Advanced Counterfeit Deterrent (ACD) Steering Committee to research and develop future currency designs that will enhance and protect U.S. currency notes. The ACD Committee includes representatives from BEP, the Department of the Treasury, the U.S. Secret Service, and the Federal Reserve Board.

Manufacturing – The Bureau of Engraving and Printing manufactures high quality security documents that deter counterfeiting while supporting commerce through safe and secure currency. These products are grouped into two programs: Federal Reserve notes, and other security documents. Over 98 percent of Bureau revenues are derived from the sale of Federal Reserve notes.

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 innovative technologies. The U.S. Government 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 ACD Committee continually researches counterfeit deterrent features and systems for possible use in future currency designs to enhance and protect notes from counterfeiting. The United States government continues to enhance the security of U.S. currency in an effort to build public confidence and enable commerce by providing the public with safe secure notes and the information needed to authenticate them.

The new design for the $100 note made its debut on April 21, 2010 during a ceremony at the Department of the Treasury's Cash Room. The innovative security features in the new note are the fruit of more than a decade of research and development to protect U.S. currency from counterfeiting. The unveiling of the $100 note was the first step in a global public education program implemented by the Department of the Treasury, the Federal Reserve Board and the U.S. Secret Service to educate those who use the $100 note about its changes before it begins circulating in early 2011.

The redesign of the $100 note marked the completion of a multi-year initiative to implement the most ambitious currency redesign in United States history. The redesigned notes remain the same size and use the same portraits and historical images, which have been enhanced. U.S.

currency users will continue to recognize the redesigned notes as quintessentially American. The redesign adds complexity to the notes to make counterfeiting more difficult, and also includes an enlarged, high-contrast numeral to help the public, including persons with visual impairments, distinguish the denomination. The new notes feature enhanced, overt counterfeit deterrent features including a “3-D Security Ribbon” with shifting images and a “Bell in the Well” that disappears and reappears when the note is tilted.

Public Education: Effective combat against counterfeiting requires consumer education that urges merchants and consumers to examine the security features on the currency notes they receive. In collaboration with, and paid for by the Federal Reserve Board, BEP administers a broad public education program to support the introduction of new currency designs. Successful public education is crucial to the anti-counterfeiting effort; the current program offers education and training materials to the public to inform them about the latest currency designs and how to authenticate their currency. These materials are available on-line and can be downloaded from http://www.moneyfactory.gov/newmoney. The public education program is designed to build an adequate threshold of awareness to support commerce and ensure seamless "business as usual" transitions as new currency designs are introduced to the public.

Overall, counterfeiting of U.S. currency remains at low levels – due primarily to a combination of improvements in the notes’ security features, aggressive law enforcement and public education efforts. An international education program is being conducted for the new $100 notes following successful programs for the redesigned $5, $10, $20, and $50 notes. No domestic paid advertising will be used to introduce the new notes, but paid media has been requested in certain foreign markets. The Federal Reserve Board reports that up to two-thirds of the seven billion $100 notes currently in circulation are outside the U.S. Even though statistics continue to indicate that the amount of counterfeit U.S. currency worldwide is less than 1/100th of one percent of genuine U.S. currency in circulation, the $100 note is the most widely circulated and most often counterfeited denomination outside the U.S. This international public education program ensures that people all over the world continue to accept, recognize, trust and use the new and enhanced security features of the new U.S. currency.

Quality: BEP will maintain its focus on producing high quality security products in the most cost effective manner possible. It will continue to pursue continuous process improvements as the catalyst for world class quality and improved cost performance through streamlined processes and low spoilage. In addition to quality certification, the BEP attained ISO 14001 certification in 2007 for environmental management systems, institutionalizing the Bureau’s commitment to sound environmental stewardship.

Cost Efficiency and Capital Investment Efforts: The Bureau strives to provide its customers with superior products for the lowest possible price. BEP constantly seeks ways to cut costs without compromising quality. BEP has put workload-based staffing plans in place which have enabled an overall FTE reduction of 10.5 percent over the past three years. In order to continue staffing reductions in selected areas, during 2010 BEP offered targeted employee buyouts as incentives for early retirement and separation from service. Capital investments are being implemented that will enhance productivity and lessen the environmental impact of BEP’s operations on air emissions, wastewater discharge, and solid waste. An investment in a new manufacturing support system to enable the integration, consolidation, and analysis of data from the systems used in existing and new manufacturing equipment has been initiated. This initiative provides an integrated platform to simplify and standardize the collection of data across disparate systems, sensors and applications that the Bureau uses in manufacturing.

The age of BEP's Washington, DC facility poses some infrastructure challenges. Based on an earlier condition assessment, it was estimated that an investment of $250-$500 million would be needed to upgrade the Washington, DC main and annex buildings over the next 10 years. A feasibility study on the condition of the Washington DC facility was completed at the end of July 2010, and is currently under executive review. The outcome will allow BEP and the Department of the Treasury to strategically address facility issues going forward.

During the past several years the Bureau has streamlined its organization and has redeployed employees in overstaffed areas by matching employee competencies with organizational needs and expanding opportunities for cross-training, detail assignments and reassignment. BEP's intent is to optimize human resource utilization, as it reduces staffing levels to reflect decreasing demand for currency notes and the impact of increased productivity from new equipment and improved work practices. These efforts have improved efficiency, reduced response time, and facilitated currency redesign efforts. Although some efficiencies have been gained from the procurement of human resource and acquisition support services from the Bureau of Public Debt's Administrative Resource Center (ARC) for BEP's Fort Worth, Texas manufacturing facility, to date BEP has not realized any cost savings from this initiative. The Bureau will expand the scope of its Inter-Agency Agreement (IAA) with ARC when cost effective or when necessary for mission support.

Developments in image inspection technology have led to the installation of sophisticated inspection systems that BEP uses in its currency manufacturing processes. These systems use a proprietary software package to provide real time inspection of printed work. The Bureau's investment in automated inspection systems 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 its 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. In FY 2012, BEP plans to focus on talent management that will enhance the effectiveness of recruitment and retention programs. BEP will also promote a continuous learning environment to develop employees and leaders at all organizational levels and foster a high level of individual and collective competence. BEP will also continue to foster labor-management coalitions to maintain a cooperative relationship between management and the Bureau's 15 unions (representing 19 bargaining units) in order to support a dynamic and progressive workplace for employees. Strategic investments in people and technology will continue to be critical in maintaining the Bureau's status as a world-class securities manufacturer.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Bureau of Engraving and Printing	FTE	Amount
FY 2010 Actual	**1,889**	**$616,000**
FY 2011 Estimated	**1,950**	**$588,000**
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$4,850
Maintain Current Levels	-	$4,850
Efficiencies, Savings & Base Reductions:	(25)	($11,800)
Energy Savings	-	($2,200)
IT Process Streamlining	-	($200)
Improved Business Practices	(15)	($5,000)
Replace Mainframe	-	($2,400)
Spoilage Reduction Savings	-	($1,000)
Visual Inspection Systems	(10)	($1,000)
Subtotal FY 2012 Changes to Base	(25)	($6,950)
Total FY 2012 Base	**1,925**	**$581,050**
Program Changes:		
Program Increases:	-	$1,000
R&D Equipment - Tactile Features	-	$1,000
Subtotal FY 2012 Program Changes	-	$1,000
Total FY 2012 Estimated	**1,925**	**$582,050**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) .... +$4,850,000 / +0 FTE

Maintain Current Levels +$4,850,000 / +0 FTE

Funds are required for inflation adjustments in non-labor expenses such as rent adjustments, postage, raw materials and inventories, supplies and equipment, health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings & Base Reductions .... -$11,800,000 / -25 FTE

Energy Savings -$2,200,000 / +0 FTE

Energy Savings - improvements in energy efficiency through replacement and/or upgrade of older assets with more energy efficient and environmentally responsible assets.

IT Process Streamlining -$200,000 / +0 FTE

Savings from data center efficiency and consolidation, increased server virtualization, and decreased energy usage and IT operation costs.

Improved Business Practices -$5,000,000 / -15 FTE

Improved Business Practices - Current manual administrative processes will be eliminated with the completion of BEP's Manufacturing Support Suite. Reductions of 25 FTE will be achieved through proposed buy-outs and attrition.

Replace Mainframe -$2,400,000 / +0 FTE
Replace BEP Mainframe computer with offsite Oracle On-Demand Computer Hosting Service - Switching from BEP's mainframe computer to Oracle On-Demand hosting service will result in operation and maintenance cost savings.

Spoilage Reduction Savings -$1,000,000 / +0 FTE
Spoilage Reduction Savings - reduced material spoilage during currency note production process should enable reduced purchases of currency paper and other materials used in manufacturing currency notes.

Visual Inspection Systems -$1,000,000 / -10 FTE
Productivity Improvements from new Visual Currency Inspection Systems - Completed installation of new Visual Currency Inspection System to improve inspection quality and automate work currently performed by FTEs, resulting in personnel cost savings.

Program Increases .... +$1,000,000 / +0 FTE

R&D Equipment - Tactile Features +$1,000,000 / +0 FTE
Represents the purchase of lab equipment for research and development, needed to develop and test new tactile feature for the visually impaired in future currency redesigns.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau of Engraving and Printing	FY 2010 Obligated	FY 2011 Estimated	FY 2012 Estimated
FTE	**1,889**	**1,950**	**1,925**
Object Classification			
11.1 - Full-time permanent	$152,000	$172,000	$179,000
11.3 - Other than full-time permanent	$5,000	$5,000	$0
11.5 - Other personnel compensation	$2,000	$2,000	$800
11.6 - Overtime	$28,000	$8,000	$11,000
12 - Personnel benefits	$49,000	$50,000	$50,000
21 - Travel and transportation of persons	$2,000	$2,000	$2,000
22 - Transportation of things	$300	$250	$250
23.1 - Rental payments to GSA	$2,000	$2,000	$2,000
23.2 - Rental payments to others	$1,000	$1,000	$1,000
23.3 - Communication, utilities, and misc charges	$13,000	$15,000	$14,000
24 - Printing and reproduction	$1,000	$1,000	$750
25.1 - Advisory and assistance services	$4,000	$4,000	$4,000
25.2 - Other services	$66,000	$45,000	$45,000
25.4 - Operation and maintenance of facilities	$10,000	$10,000	$10,000
25.5 - Research and development contracts	$4,700	$4,000	$3,500
25.7 - Operation and maintenance of equip	$9,800	$9,000	$9,500
26 - Supplies and materials	$182,000	$192,500	$189,000
31 - Equipment	$84,000	$65,000	$60,000
42 - Insurance claims and indemnities	$200	$250	$250
Total Budget Authority	**$616,000**	**$588,000**	**$582,050**
Budget Activities			
Manufacturing	$555,000	$527,000	$582,050
Protection and Accountability of Assets	$61,000	$61,000	$0
Total Budget Authority	**$616,000**	**$588,000**	**$582,050**

2.3 – Resource Detail Table

Dollars in Thousands

Description	FY 2009 Actual FTE	FY 2009 Actual AMOUNT	FY 2010 Actual FTE	FY 2010 Actual AMOUNT	FY 2011 Estimated FTE	FY 2011 Estimated AMOUNT	FY 2012 Estimated FTE	FY 2012 Estimated AMOUNT	% Change FY 2011 to FY 2012 FTE	% Change FY 2011 to FY 2012 AMOUNT
Budgetary Resources:										
Revenue/Offsetting Collections:										
Federal Reserve Notes		$524,000		$609,000		$581,000		$575,050		-1.02%
Other Security Products		7,000		7,000		7,000		7,000		0.00%
Total Revenue/Offsetting Collections		**$531,000**		**$616,000**		**$588,000**		**$582,050**		**-1.01%**
Unobligated balances, Start of year										
Recoveries of prior year obligations		$0		$0		$0		$0		0.00%
Net tranfers (includes capital transfers)		$0		$0		$0		$0		0.00%
Total budgetary resources available		**$0**		**$0**		**$0**		**$0**		**0.00%**
Expenses/Obligations:										
Direct Manufacturing										
Paper and Ink		$163,000		$182,000		$192,500		$181,000		-5.97%
Direct Labor	750	90,000	725	94,500	725	94,500	725	94,050	0.00%	-0.48%
Other Direct Mfg Costs		7,000		7,500		7,500		7,500		0.00%
Subtotal Direct Manufacturing Costs		**260,000**		**284,000**		**294,500**		**282,550**		**-4.06%**
Indirect Manufacturing Support	1,194	271,000	1,164	332,000	1,225	293,500	1,200	299,500	-2.04%	2.04%
Total Manufacturing Activity Costs		531,000		616,000		588,000		582,050		-1.01%
Total Expenses/Obligations	**1,944**	**$531,000**	**1,889**	**$616,000**	**1,950**	**$588,000**	**1,925**	**$582,050**	**-1.28%**	**-1.01%**
Net Results		**$0**		**$0**		**$0**		**$0**		**0.00%**
Federal Reserve Notes Manufactured (in Billions)		**6.8**		**6.4**		**7.5**		**7.0**		
Capital Investments		**$57,000**		**$84,000**		**$65,000**		**$60,000**		

2B – Appropriations Language and Explanation of Changes

The Bureau of Engraving and Printing receives no appropriated funds from Congress.

2C – Legislative Proposals

BEP requests legislation to repeal that portion of 31 USC Sec. 5114(c), which limits a contract term for the manufacture of distinctive currency paper to four years. Proposed Amendment: Section 5114(c) of Title 31, United States Code (relating to engraving and printing currency and security documents), is amended by striking "for a period of not more than 4 years". By repealing this limit, the contract term for the manufacture of distinctive currency paper will match all other federal contracts which allow five years. This proposal may open up the supply of U.S. currency paper to competition by ending the four year contract limitation. Potential suppliers consider four years too short of a payback period for production of this unique product, which GAO identified as a barrier to competition.

To prevent money laundering, BEP requests legislation to require, in the current fiscal year and hereafter, any person who forwards to the Bureau of Engraving and Printing (BEP) a mutilated paper currency claim equal to or exceeding $10,000 for redemption shall be required to provide BEP their taxpayer identifying number.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated	% Change FY10 to FY12
Commerce enabled through safe, secure U.S. notes and coins	616,000	588,000	582,050	-1.01%
Total	**$616,000**	**$588,000**	**$582,050**	**-1.01%**

3A - Manufacturing *($582,050,000 from reimbursable programs):* BEP manufactures high quality Federal Reserve notes and security documents that deter counterfeiting. The Bureau's manufacturing activity supports Treasury's strategic objective "Trust and confidence in U.S. currency worldwide".

BEP uses the latest technologies for security printing and processing, including automated inspection equipment used in the production of the nation's currency. The Bureau's production equipment is operated by highly skilled craft personnel who have developed unique skills through multi-year apprenticeship programs.

The manufacturing of state-of-the-art currency deters counterfeiting, contributes to public confidence, and facilitates daily commerce ensuring seamless "business as usual" transitions as new currency designs are introduced to the public.

In FY 2010, the Bureau delivered 6.4 billion Federal Reserve Notes to the Federal Reserve Board. The estimated Federal Reserve Board's order for FY 2011 and FY 2012 is 7.5 and 7.0 billion notes, respectively.

3.2.1 Manufacturing Budget and Performance Plan

Manufacturing Budget Activity Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$476,700	$469,000	$555,000	$527,000	$582,050
Total Resources	**$476,700**	**$469,000**	**$555,000**	**$527,000**	**$582,050**
Budget Activity Total	**$476,700**	**$469,000**	**$555,000**	**$527,000**	**$582,050**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Manufacturing Costs For Currency (Dollar Costs Per Thousand Notes Produced) ($) (E)	29.47	32.77	44.85	48.0	48.0
Percent of Currency Notes Delivered to the Federal Reserve that Meet Customer Quality and Requirements (%) (Oe)	100.0	99.9	97.5	99.9	99.9

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

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, as well as the mix of denominations ordered year to year. As more sophisticated counterfeit deterrent design features are produced, paper and ink costs increase, resulting in increased total manufacturing costs. Actual performance against standard depends on BEP's ability to meet annual spoilage, efficiency, and capacity utilization goals. This measure has performed at or better than its annual targets for the past seven years.

Percent of currency notes delivered to the Federal Reserve that meet customer quality and requirements is a qualitative indicator reflecting the Bureau's ability to provide a quality product. All notes delivered to the Federal Reserve go through rigorous quality inspections. These inspections ensure that all counterfeit deterrent features, both overt and covert, are functioning as designed.

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

3B - Protection and Accountability of Assets *(No funding):* The Department of the Treasury proposes to eliminate the Protection and Accountability budget activity, and consolidate it into the Manufacturing budget activity beginning in FY 2012. During the past eight years since the Protection and Accountability of Assets budget activity was created, the Department has determined that it fails to serve a meaningful purpose on a standalone basis and unnecessarily complicates budgetary and other financial reporting.

3.2.2 Protection and Accountability of Assets Budget and Performance Plan

Protection and Accountability of Assets Budget Activity					
Resource Level	**FY 2008 Actual**	**FY 2009 Actual**	**FY 2010 Actual**	**FY 2011 Estimated**	**FY 2012 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$61,500	$62,000	$61,000	$61,000	$0
Total Resources	**$61,500**	**$62,000**	**$61,000**	**$61,000**	**$0**
Budget Activity Total	**$61,500**	**$62,000**	**$61,000**	**$61,000**	**$0**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Currency Shipment Discrepancies Per Million Notes (%) (Ot)	0.01	0.0	0.0	0.01	0.01

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

Description of Performance

Currency Shipment Discrepancies is 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. This target is very difficult to achieve, given the number of currency notes produced and the speed at which the notes are processed. However, BEP continually strives to meet its long term goal of zero percent, and has been able to do so several times. 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.

The measure security cost per 1000 notes delivered reflects the cost of providing product security. The measure is kept at the lowest level possible without compromising the security posture of the Bureau. BEP strives to reduce the target on an annual basis through a combination of competitive sourcing initiatives, leveraging of the best practices of other federal law enforcement agencies, targeted system investments, and improvements in facility design that incorporate security attributes. This measure is discontinued in FY 2010 because over time, the Department of the Treasury has found it to be of limited usefulness.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Regardless of mission, size or nature of business, all organizations must have three important ingredients to perform successfully: a viable and progressive operating plan; an accompanying organizational infrastructure to support the plan; and most important, the human capital to make it happen. The BEP's Office of Human Resources (OHR) is the hub of the Bureau's human capital program. OHR develops, administers and implements programs that support employee work life. Its role is integral to the Bureau's ability to meet its mission. Consequently, human capital planning and strategic investments in employee development represent an important link in the Bureau's, Department of the Treasury's and federal government's strategic business plan.

The BEP's Human Capital Strategic Plan provides a window into the future by mapping how OHR will create an environment that supports, nurtures, and sustains a high caliber workforce that will be up to any challenge. That is why the theme for the Bureau's plan is appropriately titled, "Turning Ideas into Action: A Blueprint for the Future."

The FY 2012 human capital strategy includes:

- Talent Management - Enhance the effectiveness of recruitment and retention programs to ensure the Bureau continues to meet its critical mission requirements and establishes itself as an employer of choice. It is a Bureau goal to move BEP into the top 50 percent of Best Places to Work in Government by the end of FY 2014.

- Workforce Planning and Deployment - Establish an infrastructure that ensures a ready, deployable and adaptable talent reservoir to meet the Bureau's current and future challenges and ensures continuity of function.

- Continuous Learning Environment - Develop employees and leaders at all organizational levels to foster a high level of individual and collective competence.

- Results-Oriented Performance Culture - Implement a goal-based performance management system Bureau-wide that links individual and organizational results to the Bureau's performance goals, and which is supported by a dynamic, continuous learning environment.

- Human Capital Business solutions - Develop and implement effective human capital processes, tools and technologies that will provide the highest quality programs, operational support and service delivery to customers.

- Labor-Management Coalitions - Maintain a cooperative relationship between management and the 15 Unions representing 19 bargaining units to support a dynamic and progressive workplace for employees to realize high levels of performance achievement and job satisfaction

BEP's workforce is aging. The average age of BEP staff in FY 2010 is 50.32 years of age. Within 10 years, 59 percent of the bureau's workforce will be eligible to retire. In addition, in 2010 a total of 70 employees, or 3.6 percent of BEP's total workforce is eligible for regular and early out retirement. Between 2011 and 2014, an additional 294 employees will be eligible for regular retirement. These figures do not include normal attrition rates as a result of resignations and terminations.

BEP staff levels have continued to decline through a less than average attrition rate but it is anticipated that BEP's attrition rate will increase. During the period October 2009 to March 2010, BEP witnessed a loss of 78 employees which represented a 3.9 percent reduction of staff for that period. BEP achieved this high percentage of reduction as the result of a targeted early retirement and voluntary separation incentive program.

BEP faces deficiencies in some human capital areas. It is particularly difficult to attract and retain qualified senior contract specialists, and to find printing and production specialists with new technology skills. On the other hand, BEP anticipates that some positions may have staffing surpluses in the future.

BEP is planning for the loss of staff in mission critical occupations, frontline leadership, and Senior Executive Service (SES) positions. Departures of individuals in these positions could leave BEP vulnerable to key knowledge gaps. While 18 percent of BEP's current staff is eligible for retirement by FY 2014, apprenticeship and trainee programs and on the job training are in place and will help to close this potential skills gap. Furthermore, services such as information technology, contracting, and human resources are provided by a mix of in-house and outsourced staff to provide for future flexibility.

Hiring Reform – BEP is working to improve communication with applicants to each vacancy announcement by issuing timely letters of receipt, status, and results. OHR assigns staffing specialists (a primary and a backup) to service the needs of each BEP division. This has resulted in improved OHR working relationships with hiring managers. OHR holds monthly meetings to discuss government-wide and agency specific hiring initiatives, current and upcoming hiring strategies and feedback OHR receives on the hiring process.

Veterans' Employment – BEP participates in targeted Veterans' hiring initiatives such as the Department of the Treasury Veterans Employment Summit. All job vacancy announcements include a link to OPM's Veterans Employment website. Additionally, BEP is continuing outreach efforts through programs such as Wounded Warriors.

Hiring of Individuals with Disabilities – BEP's Office of Equal Opportunity & Diversity Management works with OHR to promote, identify and facilitate the hiring of individuals with disabilities. BEP has effectively used direct hiring authority to streamline the appointment of individuals with disabilities. OHR actively communicates with BEP hiring managers about this program's usefulness when there is a need to quickly fill vacant positions.

Labor-Management Forums – BEP will establish Labor-Management Forums in accordance with Executive Order 13522 "Creating Labor-Management Forums to Improve Delivery of

Government Services". This should provide a vehicle to help BEP improve low-scoring areas in BEP's FY 2010 Employee Viewpoint Survey such as leadership and communication. BEP has also sent nine union leaders and eight management representatives to joint training held by the Federal Labor Relations Authority and Federal Mediation and Conciliation Service on implementation of Executive Order 13522.

Employee Engagement – During 2010 the Director of BEP began holding regularly scheduled "lunch time chats" open to all BEP employees in order to provide greater opportunities for employees to engage with management. BEP management has also revised its telework policy to encourage increased telework by BEP employees.

Women and Minorities – BEP strives to increase representation by women and minorities in higher level positions. The Bureau has developed a succession plan to address gaps in leadership skills and competencies. BEP reaches out to colleges, universities, communities, and organizations using recruitment strategies intended to attract a more diverse pool of potential job applicants.

Federal Employee Viewpoint Survey – During 2010, BEP hired an independent contractor to conduct employee focus groups to collect further information on areas of employee concern identified through the 2010 Employee Viewpoint Survey. BEP management held town hall meetings to discuss the focus group findings and established priorities for follow up action. BEP is currently working on an updated action plan in response to the 2010 Employee Viewpoint Survey results.

Wellness – BEP offers a variety of health, wellness, and fitness programs to its employees. During FY 2011, BEP plans to establish a baseline measurement of employee participation in these programs. Based on the results, BEP plans to develop a comprehensive written Wellness program with targeted bureau-wide goals, including the establishment of employee participation incentives and a target rate of 75 percent employee participation. This program will be designed to be consistent with the "four pillars" of OPM's "Healthier Feds" Initiative, and will be split into four general categories: Physical activity, prevention, healthy choices, and nutrition.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments							
		2010		**FY 2011**		**FY 2012**	
			% Change from		**% Change from**		**% Change from**
Major IT Investments/Funding Source	Budget Activity	Obligated	FY09 to FY10	Estimated	FY10 to FY11	Estimated	FY11 to FY12
Manufacturing Support Suite	Manufacturing	$18,000	100.00%	$1,100	-93.89%	$1,100	0.00%
Subtotal, Major IT Investments		$18,000	100.00%	$1,100	-93.89%	$1,100	0.00%
Non-Major IT Investments Technology[1]							
Manufacturing Support Systems	Manufacturing	$1,710	6.88%	$1,800	5.26%	$380	-78.89%
Public Sales System	Manufacturing	$0	-100.00%	$0	0.00%	$0	0.00%
WebTA	Manufacturing	$20	-75.00%	$100	400.00%	$120	20.00%
Subtotal, Non-Major IT Investments		$1,730	-37.77%	$1,900	9.83%	$500	-73.68%
Infrastructure Investments							
BEP Mainframe & Serv. Services (for Consolidation)	Manufacturing	$21,800	263.33%	$22,300	2.29%	$17,200	-22.87%
BEP End User Sys. & Serv. (for Consolidation)	Manufacturing	$7,836	20.55%	$7,850	0.18%	$8,100	3.18%
BEP Telecommunications (for Consolidation)	Manufacturing	$1,090	62.69%	$1,310	20.18%	$1,340	2.29%
Subtotal, Infrastructure Investments		$30,726	133.30%	$31,460	2.39%	$26,640	-15.32%
Enterprise Architecture	N/A	$0	0.00%	$0	0.00%	$0	0.00%
Subtotal, Enterprise Architecture Investments		$0	0.00%	$0	0.00%	$0	0.00%
IT Investments		$50,456	216.34%	$34,460	-31.70%	$28,240	-18.05%

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

BEP's information technology (IT) and IT-embedded investments (i.e. sophisticated manufacturing and inspection equipment) are fully aligned with the Department of the Treasury's and BEP's Strategic Plans and goals to support the technical development and manufacturing of Federal Reserve notes. The Bureau implements and complies with statutory and regulatory requirements.

BEP participates as a partner in significant Treasury-wide enterprise level investments such as TNet (a Department-wide network to allow bureaus to leverage shared services), Homeland Security Presidential Directive-12, HRConnect (a Human Resources Line of Business service provider) and the Treasury Learning Management System (TLMS).

BEP's IT portfolio includes the estimated $18 million cost to implement the Oracle eBusiness integrated manufacturing suite which will run at the Oracle Corporation's "Federal on Demand" Shared Service Center in Austin, Texas. After implementation, BEP anticipates annual operating and maintenance cost savings of $2.4M compared to continued usage of the current BEP-operated mainframe. Due to this modernization, BEP anticipates productivity improvements of five percent by revising work practices in administrative and support areas for a savings of an additional $5M annually. This savings estimate was developed as a result of BEP's discussion with other manufacturing entities that implemented the Oracle E-Business Suite, reviewing best practices supported by the software, and completing an initial requirements definition process.

Overview

Mission Statement

The mission of the United States Mint is to manufacture and distribute circulating coins, precious metal and collectible coins, and national medals to meet the needs of the United States.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated	Change FY10 to FY12 $ Change	Change FY10 to FY12 % Change
Manufacturing	$3,602,988	$2,457,862	$2,515,589	($1,087,399)	(30.2%)
Protection	$43,979	$51,016	$0	($43,979)	(100.0%)
Total Operating Resources	**$3,646,967**	**$2,508,878**	**$2,515,589**	**($1,131,378)**	**(31.0%)**
Capital Investments	**$23,794**	**$30,830**	**$30,296**	**$6,502**	**27.3%**
Total Resources	**$3,670,761**	**$2,539,708**	**$2,545,885**	**($1,124,876)**	**(30.6%)**
Total FTE	**1,778**	**1,873**	**1,873**	**95**	**5.3%**

The Department of the Treasury is eliminating the Protection budget activity and consolidating it into the Manufacturing budget activity beginning in FY 2012.

FY 2012 Priorities

- Circulating - Efficiently and effectively produce and distribute approximately 9.6 billion circulating coins in FY 2012 to meet the needs of commerce, an important strategic objective for the Department of the Treasury. Honor national parks and other national sites through effective administration of the United States Mint America the Beautiful Quarters Program in compliance with the America's Beautiful National Parks Quarter Dollar Coin Act of 2008.

- Bullion - Prepare and distribute bullion coins while employing precious metal purchasing strategies that minimize or eliminate the financial risk that can arise from adverse market price fluctuations.

- Numismatic - Prepare and distribute numismatic products in sufficient quantities to make them accessible, available, and affordable to people who choose to purchase them. Design, strike and prepare for presentation Congressional gold medals and commemorative coins as required by law.

- Protection - Continue to secure over $320 billion in market value of the nation's gold reserves, silver and other assets.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The United States Mint supports the Department of the Treasury's strategic objective to promote trust and confidence in U.S. currency worldwide by enabling commerce through safe, secure U.S. notes and coins. To do this, the United States Mint manufactures and delivers domestic circulating coinage, bullion coin products, numismatic coinage and national medals. The United States Mint provides security for assets, including the government's reserves of gold bullion, silver bullion, coins and coinage metals.

The United States Mint is the world's largest coin manufacturer with operations in California, Colorado, Kentucky, New York, Pennsylvania and Washington, D.C. The United States Mint is committed to achieving efficient operations and providing value to the American people. Its vision is "to be recognized as the finest mint organization in the world, through excellence in our people, products, customer service and workplace."

Priorities

The priorities for the United States Mint are organized around three primary responsibilities: enabling commerce by minting and issuing circulating coinage; manufacturing, marketing and selling bullion products; and manufacturing, marketing and selling numismatic products. The United States Mint is also responsible for protecting and safeguarding the Nation's gold reserves, silver and other assets held in United States Mint custody.

During its annual strategic planning cycle, the United States Mint establishes annual action items, and implements work plans to make continuous progress in achieving objectives and goals. This approach allows budgets, employees' work objectives, and performance plans to be linked to desired outcomes. Employing this strategic framework, the United States Mint gauges its progress more effectively and communicates the results to the American public. Strategic priorities include multi-year initiatives to ensure long-term operational goals are efficiently and effectively achieved. The United States Mint's strategic priorities for FY 2012 include implementation of employee development training to further develop employee skills while also appropriately rewarding individual and collective accomplishments.

Circulating

The United States Mint is the Nation's sole manufacturer of legal tender coinage. The efficient and effective production and distribution of circulating coinage for the Nation to conduct trade and commerce is the United States Mint's highest priority.

In April 2010, the United States Mint launched the America the Beautiful Quarters Program, a 12-year initiative to honor national parks and other national sites from all 50 states, the District of Columbia and U.S. territories. In accordance with the America's Beautiful National Parks Quarter Dollar Coin Act of 2008 (P. L. 110-456), the United States Mint will issue five quarters each year with different national sites depicted on the reverse, in the order which the selected locations were first established as national sites. The United States Mint is committed to effective administration of the America the Beautiful Quarters Program with the goal of generating similar results to its successful predecessor, the 50 State Quarters® Program.

Bullion
The United States Mint, the world's largest producer of gold and silver bullion coins, is committed to producing and distributing bullion coins and employing precious metal purchasing strategies that minimize or eliminate the financial risk that can arise from adverse market price fluctuations. In particular, gold prices have steadily climbed over time, recently peaking at over $1,400 per ounce. This reflects the volatility of precious metal prices, which tend to rise during unstable economic conditions, and decline in steadier, healthier economic environments.

Numismatic
The United States Mint prepares and distributes numismatic products for collectors and other members of the public who desire high-quality versions of the Nation's coinage. Making numismatic products accessible, available, and affordable to people who choose to purchase them is the highest priority of the United States Mint's numismatic operations.

As required by legislation, the United States Mint designs, strikes and prepares for presentation Congressional gold medals and commemorative coins to officially honor people, places and events. In FY 2012, the United States Mint will produce the United States Army Commemorative Coin (P.L. 110-450).

Going Green

Producing circulating, bullion, and numismatic coins and medals is an energy intensive process. The United States Mint is in full support of the Department of the Treasury's commitment to comply with environmental and energy statutes, regulations, and executive orders. Accordingly, the United States Mint plans the following "Green" initiatives:

- Comprehensive energy audits and retro-commissioning of its manufacturing facilities;
- Energy reduction projects;
- Increased use of renewable energy where possible; and
- Undertaking Leadership in Energy and Environmental Design (LEED) and Energy Star certification for leased building and owned property where feasible.

The United States Mint headquarters in Washington, D.C. is working to achieve Energy Star Certification. By making small changes like replacing light switches with motion sensors and converting to automatic paper towel dispensers (which halved paper towel usage), the headquarters building is experiencing significant savings. The headquarters building's cleaning contractor only uses "green" materials (such as recycled paper products and environmentally friendly cleaning products), and its construction contractors are required to use green products when feasible. By adding weather stripping, insulation and energy efficient light bulbs, the United States Mint saves money and is reducing its carbon footprint. In FY 2010, the headquarters building total savings from "Green" initiatives totaled $196,000.

The United States Mint is making a concerted effort to convert its Denver facility to greener energy by contracting with an energy provider that employs wind and solar energy rather than fossil fuels. When fully implemented, this 100 percent renewable energy purchase is targeted to reduce greenhouse gas (GHG) emissions by 14.72 percent.

The Denver and Philadelphia field sites are implementing an energy retrofit to install low pressure steam boilers. These are targeted to reduce costs and provide cleaner energy output. Conversion from purchased steam to site generated steam reduces GHG emissions by 12.23 percent.

After completing a study of the West Point facility, the United States Mint is working to bring the West Point building into compliance with LEED certification standards. The LEED system helps building owners measure operations, improvements and maintenance on a consistent scale, with the goal of maximizing operational efficiency while minimizing environmental impacts. LEED standards also address whole-building cleaning and maintenance issues (including chemical use), recycling programs, exterior maintenance programs and systems upgrades.

1B – Program History and Future Outlook

Since FY 1996, the United States Mint has operated under the United States Mint Public Enterprise Fund (PEF). As authorized by Public Law 104-52 (codified at 31 U.S.C. § 5136), the PEF eliminates the need for appropriations. Proceeds from the sales of circulating coins to the Federal Reserve Banks (FRB), bullion coins to authorized purchasers, and numismatic items to the public are paid into the PEF, providing a continuous source of funding. All operating expenses and capital investments incurred for the United States Mint's operations and programs are paid out of the PEF. By law, all funds in the PEF are available without fiscal year limitation. Revenues over and above costs are transferred to the United States Treasury General Fund as off-budget and on-budget receipts. Off-budget receipts consist of seigniorage, the net return from circulating operations, which in the federal budget is used to reduce needed borrowing by the government, resulting in a reduction in interest on the federal debt from the borrowing it displaces. The net return from bullion and numismatic program operations are recorded as on-budget receipts in the federal budget, and are used to fund Federal Government operations and programs.

The United States Mint's budget receipts and outlays reflect the demand for and sales of circulating, bullion and numismatic coin products. In accordance with the PEF legislation, proceeds from sales provide the United States Mint's funding source, fully covering budget outlays, which adjust as the necessary resources are engaged to fulfill prevailing demand. The vast majority (approximately 88 percent in FY 2010) of budget outlays are for procurement of metals and materials for conversion into finished goods. Accordingly, the value of each fiscal year's budget outlays principally reflects the production volumes that correspond to prevailing demand as well as prevailing raw material purchase costs driven by prices on open commodities markets. The economic environment can significantly impact the United States Mint's budget outlays by affecting these two external factors.

Circulating: Beginning in FY 2009, slowing economic activity considerably reduced demand for circulating coins. Commercial banks and other financial institutions curtailed orders for coins and returned excess coins to the FRB. The FRB decreased orders for newly minted coins in response to these conditions. As a result, circulating coin volumes fell sharply in FY 2009 and remained low in the first half of FY 2010. In response, the United States Mint opted not to renew appointments for temporary personnel and instituted a hiring freeze which resulted in a reduction of 53 personnel through attrition and approximately $5 million in cost savings. However, reductions in labor expenses only slightly offset rising metal expenses. FRB orders rebounded in the second half of FY 2010 and as a result the United States Mint began rehiring some temporary employees to meet demand. Total circulating revenue declined 20.5 percent to $618.2 million in FY 2010 from $777.6 million in FY 2009.

While circulating volumes and revenue declined, market prices for base metals (copper, nickel and zinc) climbed from five-year lows in FY 2009 to levels near the high price ranges experienced in FY 2007. This increased expenses for fabricated blanks and strip for circulating coin production, eroded seigniorage and drove up unit costs for all denominations. The average daily spot price for copper and zinc increased 56.9 percent and 52.4 percent, respectively, from FY 2009 to FY 2010. The average daily spot price for nickel rose 55.8 percent over the same time period. Seigniorage per dollar issued fell nearly 11 percent to $0.49 in FY 2010 from $0.55 in FY 2009. Base metal expenses and the mix of circulating coin denominations ordered by the FRB largely determine seigniorage per dollar issued. The total unit cost for all denominations increased from FY 2009. The unit cost to produce the one-cent coin (penny) and 5-cent coin (nickel) denominations were $0.0162 and $0.0603 respectively in FY 2009. In FY 2010, one-cent coin unit costs were $0.0179 and the 5-cent coin unit costs were $0.0922, remaining above face value for the fifth consecutive fiscal year.

Improving economic conditions, particularly strong growth in retail sales activity, prompted stronger demand for circulating coins beginning in mid-FY 2010. Shipments to the FRB in the second half of FY 2010 were three times those in the first half of the fiscal year. While beneficial to the United States Mint's financial position, such extreme shifts in orders for coins present challenges to the United States Mint's circulating production operations. The United States Mint attempts to smooth out production as much as possible, but the volatile nature of coin demand often impedes level-loaded production. Over the past five fiscal years, monthly shipments have ranged from an average low of 650 million coins to an average high of nearly 1.5 billion coins. This is equivalent to going from a 7.8 billion coin annual run rate to a nearly 17.6 billion coin run rate. Fluctuations in coin demand are also unpredictable and can occur with little notice. This was particularly apparent in FY 2010 as the FRB's 12-month orders forecast fluctuated between a low of 2.7 billion coins and a high of 7.3 billion coins. To mitigate volatility in coin demand and the burden it imposes on labor and equipment, the United States Mint is focused on developing a more flexible workforce, increasing automation, equipment standardization and application of Lean Manufacturing principles.

Based on the FY 2011 OMB President's Budget estimates for economic indicators, the United States Mint projects circulating shipments to the FRB will increase slightly to 6.6 billion coins in FY 2011 and 9.6 billion coins in FY 2012. However, most of the volume increase will consist of lower denomination coins as the FRB has accumulated inventories of higher denominations sufficient to fulfill the majority of demand in upcoming years. This shift in the composition of circulating shipments toward lower denominations weakens the financial impact of improving demand conditions because lower denominations generate less seigniorage. Higher penny and nickel volumes reduce seigniorage as these coins will continue to be manufactured at costs above face value.

Metal market prices are expected to hold at higher levels as the global economy improves. A strategy to mitigate the challenge of rising metal prices is to change the composition of all circulating coinage to less expensive materials. Accordingly, as a result of the passage of The Coin Modernization, Oversight, and Continuity Act of 2010 (P.L. 111-302), the Department of the Treasury has been granted legislative authority to examine options for alternative materials that would ultimately result in significant taxpayer savings without compromising the utility of coins. This legislation authorizes the Secretary to conduct, explore, analyze, and recommend to Congress new, less expensive materials for all circulating coins. Specifically, the Secretary is granted authority to conduct research and development into new, less expensive materials based on factors that he determines to be appropriate. These factors include, but are not limited to, the physical, chemical, metallurgical and technical characteristics of the coins, as well as any other factors necessary to ensure coinage utility and integrity.

Shipments of quarter and $1 coin denominations will remain at lower levels to support the America the Beautiful Quarters, Presidential $1 Coin and Native American $1 Coin programs. Even at relatively small quantities, shipments of the $1 coin highly influence total circulating revenue and seigniorage. The $1 coin generated 67 percent of total circulating revenue in FY 2010. The United States Mint's $1 Coin Direct Ship and Bulk Bag Programs contributed to these results by providing alternative channels for banks, small retailers and the public to obtain $1 coins. These two programs generated $92.8 million of revenue in FY 2010.

<u>Bullion:</u> In FY 2010, demand for the United States Mint's gold and silver bullion coins reached a new high, surpassing the unprecedented demand of FY 2009. Bullion sales totaled 35.8 million ounces in FY 2010, up 29.7 percent from 27.6 million total ounces in FY 2009. The United States Mint achieved record sales by working extensively with suppliers to significantly expand precious metal planchet supply. Accordingly, bullion revenue reached a record high of $2,855.4 million, a $1,160.6 million (68.5 percent) increase over FY 2009 total bullion revenue of $1,694.8 million. Efficient use of production capacity allowed the United States Mint to achieve significant bullion production volume without incurring additional operating costs. The United States Mint expects demand for bullion coins to remain strong for a sustained period until economic conditions stabilize and investors are drawn toward alternative investments.

The United States Mint was mandated to mint and issue American Eagle gold and silver bullion coins in quantities sufficient to meet public demand. When demand soared to unprecedented levels, the bureau worked extensively with suppliers and maximized production capacity to fulfill this mandate. While enabling the United States Mint to achieve record bullion coin sales, these efforts negatively affected numismatic sales and customer satisfaction levels. To mitigate this challenge, the bureau sought and has been granted legislative authority through passage of The Coin Modernization, Oversight, and Continuity Act of 2010 (P.L. 111-302), which permits the Secretary of the Treasury to mint and issue proof and uncirculated versions of the American Eagle coins in qualities and quantities the Secretary determines are appropriate to meet demand.

Offering for sale the full range of numismatic products fosters the health of the marketplace for numismatic customers in the United States.

<u>Numismatic:</u> In FY 2010, numismatic revenue totaled $413.1 million, down 6 percent from $440.0 million in FY 2009. The slight decline in revenue reflects that fewer product lines were available for sale in each year. Additionally, poor economic conditions may have suppressed consumer spending on collectibles as sales of available products declined from prior years. Despite reduced revenue, numismatic program net income and seigniorage increased by more than 21 percent to $49.8 million in FY 2010 from $41.1 million in FY 2009. This growth resulted from a shift in sales toward high margin products.

1C – Industry Outlook

The United States Mint's future outlook is impacted by a variety of factors including the price of metals, circulating coin demand, customers' interest in numismatic and bullion products, and economic trends. The enactment of legislation in recent years has allowed the United States Mint to expand product lines in both numismatic and circulating segments. While sales of new and core recurring products continue, the United States Mint recognizes the need to continually improve its portfolio of products. This includes utilizing more efficient production capacity, developing additional production techniques and accommodating new designs and products, while analyzing the market and communicating with the public.

The United States Mint has established four strategic goals as its underlying foundation to address these challenges, today and into the future:

- Effectively met all circulating demand;
- Effectively managed bullion and numismatic programs;
- A safe, engaged, productive, and valued workforce;
- Leadership and organizational excellence.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

United States Mint	FTE	Amount
FY 2010 Actual	**1,778**	**$3,646,967**
FY 2011 Estimated	**1,873**	**$2,539,708**
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$26,277
Maintain Current Levels	-	$26,277
Efficiencies, Savings & Base Reductions:	-	($20,100)
Postpone Low Priority Capital Projects	-	($12,900)
Procurement Efficiencies and IT Savings	-	($7,200)
Subtotal FY 2012 Changes to Base	-	$6,177
Total FY 2012 Base	**1,873**	**$2,545,885**
Total FY 2012 Estimated	**1,873**	**$2,545,885**

Totals include capital investments since a FY 2012 savings proposal involves capital investment savings.

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) .... +$26,277,000 / +0 FTE

Maintain Current Levels +$26,277,000 / +0 FTE

Funds are required for inflation adjustments in non-labor expenses such as rent adjustments, postage, raw materials and inventories, supplies and equipment, health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings & Base Reductions .... -$20,100,000 / +0 FTE

The United States Mint is committed to minimizing costs while keeping product quality and customer service at peak levels. To support efforts to reduce operational funding requirements, the United States Mint puts forward the following cost savings proposals:

Capital Projects Postponed to Out-years -$12,900,000 / +0 FTE

The United States Mint reduced its FY 2012 capital budget $12.9 million by delaying several capital projects to out-years. The agency's capital plan includes funding for various equipment replacement, building maintenance and safety projects. The plans are developed based on factors such as equipment lifecycle, production needs and facility assessments. Careful consideration is given to each project and projects are then prioritized. The capital projects given a lesser priority were identified as those to be postponed to subsequent years with little or no impact to equipment life or employee safety. Examples of projects of a lesser priority that were removed from FY 2012 include electrical switchboard upgrades at San Francisco and pedestrian and parking improvements at West Point.

Contract Savings – Procurement/IT -$7,200,000 / +0 FTE

Procurement Savings: In FY 2010, the United States Mint achieved $47.6 million in non-metal procurement savings through acquisition improvement plans. The United States Mint will continue efforts to achieve procurement savings by combining multiple contracts, renegotiating current contract terms and ensuring greater competition where possible through FY 2012.

Through these efforts, United States Mint expects to achieve an estimated $5.7 million in procurement savings in FY 2012.

Information Technology (IT) Savings: The United States Mint has employed improved Information Technology strategies that are yielding cost savings in IT consulting services/systems support services, IT maintenance contract consolidation, and IT telecommunications consolidation. These initiatives are projected to save over $1.5 million in FY 2012.

Efficiency Savings / Productivity Improvements	Brief Description	FY 2012 Projected Savings
Efficiency Savings	Capital projects postponed to outyears	$12.9 million
Efficiency Savings	Contract Savings - Procurement/IT	$7.2 million

2.2 – Operating Levels Table

Dollars in Thousands

United States Mint	FY 2010 Obligated	FY 2011 Estimated	FY 2012 Estimated
FTE	**1,778**	**1,873**	**1,873**
Object Classification			
11.1 - Full-time permanent	$141,336	$146,405	$146,405
11.1 - Other than Full-Time Permanent	$741	$781	$781
11.5 - Other personnel compensation	$12,342	$11,132	$11,132
11.9 - Personnel Compensation (Total)	$154,419	$158,318	$158,318
12 - Personnel benefits	$43,564	$44,661	$44,661
13 - Benefits for former personnel	$800	$1,050	$1,050
21 - Travel and transportation of persons	$2,648	$3,630	$3,703
22 - Transportation of things	$29,889	$33,310	$33,976
23.1 - Rental payments to GSA	$389	$394	$402
23.2 - Rental payments to others	$22,170	$26,634	$27,167
23.3 - Communication, utilities, and misc charges	$13,188	$11,392	$11,620
24 - Printing and reproduction	$1,941	$2,424	$2,472
25.1 - Advisory and assistance services	$49,009	$47,081	$48,023
25.2 - Other services	$59,081	$60,516	$61,726
25.3 - Other purchases of goods and services from Govt. accounts	$23,680	$21,994	$22,434
25.5 - Research and development contracts	$2,500	$2,260	$2,305
25.7 - Operation and maintenance of equip	$9,311	$11,295	$11,521
26 - Supplies and materials	$10,663	$16,454	$16,783
26.7 - Raw Materials	$3,221,125	$2,064,623	$2,066,759
31 - Equipment	$2,559	$2,835	$2,662
42 - Insurance claims and indemnities	$31	$7	$7
Total Budget Authority	**$3,646,967**	**$2,508,878**	**$2,515,589**
Capital Investments	**$23,794**	**$30,830**	**$30,296**
Total Budget Authority including Capital	**$3,670,761**	**$2,539,708**	**$2,545,885**
Budget Activities			
Manufacturing	$3,602,988	$2,457,862	$2,515,589
Protection	$43,979	$51,016	$0
Total Budget Authority	**$3,646,967**	**$2,508,878**	**$2,515,589**

2.3 – Resource Detail Table

Dollars in Thousands

	FY 2009 Actual		FY 2010 Actual		FY 2011 Estimated		FY 2012 Estimated		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:										
Revenue / Offsetting Collections										
Circulating		$ 777,600		$ 618,200		$ 638,100		$ 787,300		23.4%
Numismatic/Bullion		$ 2,134,800		$ 3,268,500		$ 2,090,200		$ 1,958,400		-6.3%
Total Revenue / Offsetting Collections		**$ 2,912,400**		**$ 3,886,700**		**$ 2,728,300**		**$ 2,745,700**		**0.6%**
Unobligated balances, Start of year		-		-		-		-		0.0%
Recoveries of prior year obligations		-		-		-		-		0.0%
Net transfers *(includes capital transfers)*		-		-		-		-		0.0%
Total budgetary resources available		**$ 2,912,400**		**$ 3,886,700**		**$ 2,728,300**		**$ 2,745,700**		**0.6%**
Expenses/Obligations										
Circulating	671	$ 154,183	648	$ 439,488	693	$ 589,887	828	$ 612,067	19.5%	3.8%
Numismatic/Bullion	815	$ 2,061,000	792	$ 3,163,500	843	$ 1,867,975	1,045	$ 1,903,522	24.0%	1.9%
Protection	326	$ 43,318	338	$ 43,979	337	$ 51,016	-	$ -	-100.0%	-100.0%
Total Expenses / Obligations	**1,812**	**$ 2,258,501**	**1,778**	**$ 3,646,967**	**1,873**	**$ 2,508,878**	**1,873**	**$ 2,515,589**	**0.00%**	**0.3%**
Net Operating Results		**$ 653,899**		**$ 239,733**		**$ 219,422**		**$ 230,111**		**4.9%**
Capital Investments		**$ 23,996**		**$ 23,794**		**$ 30,830**		**$ 30,296**		**-1.7%**
Coin Shipments (In Millions)										
Circulating:										
One Cent		3,218		3,487		4,139		5,497		
5-Cent		207		359		657		1,138		
Dime		358		886		1,214		2,329		
Quarter		965		253		250		250		
Half-Dollar		-		-		-		-		
Dollar		459		414		380		380		
Total Circulating		**5,207**		**5,399**		**6,640**		**9,594**		

2B – Appropriations Language and Explanation of Changes

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 [2011] *2012* under such section 5136 for circulating coinage and protective service capital investments of the United States Mint shall not exceed [$25,000,000] *$20,000,000.*	

2C – Legislative Proposals

<u>Eliminate the 20 percent requirement in the Native American $1 Coin Act</u>
This legislative proposal seeks to eliminate the requirement that the number of $1 coins minted and issued in a year with the Sacagawea-design on the obverse be not less than 20 percent of the total number of $1 coins minted and issued in a year. Proposed amendment: Section 5112(r) of title 31, United States Code, is amended by striking paragraph (5). Approval of this proposal would allow the United States Mint to mint and issue all $1 coins in amounts necessary to meet public demand for coins of each particular design. It would also eliminate the excessive expense of minting and issuing Native American $1 Coins in amounts that exceed the public demand for them.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to:
http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated	% Change FY10 to FY12
Commerce enabled through safe, secure U.S. notes and coins	3,670,761	2,539,708	2,545,885	-30.6%
Total	**$3,670,761**	**$2,539,708**	**$2,545,885**	**-30.6%**

Totals include capital investments since a FY 2012 savings proposal involves capital investment savings.

3A - Manufacturing *($2,515,589,000 from reimbursable programs, not including capital):* The United States Mint manufactures and sells coin products. For budget reporting purposes, these products are grouped into two programs: Circulating Coinage and Numismatic Programs.

Circulating Coinage

The United States Mint enables commerce by minting and issuing circulating coinage to meet the needs of the United States. Circulating coinage includes the penny (one-cent), nickel (five-cent), dime (ten cent), quarter-dollar, half-dollar and dollar denominations. The United States Mint delivers the circulating coinage to the Federal Reserve Banks, at face value, for distribution as demanded by commerce.

The current FY 2012 budget estimate includes resource needs of $612.1 million to produce and ship 9.6 billion coins and generate receipts of $787.3 million in face value.

Beginning in 2010 through 2020, the United States Mint will mint and issue commemorative quarter-dollar coins honoring national parks and other national sites, in accordance with the America's Beautiful National Parks Quarter Dollar Coin Act of 2008 (Public Law 110-456). This program honors national parks and sites in the order in which they were first established as a national park or site. Similar to the issuance of coins under the 50 State Quarters Program, quarter-dollar coins featuring five different coin designs will be issued each year of this program.

In 2011, the United States Mint will release quarters honoring Gettysburg National Military Park in Pennsylvania, Glacier National Park in Montana, Olympic National Park in Washington, Vicksburg National Military Park in Mississippi, and Chickasaw National Recreation Area in Oklahoma. In 2012, the United States Mint will release quarters honoring El Yunque National Forest in Puerto Rico, Chaco Culture National Historical Park in New Mexico, Acadia National Park in Maine, Hawaii Volcanoes National Park in Hawaii, and Denali National Park in Alaska.

Numismatic Program

For budget reporting purposes, the Numismatic program includes numismatic and bullion products. The current FY 2012 budget estimate for numismatic and bullion products includes resource needs of $1,903.5 million to generate $1,958.4 million in revenues from the sale of these products.

The United States Mint prepares and distributes numismatic products, including proof and uncirculated versions of coins, directly to the public. For some numismatic products, authorizing legislation specifies program requirements, such as design theme, mintage level and duration of product availability. Other programs are structured by law to grant the Secretary of the Treasury discretion in determining product specifications. The Numismatic Program includes the American Eagle Program, the American Buffalo Program, the America the Beautiful Program, the recurring product programs, commemorative coins, and medals.

Recurring numismatic product programs include high quality, specially presented products based on circulating coinage. These products include proof sets, uncirculated sets, quarter-dollar coin sets, and $1 Coin sets for the public.

Commemorative coins are authorized by Congress to celebrate and honor American people, places, events and institutions. Each is minted and issued by the United States Mint in limited quantity and is available only for a limited time. Included in the price is a surcharge that is authorized to be paid to designated recipient organizations for projects that benefit the community. In FY 2012, the United States Mint will produce the United States Army Commemorative Coin (P.L. 110-450). Surcharges from the sale of each coin are authorized to be paid to the Army Historical Foundation to support the construction of the National Museum of the United States Army at Fort Belvoir, VA.

The United States Mint also produces bullion coins under American Eagle and American Buffalo Programs to fulfill investor demand.

The American Eagle Program consists of the United States Mint's premier collectible products. These coins contain platinum, gold, and silver and are issued in proof or uncirculated quality. Gold proof coins are issued with one-tenth, one-quarter, one-half or one ounce of gold content. Gold uncirculated coins are issued with one ounce of gold content. Silver proof and uncirculated coins are issued with one ounce of silver content. Platinum proof coins are issued with one ounce of platinum content.

Bullion coins are largely bought by precious metal dealers and sold to consumers who desire precious metals as part of an investment portfolio. The demand for bullion coins is greatly influenced by the performance of other investment options such as equities markets or currency markets and therefore is highly unpredictable. The content and purity of bullion coins are backed by the United States Government.

3.2.1 Manufacturing Budget and Performance Plan

Manufacturing Budget Activity					
Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$2,014,698	$2,215,903	$3,602,988	$2,457,862	$2,515,589
Total Resources	**$2,014,698**	**$2,215,903**	**$3,602,988**	**$2,457,862**	**$2,515,589**
Budget Activity Total	**$2,014,698**	**$2,215,903**	**$3,602,988**	**$2,457,862**	**$2,515,589**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Circulating On-Time Delivery	N/A	N/A	99.8	97.5	97.5
Customer Satisfaction Index (%) (Oe)	87.5	88.3	86.1	88.0	88.0
Numismatic Customer Base (Units)(Ot)	1.27	1.06	0.799	0.976	0.976
Safety Incident Recordable Rate	N/A	N/A	2.29	3.34	3.34
Seigniorage per Dollar Issued ($) (E)	0.55	0.55	0.49	0.41	0.41

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

Description of Performance

The United States Mint developed several key performance measures to gauge the progress of achieving each of its strategic goals. The following performance measures are monitored to assess the United States Mint's performance for Manufacturing and Sales.

Customer Satisfaction Index (CSI)

A United States Mint contractor conducts a quarterly Customer Satisfaction Measure (CSM) Tracking Survey among a random sample of active customers. The CSM Survey is intended to capture customer satisfaction with the United States Mint's performance as a coin supplier and the quality of specific products. The CSI is a single quantitative score of CSM Survey results. In FY 2010, the United States Mint's results were 86.1 percent, below the target of 88 percent and down from the FY 2009 year-end result of 88.3 percent. Survey results indicate that customer satisfaction declined largely because of the unavailability of American Eagle numismatic precious metal products as well as weakening satisfaction with the United States Mint's communication with customers. In accordance with legislative mandates, the United States Mint suspended sales of these products in calendar year 2009 to allocate planchet supply to bullion coin production. CSI results are likely to improve upon the availability of these products for sale. The Coinage Modernization, Oversight and Continuity Act of 2010 (P. L. 111-302) now permits the Secretary of the Treasury to mint and issue proof and uncirculated versions of the American Eagle coins in qualities and quantities the Secretary determines are appropriate to meet numismatic product demand even if all demand for bullion is not satisfied. Also, the

United States Mint has increased communication channels to communicate with customers in order to improve quality, consistency, timeliness and responsiveness to customer needs.

Numismatic Customer Base

The numismatic customer base consists of the total number of unique purchasers (in millions) with a purchase of at least one numismatic product during the fiscal year. The numismatic customer base measure provides information on the continued and new demand for numismatic products. The numismatic customer base totaled 798,515 in FY 2010, below the target of 976,000. By the close of FY 2010, the United States Mint had sufficiently expanded gold and silver planchet supply to fulfill bullion demand and redirect a portion of blanks for numismatic products. Releasing popular gold and silver numismatic products is expected to improve customer retention and acquisition as well as customer satisfaction in FY 2011 and beyond. This measure is currently being reexamined for its usefulness.

Seigniorage per Dollar Issued

Seigniorage per dollar issued is the return to circulating operations, calculated as seigniorage divided by the total face value of circulated coinage shipped to Federal Reserve Banks. Seigniorage per $1 issued was $0.49 in FY 2010, below the performance target of $0.53. Base metal expenses and the mix of circulating coin ordered by the FRB largely determine seigniorage per dollar issued performance. To mitigate the challenge of rising metal prices, the United States Mint and the Department of the Treasury have been granted legislative authority to examine options for changing the composition of circulating coinage to less expensive materials.

Circulating On-Time Delivery

On-time delivery to the Federal Reserve Banks (FRB) is the percentage of total scheduled orders shipped on time to the FRB. The United States Mint is responsible for providing the Nation's coinage in sufficient quantity to meet the needs of commerce. To accomplish this mission, the United States Mint must supply coinage in the quantities and timelines specified by the FRB. The FRB is then responsible for distributing coinage to the commercial banking sector. The United States Mint's shipped 99.8 percent of scheduled orders on time to the FRB in FY 2010. This was a baseline year for the performance measure, thus there was no target in FY 2010. The bureau continuously monitors the circulating supply chain to ensure circulating coins are timely and accurately provided to the FRB. This measure is currently being reexamined for its usefulness.

Safety Incident Recordable Rate

The Safety incident recordable rate is the number of injuries and illnesses meeting the Occupational Safety and Health Administration recording criteria per 100 full-time workers. It measures the occurrence of work-related incidents involving death, lost time and restricted work, loss of consciousness, and medical treatment. This definition follows Part 1904 of Title 29, Code of Federal Register (29 CFR 1904). The safety incident recordable rate fell to 2.29 in FY 2010, below the target of 3.86. The United States Mint will continue to place a high priority on ensuring employee safety.

3B - Protection *(No funding):*
The Department of the Treasury is eliminating the Protection budget activity, and consolidating it into the Manufacturing budget activity beginning in FY 2012. During the past 13 years since the Protection budget activity was created, the Department has determined that it fails to serve a meaningful purpose on a standalone basis and unnecessarily complicates budgetary and other financial reporting.

3.2.2 Protection Budget and Performance Plan

Protection Budget Activity Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$42,598	$43,318	$43,979	$51,016	$0
Total Resources	**$42,598**	**$43,318**	**$43,979**	**$51,016**	**$0**
Budget Activity Total	**$42,598**	**$43,318**	**$43,979**	**$51,016**	**$0**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Protection Cost per Square Foot ($)(E)	31.76	31.57	32.26	DISC	DISC

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

Description of Performance

Protection Cost per Square Foot
Protection cost per square foot is the Protection Department's total operating cost divided by the area of usable space of the United States Mint. Usable space is defined as 90 percent of total square footage. Operating costs exclude depreciation. Total square footage of usable space is relatively constant and only changes with major events such as the addition or removal of a facility. The measure indicates the Protection Department's cost efficiency in safeguarding the United States Mint facilities, employees and over $320 billion in market value of the nation's gold reserves, silver and other assets. Protection cost per square foot was $32.26 in FY 2010, $0.51 above the target of $31.75. This measure is discontinued in FY 2011 because it has proven to have limited usefulness.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

In response to the President's government-wide focus on human capital strategies and procedures, the United States Mint's Human Capital Strategy addresses various components, including improving employee engagement, current and future staffing issues and wellness requirements. The United States Mint is creating goals and objectives for these initiatives in close coordination with the Department of the Treasury's Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR/CHCO), and with its shared human resources (HR) service provider, the Bureau of Public Debt (BPD) Administrative Resource Center (ARC).

Hiring Reform

The United States Mint fully supports the Administration's hiring reform goals and is actively working to streamline the recruitment and selection process to recruit and retain highly qualified individuals. As the United States Mint implements changes in support of those goals, it will continue to evaluate a variety of metrics and adjust implementation plans as necessary. The United States Mint will continue to increase consistency in the hiring and selection process across field sites, and provide training for hiring managers.

Hiring of Individuals with Disabilities

The United States Mint is committed to recruiting, hiring, and retaining talented individuals with disabilities and targeted disabilities. The United States Mint is also committed to increasing representation of people with disabilities in all levels of its workforce. To achieve this goal, the United States Mint plans to:

1. Train managers and supervisors on the Schedule A hiring authority for persons with disabilities.
2. Issue a memorandum from the Director or Deputy Director to managers and supervisors, encouraging them to increase the use of Schedule A in filling vacancies.
3. Participate in a minimum of one job fair that has a focus on employment of people with disabilities.

Based upon the new Presidential Executive Order (13548) dated July 26, 2010, the United States Mint plans to implement requirements as appropriate to achieve a model workplace.

Veterans' Employment

The United States Mint's FY 2010 Disabled Veterans Affirmative Action Plan (DVAAP) establishes a list of resources to recruit disabled veterans and attend career fairs and similar events focused on recruitment of disabled veterans. The United States Mint has also taken advantage of the Department of Defense "Operation Warfighter" Program to provide service members with volunteer work assignments. The United States Mint has a DVAAP Program Manager and Selective Placement Coordinator who provide outreach for disabled veterans. As a result of these efforts 36 percent of all individuals hired during FY 2010 had veteran's preference.

Improving Employee Engagement and Satisfaction

Employee satisfaction is critical to the execution of circulating, bullion and numismatic operations and the overall success of the United States Mint. Recent external and internal surveys indicate that employees perceive significant deficiencies in the United States Mint's work environment and leadership. To counter declining employee satisfaction, the United States Mint has implemented a comprehensive human capital plan that encompasses the root causes for employee dissatisfaction; enhancing leadership skills through required annual training programs; establishment of a "Total Rewards System" to institute performance as the driving force in determining rewards and recognition; formation of employee engagement teams to identify, address, and remedy sources of dissatisfaction within workgroups; proactive emphasis on the communication of goals, priorities and results throughout the organization; and establishment of a coaching culture to improve performance and employee development, to create high-trust work relationships and continually improve job performance.

The United States Mint measures employee satisfaction by surveying its workforce. Typically, employees participate in three surveys each year: The Employee Viewpoint Survey (EVS) administered by the Office of Personnel Management, and two Employee Pulse-Check Surveys, which are internally administered by the United States Mint.

All of the United States Mint's FY 2009 survey results identified areas for improvement, including employee engagement and employee satisfaction. Employee satisfaction and positive perceptions of the workplace varied greatly across departments and locations.

To address these areas, the United States Mint has embarked on a process to involve more employees with identification of concerns and development of ways to remedy the three major concerns identified by the surveys: Communication between employees, supervisors and management; recognition for a job well done; and teamwork. The "Top Three Engagement Process" was created to address these concerns. The process will foster employee-driven solutions and improvements in the three areas through employee teams gathering suggestions and feedback from coworkers and developing plans of action, in conjunction with management, to improve the workplace at headquarters and field sites. Best practices and most effective tactics will be shared throughout the United States Mint.

To improve communication, the United States Mint's Director and Deputy Director conduct open question-and-answer sessions during quarterly "town hall" meetings. The Deputy Director holds "stand-up" meetings with the many department workgroups at headquarters and each shift at the manufacturing facilities to share organizational progress and challenges. Periodic newsletters communicate news topics to employees, and supervisors are required to hold regular staff meetings and conduct individual "coaching" sessions every 4-5 weeks with each employee to further promote communication and transparency.

A "Total Rewards System" for all employees is being developed to further improve employee engagement and satisfaction. In the past, the United States Mint relied on its "Goalsharing" Program to recognize achievement. While the Goalsharing Program proved effective, it only partially addressed employee recognition. To effect more comprehensive employee recognition, the United States Mint management, employees and its labor union are working together to design and implement a Total Rewards System which will provide managers with multiple tools for attracting, motivating and retaining its employees. These tools will include both monetary and non-monetary incentives, and are intended to reward employees' time, talents and efforts to help achieve business results.

Improving Employee Wellness

As a manufacturing entity, the United States Mint focuses on ensuring employee wellness and safety. From 2005 through 2008, The United States Mint's recordable accident case rate increased each year. To reverse this upward trend, in FY 2009 the United States Mint began emphasizing safety performance and communicating preventative information at each facility. As a result the United States Mint reduced its number of work-related injuries or illnesses and the number of lost workdays. Lost time accidents fell by 45 percent from 20 cases in FY 2008 to 13 in FY 2009 to 11 in FY 2010. As a result of these efforts, the safety incident recordable rate achieved was 2.29 in FY 2010, notably better than the FY 2010 performance target of 3.86. The United States Mint also initiated processes to control exposure to severe hazards and conducted extensive safety compliance audits. The United States Mint's senior leadership is committed to increased employee participation in telework, work/life balance and wellness programs.

Labor Management Forums

Some provisions of the current United States Mint collective bargaining agreement are being renegotiated. Once these are resolved, United States Mint management will work with the labor union to establish a United States Mint labor-management forum.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments Major IT Investments / Funding Source	Budget Activity	FY 2010 Obligations	% Change from FY09 to FY10	FY 2011 Estimated	% Change from FY10 to FY11	FY 2012 Estimated	% Change from FY11 to FY12
Retail Sales System	**Manufacturing**	**$10,453**	**-41.2%**	**$14,506**	**38.8%**	**$14,520**	**0.1%**
Subtotal, Major IT Investments		**$10,453**	**-41.2%**	**$14,506**	**38.8%**	**$14,520**	**0.1%**
Non-Major IT Investments		**$2,570**	**-16.2%**	**$5,428**	**111.2%**	**$4,700**	**-13.4%**
Infrastructure Investments*		**$34,734**	**-15.8%**	**$51,633**	**48.7%**	**$54,823**	**6.2%**
Enterprise Architecture		**$1,134**	**-38.4%**	**$1,093**	**-3.6%**	**$1,121**	**2.6%**
Total IT Investments		**$48,891**	**-23.5%**	**$72,660**	**48.6%**	**$75,164**	**3.4%**

4B – Information Technology Strategy
In February 2010, the Department of Treasury launched "One Treasury" IT Services, which will provide a consistent standard for IT services across the Department of the Treasury. This effort focuses on the simplification of IT solutions, reduction of IT costs, and the implementation of "cloud" computing. "One Treasury" IT Service promotes data center consolidation, web integration, intranet migration to SharePoint Service, and sharing of common data analysis tools.

The United States Mint's overall IT strategy is tightly aligned with that of the Department of the Treasury and emphasizes technological advancement with reduced system redundancy. In early 2010, the United States Mint conducted a comprehensive IT assessment and analysis to determine current and future business and IT needs. Based on this assessment, the United States Mint enhanced its IT strategic plan and IT roadmap to be executed over the next five years. The United States Mint's current technology environment contains many applications that are redundant or not used effectively. The IT roadmap will transition the United States Mint's environment from disparate technologies and silo applications to a single Oracle Enterprise Resource Planning (ERP) system. This will integrate multiple technologies and generate substantial annual savings by eliminating costs necessary to maintain redundant applications in the current environment and integrating all necessary modules into one system that draws data from a common source..

The IT roadmap will also involve web site integration, sales channel unification and data center consolidation. The United States Mint's external Web presence is divided between commerce and non-commerce sites, which create an inconsistent and inconvenient customer experience. Web site integration will create a unified internet presence and a seamless browsing experience for visitors seeking to purchase numismatic products or obtain public information about the United States Mint. The need for an integrated web presence is supported by ongoing feedback from the public and the results of usability studies conducted on the United States Mint's web sites. The United States Mint expects web integration to generate cost savings of $5.1 million over five years by eliminating one of two vendors that currently provide operations support for web sites, and by removing redundant hardware and infrastructure services.

Information about the United States Mint's numismatic customers is not integrated. Each sales channel is maintained separately, which prevents the United States Mint from cohesively identifying, tracking and communicating with customers. Unifying sales channels and consolidating data into one information repository (the United States Mint's enterprise data warehouse) will provide for better tracking of customer behavior, improve communication with customers and ultimately augment sales and customer service. Data consolidation will also provide for better information sharing and transparency.

In FY 2012, the United States Mint will focus its ongoing data center consolidation activities on creating an in-house disaster recovery capability; and on continuing its use of virtualization to reduce the overall physical footprint of its infrastructure assets.

The United States Mint utilizes the Prosight IT Portfolio Tracking System provided and hosted by the Department of the Treasury to manage its IT investments. Prosight tracks schedule, cost, goals and performance of all IT investments. The United States Mint examines the status of each investment based on cost, schedule and budget on an ongoing basis, and provides mothly reports on results to Treasury. Any significant variance triggers a required corrective action plan to bring the investment back into compliance. IT Investments and Projects are reviewed on a weekly basis by the United States Mint's Chief Information Officer to ensure they are within cost, on schedule and meeting established performance metrics. During this review, any high risk investments or projects which are underperforming, over budget and behind schedule are identified. Decisions to terminate an investment require a mutually agreed decision by the customer, the IT Department (ITD) and United States Mint senior executives. The United States Mint also maintains a project status application for all internal projects. The application is available on the United States Mint's intranet, where the application reports monthly progress, and shows whether a project is on schedule. All of the United States Mint's investments are currently meeting cost, schedule and performance goals.

Capital Investments

The United States Mint's capital investment projects focus on manufacturing improvements such as development of new coin designs, automation of packaging lines, and expanded information handling. These investments are designed to reduce costs, shorten the cycle time from product concept to production, and increase flexible response to shifts in market demand. The following major investments are planned for 2012:

Capital Investments

(Dollars in Thousands)

Major Investments	FY 2010 Obligated	FY 2011 Estimated	FY 2012 Estimated
Circulating Capital Investments (Including Protection)			
Circulating Information Technology	306.8	2,250.0	2,250.0
Circulating Building Improvements	5,251.1	6,050.0	5,408.0
Circulating Equipment	7,556.8	15,990.0	12,335.0
Total Circulating (Including Protection)	**13,114.7**	**24,290.0**	**19,993.0**
Numismatic Capital Investments			
Numismatic Information Technology	102.3	750.0	750.0
Numismatic Building Improvements	4,372.2	2,290.0	4,603.0
Numismatic Equipment	6,204.5	3,500.0	4,950.0
Total Numismatic	**10,679.0**	**6,540.0**	**10,303.0**
Total Capital Investments	**23,793.7**	**30,830.0**	**30,296.0**

The United States Mint's FY 2012 circulating and protection capital budget request is $20.0 million. The United States Mint invests in capital projects to maintain, upgrade or acquire physical structures, equipment, physical security, and to implement its information technology roadmap. Total capital projects are estimated to be $30.3 million in FY 2012. This includes approximately $12.3 million for circulating projects, $7.7 million for security improvement projects, and $10.3 million for numismatic projects.

Overview

Mission Statement

To ensure a safe and sound system of national banks and Federal savings associations for all Americans.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2010 Actual	FY 2011 Estimated 1/	FY 2012 Estimated 2/	FY 2010 to FY 2012 $ Change	% Change
Supervise	$618,254	$680,090	$900,836	$282,582	45.7%
Regulate	$97,735	$107,511	$111,936	$14,201	14.5%
Charter	$24,434	$26,878	$27,984	$3,550	14.5%
Total Resources	**$740,423**	**$814,479**	**$1,040,756**	**$300,333**	**40.6%**
Total FTE	**3,101**	**3,140**	**3,976**	**875**	**28.2%**

1) It is anticipated that for the majority of FY 2011, the OCC will not be regulating the Federal savings associations; accordingly, the FY 2011 estimates only reflect the cost of regulating the National Banking System. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

(2) FY 2012 estimates include the cost of regulating the National Banking System and Federal savings associations. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

FY 2011 Priorities

The Office of the Comptroller of the Currency's (OCC) priorities for fiscal years (FYs) 2011 and 2012 are directly tied to the goal of repairing and reforming the financial system. The priorities and activities discussed below refer to national banks for FY 2011 and to both national banks and Federal savings associations for FY 2012. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) the transition period to transfer functions of the Office of Thrift Supervision (OTS) to the OCC approximately coincides with FY 2011. Priorities and activities to achieve these goals include the following:

- Regulate and supervise 1,487 national bank charters and 51 federal branches of foreign banks with total assets of approximately $8.6 trillion, as of September 30, 2010. As a result of the Dodd-Frank Act, in FY 2012 the OCC anticipates supervising approximately 700 Federal savings associations with assets currently totaling approximately $0.9 trillion;
- Conduct examinations based on the risk profile of individual national banks and Federal savings associations to ensure they are safe and sound, sufficiently capitalized, and comply with consumer protection laws and regulations[1];

[1] Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Bureau of Consumer Financial Protection is given the authority to supervise and examine insured depository institutions of over $10 billion in asset size for compliance with enumerated federal consumer financial laws. The OCC will continue to conduct examinations to assess compliance of consumer protection issues for national banks and Federal savings associations with $10 billion or less in assets, and to examine all national banks for compliance with the Bank Secrecy Act, flood insurance regulations, and the Community Reinvestment Act.

- Assess the adequacy of national banks' and Federal savings associations' credit, liquidity, internal controls, compliance, and corporate governance processes and require corrective action when deficiencies or undue risk concentrations are found;
- Continue to monitor and assess the effectiveness of national bank mortgage servicers' loan modification and foreclosure actions, including needed actions to improve the corporate governance of their processes;
- Resolve problem national bank and Federal savings association situations effectively by identifying problems at the earliest possible stage, clearly communicating concerns and expectations to bank management through appropriate enforcement actions, and ensuring timely follow-up on needed corrective actions;
- Strengthen the credit culture across the national banking and Federal savings association system to ensure prudent underwriting standards are maintained;
- Develop and implement policies to ensure that national banks and Federal savings associations establish and maintain incentive compensation policies that are consistent with the safety and soundness of the bank and do not encourage imprudent risk-taking;
- Work with other domestic and international supervisors to implement stronger capital and liquidity requirements and more robust risk management standards for large financial institutions;
- Enhance our ability to anticipate, identify, and respond to build-ups in risk and emerging issues through improved supervisory analytical tools, stress testing, and market intelligence capabilities;
- Maintain a highly skilled and experienced workforce by continuing efforts to identify and develop the next generation of bank supervision leadership, strengthen the breadth and depth of examiner specialty skills, and recruit and retain entry-level examiners;
- 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 (BSA/AML), and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act laws and regulations;
- Work with the Department of Treasury and other federal financial regulators to implement the Dodd-Frank Act, which includes the transfer from OCC of certain supervisory responsibilities and personnel associated with consumer compliance activities to the Consumer Financial Protection Bureau (CFPB), and the integration of the OTS functions relating to Federal savings associations into the OCC; and
- Continue to support a competitive national banking and Federal savings association system through entry of new charters, other bank and thrift structure transactions, and expansion of bank and thrift services and products in a safe and sound manner.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The OCC was created by Congress to charter national banks, oversee a nationwide system of banking institutions, and ensure national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers. With the enactment of the Dodd-Frank Act in July of 2010, the OCC will also be responsible for the supervision of Federal savings associations and rulemaking authority for all savings associations.

The OCC supervises 1,487 national bank charters and 51 federal branches of foreign banks in the United States. Total assets under the OCC supervision are approximately $8.6 trillion or approximately 70 percent of total United States commercial banking assets. As a result of the Dodd-Frank Act, in FY 2012 the OCC anticipates supervising approximately 700 Federal savings associations with assets currently totaling approximately $0.9 trillion. The average size and complexity of the institutions in the national banking system continue to grow. This, combined with OCC's supervision of Federal savings associations and responsibility for the Home Owners' Loan Act creates increasing and diverse challenges for the OCC.

As the regulator of national banks, the OCC has established four strategic goals outlined in its strategic plan that help support a strong economy for the American public: 1) assuring the safety and soundness of the institutions subject to its jurisdiction; 2) fair access to financial services and fair treatment of bank customers; 3) a flexible legal and regulatory framework that enables the institutions subject to its jurisdiction 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: (1) Supervise, (2) Regulate, and (3) Charter, to achieve the goals and objectives.

The OCC's priorities focus on strengthening the resiliency of the institutions subject to its jurisdiction through our supervisory and regulatory programs and activities. Through on-site examinations, OCC will work to ensure that national banks and Federal savings associations appropriately identify, account for, and follow prudent strategies for problem assets; instill a strong corporate governance culture that fosters sound loan underwriting standards, properly aligned incentive compensation structures, and strong internal controls, risk management, and compliance functions. Other supervisory priorities will be identifying and resolving potential problem banks at the earliest possible stage; encouraging national banks and Federal savings associations to meet the needs of credit worthy borrowers, including appropriate and effective residential mortgage modification programs, and ensuring that they comply with the Community Reinvestment Act (CRA) and the BSA/AML and USA PATRIOT Act requirements; and further enhancing OCC's supervisory analytical tools.

A major focus of the OCC's supervisory, regulatory, and administrative programs in FYs 2011-2012 will be implementing applicable provisions of the Dodd-Frank Act. The OCC will work closely with the Treasury and other federal regulatory agencies on these initiatives, including developing and issuing implementing rulemakings on a broad range of topics, including regulatory capital; permissible proprietary trading, hedge fund, and private equity fund investments (the so-called Volcker rule); derivative margin requirements; executive compensation; risk retention standards for securitizations; and real estate appraisals. Similarly, the OCC is working to provide smooth transitions for the transfer and integration of various regulatory and supervisory functions across and among the agencies. These efforts will include the transfer of certain supervisory responsibilities and personnel associated with consumer compliance activities to the CFPB and the integration of the OTS functions and personnel into the OCC.

The FY 2012 budget is based on initial estimates prepared by the OCC and the OTS. These estimates are subject to revision based on the financial impact of certain events which include, but are not limited to, the number of OTS personnel that transfer to either the OCC or the Federal Deposit Insurance Corporation (FDIC), the number of OCC and OTS staff that transfer to the newly established CFPB, and the final distribution of assets between the banking agencies upon the dissolution of the OTS. The exhibits have been footnoted accordingly to reflect these uncertainties.

1B – Program History and Future Outlook

The OCC has its headquarters in Washington, D.C., and operates four district offices in Chicago, Dallas, Denver, and New York, and field and satellite offices throughout the United States. Resident examiner teams are located in the largest banking companies, and there is an examining office in London, England.

Operations are funded primarily (approximately 97 percent) from semiannual assessments levied on national banks, and for FY 2012, national banks and Federal savings associations. Revenue from investments in Treasury securities and other income comprise the remaining three percent of the OCC's funding. The OCC does not receive congressional appropriations to fund any portion of its operations.

The OCC and the banking industry continue to operate in a highly challenging and volatile environment. While economic conditions are expected to continue to improve in FY 2011, global markets and events may continue to threaten economic recovery and stability. Many national banks and Federal savings associations will continue to have substantial volumes of troubled loans and borrowers that will consume resources, strain earnings, and, in some cases, may require continued growth in loss reserves. National banks and Federal savings associations will face heightened compliance, reputation, and strategic risks as a result of significant changes in the statutory, regulatory, and accounting requirements for various bank and thrift products, services, and transaction structures. Banks and Federal savings associations will need to successfully integrate these changes into their operations and it is likely that some of these changes will foster fundamental shifts in some banks' and thrifts' business models and strategic plans. Increasingly, the OCC will need to coordinate many of its supervisory regulations, policies and actions with other supervisors, both domestically and internationally.

To address these challenges, the OCC will need to conduct ongoing assessments of emerging risks and the underlying condition of national banks and Federal savings associations, and to prioritize and allocate resources to the areas and institutions of highest risks.

The following are highlights of the OCC's FY 2010 accomplishments and specific FYs 2011-2012 challenges.

Supervisory Activities

As the supervisor of national banks, the OCC has various ways to influence the national banking system:

1. policy guidance and regulations that set forth standards for sound banking practices;
2. on-site examinations and ongoing off-site monitoring that enable the OCC to assess compliance with those standards and to identify emerging risks or trends; and
3. a variety of supervisory and enforcement tools – ranging from matters requiring board's and management's attention to informal and formal enforcement actions – that are used to obtain corrective action to remedy weaknesses, deficiencies, or violations.

Upon the transfer of OTS functions, the OCC will incorporate similar supervisory activities to influence Federal savings associations.

Federal banking agencies regularly share supervisory information and undertake coordinated enforcement actions. As an example, when the OCC issues a remedial enforcement action against a national bank, the Board of Governors of the Federal Reserve System (FRB) will often take a complementary action with respect to the bank's holding company. Pursuant to an interagency sharing agreement, the federal banking agencies regularly exchange documents and information concerning fraudulent activities, including suspicious activity reports that involve suspected illegal activities at multiple financial institutions, and notify each other of enforcement actions against depository institutions and individuals.

The OCC also coordinates extensively with other regulatory agencies and with law enforcement authorities. It has entered into similar information sharing agreements with most state banking agencies, and all 50 state insurance departments, and regularly shares information with the Securities and Exchange Commission (SEC). The agency makes enforcement referrals to all of these regulators, as well as to state licensing boards and state professional ethics and responsibility boards, with respect to misconduct by attorneys, accountants, real estate agents, appraisers, and other professionals. The agency also makes enforcement referrals and cooperates in investigations conducted by several federal agencies, including, the Financial Crime Enforcement Network (FinCEN), the Department of Labor, the Internal Revenue Service, the Department of Housing and Urban Development (HUD), the Federal Election Commission, and the Federal Trade Commission (FTC). Suspected criminal violations, including evidence of fraud, are referred to the Department of Justice (DOJ). The OCC assists the DOJ, the Federal Bureau of Investigation, and the United States Secret Service in their investigations and prosecutions of fraud, as appropriate, by providing the OCC examiners to serve as special agents to the grand jury and as expert banking witnesses for the prosecution at trial. The OCC is a member of the National Interagency Bank Fraud Working Group and the President's Corporate Fraud Task Force.

The OCC continuously supervises banks through examination 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. Examination activities focus on safety and soundness, consumer compliance, BSA/AML, USA PATRIOT Act, fair lending, asset management, bank information technology, and the CRA.

The OCC monitors and alerts the industry to emerging risks and practices that could adversely affect a bank's safety and soundness or compliance with banking laws and regulations through policy programs. Over the last several years, the OCC issued a series of supervisory guidelines to address weaknesses in bank underwriting standards and credit practices. These guidelines addressed credit card account management; loss allowance practices; sound risk management practices for concentration loans in Commercial Real Estate (CRE) lending; credit risk management for home equity lending; and nontraditional and subprime mortgage products. More recently, the OCC has issued guidance on the need for sound interest rate risk and liquidity risk management practices and the risks associated with funding and credit concentrations arising from correspondent relationships.

In FY 2010, the OCC conducted a survey of national banks to assess the effectiveness of supervisory policies. The OCC requested feedback from bankers on how effectively the agency conveys and might improve: the reasons behind the issuance of new supervisory guidance; the intended audience for new supervisory guidance (all banks, only banks with a specific product line or service, only banks of a certain asset size, etc.); specific actions OCC expects bank management to take in response to new supervisory guidance; the risks to the bank if supervisory guidance is not implemented, such as legal, regulatory, reputation, or safety and soundness risk; and the expected timing of bank management's implementation of supervisory guidance. Over 75 percent of those who responded said they were receiving the right amount of information for all subject areas. Bankers were also generally pleased with the overall quality of OCC bulletins and handbooks (clarity, conciseness, usefulness, and completeness).

The OCC supervisory activities in FY 2010 centered on monitoring and responding to adverse conditions in the credit and financial markets, and national banks' loan portfolios. A primary focus of on-site supervisory activities was the quality of national banks' credit risk management practices, as evidenced by effective credit risk rating systems and problem loan identification, adequate loan loss reserves in light of deteriorating credit quality, and effective loan work-out strategies. The OCC continues to encourage bankers to work with creditworthy borrowers who may be facing financial difficulties. Other areas of emphasis were sound liquidity risk management, with diversified funding sources and realistic contingency funding plans, and strengthening capital buffers to weather further earnings pressures and asset quality deterioration. While assessing credit quality, adequacy of loan loss reserves, liquidity, capital, and risk management practices have been and continue to be the OCC's primary focus. The OCC is cognizant of the continuing need to address supervisory issues in the areas of fair lending, consumer protection, BSA/AML, and information security.

In the wake of the reported improprieties in the foreclosure processes used by several large mortgage servicers in the fall of 2010, the OCC initiated a horizontal, on-site review at the eight largest national bank mortgage servicers. A key objective of these examinations was to independently test and verify the adequacy and effectiveness of governance over the foreclosure process. The FRB and FDIC are participating in these examinations. For the most part, these examinations are complete. During the second quarter of FY 2011, the agency anticipates completing the analysis of the examinations conducted to determine what additional supervisory or regulatory action may be needed.

Legislative changes will significantly affect the scope of the OCC's supervisory activities, by, for example, transferring the functions formerly performed by the OTS for Federal savings associations into the OCC, and transferring designated consumer compliance functions to the CFPB. Executing these transfers will be a major initiative for the agency that will likely require substantial resources. The OCC is committed to working closely with its regulatory partners in ensuring a smooth transition, while continuing to maintain a focus on ensuring the safety and soundness of national banks and beginning to focus on ensuring the safety and soundness of Federal savings associations.

Monitoring Credit Quality
Monitoring and evaluating the quality of the loans and investments made by national banks are a fundamental component of the OCC's supervision program. Examiners evaluate asset quality and the adequacy of bank's credit and investment risk management and controls through on-site examination activities. They also ensure the bank has properly recorded any losses that have occurred in their loans or investments, and that the banks maintain adequate reserves for inherent losses in their loan portfolios.

In addition to individual bank examinations, the OCC conducts a variety of other activities aimed at identifying and responding to systemic trends and emerging risks that could adversely affect asset quality or the availability of credit at national banks and in the banking system. Fiscal year 2010 activities included:

- Annual Survey of Credit Underwriting Practices - This annual survey, conducted by the OCC examiners and Credit Risk staff, identifies trends in lending standards and credit risk for the most common types of commercial and retail credit products offered by national banks. It provides an aggregate snapshot of how various factors, such as competition, are affecting how banks price and underwrite loans and whether the OCC believes the inherent credit risk in bank portfolios are increasing or decreasing. The 2010 survey included 51 of the largest national banks and covered the 12-month period ending March 31, 2010. The aggregate total of loans was $4 trillion, which represented over 93 percent of all outstanding loans in the national banking system. The survey results, published in August 2010, indicated that underwriting standards continued to tighten during the survey period (March 2009 – March 2010) for both commercial and retail loans, but at a lower rate than the 2009 survey. In certain products, OCC examiners saw some evidence of banks once again loosening standards in response to competition and a modest improvement in credit market liquidity. However, examiners reported that the overall level of credit risk increased in retail and commercial portfolios during the survey period, and they expect the level of risk to continue to increase over the next 12 months.

- Shared National Credit Review - The annual Shared National Credit (SNC) review is a joint program conducted by the OCC, the FRB, the FDIC, and the OTS. The SNC review addresses large syndicated loans held by multiple financial institutions. The 2010 review covered approximately 8,300 credit facilities with commitments totaling $2.5 trillion. A

SNC Press Release with results of 2010 SNC review was issued September 28, 2010. Credit quality of large loan commitments remained weak in 2010, but improved from 2009, according to the results of the 2010 SNC review. The OCC continued work on an interagency project to modernize the collection and analysis of SNC data and to improve the program's efficiency and effectiveness. The interagency SNC central information data repository was put into production in December 2009. The first development phase of the examination application will be implemented for use during the 2011 SNC examination. This application will be enhanced with a final release for the 2012 SNC examination, in addition to completion of analytical tools and reports. This development work is scheduled to be completed in calendar year 2011 and 2012.

- Risk Concentrations - The market turmoil and subsequent economic downturn highlighted the risks posed by undue asset or liability concentrations in bank portfolios. Community banks can be especially prone to such concentrations as their lending portfolios tend to be highly concentrated in their local markets. As noted above, the OCC and other federal banking agencies warned financial institutions of the risks that were accumulating in many financial institutions' CRE loan portfolios. In addition, the OCC developed several diagnostic tools that bankers can use to help assess the risk in their CRE portfolios.

  The OCC conducted asset quality reviews of all the OCC community and mid-size banks that have significant CRE concentrations to assess the adequacy of credit underwriting, problem loan identification, and loan loss reserves for these portfolios. These efforts included a stress test of CRE portfolios at a number of midsize regional banks that have significant CRE concentrations. Monitoring national banks [and Federal savings associations] with significant CRE concentrations will be a primary focus of the OCC's supervisory strategies in FYs 2011 and 2012.

- Enhanced Credit Data Analytics - To improve the OCC's ability to monitor credit quality trends at the largest national banks and to identify potential trends that could pose systemic risks to the industry as a whole, the OCC has worked with several data aggregators to collect and validate data on home equity, credit card, CRE, and large corporate syndicated credits at the largest national banks. These efforts build off of the highly successful mortgage metrics project that the OCC initiated in FY 2008. All loan-level data collections are in production. During FYs 2011-2012, work will continue to integrate and further develop analytical and reporting tools applicable to both national banks and Federal savings associations.

Promoting Credit Availability to Creditworthy Borrowers
Throughout the economic turmoil, the OCC encouraged national banks to work constructively with borrowers who may be facing financial difficulty and to extend credit in a responsible and prudent manner. This is especially important to the restoration of a healthy financial sector that can support the credit needs vital to the nation's economy.

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

The OCC is also working with Treasury and the other federal banking agencies to implement the provisions of the Small Business Lending Fund (SBLF) pursuant to the *Small Business Jobs Act of 2010.* As mandated by the statute, the OCC and other banking agencies have issued guidance regarding prudent underwriting standards for small business loans that participating institutions make with SBLF funds.

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

- Residential Mortgage Modifications and CRE Loan Work Outs - The OCC also worked closely with Treasury on its various mortgage modification programs and efforts to help homeowners facing financial difficulty. The OCC provided technical assistance on program design and implementation and encouraged national banks to participate in those programs. In an effort to make key aspects of mortgage loan data more transparent and publicly available, the OCC and OTS in September 2008 began to publish joint quarterly reports on loan performance, delinquencies and foreclosures. The "Mortgage Metrics Report" presents data from eight national banks and one thrift with the largest mortgage portfolios (about 65 percent of all mortgages in the country) and can be used by examiners to assess emerging trends, evaluate asset quality and loan loss reserve needs, identify anomalies, and evaluate loss mitigation actions. In early 2009, Congress adopted the Helping Families Save Their Homes Act of 2009. Section 104 of this Act requires the OCC and OTS to submit the Mortgage Metrics Report to Congress on a quarterly basis and specifically requires information relating to the number of mortgage modifications made, the number of these that resulted in lower payments, and the number of modified mortgages that went into default again. The Dodd-Frank Act amended Section 104 of the Helping Families Save Their Homes Act of 2009 to require the OCC and OTS to provide Mortgage Metrics data to Congress broken down by state.

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

Restoring Financial Stability, Enhancing Risk Management Practices, and Strengthening Prudential Supervision

The OCC continues to actively support the administration's efforts to restore stability to the U.S. financial sector and overall economy. The OCC is also working closely with other domestic and international supervisors, including the newly formed Financial Stability Oversight Council (FSOC), the Basel Committee on Banking Supervision, the Financial Stability Board (FSB) and the Senior Supervisors' Group (SSG), to identify and coordinate actions aimed at both restoring functioning markets and strengthening risk management practices.

Key initiatives related to these efforts are:

- Enhanced Liquidity Risk Management and Liquidity Buffers - Failure to maintain adequate liquidity was a significant factor contributing to the turmoil in 2008, highlighting the importance of liquidity risk management for the safety and soundness of financial institutions. In March 2010, the OCC along with the Federal Financial Institutions Examination Council (FFIEC) member agencies and the Conference of State Banking Supervisors issued ***Interagency Guidance on Funding and Liquidity Risk Management***. This summarizes the principles of sound liquidity risk management issued in previous guidance, and brings them into conformity with the *Principles for Sound Liquidity Risk Management and Supervision*, issued by the Basel Committee on Banking Supervision in September 2008. The guidance emphasizes the central elements of liquidity risk management, including the importance of cash flow projections, diversified funding sources, stress testing, a cushion of liquid assets, and a formal, well-developed contingency funding plan for measuring, monitoring, and managing liquidity risk.

  In December 2009, the Basel Committee issued a proposed international framework for liquidity risk measurement that would, among other things, establish minimum liquidity standards for internationally active banks, a 30-day liquidity coverage ratio requirement underpinned by a longer-term structural liquidity ratio. In September 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced that after an observation period beginning in 2011, the liquidity coverage ratio will be introduced in 2015. The longer-term structural liquidity ratio will become a minimum standard in 2018.

- Enhanced Capital Standards - The financial crisis highlighted areas where the current Basel II capital framework requires strengthening. The OCC, with other Basel Committee members, provided recommendations for revisions, which were finalized and approved by the Basel Committee in July 2009. The enhancements also require that banks conduct more rigorous credit analyses of externally rated securitization exposures. The Basel Committee also announced substantial revisions to the 1996 rules governing the capital required for trading activities. These changes will result in higher capital requirements to capture the credit risk of complex trading activities. The OCC and other federal banking agencies are evaluating how to move forward with the implementation of these proposals and a proposed Basel II standardized approach for U.S. banking companies. This enhances the risk sensitivity of the current Basel I capital requirements that applies to most U.S. financial institutions to address provisions of the Dodd-Frank Act that prohibit the use of credit ratings in the agencies' regulations. The agencies anticipate issuing notices of proposed rulemakings on these proposals in 2011.

In December 2009, the Basel Committee issued proposals to further enhance the level and quality of capital held by banking institutions. The proposals would strengthen capital by: 1) establishing capital buffers that can be drawn down in periods of stress; 2) strengthening the quality of bank capital; and 3) introducing a leverage ratio for countries that currently do not have a leverage-based capital ratio. The Group of Governors and Heads of Supervision announced final agreements on these proposals in September 2010. These heightened capital standards will be phased in, with full implementation to be effective on January 2019.

- Correspondent Banking Concentrations - In April 2010, the OCC and other federal banking agencies issued guidance to address risks associated with funding and credit concentrations arising from correspondent relationships. The guidance outlines the agencies' expectations for financial institutions with respect to identifying, monitoring, and managing correspondent concentration risks between financial institutions, as well as performing appropriate due diligence on credit exposures to, and funding transactions with, other financial institutions.

- Interest Rate Risk - In January 2010, the OCC, the other federal banking agencies, and the Conference of State Bank Supervisors issued a joint advisory to remind institutions of supervisory expectations regarding sound practices for managing interest rate risk. In the current environment of historically low short-term interest rates, it is important for institutions to have robust processes for measuring and, where necessary, mitigating the exposure to unexpected or substantial increases in interest rates.

- Incentive Compensation Structures - In FY 2010, the OCC participated with the FRB in a horizontal review of incentive compensation structures and practices across the largest financial institutions. Follow up work is being conducted by the agencies' examination teams and will continue in FY 2011. As announced in June 2010, the OCC along with the FRB, the FDIC, and OTS has issued guidance on incentive compensation policies to ensure that such practices take into account risk and are consistent with safe and sound practices. The guidance directs that incentive compensation arrangements at a banking organization comply with the following principles:

  1. Provide employees incentives that appropriately balance risk and reward;
  2. Be compatible with effective controls and risk management; and

3. Be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The OCC is also working with the other federal financial agencies to implement section 956 of the Dodd-Frank Act that requires disclosure and reporting of incentive-based compensation arrangements by covered financial institutions and prohibits incentive-based compensation arrangements that are excessive or that could expose institutions to inappropriate risks that could lead to a material financial loss.

- Addressing Off-Balance Sheet Risks - In January 2010, the OCC and other federal banking agencies amended their risk based capital rules to eliminate the exclusion of certain consolidated asset-backed commercial paper programs from risk-weighted assets and to permit the agencies to require banking organizations to treat entities that are not consolidated under accounting standards as if they were consolidated for risk-based capital purposes. This rule is in response to changes in the accounting for certain off-balance sheet structures that went into effect in January 2010. In response to public comments about continued uncertainty regarding the scope of these accounting changes and the potential impact the rule could have on credit availability, the agencies provided a transition process for the full implementation of this rule.

  As previously noted, the OCC is working with the other federal financial agencies to implement the various provisions of the Dodd-Frank Act related to proprietary trading and various off-balance sheet instruments and activities.

- Accounting and Financial Disclosure Issues - The OCC and other federal banking agencies continue to work closely with the SEC and the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) on various accounting and disclosure issues and proposals. Under Comptroller Dugan's chairmanship of the Financial Stability Board's Working Group on Provisioning, the OCC has also been actively involved with banking supervisors and accounting standard setters world-wide to ensure that banks have the ability to strengthen their loan loss reserves at an appropriate time in the credit cycle, as their potential future loan losses are increasing.

  A major issue that the OCC has been closely monitoring is the FASB's Exposure Draft on Financial Instruments. The OCC is particularly concerned about expansion of fair value to bank loan portfolios and the resulting volatility this could create on bank balance sheet positions, and their capital and funding requirements. One of the lessons learned from the crisis was the lack of reliability and relevance of fair value measurements. The OCC organized a series of outreach meetings with investors to explore the potential implications of the FASB's proposal, and worked with the other federal banking agencies to submit comments to the FASB on the proposal.

Resolving Problem Banks

The goal of the OCC's supervision is to identify and correct potential issues at an early stage, before they adversely affect the safety and soundness of the banking system or the viability of an individual bank. Despite these efforts, given current market conditions, the OCC expects to see an increase in problem banks that will require more in-depth supervisory attention. As a bank reaches this stage, the OCC's efforts focus on developing a specific plan that takes into consideration the ability and willingness of management and the board of directors to correct deficiencies in a timely manner and return the bank to a safe and sound condition. In most instances these efforts, coupled with the commitment of bank management, result in a successful rehabilitation of the bank.

The OCC makes every effort to address and seek correction of bank problems through its examination program. However, when problems are serious and well-documented, enforcement action may be warranted to address violations of laws, rules, and regulations; unsafe or unsound banking practices and breaches of fiduciary duty; and noncompliance with the OCC directives or orders by national banks, their insiders, and other affiliated parties.

The OCC has a variety of tools to deal with the industry-wide increase in problems and troubled institutions in FY 2010, including statutory Prompt Corrective Action determinations when a bank's capital deteriorates below specified thresholds, requirements for increased capital and liquidity sources, required changes in bank management, and prior OCC approval of changes in business plans.

In addressing mismanagement during FY 2010, the OCC took such formal enforcement actions as final cease and desist orders, removal or prohibition orders, Civil Money Penalties, and formal agreements. Documents relating to the OCC enforcement actions can be found on the OCC's Web site at (*www.occ.gov*).

There will be cases, however, where the situation is of such significance that the OCC will require the sale, merger, or liquidation of the bank, if possible. Where that is not possible, the FDIC may be appointed as receiver. The OCC works closely with the FDIC in these cases to affect least cost resolution, consistent with the provisions of the Federal Deposit Insurance Corporation Improvement Act. In FY 2010, 30 national banks failed where the OCC appointed the FDIC as receiver. It is likely that there will be additional failures during FY 2011.

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

Fair Access to Financial Services and Fair Treatment of Bank Customers

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

The Dodd-Frank Act requires that certain functions of the OCC relating to consumer protection and fair lending be transferred to the CFPB. The OCC is committed to work with the CFPB to ensure a smooth transition of any transfer of functions or personnel.

Fair Lending

The OCC's fair lending supervisory process is designed to assess and monitor the level of fair lending risk in every national bank. The OCC assesses compliance with fair lending laws and regulations; obtains corrective action when significant weaknesses or deficiencies are found in a bank's policies, procedures, and controls relating to fair lending; and ensures enforcement action is taken when warranted. This includes referrals to the DOJ and notifications to the HUD.

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

Community Development

The OCC actively supports the efforts of national banks to engage in sound and successful community development activities and processes community development investment notices and proposals under title 12, Code of Federal Regulations Part 24. The OCC was a co-sponsor of the 2010 National Interagency Community Reinvestment Conference. During FY 2010, national banks made $6.2 billion in community development investments.

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 2010, the OCC identified and publicized strategies for stabilizing communities affected by foreclosure and resulting property vacancies, and continued its support of financial literacy programs. The agency issued publications and partnered with the SBA to promote bank involvement in economic stimulus and recovery measures.

Consumer Protection

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

In December 2009, the OCC and other federal banking agencies issued for public comment proposed supervisory guidance on managing consumer compliance and reputation issues involved with reverse mortgages. The guidance discusses legal questions raised by reverse mortgages, stresses the need to provide adequate information to consumers about these products, to provide qualified independent counseling to consumers considering them, and to avoid potential conflicts of interest. The guidance also addresses related policies, procedures, internal controls, and third party risk management. The final guidance was issued on August 16, 2010. Effective with the December 31, 2010, Call Report and TFR filings, financial institutions will be required to provide information on the volume of reverse mortgages that they hold or have originated and sold during the year and on the volume of referrals they made to other lenders for a fee for such products.

The OCC is leading the interagency effort to implement the registration requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (S.A.F.E. Act). In July 2010, the agencies issued a joint final rule that establishes the registration requirements for mortgage loan originators employed by agency-regulated institutions as well as requirements for these institutions, including the adoption of policies and procedures to ensure compliance with the S.A.F.E Act and final rule. As required by the law, the final rule also requires these mortgage loan originators to obtain a unique identifier through the Nationwide Mortgage Licensing System and Registry (Registry) that will remain with that originator, regardless of changes in employment. When the system is fully operational, consumers will be able to use the unique identifiers to access employment and other background information of registered mortgage loan originators. Substantial progress has been made in modifying the Registry to accommodate the registration of employees of agency-regulated institutions. The Registry is expected to be capable of accepting these and federal registrations in January 2011 at the earliest. The Dodd-Frank Act will transfer the agencies' responsibilities under the S.A.F.E. Act to the CFPB on a transfer date that is no earlier than January 2011 and, subject to a six-month extension, no later than July 2011.

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

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

Enforcement
As needed, the OCC uses its enforcement authority to address safety and soundness violations and noncompliance with laws and regulations. During FY 2010, the OCC issued 364 enforcement actions against national banks and 236 against institution-affiliated parties.

The OCC assessed a $50 million Civil Money Penalty against a national bank for violations of the Bank Secrecy Act as part of a coordinated action with the DOJ, FinCEN and other federal agencies. The bank also agreed to forfeit $110 million to the U.S. under a deferred prosecution agreement with the U.S Attorney's Office in the Southern District of Florida and the DOJ. The OCC also entered into a Formal Agreement with a national bank to reimburse consumers harmed by the bank's credit card account closing practices. Agreed-upon reimbursement totaled $775,000. In another action, a national bank was directed to make $5.1 million in restitution to over 60,000 consumers adversely affected by its relationships with a third party payment processor. The bank also received a $100,000 civil money penalty.

The OCC expects the level of enforcement actions associated with problem banks and bank failures to continue through the next fiscal year.

Regulatory Activities
As one of its four strategic goals, the OCC strives to maintain a flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services. The agency devoted a significant amount of resources in FY 2010 to performing analysis of and providing technical assistance for legislative proposals to reform the U.S. financial regulatory structure.

The OCC and other financial regulatory agencies issued a final rule providing that mortgage loans modified under the U.S. Department of the Treasury's Home Affordable Mortgage Program generally will retain the risk-based capital risk weight appropriate to the loan prior to modification. Mortgages in the trial period also qualify.

The OCC's strategic objectives emphasize regulatory oversight practices that support national banks' ability to compete while maintaining safety and soundness. The OCC will continue its legal work of analysis and interpretation of national bank powers and authorities during FY 2011. This work will be carried forward to include the thrift industry when OCC assumes OTS's functions relating to Federal savings associations in accordance with the Dodd-Frank Act. The FY 2010 determinations included confirming that a national bank may purchase and hold auction rate preferred securities for its own account subject to certain representations and conditions. The OCC issued its calendar year publication, "2009 Significant Legal, Licensing, and Community Development Precedents for National Banks" as well as the cumulative companion edition of "Permissible Activities for a National Bank." The OCC will also continue to provide case-by-case analysis, consistent with the law and as appropriate, with respect to the enforcement of state law in cases involving national banks and their subsidiaries.

Charter Activities

For the first half of FY 2010, the OCC issued 1,344 corporate licensing decisions, with a 96 percent on time rate. Bank branch and relocation application volume declined somewhat compared to the same period in the prior year. In order to address potential safety and soundness problems before they arise, the OCC may impose conditions upon bank transaction approvals covering, for example, capital and liquidity arrangements and deviations from business plans. In FY 2010, the OCC responded quickly and effectively in reviewing and making decisions on applications related to resolving problem conditions. Proposed restructurings that may avoid bank failures and their associated costs can include mergers, purchases and assumptions, and temporary bridge banks.

In FY 2010, the agency continued conditional approvals of "shelf charters" to expand the pool of qualified bidders for troubled institutions. The relatively new mechanism involves the granting of preliminary approval to investors for a national bank charter. A shelf charter remains inactive until an investor group holding the charter is in a position to acquire a troubled institution. This process expands the pool of potential buyers available to purchase troubled institutions. In January of 2010, the OCC approved the first use of a shelf charter for the acquisition of a failed bank, and in July, a shelf charter was used to acquire three failed banks.

1C – Industry Outlook

Turmoil in the financial markets, the mortgage and foreclosure crises, and the long and deep recession has added to the challenges facing the banking system. Past experience suggests that growth in the banking system is likely to be slow in the immediate aftermath of the recession, but that it will increase later in the cycle. Further, the long-term trend of bank consolidation is likely to continue and will accelerate in the near term, as the credit cycle culls out weaker performers. If bank assets continue to grow at the rate of nominal Gross Domestic Product (GDP), and if GDP growth returns to its historical average over the next five years, assets could grow and the number of banks could shrink, as shown in the following table [(1)].

	Commercial Banks		**National Banks**		Share of Total System Assets
	Assets ($t)	Number	Assets ($t)	Number	in Banks over $10 Billion
2009	11.8	6,939	8.2	1,462	82.1%
2014 [(2)]	15.1	6,400	10.5	1,100	85.0%

(1) This table does not include assets currently supervised by the OTS.

(2) Estimated.

But the depth, breadth, and duration of this downturn suggests that over the next year or two, bank assets and loans could grow more slowly than before the recession. The combination of recession and financial crisis has already caused widespread deleveraging among both households and firms. Moreover, corporations are likely to be able to fund more of their operations from internal cash flow, dampening growth in business lending. Most observers expect this to continue, reducing the rate of credit growth throughout the economy. This could limit the pace of bank lending and asset growth as the economy begins to recover, as happened after the 1990-91 recession.

Large banks will continue to dominate the industry. Banks with over $10 billion in assets now account for over 80 percent of commercial bank system assets; this share has been increasing, and the trend is expected to continue. The financial crisis could increase consolidation among these large banks, thinning their ranks from the 87 that exist now. Until about six years ago, national banks consistently accounted for about 56 percent of all commercial bank assets. Since then, a series of mergers and conversions have increased the national bank share to approximately 70 percent of commercial bank assets. The OCC's projections assume that share remains steady over the next five years.

Risks to the banking system include continued problems in the credit markets, and a slow recovery from the recession.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Office of Comptroller of the Currency	FTE	Amount
FY 2010 Actual	**3,101**	**$740,423**
FY 2011 Estimated	**3,140**	**$814,479**
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$4,564
Maintaining Current Levels	-	$4,564
Subtotal FY 2012 Changes to Base	-	$4,564
Total FY 2012 Base	**3,140**	**$819,043**
Program Changes:		
Program Increases:	836	$221,713
Adjustment	836	$221,713
Subtotal FY 2012 Program Changes	836	$221,713
Total FY 2012 Estimated	**3,976**	**$1,040,756**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) .... +$4,564,000 / +0 FTE

Maintaining Current Levels +$4,564,000 / +0 FTE Funds are required for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Program Increases .... +$221,713,000 / +836 FTE

Adjustment +$221,713,000 / +836 FTE Includes regulation of the National Banking System and Federal Savings Associations. This estimate is subject to revision once the personnel realignment or the Dodd-Frank Act are implemented.

2.2 – Operating Levels Table

Dollars in Thousands

Office of Comptroller of the Currency	FY 2010 Obligated	FY 2011 Estimated 1/	FY 2012 Estimated 2/
FTE	**3,101**	**3,140**	**3,976**
Object Classification			
11.1 - Full-time permanent	$361,693	$372,600	$519,857
11.3 - Other than full-time permanent	$9,799	$0	$0
11.5 - Other personnel compensation	$1,938	$2,102	$3,138
12 - Personnel benefits	$133,668	$147,091	$188,377
13 - Benefits for former personnel	$103	$195	$0
21 - Travel and transportation of persons	$46,821	$53,776	$67,374
22 - Transportation of things	$2,663	$1,838	$3,743
23.1 - Rental payments to GSA	$2,668	$2,743	$3,750
23.2 - Rental payments to others	$37,470	$39,903	$52,669
23.3 - Communication, utilities, and misc charges	$10,844	$9,004	$15,243
24 - Printing and reproduction	$802	$831	$1,127
25.1 - Advisory and assistance services	$26,369	$27,277	$37,065
25.2 - Other services	$15,916	$50,713	$22,372
25.3 - Other purchases of goods and services from Govt. accounts	$6,331	$10,428	$8,899
25.4 - Operation and maintenance of facilities	$4,634	$5,949	$6,514
25.7 - Operation and maintenance of equip	$52,363	$61,762	$73,603
26 - Supplies and materials	$5,173	$11,118	$7,271
31 - Equipment	$16,726	$13,903	$23,510
32 - Land and structures	$4,311	$3,016	$6,060
42 - Insurance claims and indemnities	$131	$230	$184
Total Budget Authority	**$740,423**	**$814,479**	**$1,040,756**
Budget Activities			
Supervise	$618,254	$680,090	$900,836
Regulate	$97,735	$107,511	$111,936
Charter	$24,434	$26,878	$27,984
Total Budget Authority	**$740,423**	**$814,479**	**$1,040,756**

1) It is anticipated that for the majority of FY 2011, the OCC will not be regulating the Federal savings associations; accordingly, the FY 2011 estimates only reflect the cost of regulating the National Banking System. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

(2) FY 2012 estimates include the cost of regulating the National Banking System and Federal savings associations. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

2.3 – Resource Detail Table

Dollars in Thousands

	FY 2010 Actual		FY 2011 Estimated (1)		FY 2012 Estimated (2)		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Revenue / Offsetting Collections								
Assessments		$764,410		$795,300		$1,011,100		27.13%
Interest		$20,502		$23,700		$24,275		2.43%
Other Income		1,805		1,200		7,425		518.75%
Total Revenue / Offsetting Collections	**0**	**$786,717**	**0**	**$820,200**	**0**	**$1,042,800**	**0.00%**	**27.14%**
Unobligated balances, Start of year		793,371		847,259		864,204		2.00%
Recoveries of prior year obligations		0		0		0		0.00%
Net transfers *(includes capital transfers)*		0		0		0		0.00%
Total budgetary resources available	**0**	**$1,580,088**	**0**	**$1,667,459**	**0**	**$1,907,004**	**0.00%**	**14.37%**
Expenses/Obligations								
Supervision	2,700	621,695	2,729	680,090	3,412	900,836	1.07%	32.46%
Regulate	329	98,279	337	107,511	463	111,936	2.43%	4.12%
Charter	72	24,570	74	26,878	101	27,894	2.78%	3.78%
Total Expenses / Obligations	**3,101**	**$744,544**	**3,140**	**$814,479**	**3,976**	**$1,040,666**	**26.62%**	**27.77%**

1) It is anticipated that for the majority of FY 2011, the OCC will not be regulating the Federal savings associations; accordingly, the FY 2011 estimates only reflect the cost of regulating the National Banking System. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

(2) FY 2012 estimates include the cost of regulating the National Banking System and Federal savings associations. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

2B – Appropriations Language and Explanation of Changes

The OCC receives no appropriations from Congress.

2C – Legislative Proposals

OCC currently has no legislative proposals.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Actual	FY 2011 Estimated 1/	FY 2012 Estimated 2/	% Change FY10 to FY12
Strong U.S. economic competitiveness	79,384	134,389	356,102	164.98%
Prevented or mitigated financial and economic crises	661,039	680,090	684,654	0.67%
Total	**$740,423**	**$814,479**	**$1,040,756**	**27.78%**

1) It is anticipated that for the majority of FY 2011, the OCC will not be regulating the Federal savings associations; accordingly, the FY 2011 estimates only reflect the cost of regulating the National Banking System. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

(2) FY 2012 estimates include the cost of regulating the National Banking System and Federal savings associations. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

3A - Supervise *($680,090,000 from reimbursable programs):* The Supervise program consists of ongoing supervision and enforcement activities undertaken to ensure 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

Supervise Budget Activity					
Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated 1/	FY 2012 Estimated 2/
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$565,921	$597,859	$618,254	$680,090	$900,836
Total Resources	**$565,921**	**$597,859**	**$618,254**	**$680,090**	**$900,836**
Budget Activity Total	**$565,921**	**$597,859**	**$618,254**	**$680,090**	**$900,836**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target 3/
Percent of National Banks With Composite CAMELS Rating 1 or 2 (Oe)	92.0	82.0	70.0	90.0	90.0
Percentage of National Banks that are Categorized as Well Capitalized (Oe)	99.0	86.0	90.0	95.0	95.0
Percentage of National Banks with Consumer Compliance Rating of 1 or 2 (Oe)	97.0	97.0	95.0	94.0	94.0
Rehabilitated National Banks as a Percentage of Problem National Banks One Year Ago (CAMEL 3,4, or 5) (Oe)	47.0	29.0	23.0	40.0	40.0
Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated ($) (E)	8.39	8.81	9.28	9.22	9.22

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

1) It is anticipated that for the majority of FY 2011, the OCC will not be regulating the Federal savings associations; accordingly, the FY 2011 estimates only reflect the cost of regulating the National Banking System. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

(2) FY 2012 estimates include the cost of regulating the National Banking System and Federal savings associations. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

(3) FY 2012 targets are subject to revision based on the impact of integrating OTS functions relating to Federal savings associations into the OCC and the transfer of designated OCC functions to the CFPB.

Well Capitalized National Banks

The Federal Deposit Insurance Act established a system 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. Through September 30, 2010, 90 percent of national banks were classified as well capitalized. The OCC works closely with problem banks to develop rehabilitation plans. Such plans typically include directives to improve or restore capital levels. More broadly, the OCC is working with other regulators both domestically and internationally to strengthen capital standards and improve credit risk management practices.

National Banks with Composite CAMELS Rating of 1 or 2
The composite CAMELS (**C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market risk) 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. The rating scale is 1 through 5 of which 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. Through September 30, 2010, 70 percent of national banks earned composite CAMELS ratings of either 1 or 2. The increase in the number of banks with lower composite CAMELS ratings is not unexpected at this stage of the credit cycle and reflects impaired asset quality and earnings that is affecting many banks. The OCC's primary focus is to ensure that CAMELS ratings are an accurate reflection of each bank's current financial position and thus the OCC would not take action to prematurely restore a favorable CAMELS rating even though the current distribution of ratings is below our target. As bank performance and asset quality improves, the OCC would expect CAMELS ratings to adjust accordingly.

Rehabilitated National Banks
Problem banks ultimately can reach a point at which rehabilitation is no longer feasible. The OCC's early identification and intervention with problem banks can lead to successful remediation of these banks. Through September 30, 2010, 23 percent of banks with composite CAMELS ratings of 3, 4, or 5 one year ago have improved their ratings to either 1 or 2 this year. As with the other measures, this target benchmark has been adversely affected by the underlying economic conditions facing the banking industry. The number of serious problem banks, where successful resolution is more difficult, has increased. In addition, the sharp contraction in certain segments of the economy, including the real estate sector, has resulted in a more rapid deterioration in some banks' financial condition.

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 95 percent earning a consumer compliance rating of either 1 or 2 through September 30, 2010.

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. The 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 national 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 national banking system benefits all national bank customers.

3B - Regulate *($107,511,000 from reimbursable programs):* The Regulate program consists of 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. This program includes the establishment of examination policies, handbooks, and interpretations for examiners as well as representation of the OCC's regulatory authorities and interpretations in administrative, judicial, and congressional hearings.

3.2.2 Regulate Budget and Performance Plan

Regulate Budget Activity Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated 1/	FY 2012 Estimated 2/
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$87,583	$94,511	$97,735	$107,511	$111,936
Total Resources	**$87,583**	**$94,511**	**$97,735**	**$107,511**	**$111,936**
Budget Activity Total	**$87,583**	**$94,511**	**$97,735**	**$107,511**	**$111,936**

1) It is anticipated that for the majority of FY 2011, the OCC will not be regulating the Federal savings associations; accordingly, the FY 2011 estimates only reflect the cost of regulating the National Banking System. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

(2) FY 2012 estimates include the cost of regulating the National Banking System and Federal savings associations. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

There are no measures are specified at this time.

3C - Charter *($26,878,000 from reimbursable programs):* The Regulate program consists of 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. This program includes the establishment of examination policies, handbooks, and interpretations for examiners as well as representation of the OCC's regulatory authorities and interpretations in administrative, judicial, and congressional hearings.

3.2.3 Charter Budget and Performance Plan

Charter Budget Activity					
Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated 1/	FY 2012 Estimated 2/
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$20,212	$23,628	$24,434	$26,878	$27,984
Total Resources	**$20,212**	**$23,628**	**$24,434**	**$26,878**	**$27,984**
Budget Activity Total	**$20,212**	**$23,628**	**$24,434**	**$26,878**	**$27,984**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percentage of Licensing Applications and Notices Completed within Established Timeframes (Oe)	95.0	95.0	96.0	95.0	95.0

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

1) It is anticipated that for the majority of FY 2011, the OCC will not be regulating the Federal savings associations; accordingly, the FY 2011 estimates only reflect the cost of regulating the National Banking System. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

(2) FY 2012 estimates include the cost of regulating the National Banking System and Federal savings associations. Figures are subject to revision once the personnel realignment provisions of the Dodd-Frank Act are implemented.

(3) FY 2012 targets are subject to revision based on the impact of integrating OTS functions relating to Federal savings associations into the OCC and the transfer of designated OCC functions to the CFPB.

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 96 percent of applications and notices within the time standard through September 30, 2010.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The OCC developed bureau-specific human capital goals to meet its overall strategic goals of ensuring the safety and soundness of national banks and maintaining an expert, highly motivated, and diverse workforce. The first goal is to align and employ the OCC workforce resources consistent with current and projected agency priorities. To help achieve this goal, on an annual basis, the OCC identifies business changes and imperatives, and assesses its current staffing structure to identify potential recruitment challenges and skill imbalances/gaps. The agency then develops strategies to meet these challenges and approve incentives specifically designed to address them. 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; and
3. identifying skill gaps and using them to establish recruitment and training priorities as part of ongoing strategic staffing discussions.

The OCC has implemented several programs to increase and strengthen its examiner and leadership pools. The OCC has a highly-successful college hiring and training team program to ensure a steady pipeline of entry-level bank examiners. Since the program's inception in FY 2003, 911 examiners have been hired, including 82 in FY 2010. While the OCC expects hiring generally to continue at current levels, strategies are being reviewed to ensure that the OCC has an integrated staffing process that allows supervision resources to be deployed to their highest and best use and maximizes staff development opportunities in alignment with the OCC's national priorities.

The OCC has focused heavily on recruiting the expertise needed to fill positions in the agency's Chief National Bank Examiner's office and Large Bank Supervision line of business. The OCC has also recognized the challenge of ensuring that it has the skill sets needed now and in the future to supervise the increasingly complex array of activities and businesses found in the national banking system. As a result, the OCC uses a framework to assess where and when specialized skills are needed and to ensure it has the staffing necessary to meet those needs. This framework, the Specialty Skills Assessment, allows the OCC to measure gaps in its current skill levels in eight critical business areas (Asset Management, Bank Information Technology, Capital Markets, Compliance, Commercial Lending, Retail Lending, Mortgage Banking, and Operational Risk) and to develop strategic plans to fill those gaps. It establishes a standard process to identify an individual's specialty skills, and the levels of those skills, which can be compared to actual examination resources necessary for the effective supervision of national banks. These skill level designations are made on an annual basis. Also, on an annual basis, there is a review of the policy to ensure that the criteria used to determine assignment complexity and assess examiner skill levels in each specialty remain current and relevant as the industry evolves. Assessment results aid examination staffing and recruiting initiatives, and provide employees and managers with a valuable tool that can be used to identify developmental opportunities to further an individual's career objectives.

In further recognition of the need to provide expert-level support related to the current financial and housing market situations, the OCC requested and was granted authority to waive the dual compensation reduction to reemploy certain annuitants. The extensive knowledge and superior skills reemployed annuitants have developed in specific specialty areas are an invaluable resource. Since being granted this authority by the Office of Personnel Management, the OCC has reemployed 21 annuitants. In October 2010, the OCC used the government-wide authority to extend this program.

In 2004, the agency focused attention on bringing back to the OCC, diverse talent that had separated for reasons other than retirement. These individuals leave the OCC, then return, bringing new knowledge, skills and experiences. In 2009, 54 percent of the hires were "experienced" re-hires, up from 44 percent in 2008. In the last two fiscal years, women and minorities accounted for 58 percent of the re-hires, up from 52 percent in FY 2005-2007.

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 has implemented a leadership development program, LeaderTRACK, based on identified competencies. The program, which began in FY 2007, offers participants three six-month assignments, with significant managerial and supervisory roles, that will develop leadership skills rather than prepare them for a specific position. The OCC continues to focus on aligning leadership performance expectations with organizational goals and preparing leaders to create and sustain a productive work environment and assume responsibility for developing staff.

A third human capital goal is to maintain strategic compensation and benefit programs and performance systems that link with organizational goals and mission accomplishment, which enables the OCC to recruit and retain critical positions, and reward high performers. The OCC operates under a merit-based pay and performance system. Annual across-the-board increases are not granted. Salary increases are awarded based on merit to reward employee performance, employee development that is relevant to the OCC's needs, and employee contributions to the OCC's priorities.

To assure the agency accomplishes this goal, the OCC is nearing completion of a study of its compensation program to assess the appropriateness of the pay bands, evaluate the relationship between performance management and merit pay systems, and evaluate the current compensation policies and programs to ensure they support the OCC in attracting, retaining, and motivating a high-caliber workforce.

The OCC's human capital goals for FY 2011 and FY2012 will focus on strategies and initiatives to effectively and efficiently transition resources transferring from the OTS to OCC.

The OCC is confident these strategies will address any deficiencies in staffing and skills, ensuring its ability to have the right number of people with the right skills to accomplish its critical mission.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Major IT Investments / Funding Source	Budget Activity	FY 2009 Actual	FY 2010 Actual	% Change from FY 2009 to FY 2010	FY 2011 Estimated	FY 2012 Estimated	% Change from FY 2010 to FY 2012
Fiscal Management		$1,920	$1,817	-5.4%	$1,880	$1,937	6.6%
Subtotal, Major IT Investments	Supervise/Regulate/ Charter	$1,920	$1,817	-5.4%	$1,880	$1,937	6.6%
		$51,718	$49,473	-4.3%	$57,442	$59,165	19.6%
Non-Major IT Investments	Supervise/Regulate/ Charter	$51,718	$49,473	-4.3%	$57,442	$57,442	16.1%
		$34,942	$35,623	1.9%	$34,316	$35,346	-0.8%
Infrastructure Investments	Supervise/Regulate/ Charter	$34,942	$35,623	1.9%	$34,316	$35,346	-0.8%
Enterprise Architecture	Supervise/Regulate/ Charter	$0	0	0	0	0	0
Enterprise Identity and Access Management	Supervise/Regulate/ Charter	N/A	0	0	0	0	0
Total IT Investments	Supervise/Regulate/ Charter	$88,580	$86,913	-1.9%	$93,638	$92,788	6.8%

4B – Information Technology Strategy

The OCC's Information Technology (IT) strategic plan is embodied within its Technology Vision 2012 Roadmap that aligns to the agency's core mission to ensure a safe and sound national banking system for all Americans. In addition, in FY 2010, the OCC established specific IT goals to leverage IT as a strategic business enabler to support the OCC's strategic goals.

The IT Strategic plan is implemented through OCC's capital planning process which ensures that all IT investments are aligned with its mission, goals, and objectives, and target architecture before a project is selected for funding. The capital planning process ensures business cases are reviewed to leverage opportunities to use existing technology, to capitalize on enterprise opportunities as well as ensure there are no redundancies in IT systems that are considered for the portfolio.

The overall strategy to effectively use technology to support the mission, goals, and objectives of the agency is enforced by the Investment Review Board (IRB), comprised of business unit and IT representatives from across the agency. The IRB makes recommendations to the OCC's Technology and Systems Subcommittee (TSS). Both the IRB and TSS meet regularly to select, monitor, and control IT investments. This process ensures that the overall IT strategy has adequate funding, resources, and prioritization, and provides risk mitigation for IT investments that are not meeting stated cost, time and performance goals.

Linkage to the 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 the OCC strategic program objectives. The OCC employs project management methodologies that are based on risk management and mitigation. The risks are actively monitored at both IRB and TSS meetings.

The OCC's technology strategy in FY 2011 and FY 2012 will include the integration of the OTS legacy systems.

FYs 2011-2012 Plans

The OCC has two new major IT initiatives planned in FYs 2011-2012.

Central Application Tracking System (CATS) - This initiative will significantly improve the accuracy, tracking, monitoring, recording, and reporting of the applications and notices by the Licensing and Community Affairs Departments. The overall objective is to: 1) develop a workflow and business processing system that will provide the ability to electronically capture and effectively monitor and report on the processing of applications and notifications filed with the Licensing and Community Affairs Departments, and 2) take advantage of innovative technologies to create process efficiencies.

Personnel Administration and Security System (PASS) - This initiative will improve and automate core personnel security processes, including on-boarding and off-boarding. The PASS initiative will bring the OCC into compliance with audit and Homeland Security Presidential Directive 12 (HSPD-12) requirements.

Homeland Security Presidential Directive-12 (HSPD-12)

In FY 2010, the OCC continued to install and upgrade HSPD-12 compliant Physical Access Control Systems (PACS) nationwide. In addition, the OCC continued to phase out existing proximity security cards with the goal of transitioning exclusively to HSPD-12 SmartID cards for all OCC employees and contractors. The OCC also began to integrate HSPD-12 policy, procedures and SmartID card usage into other existing agency processes moving towards full HSPD-12 compliance by the established Treasury and Federal milestones.

During FY 2011, the OCC will install 33 new HSPD-12 compliant PACS systems and upgrade four non-compliant PACS systems, currently in place at the OCC facilities. In addition to these upgrades, the OCC will also start installing systems which will allow the checking and verification of personal identity verification (PIV) certificates and the provisioning of PIV cards directly into the OCC PACS. The OCC will continue to issue PIV cards to all employee and contractor personnel, which will eliminate all agency produced access control cards.

During FY 2012, the OCC will complete all remaining PACS installations and complete the full integration of the HSPD-12 program for physical access. One of the major goals is to ensure all new employees and contractors receive their PIV card on their first day of work. The OCC has taken steps and continues to put procedures in place through existing programs to ensure this goal is achieved. The OCC anticipates being able to provide all new employees and contractors with an activated PIV card on their first day of employment during FY 2012.

Overview

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 Budget Activity

Dollars in Thousands

	FY 2010 Actual	FY 2011 Estimated 1/	FY 2012 Estimated	Change FY10 to FY12 $ Change	% Change
Supervision of the Thrift Industry	$232,047	$253,605	$0	($232,047)	(100.0%)
Total Resources	**$232,047**	**$253,605**	**$0**	**($232,047)**	**(100.0%)**
Total FTE	**1,016**	**1,021**	**0**	**(1,016)**	**(100.0%)**

(1) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203 (Dodd-Frank Act), abolishes and transfers the functions of the Office of Thrift Supervision in Fiscal Year 2011.

FY 2011 Priorities

- Maintain a focus on the mission of examining, supervising, and regulating thrifts and their holding companies and service providers:
  - Provide regulatory guidance to thrifts and holding companies.
  - Resolve any outstanding issues and complete projects (in preparation for transition).
  - Streamline internal processes (in preparation for transition and consideration of limited resources).
- Continue to have appropriate communications with OTS staff and OTS-regulated institutions regarding the future.
- Effectively manage OTS property, people, information, and monetary resources.
- Provide OTS staff with opportunities to succeed in the post transition environment.
- Partner with the other financial regulators to coordinate a seamless transition of institutions, and resources to the future regulatory agency structures.
- Manage internal processes to provide an orderly transition of institutions and resources, in a manner that ensures equitable treatment of staff.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Office of Thrift Supervision (OTS) was established by Congress as a bureau of the Department of the Treasury pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Public Law 101-73. In July 2010, Congress passed and the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203 (Dodd-Frank Act), abolishing and transferring the functions of the Office of Thrift Supervision in Fiscal Year 2011.

OTS charters, examines, supervises, and regulates federal savings associations insured by the Federal Deposit Insurance Corporation (FDIC). OTS also examines, supervises, and regulates state-chartered, FDIC-insured savings associations and provides for the registration, examination, and supervision of savings association affiliates and holding companies. OTS sets capital standards for Federal and State savings associations and reviews applications of state-chartered savings associations for conversion to federal thrifts. Under the Dodd-Frank Act, the supervision of federal savings associations is transferred to the Office of the Comptroller of the Currency (OCC), supervision of savings association holding companies is transferred to the Federal Reserve, and supervision of state charted savings associations is transferred to the FDIC and its consumer financial protection function to the Bureau of Consumer Financial Protection (CFPB).

OTS receives no appropriated funds from Congress. Income of the bureau is derived principally from assessments on savings associations and their holding companies, examination fees, and interest on investments in U.S. Government obligations. As of September 30, 2010, the OTS regulated 741 thrifts with total assets of $928 billion. The OTS also supervises 436 holding company enterprises with approximately $4.2 trillion in U.S. domiciled consolidated assets. These enterprises owned 398 thrifts with total assets of $717 billion or 77 percent of total thrift industry assets.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

Office of Thrift Supervision	FY 2010 Obligated	FY 2011 Estimated 1/	FY 2012 Estimated
FTE	**1,016**	**1,021**	**-**
Object Classification			
11.1 - Full-time permanent	$119,225	$117,711	$0
11.3 - Other than full-time permanent	$947	$8,906	$0
11.8 - Special personal services payments	$18,756	$1,497	$0
12 - Personnel benefits	$62,206	$73,636	$0
13 - Benefits for former personnel	$300	$213	$0
21 - Travel and transportation of persons	$16,943	$16,998	$0
22 - Transportation of things	$238	$339	$0
23.2 - Rental payments to others	$4,405	$4,945	$0
23.3 - Communication, utilities, and misc charges	$3,296	$4,313	$0
24 - Printing and reproduction	$159	$216	$0
25.1 - Advisory and assistance services	$2,218	$2,981	$0
25.2 - Other services	$2,724	$3,000	$0
25.3 - Other purchases of goods and services from Govt. accounts	$5,986	$5,668	$0
25.4 - Operation and maintenance of facilities	$5,725	$5,851	$0
25.7 - Operation and maintenance of equip	$454	$622	$0
25.8 - Subsistence and support of persons	$0	$35	$0
26 - Supplies and materials	$2,019	$2,155	$0
31 - Equipment	$3,048	$3,324	$0
32 - Land and structures	$1,193	$1,195	$0
Total Budget Authority	**$232,047**	**$253,605**	**$0**
Budget Activities			
Supervision of the Thrift Industry	$232,047	$253,605	$0
Total Budget Authority	**$232,047**	**$253,605**	**$0**

(1) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203 (Dodd-Frank Act), abolishes and transfers the functions of the Office of Thrift Supervision in Fiscal Year 2011.

Section 3 – Budget and Performance Plan

This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan provides a description of what the agency intends to accomplish over the next five years.
For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to:
http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Estimated 1/	FY 2012 Estimated	Percent Change
Strong U.S. economic competitiveness	23,205	25,360	-	-100.00%
Prevented or mitigated financial and economic crises	208,042	228,245	-	-100.00%
Total	**$232,047**	**$253,605**	**$0**	**-100.00%**

(1) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203 (Dodd-Frank Act), abolishes and transfers the functions of the Office of Thrift Supervision in Fiscal Year 2011.

3A - Supervision of the Thrift Industry *($253,605):* On December 9, 1996, the FFIEC adopted the CAMELS rating system (Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk) 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. 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.

The FFIEC first approved a uniform, interagency compliance rating system in 1980. The rating system reflects, 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 elected to combine safety and soundness and compliance examinations 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.

Capital absorbs losses, promotes public confidence and provides protection to depositors and the FDIC insurance fund. Capital 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.

OTS examines savings associations every 12-18 months for safety and soundness, and compliance with consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with statutory authority. When OTS identifies safety and soundness or compliance issues during its risk-focused examinations, it 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.

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' 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 the assets of the holding company enterprises regulated by OTS.

3.2.1 Supervision of the Thrift Industry Budget and Performance Plan

Supervision of the Thrift Industry Budget Activity

Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimated 1/	FY 2012 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$245,699	$233,571	$232,047	$253,605	$0
Total Resources	**$245,699**	**$233,571**	**$232,047**	**$253,605**	**$0**
Budget Activity Total	**$245,699**	**$233,571**	**$232,047**	**$253,605**	**$0**

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2012 Target
Percent of Safety and Soundness Exams Started as Scheduled (Ot)	94.0	94.0	97.0	90.0	Disc
Percent of Thrifts that are Well Capitalized (Oe)	98.4	97.0	95.0	95.0	Disc
Percent of Thrifts with Composite CAMELS Ratings of 1 or 2 (%) (Oe)	90.0	84.0	77.0	80.0	Disc
Percent of Thrifts with a Compliance Examination Ratings of 1 or 2 (Oe)	95.8	95.0	92.0	90.0	Disc
Total OTS Costs Relative to Every $100,000 in Savings Association Assets Regulated (E)	15.1	19.88	24.01	24.0	Disc

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

(1) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203 (Dodd-Frank Act), abolishes and transfers the functions of the Office of Thrift Supervision in Fiscal Year 2011.

Percent of Safety and Soundness Exams Started as Scheduled - OTS examines savings associations every 12-18 months for safety and soundness, and compliance with consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with statutory authority. When OTS identifies safety and soundness or compliance issues during its risk-focused examinations, it 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.

Percent of Thrifts That Are Well Capitalized - Capital absorbs losses, promotes public confidence and provides protection to depositors and the FDIC insurance fund. Capital 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.

Percent of Thrifts With Compliance Examination Ratings of 1 or 2 - The FFIEC first approved a uniform, interagency compliance rating system in 1980. The rating system reflects, 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 combines safety and soundness and compliance examinations to attain exam efficiencies and to improve risk assessment.

Percent of Thrifts With Composite CAMELS Ratings of 1 or 2 - On December 9, 1996, the FFIEC adopted the CAMELS rating system (Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk) 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. 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.

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

Overview

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 2010 Enacted	FY 2011 Estimate	FY 2012 Estimate	$ Change FY 2011 To FY 2012	% Change FY 2011 To FY 2012
Treasury Appropriated Bureaus	$186,210	$131,728	$122,509	($9,219)	-7.00%
Treasury non-Appropriated Bureaus	$15,495	$15,616	$14,357	($1,259)	-8.06%
Non-Treasury	$6,153	$5,306	$5,000	($306)	-5.77%
Grand Total Financial Plan Requirements	$207,859	$152,650	$141,866	($10,784)	-7.06%

*The decrease in funding level from FY 2010 to 2011 is primarily due to the elimination of the Treasury Communications System (TCS) program. Treasury's network is now funded outside of the Working Capital Fund.

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Section 1 – Purpose

The WCF exists to (1) promote economies of scale, (2) reduce overhead costs, (3) promote central management, (4) avoid duplication among those who might provide the service, (5) improve service quality, (6) make available goods and services to those users who could not afford them except on a centralized basis, (7) provide flexibility in the timing of purchases, and (8) allow 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.

Section 2 - Program Activities and Services

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 three exceptions are the Security Program which is located in the Office of Terrorism and Financial Intelligence, the Office of Small and Disadvantaged Business Utilization which is located in the Office of the Deputy Secretary and the Homeland Security Presidential Directive – 12 program which the Internal Revenue Service serves as the Executive Agent. The programs in the WCF for FY 2012 are as follows:

2A - Intelligence and Security

Security Programs

Resource Level: $811,030 and 3 FTE

Description: Security Programs develop guidance and provide operational assistance and direction on security of information, contracts, systems, facilities, critical infrastructure, and personnel; and provides training.

2B – Deputy Assistant Secretary, Human Resources/Chief Human Capital Officer (CHCO)

Human Capital Strategic Management

Resource Level: $962,640 and 5 FTE

Description: This program plays a critical role in facilitating the responsibilities of the CHCO office from a Treasury-wide perspective. It ensures compliance with the CHCO Act, and develops and implements programs and guidance on staffing and recruitment, pay and leave administration, and performance management.

Civil Rights and Diversity

Resource Level: $1,898,306 and 10 FTE

Description: The Civil Rights and Diversity program administers the Department's Equal Opportunity Program, mandated by 29 CFR 1614, to provide equal opportunity in employment for all persons and to prohibit discrimination in employment, including providing prompt, fair and impartial processing of complaints. It also provides enterprise-wide solutions to address equal opportunity and civil rights concerns and opportunities that cross bureau lines.

2C – Deputy Assistant Secretary, Information Systems/Chief Information Officer

HR Connect

Resource Level: $27,109,188 and 38 FTEs

Description: HR Connect is Treasury's enterprise system, a web-based solution built on PeopleSoft commercial-off-the-shelf (COTS) software. HR Connect transforms core back-office HR functions, moving them from a processing-centric capability, supported by Treasury and National Finance Center (NFC) legacy systems, to a strategic-centric capability enabled through its commercial software underpinning. Additionally, self-service components of the software fundamentally transform the standard government HR service delivery model, putting additional information, services and processes (i.e., personal data, position management, requests for personnel action, recruitment, reporting, etc.) directly in the hands of managers and employees allowing better and more efficient decision making.

HR Connect supports the OPM mandate that requires all federal agencies to use a learning management system to fully account for federal professional development activity; reduces training costs through competitive and consolidated course purchases; enables comprehensive and reliable reporting to leadership and OPM; and offers a one-stop-shop, twenty-four hour access to over 3,000 online courses and more than 18,000 professional books.

NFC/Employee Express

Resource Level: $22,853,201 and 16 FTEs

Description: Treasury's HR Connect system interfaces with the National Finance Center (NFC) for payroll processing and administration providing integration and process support as well as Employee Express. Employee Express is an application which feeds into the NFC database to allow employees to perform various self-service activities such as updating taxes, allotments, health insurance, savings bonds, and thrift savings contributions.

HR Connect E-Government - Funds interagency agreements between Treasury and OPM to implement OPM's E-Government initiatives. The specific initiatives funded are Enterprise Human Resources Integration, Human Resources Line of Business, and USAJOBS.

Telecommunications

Resource Level: $32,236,387 and 24 FTEs

Description: The *Operations Office* provides oversight and management of all telecommunications programs within the OCIO. It provides strategic direction to the telecommunications programs, ensures that they are managing costs according to best practices, and reduces costs where possible.

The *Digital Telecommunications System* provides telecommunications capabilities to Treasury bureaus nationwide. The three core programs are Digital Telecommunications System, Treasury Local Access Transport Area, and SONET (Synchronous Optical Network). The Digital Telecommunications System provides digital voice, data, and Voice over Internet (VoIP) telecommunications to the following bureaus in the Washington, DC metropolitan area: BEP, CDFI, Departmental Offices, IRS, TIGTA, FMS, OCC, and OIG. These services include local and long distance calling, Audio and Video Conferencing, Automatic Call Distribution services, voice mail, E911, and related support and maintenance. The Treasury Local Access Transport Area provides for local voice and data circuitry and connectivity to all DTS users, as well as for local connectivity outside of the DTS network. SONET provides for high speed transport and redundant connectivity between remote local DTS switches at Bureau facilities, and the host switch (5ESS Central Office) located at 30 E St., SW, Washington, DC.

The *Government Secure Operations Center s*erves as the focal point for management of cyber incidents and is responsible for security detection, analysis and incident management lifecycle practices to improve the Department's overall security posture. The Center ensures adherence to Departmental and Federal security standards; and improve cyber threat awareness across Treasury bureaus.

The *Wireless Program* provides centralized management of, and guidance for, all wireless activities and spectrum usage across Treasury.

The *Web Hosting Program* provides web services functions for the Treasury public websites and the Treasury-wide intranet including website design; content management; Treasury-wide team collaboration sites; survey creation; and support for bureau/office webmasters and content managers. It provides web hosting functions to include common infrastructure, support, and management for hosting Treasury's enterprise applications.

Cyber Security

Resource Level: $1,200,681 and 6 FTE

Description: *Critical Infrastructure Protection and Information Security* services support the direct protection of designated Treasury Critical Infrastructure/Key Resources against terrorist activity. They also support the protection (confidentiality, integrity, and availability) of the Department's unclassified and classified systems, and the information they process. Finally, they coordinate the Department's overall activities to implement the Federal Information Security Management Act (FISMA) of 2002.

E-Government

Resource Level: $9,207,944 and 20 FTEs

Description: *E-Government Payments* services include IT Infrastructure Operations, Grants Management, Geo Spatial, Budget Formulation and Execution, Disaster Assistance Improvement Plan (DAIP) Systems, Financial Management Line of Business, and E-Rule Making.

Enterprise Architecture services develop an IT Strategy and Transition Plan to meet Treasury's mission requirements and strategic goals. The office collaborates with bureaus and partners with CPIC to ensure management of IT portfolios align with IT transition plans. The office also prepares business and technical analysis that identifies opportunities for shared services and emerging technologies, recommends initial budget and procurement actions, and collects OMB compliance data.

Enterprise Solutions leverage and optimize innovative information technology (IT) solutions to modernize and web-enable government services to eliminate redundant IT investments. These services also look for enterprise-wide procurements for improving the overall efficiency of IT resources through bulk buy hardware purchases, software, and licensing agreements. Finally they serve as the Public Key Infrastructure (PKI) PMO for the Department and coordinate all e-Government activities for the Department.

Capital Planning and Information Management

Resource Level: $3,160,373 and 10 FTE

Capital Planning and Investment Control develops procedures and policies to manage Treasury's IT portfolio, collaborates with bureaus and partners with Enterprise Architecture so management of IT portfolios aligns with IT transition plans, evaluates progress of IT investments against transition plans and makes corresponding on-going recommendations for budget and procurement actions, and collects OMB compliance data.

Information Management implements the Office of the Chief Information Officer's (OCIO) statutory and regulatory programs which include Section 508 (accessibility), computer matching activities, forms management, Paperwork Reduction Act information collection activities, external directories, data mining, and information quality.

HSPD-12

Resource Level: $17,257,073 and 13 FTE

Description: The HSPD-12 program provides guidance, coordination, management processes, technical coordination for personal identity verification, credential and access management compliance, and establishes the Identity and Access Management (IdAM) capabilities Treasury-wide.

2D – Other Management & CFO Programs

Financial Systems Integration

Resource Level: $2,884,685 and 2 FTE

Description: The Financial Systems Integration program develops and maintains the Financial Analysis and Reporting System (FARS) which perform analysis and reporting functions for proprietary and budgetary accounting, management control, and audit follow-up. It ensures that FARS applications are enhanced to meet government-wide, departmental, and bureau data standards and reporting requirements. FARS applications include the Treasury Information Executive Repository, CFO Vision, and the Joint Audit Management Enterprise System.

Emergency Programs

Resource Level: $3,667,269 and 8 FTE

Description: 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 staff administers and maintains the Treasury Emergency Management program. 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 *National Continuity Policy / National Security Presidential Directive 51 / Homeland Security Presidential Directive 20 (NSPD-51/HSPD-20); National Continuity Policy Implementation Plan; and FCD-1 and FCD-2* during White House or Department of Homeland Security sponsored Continuity of Operations activation and training scenarios.

Small and Disadvantaged Business Utilization

Resource Level: $794,943 and 4 FTE

Description: The Office of Small and Disadvantaged Business Utilization advises the Secretary, Deputy Secretary, and Bureau Heads on small business policies and initiatives; training and advising small businesses on how to do business with the Department of the Treasury; and advising and training procurement officials on small business matters.

Procurement

Resource Level: $893,124 and 2 FTEs

Description: The procurement program contributes to the governance decisions for Integrated Acquisition Environment (IAE) e-government systems and acts as the system administrator for five systems. The program administers access, passwords and user names, coordinates complaint resolution, and provides training for users; it manages the purchase card program and through career management initiatives ensures consistent application of federal acquisition workforce requirements across the bureaus. It includes Treasury's share of costs to maintain and develop government-wide IAE systems.

Government-wide Council Payments

Resource Level: $496,359 and 0 FTE

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.

Treasury Operations Excellence

Resource Level: $1,240,554 and 5 FTE

Description: Treasury Operations Excellence provides services to help Treasury use entrusted resources more effectively and efficiently. Areas of support include strategic development, organizational development & design, operational analysis, process development & improvement, project management, facilitation and consultation.

Privacy, Transparency, & Records

Resource Level: $684,695 and 4 FTE

Description: Privacy Transparency & Records provides procedural and technical guidance and services to Treasury employees for information privacy and records management. The program develops strategies to implement these programs; works with bureaus and offices to develop and apply technology; coordinates programs within the bureaus and oversight organizations; conducts and/or facilitates training; and provides advice and technical expertise across the Department.

Environment, Safety, and Health

Resource Level: $993,950 and 2 FTE

Description: The Environmental Health and Safety program manages and maintains the Safety and Health Information Management System, which allows bureaus to track worker's compensation claim status and costs, and review data on injuries and illnesses to determine trends and identify possible prevention strategies.

Printing and Graphics Services

Resource Level: $4,018,613 and 27 FTE

Description: The Printing and Graphics program provides contract printing services to Treasury bureaus, and assist customers in planning and designing printed publications. It coordinates all printing procurement activity with the Government Printing Office and worked to develop "term contracts" for specific product lines or product types. The program functions as a central point for all printing and digital duplicating requests to determine the most cost effective method of obtaining printed materials.

Printing and Graphics provides quick-turn-around digital printing of black and white and color copying, document scanning, and bindery services to Treasury bureaus. It provides a web-based, on-line print job submission and workflow automation system, via networked digital copiers, which offers customer convenience and reduced lead time.

Finally expert design services are provided to create and reproduce the highest quality digital graphics for presentations, special event displays, and print and electronic publications. Products include power point presentations, website design and web graphics, electronic (508 Compliant) files for posting to the Treasury website, color posters, laminated tags or credentials, tent cards, fabric banners, special event support requiring a consistent branding of an event or theme, on-site calligraphy services, and award-winning digital photographic services.

Communications, Information, and Locator Center

Resource Level: $799,840 and 7 FTE

Description: The Communications, Information, and Locator Center program provides after hours executive telephone answering/messaging/ conferencing services; provides connectivity to employees home, cell, emergency contact, pager, blackberries and any available contact numbers on file; provides continuous communication services in an emergency or crisis event; and maintains the Treasury employees' emergency after hour's locator information system.

2F – Support Services

Resource Level: $8,694,837 and 19 FTE

Description: The Support Services program 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 serve the WCF programs in the following areas: legal counsel, financial management, facilities, personnel, procurement, and fund management.

2.1 – Funding Detail by Program

Dollars in Thousands

Resources Available for Obligation	FY 2010 Initial Plan	FY 2011 Initial Plan Estimate	FY 2012 Budget Estimate
INTELLIGENCE & SECURITY			
Security Programs	$1,294	$806	$811
Intelligence & Security (Total)	$1,294	$806	$811
DAS, HUMAN RESOURCES/CHCO			
Human Capital Strategic Management	$918	$958	$963
Civil Rights & Diversity	$1,448	$2,261	$1,898
Human Resources (Total)	$2,366	$3,219	$2,861
DAS, INFORMATION SYSTEMS & CIO			
ACIO HRConnect Operations & Maintenance	$28,992	$29,892	$27,109
ACIO NFC Payroll/Employee Express	$24,057	$24,667	$22,853
HR Connect (Subtotal)	$53,049	$54,559	$49,962
CIO Resource Management 1/	$3,209	$0	$0
ACIO Telecommunications	$89,033	$35,610	$32,236
ACIO Cyber Security	$1,503	$1,197	$1,201
ACIO E-Government	$9,943	$9,437	$9,208
ACIO Capital Planning & Information Management	$3,979	$3,264	$3,160
HSPD-12	$18,738	$17,865	$17,257
Information Systems (Subtotal)	$126,404	$67,371	$63,062
DAS, Information Systems (Total)	$179,452	$121,930	$113,025
OTHER MANAGEMENT & CFO			
Financial Systems Integration	$2,986	$3,122	$2,885
Emergency Programs	N/A	$4,238	$3,667
Small & Disadvantaged Business Utilization	$780	$791	$795
Procurement Program	$894	$906	$893
Government-wide Council Payments	$483	$490	$496
Treasury Operations Excellence	$1,500	$1,678	$1,241
Privacy, Transparence, & Records	$700	$710	$685
Environment, Safety, & Health	$970	$984	$994
Printing Procurement, Reproduction & Graphics Services	$4,087	$3,998	$4,019
Communications, Information, & Locator Center	$786	$793	$800
Headquarters Operations (Total)	$16,922	$17,710	$16,474
Centralized Support Services	$7,825	$8,984	$8,695
Grand Total	$207,859	$152,650	$141,866

1/ Merged with Centralized Support Services in FY 2010.

*The decrease in ACIO Telecommunications funding level from FY 2010 to 2011 is primarily due to the elimination of the Treasury Communications System (TCS) program. Treasury's network is now funded outside of the Working Capital Fund.

2.2 – Full-Time Equivalents by Program

Dollars in Thousands

Federal & Contractor Staff	FY 2010 Initial Plan Fed.	FY 2010 Initial Plan Cont.	FY 2011 Initial Plan Estimate Fed.	FY 2011 Initial Plan Estimate Cont.	FY 2012 Budget Estimate Fed.	FY 2012 Budget Estimate Cont.
Intelligency & Security						
Security Programs	3	-	3	-	3	-
Intelligence & Security (Total)	3	-	3	-	3	-
DAS, HUMAN RESOURCES/CHCO						
Human Capital Strategic Management	5	-	5	-	5	-
Civil Rights & Diversity	9	-	10	-	10	-
Human Resources (Total)	14	-	15	-	15	-
DAS, INFORMATION SYSTEMS & CIO						
ACIO HRConnect Operations & Maintenance	36	25	38	25	38	25
ACIO NFC Payroll/Employee Express	16	-	16	-	16	-
HR Connect (Subtotal)	52	25	54	25	54	25
CIO Resource Management 1/	8	10	-	-	-	-
ACIO Telecommunications	25	175	24	57	24	57
ACIO Cyber Security - Information Security	6	-	6	-	6	-
ACIO E-Government	16	17	20	11	20	11
ACIO Capital Planning & Information Management	10	8	10	2	10	2
HSPD-12	14	-	13	-	13	-
Information Systems (Subtotal)	79	210	73	70	73	70
CIO/Information Systems (Total)	131	235	127	95	127	95
OTHER MANAGEMENT & CFO						
Financial Systems Integration	2	8	2	8	2	8
Emergency Programs	7	3	8	3	8	3
Small & Disadvantaged Business Utilization	4	-	4	-	4	-
Procurement Program	2	-	2	-	2	-
Government-wide Council Payments	-	-	-	-	-	-
Treasury Operations Excellence	2	-	5	-	5	-
Privacy, Transparency, & Records	4	-	4	-	4	-
Environment, Safety, & Health	2	-	2	-	2	-
Printing Procurement, Reproduction, & Graphics	28	1	27	1	27	1
Communications, Information, & Locator Center	7	-	7	-	7	-
Headquarters Operations (Total)	58	12	61	12	61	12
Centralized Support Services	22	3	19	5	19	5
Grand Total	228	250	225	112	225	112

1/ Merged with Centralized Support Services in FY 2010.

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 2010 Initial Plan	FY 2011 Initial Plan Estimate	FY 2012 Budget Estimate
Alcohol & Tobacco Tax & Trade Bureau	$1,492	$850	$825
Community Development Financial Institutions Fund	$343	$358	$338
Departmental Offices (OTA)	$81	$84	$85
Departmental Offices (S&E)	$15,119	$13,573	$11,525
Departmental Offices (OFS)	$672	$711	$663
Departmental Offices (DSCIP)	$656	$0	$0
Financial Crimes Enforcement Network	$1,566	$507	$490
Financial Management Service	$6,128	$6,095	$5,767
Internal Revenue Service	$156,509	$105,460	$98,911
Treasury Inspector General for Tax Administration	$1,271	$1,855	$1,745
Office of the Inspector General	$385	$335	$320
Special Inspector General for TARP	$321	$274	$255
Bureau of the Public Debt	$1,668	$1,628	$1,586
Subtotal (Treasury Appropriated Bureaus)	$186,210	$131,728	$122,509
Comptroller of the Currency	$5,037	$5,272	$4,633
DC Pensions	$64	$66	$63
Departmental Offices (WCF)	$170	$169	$166
Bureau of Engraving and Printing	$4,763	$4,496	$4,188
Executive Office for Asset Forfeiture	$70	$34	$32
Federal Financing Bank	$33	$29	$27
Office of Thrift Supervision	$1,749	$1,740	$1,685
FF - BPD Administrative Resource Center (ARC)	$1,023	$1,217	$1,087
U.S. MINT	$2,586	$2,593	$2,475
Subtotal (Treasury non-Appropriated Bureaus)	$15,495	$15,616	$14,357
Alcohol, Tobacco, Firearms, & Explosives	$1,289	$1,196	$1,234
Department of Commerce	$0	$356	$0
DHS - U.S. Secret Service	$1,524	$1,407	$1,440
General Accountability Office	$1,777	$624	$659
Department of Housing and Urban Development	$1,564	$1,723	$1,667
Subtotal (Non-Treasury)	$6,153	$5,306	$5,000
Grand Total Financial Plan Requirements	$207,859	$152,650	$141,866

Note: Non-Treasury customers purchase services from the HR Connect Program.

2.4 – Funding Detail by Operating Levels

Dollars in Thousands

Resources Available for Obligation	FY 2010 Initial Plan	FY 2011 Initial Plan Estimate	FY 2012 Budget Estimate
Object Classification:			
11.1 Full-Time Permanent Positions	$26,305	$25,915	$25,915
11.1 Other than Full-Time Permanent Positions	0	0	0
11.5 Other Personnel Compensation	544	615	615
11.8 Special Personal Services Payments	0	0	0
11.9 Personnel Compensation (Total)	**$26,849**	**$26,531**	**$26,531**
12.0 Personnel Benefits	5,170	5,288	5,353
13.0 Benefits to Former Personnel	0	0	0
21.0 Travel	406	393	398
22.0 Transportation of Things	0	2	2
23.1 Rental Payments to GSA	0	0	0
23.2 Rent Payments to Others	0	0	0
23.3 Communications, Utilities, & Misc	3,590	4,373	4,435
24.0 Printing and Reproduction	75	54	55
25.1 Advisory & Assistance Services	0	0	0
25.2 Other Services	162,763	113,366	102,443
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	3,100	182	185
31.0 Equipment	5,906	2,461	2,464
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	**$207,859**	**$152,650**	**$141,866**

International Programs

The Department of the Treasury's FY 2012 budget request for International Programs is included in the State, Foreign Operations, and Other Related Programs Appropriation.

Overview

Mission Statement

To make markets for consumer financial products and services work for Americans by promoting transparency and consumer choice and preventing abusive and deceptive financial practices.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated	Change FY10 to FY12 $ Change	% Change
Consumer Financial Protection Bureau	$9,200	$142,825	$329,045	$186,220	130%
Total Resources	**$9,200**	**$142,825**	**$329,045**	**$186,220**	**130%**
Total FTE	**0**	**342**	**1,225**	**883**	**258%**

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* (Dodd-Frank Act) established the Bureau of Consumer Financial Protection (CFPB or Bureau) as an independent bureau within the Federal Reserve System and made it responsible for protecting consumers from abusive financial services practices. The Secretary of the Treasury is authorized to perform certain functions of the Bureau until the Director of the Bureau is appointed. On the designated transfer date, July 21, 2011, certain consumer protection authorities will transfer to the Bureau from seven existing federal agencies.

Once fully established, the CFPB will have important authorities under the Dodd-Frank Act and other consumer laws to look out for consumers as they borrow money or use other financial services. Among other things, the new consumer agency will:

- Conduct rule-making, supervision, and enforcement for Federal consumer financial protection laws;
- Restrict unfair, deceptive, or abusive acts or practices;
- Create a center to take consumer complaints;
- Promote financial education;
- Research consumer behavior;
- Monitor financial markets for new risks to consumers; and
- Enforce laws that outlaw discrimination and other unfair treatment in consumer finance.

The CFPB plans to have six primary divisions: Supervision and Enforcement; Consumer Engagement and Education; Research, Markets, and Regulations; External Affairs; General Counsel; and Chief Operating Officer.

The CFPB is funded by authorized transfers from the Federal Reserve System, subject to limits established in the Dodd-Frank Act. The CFPB is also authorized to request up to $200 million in discretionary appropriations if the amount transferred by the Federal Reserve System is not sufficient. The CFPB is not requesting a discretionary appropriation in FY 2011 or FY 2012.

1B – Program History and Future Outlook

Consumer Financial Protection Bureau

The Department of the Treasury is responsible for setting up the new agency, and, on September 17, 2010, President Obama and Treasury Secretary Geithner named Elizabeth Warren as Assistant to the President and Special Advisor to the Secretary of the Treasury on the CFPB. The CFPB implementation team includes full-time Treasury employees and detailees from Treasury bureaus and other federal agencies.

Leading up to the July 21, 2011 transfer date, the CFPB implementation team is:

- Meeting with consumer groups and financial services companies to ensure the Bureau's work targets real problems people encounter in the marketplace;

- Setting up and training the teams that will be responsible for supervising and enforcing Federal consumer financial laws;

- Laying the groundwork for the Bureau to write new rules required by the Dodd-Frank Act;

- Developing a website and toll-free hotline for consumers; and

- Preparing to open offices to assist specific groups of consumers, including offices for Service member Affairs and Financial Protection for Older Americans, as specifically required under the Dodd-Frank Act.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

Consumer Financial Protection Bureau	FY 2010 Actual	FY 2011 Estimated	FY 2012 Estimated
FTE	**-**	**342**	**1,225**
Object Classification			
11.1 Full-Time Permanent Positions	$0	$44,027	$167,549
12.0 Personnel Benefits	$0	$14,601	$58,642
21.0 Travel.	$0	$3,422	$12,273
22.0 Transportation of things	$0	$1,000	$875
23.1 Rental Payments to GSA.	$0	$7,360	$22,080
23.3 Communications, Utilities, & Mi	$0	$2,896	$8,688
25.0 Contractual Services	$0	$56,059	$48,907
26.0 Supplies and Materials	$0	$766	$2,510
31.0 Equipment	$0	$4,593	$7,522
225.1 Reimbursable Obligations	$9,200	$8,101	$0
Total Budget Authority	**$9,200**	**$142,825**	**$329,045**
Budget Activities:			
Consumer Financial Protection Bureau	$9,200	$142,825	$329,045
Total Budget Authority	**$9,200**	**$142,825**	**$329,045**

2.3 – Resource Detail Table

Dollars in Thousands

	FY 2010 Actual		FY 2011 Estimated		FY 2012 Estimated		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Revenue / Offsetting Collections								
Transfers-in		$18,400		$133,625		$329,045		146%
Total Revenue / Offsetting Collections		**$18,400**		**$133,625**		**$329,045**		**146%**
Unobligated balances, Start of year		$0		$9,200		$0		-100%
Recoveries of prior year obligations		0		0		0		0%
Net transfers *(includes capital transfers)*		0		0		0		0%
Total Budgetary Resources Available		**$18,400**		**$142,825**		**$329,045**		**130%**
Expenses/Obligations								
Consumer Financial Protection Bureau	0	$9,200	342	$142,825	1,225	$329,045	258	130%
Total Expenses / Obligations	**0**	**$9,200**	**342**	**$142,825**	**1,225**	**$329,045**	**258**	**130%**

The CFPB budget estimates are based on the best available information at the time the Budget was prepared. As planning continues on the design and operations of the CFPB, predicting future costs is challenging. Nevertheless, the Bureau is focused on measured and deliberate growth over 2011 and 2012 as it judiciously deploys resources during the implementation process.

One of the largest cost elements in the CFPB budget is personnel costs, constituting 44 percent of the estimated budget in FY 2011 and 69 percent of total costs by the end of FY 2012. Another significant cost is contracted services needed for key systems and services to create and support the Bureau as it grows. The budget consists of several other types of expenses that are consistent with running a federal financial regulatory agency, such as rent, travel costs, and reimbursable detailed staff. For some of these estimates, CFPB has predicted specific future costs. In other areas, benchmarks from other Federal financial regulators have been used.

2B – Appropriations Language and Explanation of Changes

CFPB is not requesting any appropriations from Congress.

Section 3 – Budget and Performance Plan

CFPB is currently working on developing a strategic plan for agency operations. There are no specific measures for managing CFPB performance at this time. Additional information on CFPB is available on www.treasury.gov and www.consumerfinance.gov.