Department of the Treasury

Justification for Appropriations and Performance Plans

Fiscal Year 2009

Departmental Summary

FY 2009 President's Budget by Function
(Dollars in Thousands)

Appropriation	FY 2007 Enacted	FY 2008 Enacted	FY 2009 President's Budget	FY 2009 Increase/ Decrease	FY 2009 Percent Change
Management & Financial	$614,774	$699,412	$682,817	-$16,595	-2.4%
Departmental Offices Salaries and Expenses	216,348	248,360	273,895	25,535	10.3%
Dept-wide Systems & Capital Invest. Program	30,268	18,710	26,975	8,265	44.2%
Office of Inspector General	16,957	18,450	19,356	906	4.9%
Treasury IG for Tax Administration	132,861	140,533	145,736	5,203	3.7%
Community Development Financial Institutions Fund	54,506	94,000	28,620	(65,380)	-69.6%
Financial Crimes Enforcement Network	73,216	85,844	91,335	5,491	6.4%
Alcohol & Tobacco Tax and Trade Bureau	90,618	93,515	96,900	3,385	3.6%
Fiscal Service Operations	$414,235	$417,294	$426,398	$9,104	2.2%
Financial Management Service	235,381	234,423	239,344	4,921	2.1%
Bureau of the Public Debt*	178,854	182,871	187,054	4,183	2.3%
Tax Administration**	$10,597,065	$10,892,384	$11,361,509	$469,125	4.3%
IRS Taxpayer Services	2,138,238	2,150,000	2,150,000	0	0.0%
IRS Enforcement	4,686,477	4,780,000	5,117,267	337,267	7.1%
IRS Operations Support	3,544,835	3,680,059	3,856,172	176,113	4.8%
IRS Business Systems Modernization	212,659	267,090	222,664	(44,426)	-16.6%
IRS Health Insurance Tax Credit Administration	14,856	15,235	15,406	171	1.1%
Total, Treasury Appropriations Committee	$11,626,074	$12,009,090	$12,470,724	$461,634	3.8%
Treasury International Programs	$1,357,369	$1,327,579	$2,241,305	$913,726	68.8%
International Financial Institutions	1,273,219	1,277,289	2,071,305	794,016	62.2%
Technical Assistance	19,800	20,235	29,000	8,765	43.3%
Debt Restructuring	64,350	30,055	141,000	110,945	369.1%
Total	**$12,983,443**	**$13,336,669**	**$14,712,029**	**$1,375,360**	**10.3%**

* Does not include estimated user fee offset.
** FY 2007 Enacted represents the approved Operating Plan.

Overview

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

The FY 2009 President's Budget request identifies the resources required to support the Treasury Department's role as the steward of U.S. economic and financial systems, and as an influential participant in the international economy. The FY 2009 President's Budget emphasizes initiatives that directly support the Department'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
- Dedicate to management and organizational excellence

The Department of the Treasury performs a critical role in U.S. and global economies, continually evolving to meet the ever-changing needs of the nation. The Department provides cash management for the federal government, produces currency and coin, administers the tax code, oversees the financial sector, and plays an integral role in combating the financing of terrorism, the proliferation of weapons of mass destruction, and other threats to our national security.

This chapter will highlight how Treasury's FY 2009 budget request supports each of these priorities and discuss the Department's progress toward meeting the goals of the President's Management Agenda. Detailed information on how each bureau supports these goals is provided in its respective chapter.

FY 2009 President's Budget by Strategic Goal

(Dollars in Thousands)

Treasury Goal/Objective	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	
	Direct $	Reimb. $	Direct $	Reimb. $	Direct $	Reimb. $	Direct $	Reimb. $	Direct $	Reimb. $
Management & Financial	$108,571	$2,399	$150,903	$8,609	$197,285	$12,238	$226,058	$10,573	$682,817	$33,819
Departmental Offices Salaries and Expenses	59,151	936	74,803	7,204	105,950	6,987	33,991	3,373	273,895	18,500
Dept-wide Systems & Capital Invest. Program							26,975		26,975	0
Office of Inspector General							19,356	6,300	19,356	6,300
Treasury IG for Tax Administration							145,736	900	145,736	900
Community Development Financial Institutions Fund			28,620						28,620	0
Financial Crimes Enforcement Network					91,335	5,251			91,335	5,251
Alcohol & Tobacco Tax and Trade Bureau	49,420	1,463	47,480	1,405					96,900	2,868
Fiscal Service Operations	$426,398	$243,017	$0	$0	$0	$0	$0	$0	$426,398	$243,017
Financial Management Service	239,344	228,010							239,344	228,010
Bureau of the Public Debt	187,054	15,007							187,054	15,007
Tax Administration	$11,091,461	$96,285	$0	$0	$270,048	$11,619	$0	$0	$11,361,509	$107,904
IRS Taxpayer Services	2,150,000	22,454							2,150,000	22,454
IRS Enforcement	4,909,071	32,081			208,196	11,619			5,117,267	43,700
IRS Operations Support	3,794,320	41,750			61,852				3,856,172	41,750
Business Systems Modernization	222,664								222,664	0
Health Insurance Tax Credit Administration	15,406								15,406	0
Total, Treasury Appropriations Committee	$11,626,430	$341,701	$150,903	$8,609	$467,333	$23,857	$226,058	$10,573	$12,470,724	$384,740
Treasury International Programs	2,241,305								2,241,305	0
Total, Appropriated Level	$13,867,735	$341,701	$150,903	$8,609	$467,333	$23,857	$226,058	$10,573	$14,712,029	$384,740
Non Appropriated Bureaus	$0	$0	$0	$3,747,826	$0	$0	$0	$136,011	$0	$3,747,826
Treasury Franchise Fund								136,011	0	136,011
Bureau of Engraving and Printing				559,500					0	559,500
U.S. Mint				2,125,816					0	2,125,816
Office of the Comptroller of the Currency				810,872					0	810,872
Office of Thrift Supervision				251,638					0	251,638
Subtotal, Direct $	$13,867,735		$150,903		$467,333		$226,058		$14,712,029	
Subtotal, Reimbursable $		$341,701		$3,756,435		$23,857		$146,584		$4,268,577
Total, Treasury Level		**$14,209,436**		**$3,907,338**		**$491,190**		**$372,642**		**$18,980,606**

FY 2009 President's Budget Request

The FY 2009 President's Budget request of $12.4 billion for the Treasury Department identifies the resources necessary to effectively manage the government's finances, promote economic opportunity through sound fiscal policy, work towards entitlement reform, strengthen trade and investment policies, and maximize voluntary tax compliance. The request, which is $461 million above the FY 2008 enacted level (an increase of 3.8 percent), reflects the growing need for the Treasury Department to advance an economic system that promotes an improved global quality of life while supporting the national security strategy, and ensuring the safety and integrity of our financial systems against the abuse of terrorist financiers, money launderers, and other criminals. While the majority of the Department's budget is funded through the Department of the Treasury Appropriations Act, an additional $2.2 billion is funded through the State, Foreign Operations, and Related Programs Appropriations Act for international assistance, including $400 million as the first installment of a $2 billion U.S. commitment to a newly created international clean technology fund to address the growing problem of accelerating greenhouse gas emissions growth in major developing countries.

Effectively Manage the Nation's Finances

The FY 2009 budget request funds the Department's priorities in managing the nation's finances effectively, which includes collecting money due to the United States by maximizing voluntary compliance with tax laws and regulations, making payments, and financing the federal government by continually improving financial management processes. Key priorities also include overseeing, accounting for, and reporting on government expenditures and collections, particularly delinquent debt owed the government; accurately forecasting receipts and payments; determining borrowing needs; and executing the borrowing strategy to meet the financial demands of the federal government at the lowest possible cost over time.

Discourage and Deter Non-Compliance

Collecting federal taxes and other revenue through a fair and uniform application of the law is integral to the Department of the Treasury's core mission. The Department's priority is to efficiently and effectively enforce the nation's tax laws, minimize taxpayer burden, and deliver appropriate levels of service to maximize voluntary compliance, thereby reducing the tax gap. The FY 2009 budget request includes $11.362 billion for the IRS, which is an increase of $469 million above the FY 2008 enacted level. Highlights include:

- $287 million for new enforcement initiatives aimed at improving compliance and reducing the tax gap. The IRS will enhance coverage of high-risk compliance areas and expand document matching efforts. It will target the tax gap associated with large corporate and small business taxpayers, high-income taxpayers, and domestic taxpayer offshore activities of U.S. taxpayers. Enforcement will focus on critical reporting, filing, and payment compliance programs and highlight abusive tax avoidance transactions. These initiatives (including the research investment noted below) will generate $2 billion per year in new enforcement revenue once the new hires reach full potential in FY 2011.
- $51 million for enhanced research to allow the IRS to improve the targeting of its enforcement resources to specific areas of non-compliance, thus reducing the burden on compliant taxpayers, improving the fairness of the tax system, and increasing revenue.
- $23 million to implement legislative proposals that would improve compliance with minimum impact on taxpayer burden. It is estimated that these proposals will generate $36 billion in revenue over the next ten years.
- $223 million for the Business Systems Modernization program to continue progress on modernizing tax administration systems that improve both service and enforcement programs.

The Treasury Department also regulates the manufacture and sale of alcohol, tobacco, firearms, and ammunition, and collects excise taxes on the sale of these products. In FY 2007, the Alcohol and Tobacco Tax and Trade Bureau collected $14.7 billion in excise taxes, interest, and other revenues.

Optimize Cash and Debt Portfolio and Expand Electronic Transactions

The FY 2009 budget request provides the funds necessary for Treasury to meet its responsibilities as the federal government's financial manager.

Treasury's management of the federal government's finances includes disbursing payments, collecting revenue, issuing debt, and preparing public financial statements through the Financial Management Service. The Department plays an important role in providing critical services to millions of U.S. taxpayers as it issues timely and accurate government payments such as Social Security benefits, IRS tax refunds, and veterans' benefits. As the government's financial manager, Treasury oversees a daily cash flow of nearly $60 billion, disbursing 85 percent of the federal government's payments. The Department continues to leverage technological advancements to achieve all-electronic cash management, issuing over 981 million non-Defense payments worth $1.6 trillion to a wide variety of recipients, including special payments such as Federal Emergency Management Agency payments and the 2007 telephone excise tax refund. Seventy-eight percent of all payments disbursed were via direct deposit, representing a cost savings to the taxpayer of over 80 cents per transaction.

The Department determines and executes the federal borrowing strategy to meet the monetary needs of the government at the lowest possible cost. Each year, Treasury manages more than $9 trillion of public debt through its Bureau of Public Debt. Public debt includes marketable securities, savings bonds, and other instruments held by state and local governments, federal agencies, foreign governments, corporations, and individuals. The Department of the Treasury's activities minimize the interest paid on the national debt over time and enhance market liquidity. To improve debt management the Department will invest resources in system modernization creating redundancy and enhanced functionality. In order to provide better customer service, Treasury offers Treasury Direct, an electronic, web-based system that electronically issues securities to retail customers and enables investors to manage their accounts on-line.

Ensure Full Performance of U.S. and World Economies

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

Stimulate U.S. Economic Growth

U.S. capital markets make a vital contribution to the nation's wealth and prosperity by directing investments toward innovation, promoting economic growth, and ensuring that the allocation of resources is directed toward the most efficient use. Vibrant capital markets enable investors to seed new companies, leading to job creation and economic prosperity. American consumers and investors benefit from a vibrant and healthy financial services sector that provides opportunities to access credit, save and invest for the future, and insure against risks. It is important, therefore, that our capital markets remain the best in the world.

Accordingly, the Treasury Department has undertaken a competitiveness-related initiative to examine the regulatory structure of our financial institutions to evaluate and propose solutions that achieve the right balance. The regulatory policies in place for financial institutions must effectively protect consumers and investors, while at the same time promote entrepreneurialism and capitalism that is the foundation of our national economic success. The Treasury Department plans to release its report early in 2008.

In addition, by participating in the negotiation and implementation of international agreements, the Treasury Department removes trade and investment barriers, stimulates domestic and global growth, and creates employment opportunities for Americans.

Additionally, the Department supports trade liberalization and budget discipline through its role in negotiating, implementing, and policing international agreements to reduce official export subsidies. By negotiating agreements in the Organization for Economic Cooperation and Development, the Treasury Department drastically reduced the subsidies that member governments can provide when financing national exports. The volume of this financing activity is approximately $70 billion annually. These agreements open markets and level the playing field for U.S. exporters, and save U.S. taxpayers about $800 million each year. Cumulative budget savings from these agreements are estimated to be over $12 billion.

Maintaining Healthy Markets

Treasury is committed to supporting healthy financial markets and to addressing weaknesses when they do arise. In FY 2009, the Department will continue its industry-wide effort to respond to the downturn in the housing and mortgage markets. By preventing avoidable foreclosures, the Department will help to safeguard neighborhoods and communities, and fulfill our primary responsibility of protecting the broader U.S. economy.

After convening a diverse group of market participants through the HOPE NOW Alliance, in FY 2008 the Treasury Department implemented a three point plan to avoid preventable foreclosures and to minimize the impact of the housing downturn on the U.S. economy:

- Increasing efforts to reach able homeowners who are struggling with their mortgages
- Working to increase the availability of affordable mortgage solutions for these borrowers
- Leading the industry to develop a systematic means of efficiently moving able homeowners into sustainable mortgages

In its first three months, the HOPE NOW Alliance sent over 450,000 letters to at-risk borrowers encouraging them to contact their servicer or a non-profit credit counselor at 888-995-HOPE. The Department has also coordinated with the Department of Housing and Urban Development to implement FHASecure, allowing over 67,000 families to refinance into FHA insured loans, while also supporting additional reforms to the tax code that were signed by the President.

The FY 2009 budget request also includes $28.6 million for the Community Development Financial Institutions Fund (CDFI Fund). The CDFI Fund's mission is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States.

Strengthen Financial Institutions

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

The Department, through the Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS), works with other federal banking regulators to issue guidance on subprime mortgage lending and non-traditional mortgage products, and to encourage financial institutions to work with residential borrowers that are unable to meet their contractual home loan obligations. Additionally, these agencies work with the Conference of State Bank Supervisors and American Association of Residential Mortgage Regulators to encourage individual states to adopt the guidelines for mortgage brokers under their supervision. As of September 2007, OCC oversaw financial assets held by national bank charters and federal branches of foreign banks totaling $7.2 trillion. As of September 2007, OTS supervised holding company enterprises with approximately $8.5 trillion in U.S. domiciled consolidated assets, and regulated savings associations with total assets of $1.57 trillion.

The U.S. Mint (Mint) and the Bureau of Engraving and Printing (BEP) are responsible for producing the nation's coins and currency. In FY 2007, the Mint and BEP produced 15.4 billion coins and 9.1 billion paper currency notes, respectively. The Mint successfully issued the first three circulating Presidential $1 coins and the first three First Spouse gold coins. BEP also completed its redesign of the new five dollar note, which is scheduled to enter circulation on March 13, 2008. Also, due to continued improvement in operating results and profits from FY 2007, the Mint returned $825 million to the Treasury General Fund.

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

Prevent Terrorism and Promote the Nation's Security

The sponsorship of terrorism and the potential acquisition of weapons of mass destruction by rogue regimes and non-state entities represent a grave threat to U.S. national security and all free and open societies. The Treasury Department leverages financial and all-source intelligence to identify the financial underpinnings of criminal, terrorist and weapons proliferation networks, and utilizes the Department's unique regulatory and law enforcement authorities to combat national security threats and safeguard the financial system. The Department protects the integrity of the financial system through administration of the Bank Secrecy Act and implements targeted financial measures and other forms of sanctions in support of U.S. government policy goals, which include stopping the flow of money and support to terrorist groups, state sponsors of terrorism, proliferators of weapons of mass destruction, drug traffickers, money launderers, and regimes that constitute a threat to the United States.

Pre-Empted and Neutralized Threats

The Office of Terrorism and Financial Intelligence (TFI) marshals the Treasury Department's intelligence and enforcement functions, aimed at safeguarding the financial system against illicit use and combating rogue nations, terrorist facilitators, proliferators of weapons of mass destruction, money launderers, drug traffickers, and other national security threats.

TFI extracts financial and other source intelligence to effectively utilize the Department's unique authorities to combat national security threats and safeguard the financial system. Confidence in the integrity of the U.S. and international financial systems fosters economic growth and improves national security. Transparency in the financial sector denies terrorist, drug traffickers, WMD proliferators, and other criminals the ability to conceal their illicit activities. The security of the United States is enhanced when financial systems are safeguarded from criminal abuse. Treasury's actions include:

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

In the FY 2009 President's Budget, Treasury requests $11 million above the FY 2008 enacted level to combat state sponsored terrorism, establish the capability to coordinate financial intelligence across the intelligence community, and to enhance security operations.

- To enable the Department to more effectively target state sponsors of terrorism, such as Iran and Sudan, as well as terrorists and their support networks, the budget request includes funds to hire additional sanctions investigators, enforcement and compliance officers, and other resources to administer sanctions programs.
- The absence of a coordinated, Intelligence Community (IC)-wide effort in the collection and analysis of financial intelligence around the world has been noted as a critical capacity gap by Congress and the national security community. The President's Budget request for Treasury includes additional resources to support this coordinating role in the identification of finance-related intelligence collection priorities and analysis. Demonstrating the high priority the Department places on this initiative, in addition to the requested new resources, Treasury will realign funds internally to support these activities.
- As Treasury's national security mission increases, Treasury becomes a greater target of foreign adversaries. Building on the Treasury Counter Intelligence Assessment undertaken in FY 2007, the Budget includes additional resources to strengthen Treasury's defensive capabilities to identify and mitigate threats to the Department's personnel and systems.

The Financial Crimes Enforcement Network (FinCEN), a bureau within TFI, is responsible for administering the Bank Secrecy Act (BSA). The FY 2009 President's Budget request for FinCEN includes resources to strengthen global anti-money laundering efforts, streamline business processes, reduce the cost of compliance to industry, and enhance BSA data collection, management and analysis through improved information technology management.

Dedicate to Management and Organizational Excellence

The Department of the Treasury strives to maintain public trust and confidence in U.S. and international economic and financial systems through exemplary leadership, best-in-class processes, and a culture of excellence, integrity, and teamwork. The Treasury Department realizes its strategic goals by building a strong institution that is citizen-centered, results-oriented, and efficient, while actively promoting innovation.

Enable an Effective Treasury Department

Management's primary role and responsibility in the Department is to create the conditions that allow all programs and activities to perform efficiently and effectively. The Department's priorities are to drive improved results through performance and cost-based decision-making, strategically align its resources to deliver outcomes, secure its information technology infrastructure and leverage technology investments, close skill gaps in mission critical occupations, and develop leadership capacity.

Requested funding seeks to build a strong management infrastructure, ensuring that Treasury remains a world-class organization that meets the President's standard of a citizen-centered, results-oriented government.

The Department is committed to organizational excellence. Funding is included in this request for an Operations Center which will provide 24/7 continuity and oversight of the world financial markets. The center will include representatives from key Treasury Department policy offices facilitating a rapid response to events around the globe.

The Treasury Department's request will fund infrastructure and technology investments to modernize business processes throughout Treasury to improve efficiency. In FY 2009, Treasury requests $26.98 million for infrastructure improvements, ongoing modernization and critical information technology projects, and investments in other new technologies that will improve efficiency and service to the American people. The budget request includes:

- $12 million to address critical building deficiencies in the Treasury Annex Building, which will ensure the safety and health of the occupants.
- $6 million to continue the implementation of a Treasury-wide Enterprise Content Management System. The system will result in increased

efficiencies, enhanced mission effectiveness, reduced total cost of ownership, and the orderly retirement of legacy systems.

- $4 million necessary to stabilize and modernize the Treasury Secure Data Network, the Department's collateral classified communication system, enabling reliable and secure connectivity.

- $5 million to improve Treasury's FISMA performance and strengthen the Department's overall security posture; and completing required milestones as part of Treasury's Presidential E-Government Implementation Plan.

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

President's Management Agenda

Initiative	Status				FY 2007 Progress
	FY 2004	FY 2005	FY 2006	FY 2007	Q4
Human Capital	Y	Y	G	G	G
Competitive Sourcing	Y	G	G	Y	Y
Financial Performance	R	R	R	Y	G
E-Government	R	R	Y	Y	Y
Performance Improvement	Y	Y	Y	Y	G
Improper Payments	N/A	R	R	R	Y
Credit Management	N/A	N/A	N/A	Y	G

Green for Success   Yellow for Mixed Results   Red for Unsatisfactory

President's Management Agenda (PMA)

The Department of the Treasury is committed to the principles of the President's Management Agenda (PMA). The PMA is designed to improve management practices across the federal government and transform it into a results-oriented, efficient, and citizen-centered enterprise. Executing the PMA involves lowering the cost of doing business through competition, strengthening the Department's workforce, improving financial performance, increasing the use of information technology and e-government capabilities, and integrating budget decisions with performance data.

The President holds each agency accountable for its performance in carrying out the PMA, and performance results are demonstrated through quarterly scorecards issued by OMB. The Treasury Department is responsible for reporting on seven initiatives; five are standard government-wide and two apply to select groups of federal agencies of which Treasury is a part.

In FY 2007, the Department continued to be successful in its Human Capital initiative. The Performance Improvement, Competitive Sourcing, Financial Performance, and E-Government initiatives each had mixed results during the year while the Improper Payments initiative remains unsatisfactory. In its first year as a PMA initiative, the Credit Management initiative received a mixed result rating.

Human Capital: In FY 2007, the Department used succession planning to develop emerging leaders, specially-targeted development and training to close skill gaps, and human capital flexibilities to attract and retain a diverse talent pool. In addition, management recognized and rewarded its employees for their contributions toward achieving the Department's priorities and outcomes.

FY 2007 highlights included:

- Reduced the time-to-hire by leveraging web-based hiring solutions and providing improved job announcements,

- Achieved diversity hiring success through the employment of women and Hispanics, and

- Addressed the Department's diversity need by developing a strategy for improving the recruitment of individuals with disabilities, promoting the use of the Department of Labor's Workforce Recruitment Program, and training managers on providing reasonable accommodations to individuals with disabilities.

Performance Improvement: In FY 2007, the Department of the Treasury's progress to achieve improved performance was successful. During this past year, the Department completed and issued its updated strategic plan for FYs 2007–2012. By June 2007, the Office of Strategic Planning and Performance Management had conducted strategic planning workshops with all of the bureaus to develop and align their performance goals to the mission and the strategic goals and objectives of the Department. Additionally, the updated strategic plan introduces the Integrated Management System, which is based on a model of continuous improvement and integrates performance and budgeting. By integrating performance and budgeting, the Department will be able to determine the funding level necessary to achieve intended results, and options will be executed to produce increased value for stakeholders.

Competitive Sourcing: Through Competitive Sourcing, the Department of the Treasury utilizes public-private competition to effectively deliver services at the lowest possible cost to the American taxpayer. Competitive Sourcing allows the Department to look internally and externally for the most efficient way to achieve its mission. During FY 2007, the Treasury Department, in the spirit of the A-76 Circular, made the decision to develop a competitiveness plan. This plan will continually review positions and activities to ensure the Department is competitive, effective, and efficient, but will also surface potential public-private competitions. The Treasury Department has received mixed results in its PMA rating, but is committed to working with OMB to develop a plan to achieve success by improving performance and lowering costs.

Improved Financial Performance: During FY 2007, the Treasury Department continued working towards full compliance with the Federal Managers' Financial Integrity Act (FMFIA) and Federal Financial Management Improvement Act (FFMIA), and improved financial management processes to produce accurate and timely information that supports operating, budget, and policy decisions. In addition, the Department continued to emphasize the resolution of material weaknesses and completed the vast majority of the planned corrective actions. For 2007, the Department again received a clean audit opinion on its financial statements. A three day close at the end of each month and the continuous enhancement of the Department's Financial Analysis and Reporting System helped to ensure a successful audit. The Department continued to review its financial reporting process and perform variance analyses on the quarterly financial statements to ensure its financial data integrity. The Department worked closely with OMB, GAO, FMS, and the Federal Accounting Standards Advisory Board on policy guidance and accounting standards and practices to improve financial reporting and performance. This initiative improved its overall status rating during FY 2007 from "red" to "yellow," and it received "green" progress results on a quarter-by-quarter basis for all four quarters of FY 2007.

Expanded E-Government: The focus for the Department's E-Government organization is to collaborate government-wide and identify opportunities for participating in solutions that deliver significant productivity and performance gains. One example of these efforts is the Treasury Department's active involvement in the Budget Formulation and Execution Line of Business and its efforts to make its Budget Formulation and Execution Manager (BFEM) available on a multi-agency basis. Over the course of the past year, six agencies have used the BFEM service to modernize their budget formulation processes. By building on the work of the Treasury Department, these agencies avoided the software development costs typically incurred in any modernization effort while simultaneously lowering their marginal operational expenses by disbursing expenses across several agencies. In addition, the Treasury Department developed a BFEM Performance Module, which will allow agencies to manage its performance measures. Over the next year, the Department will share this solution with other agencies and work to implement it across the government.

Eliminating Improper Payments: In FY 2007, the IRS continued its effort to reduce improper payments for the Earned Income Tax Credit (EITC) program, which is the only high risk program in the Treasury

Department due to erroneous payments. The IRS continued to evaluate new ways of reducing erroneous EITC payments while maintaining participation by eligible taxpayers, in addition to pursuing base compliance activities and redesign efforts.

By detecting and correcting errors during return processing, the IRS prevented incorrect refunds in the amounts of $460 million and $400 million, respectively for the 2006 and 2007 filing seasons. This decreasing trend in errors is attributable to education, return preparation assistance, and electronic filing.

Improving Credit Management: During FY 2007, the Treasury Department participated, with the government's five major creditor agencies in an initiative to improve the management of federal credit programs. FMS's Debt Management Services group specifically addressed delinquent debt collection issues in the areas of agency compliance with Debt Collection Improvement Act (DCIA) of 1996, program effectiveness and goals for improvement, effective management information reporting, controlling and measuring costs, and customer satisfaction. To address and improve agency compliance, Performance Expectation Agreements are currently being negotiated between FMS and the five major credit agencies.

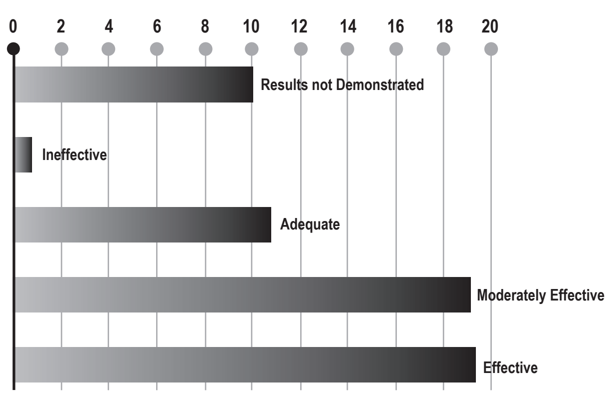
During FY 2007, the Department took the following actions:

- Established a performance measure for debt collection as a percentage of delinquent debt referred to the Treasury Department,
- Assessed agency progress toward use of administrative wage garnishment, centralized offset of federal salary payments, and debtor bar provisions of the DCIA,
- Established benchmarks and goals for controlling costs and determining customer satisfaction, and
- Utilized receivable reporting to improve program management.

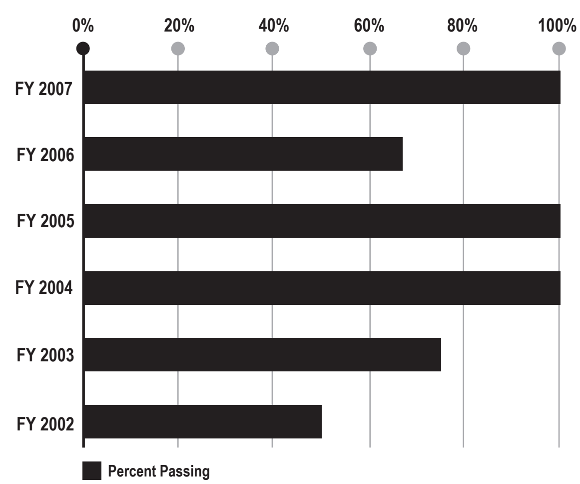
Program Assessment and Rating Tool (PART) Summary

Program evaluation is a core management tool used to allocate resources and promote efficiency and effectiveness. In addition to regular independent program evaluations conducted by the Treasury Department's bureaus, the Department works with OMB to select programs each year that will be evaluated or re-evaluated through the PART process. Programs are evaluated every five years through this process by the OMB. In FY 2007, two international programs went through the PART process; both received moderately effective ratings. As of the end of FY 2007, all Department programs have gone through the PART process; based on the number of programs, 31 percent are rated effective, 22 percent are rated moderately effective, 22 percent are rated adequate, 3 percent are rated ineffective, and the remaining 22 percent received a rating of results not demonstrated.

PART Scoring History



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



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

(Direct and Reimbursable)

Appropriation	FY 2007 Actual			FY 2008 Estimated			FY 2009 President's Budget		
	Direct	Reimb.	Total	Direct	Reimb.	Total	Direct	Reimb.	Total
Departmental Offices Salaries and Expenses	1,055	86	1,141	1,133	90	1,223	1,200	90	1,290
Office of Inspector General	111	3	114	112	0	112	115	0	115
Treasury IG for Tax Administration	792	3	795	835	3	838	835	3	838
Community Development Financial Institutions Fund	53	0	53	75	0	75	75	0	75
Financial Crimes Enforcement Network	302	0	302	334	1	335	343	1	344
Alcohol & Tobacco Tax and Trade Bureau	523	10	533	544	15	559	525	15	540
Financial Management Service	1,483	408	1,891	1,692	428	2,120	1,500	441	1,941
Bureau of the Public Debt	1,303	16	1,319	1,371	17	1,388	1,371	17	1,388
Internal Revenue Service	92,017	698	92,715	91,123	623	91,746	92,922	650	93,572
Subtotal, Treasury Appropriated Level	97,639	1,224	98,863	97,219	1,177	98,396	98,886	1,217	100,103
Working Capital Fund	0	201	201	0	223	223	0	233	233
Treasury Franchise Fund	0	769	769	0	830	830	0	793	793
Bureau of Engraving and Printing	0	2,109	2,109	0	2,200	2,200	0	2,150	2,150
U.S. Mint	0	1,944	1,944	0	2,071	2,071	0	2,065	2,065
Office of the Comptroller of the Currency	0	2,954	2,954	0	3,078	3,078	0	3,139	3,139
Office of Thrift Supervision	0	974	974	0	1,104	1,104	0	1,104	1,104
Terrorism Insurance Program	10	0	10	10	0	10	10	0	10
Total	**97,649**	**10,175**	**107,824**	**97,229**	**10,683**	**107,912**	**98,896**	**10,701**	**109,597**

Summary of FY 2009 Increases and Decreases

(Dollars in Thousands)

	DO	DSCIP	OIG	TIGTA	CDFI	FINCEN	TTB	FMS	BPD	IRS	Total
FY 2008 Enacted	$248,360	$18,710	$18,450	$140,533	$94,000	$85,844	$93,515	$234,423	$182,871	$10,892,384	$12,009,090
Non-Pay Inflation Adjustments	2,396	0	87	615	119	300	752	553	1,497	54,828	61,147
Pay Annualization Adjustments	837	0	101	799	48	861	402	1,080	769	57,854	62,751
Pay Inflation Adjustments	2,849	0	318	2,419	111	981	1,075	3,288	2,445	152,303	165,789
Maintaining Current Levels	$6,082	$0	$506	$3,833	$278	$2,142	$2,229	$4,921	$4,711	$264,985	$289,687
Base Realignment	0	0	0	0	0	0	(1,149)	0	0	0	(1,149)
Non-Recurring Costs	(1,500)	(16,986)	0	0	0	0	0	0	0	(12,593)	(31,079)
Initiative Annualizations	4,433	0	0	0	0	1,337	0	0	0	0	5,770
Transfers	1,724	(1,724)	0	1,370	0	1,000	0	0	0	(2,370)	0
Efficiencies/Savings	0	0	0	0	0	0	0	0	0	(81,656)	(81,656)
Base Reinvestments	0	0	0	0	0	0	0	0	0	32,604	32,604
Adjustments to Base	$4,657	($18,710)	$0	$1,370	$0	$2,337	($1,149)	$0	$0	($64,015)	($75,510)
FY 2009 Base	$259,099	$0	$18,956	$145,736	$94,278	$90,323	$94,595	$239,344	$187,582	$11,093,354	$12,223,267
Program Decreases	0	0	0	0	(65,658)	(4,146)	(685)	(958)	(528)	(92,691)	(164,666)
Program Reinvestments	0	0	0	0	0	2,897	0	958	0	0	3,855
Program Increases	14,796	26,975	400	0	0	2,261	2,990	0	0	360,846	408,268
FY 2009 President's Budget	$273,895	$26,975	$19,356	$145,736	$28,620	$91,335	$96,900	$239,344	$187,054	$11,361,509	$12,470,724
Offsetting Fees	0	0	0	0	0	0	0	0	(10,000)	0	(10,000)
FY 2009 President's Budget less Offsetting Fees	$273,895	$26,975	$19,356	$145,736	$28,620	$91,335	$96,900	$239,344	$177,054	$11,361,509	$12,460,724

Departmental Offices

Mission Statement

Serve the American people and strengthen national security by managing the U.S. Government's finances effectively, promoting economic growth and stability, and ensuring the safety, soundness, and security of U.S. and international financial systems.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2007	FY 2008	FY 2009		
Departmental Offices - S & E	Enacted	Enacted	Request	$ Change	% Change
Executive Direction	$19,728	$20,749	$21,592	$843	4.06%
Economic Policies and Programs	38,393	44,242	45,853	1,611	3.64%
Financial Policies and Programs	24,695	29,465	34,735	5,270	17.89%
Terrorism and Financial Intelligence	47,540	56,775	61,712	4,937	8.70%
Treasury-wide Management and Programs	16,748	18,505	19,009	504	2.72%
Administration Programs	69,244	78,624	90,994	12,370	15.73%
Total Appropriated Resources	**$216,348**	**$248,360**	**$273,895**	**$25,535**	**10.28%**
Total FTE	**1,055**	**1,133**	**1,200**	**66**	**5.87%**

FY 2009 Priorities

The FY 2009 budget request supports the Departmental Offices' (DO's) leading role in accomplishing key Administration goals:

- ***Effectively Manage U.S. Government Finances*** – The Department will dedicate significant resources to increasing the efficiency and sophistication of debt management tools, which will result in taxpayer savings.

- ***Ensure U.S. and World Economies Perform at Full Economic Potential*** – The Department strives to maintain America's strength and prosperity, and will continue to do so by developing and implementing policies that encourage overall economic growth, protecting key financial infrastructure, and ensuring foreign investment in the U.S. economy is sound and secure. The Department will also build a Operations center to improve its ability to provide timely response to financial crises.

- ***Prevent Terrorism and Promote the Nation's Security Through Strengthened International Financial Systems*** – The Department will maximize its impact by increasing its role as a leader in the area of financial intelligence, setting the guidelines for the Intelligence Community (IC) in the area of financial intelligence. The Department will increase its counterintelligence capabilities and enhance its capacity to administer sanctions against terrorist groups and their sponsors.

- ***Promote Management and Organizational Excellence*** – The Department continues to develop integrated plans where policies and operations align to produce maximum value for the American people. DO will fund technology investments and disaster recovery planning.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Departmental Offices (DO), as the headquarters of the Department of the Treasury, performs core functions vital to national security, the promotion of economic growth, and the management of the nation's finances.

The FY 2009 budget request supports DO's leading role in accomplishing the outcomes of the Treasury strategic framework:

- ***Managing the Government's Finances* –** The ability of the Department of the Treasury to manage the nation's finances with integrity is paramount to maintaining financial stability and enabling economic growth. DO will continue to play an important role in this effort through sound fiscal management enabling continual operation of essential government services and allowing the Department to meet its financial obligations while minimizing borrowing costs.

- ***Securing America's Economic and Financial Future* –** The integration of the global economy and liberalization of markets holds forth the promise of an increasingly prosperous and secure world. DO will continue to work toward an economic system that promotes competitive capital markets, free trade and investment, while always striving to decrease the gap in the global standard of living.

- ***Strengthening National Security* –** The Department plays an integral role in stopping the financing of terrorism and identifying and dismantling terrorist organizations' support networks. DO will continue to lead the effort, working closely with other agencies and with governments around the world, to identify and block financial assets of terrorists, proliferators of weapons of mass destruction, and narcotics traffickers and their support networks. Doing so will impair, impede, and economically isolate these individuals, organizations and entities.

- ***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, DO will continue to align resources to deliver outcomes; to invest in, secure and leverage information technology; to close skill gaps, recruit and retain a high performing workforce; and to develop effective leadership.

1B – Program History and Future Outlook

DO has transitioned to operate beyond the scope of traditional headquarters responsibilities, allowing it to accomplish multiple missions that are broad in scope. DO plays a direct role in fighting the war on terror and in promoting the President's economic policy agenda domestically and abroad.

Managing the Government's Finances **–** The primary function of the Department of the Treasury is the management of the monetary resources of the United States. Many critical aspects of that management function fall under the scope of DO; including the determination of domestic and international economic policy and debt management. The Departmental Offices have recently experienced success in both of these areas.

In FY 2007, the Office of Tax Policy continued to support the Administration's health care initiatives through significant and timely analysis of the taxation and employee benefits issues underlying many health and Medicare reform proposals. The office worked to develop a proposal that would make health care more affordable and more accessible. Under this proposal, all taxpayers who buy health insurance, whether on their own or through their employer, and no matter the cost of the plan, would get the same standard tax deduction for health insurance. The proposal would help hold down health-care costs by removing the current tax bias that encourages over-spending.

The Department of the Treasury released a comprehensive seven-point strategy in a continuing effort to reduce the tax gap and increase compliance. This budget includes resources critical to implementing that strategy, including new funding for research on noncompliance with the tax law. Analytical support will focus on developing tools for narrowing the tax gap without imposing excessive burdens on compliant taxpayers.

The Office of Tax Policy also released a study titled "Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century," which examined the impact of tax policy on the global competitiveness of U.S. companies and workers. This study is part of an ongoing effort by the Department to explore opportunities that will enhance U.S. competitiveness.

In FY 2009, the Department will continue working toward the full automation of the interest rate and yield curve certifications presently executed by the Office of Debt Management. Treasury is required by statute and regulation to determine a broad array of critical interest rates including rates for savings bonds, Social Security Trust Funds, and State and Local Government Series securities. Treasury also creates the official real and nominal yield curves for financial markets. The implementation of these efforts will ensure that Treasury can produce these mission-critical processes on a timely basis, provide them to market participants quickly, and bolster contingency procedures.

Securing America's Economic and Financial Future **–** The Department plays a key policy role in promoting prosperous U.S. and world economies, raising standards of living, and protecting domestic and international economic and financial systems. The

Department will strive to maintain America's strength and prosperity by developing and implementing policies that encourage overall economic growth, protect key financial infrastructure, and ensure investment in the U.S. economy is sound.

In FY 2007, the Office of Financial Market Policy (OFMP) took a lead role in the President's Working Group on Financial Markets (PWG) acting as liaison to other PWG agencies, the Government Accountability Office (GAO), and Congressional staff. As the internal Treasury coordinator for PWG issues OFMP coordinated meetings on various issues including Private Pools of Capital/Hedge Funds with hedge fund managers, prime brokers/counterparties, investors, fiduciaries/pension funds/endowments, and support industries (lawyers, accountants/auditors). These efforts culminated in the release of the PWG's *Principles and Guidelines Regarding Private Pools of Capital* in February 2007 to address systemic risk and investor protection issues

FY 2007 also saw an increased effort by the Treasury Department to increase financial education. Department officials traveled to 20 states, held 95 financial education sessions, responded to approximately 220 inquiries from financial education providers through the Department's Technical Assistance Center, and recognized three organizations for their exemplary financial education programs. As part of its leadership of the Financial Literacy and Education Commission, Treasury hosted three statutorily required public meetings, submitted the annual Strategy for Assuring Financial Empowerment to Congress in a timely fashion, completed 15 calls to action as outlined in the National Strategy for Financial Literacy, and implemented two recommendations of the GAO's recently issued report. In addition, the promotion of the MyMoney.gov Web site and the 1-888-MyMoney toll-free hotline resulted in more than 900,000 visits and more than 16,000 calls respectively. The office also released its evaluation of First Accounts Program recipients and testified before Congress on the status of financial literacy efforts, and collaborated (and continues to collaborate) with the White House to launch a financial literacy initiative.

Treasury's Office of Critical Infrastructure Protection, in conjunction with regional coalitions in Chicago and San Francisco, led the financial industry-wide pandemic flu exercise held in the fall of 2007. Additionally, the Office organized and ran a cross-border exercise between the President's Working Group on Financial Markets and the Tripartite Standing Committee in the United Kingdom. This exercise highlighted the need for continued efforts between the financial authorities in these countries and others to come together to focus on areas where further collaboration is necessary to address potentially global financial crises.

In FY 2009, the Department of the Treasury will launch a cross-departmental strategic initiative to better manage the government's finances with increased levels of automation, resiliency, reporting, transparency and cost savings. The Department plans to design, build and implement cash and debt management systems, analytics, policies, and procedures to administer the nation's finances, arming the Department of the Treasury with 21st century tools to efficiently and effectively execute its core mission. The initiative has four principal components: cash management modernization, debt management modernization, enhanced reporting and transparency, and improved risk management.

As the lead agency for the banking and finance sector, the Treasury Department will continue to work to ensure the resilience of the American financial services sector, and by extension the American economy, so it is resilient and able to withstand natural disasters or man-made attacks intended to disrupt, dismantle, or destroy its critical infrastructure. Economic security has been identified as a National Essential Function, and the confidence of our citizens and our trading partners depends in part on the knowledge that the U.S. financial system is at all times available and resilient in the face of all such potential incidents.

In FY 2008, the Department implemented a three point plan to avoid preventable foreclosures and to minimize the impact of the housing downturn on the U.S. economy. The plan included: increasing efforts to reach able homeowners who are struggling with their mortgages; working to increase the availability of affordable mortgage solutions for these borrowers; and leading the industry to develop a systematic means of efficiently moving able homeowners into sustainable mortgages. In FY 2009 the Department will also continue its industry-wide effort to respond to the downturn in the housing and mortgage markets. By preventing avoidable foreclosures, the Department will help to safeguard neighborhoods and communities, and fulfill our primary responsibility of protecting the broader U.S. economy.

Strengthening National Security **–** The Treasury Department leads the U.S. government's multi-faceted effort to keep the world's financial systems free and open to legitimate uses, while excluding those who wish to use those systems for illegal purposes, through its Office of Terrorism and Financial Intelligence (TFI). Since its creation in FY 2004, TFI has expanded its capabilities from focusing on the current intelligence process to the production and dissemination of analysis on strategic and systemic issues.

TFI's Office of Foreign Asset Control (OFAC) successfully executes sanctions against foreign countries, targeted regimes, and entities and individuals, including residual enforcement actions associated with programs that have been lifted. 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. In administering and enforcing these economic sanctions, it is imperative that OFAC maintain a close working relationship with other federal departments and agencies in order to ensure both that these programs are implemented in a manner consistent with U.S. national security and foreign policy interests, and that they are enforced effectively.

Over the past several years, the Department has focused its efforts on exploiting current intelligence, building breadth and depth in its analytic ranks, improving its strategic analytic capability, and building the capacity to perform systemic analyses of national security threats.

In FY 2009, the Department will build on these capabilities by using its unique expertise to help coordinate the collection and analysis of information regarding the means, methods, and networks that form the financial underpinning of national security threats, and develop the tools to address those threats. Requested resources will be targeted to aligning collection on finance-related issues more closely with policymaker needs by driving the requirements process; developing and taking advantage of new sources of information; enhancing analysis on finance-related issues in coordination with the intelligence community (IC); expanding Treasury's role and relationships within the IC; and ensuring TFI's Office of Intelligence and Analysis' infrastructure meets these new responsibilities.

Producing Effective Results **–** The Department continues to work at providing the tools necessary to execute the Treasury Department's mission in the most efficient and cost effective manner. Essential components required for achieving the Department's mission include human resources, facility services, information technology, budgetary services, and procurement.

In FY 2007, the Treasury Department ably executed initiatives aimed at supporting the goals of the organization. For example, the Department successfully transitioned to a new Department-wide Complaint Management Tool, which enabled the capture of Treasury-wide data at the pre-complaint phase of the EEO process. The data provided by the system is being used by management to measure the timeliness and effectiveness of the EEO counseling process. For the first time, the Treasury Department instituted service-wide standards for the operation of the Treasury Complaint Center to assist us in meeting our oversight responsibility.

During FY 2007, DO led a successful Department-wide effort to address a number of human capital issues. Program accomplishments included implementing of a human capital accountability and audit program; developing and issuing Succession Management and Workers Compensation policies; leading efforts to strengthen agency-wide performance management; improving hiring processes and timeliness; and leading or facilitating initiatives that added value to the agency's ability manage the workforce. The Department built a Treasury-wide training program to provide the required training to meet the first year requirements of the No Fear Act. In addition to making that training available across the Department, the program has been shared with other federal agencies.

To enhance human capital management within the Department in FY 2009, focus will be placed on: improved outreach to diverse groups, including establishing intern programs from sources such as the Hispanic Association of Colleges and Universities, Historically Black Colleges and Universities, the Washington Internships for Native Students, and the Workforce Recruitment Program; enhanced oversight of the Treasury Complaint Mega Center in Dallas, Texas; improved overall processing times for EEO formal complaints; increased participation in Alternative Dispute Resolution (ADR) programs and activities, with an emphasis on dispute prevention and conflict resolution; and establishment of

Treasury-wide goals to measure our progress in hiring individuals with disabilities, with monitoring of accomplishments in this area.

Within DO, resources will be dedicated to: revising and developing personnel policies, programs and processes; developing and delivering new supervisory and leadership training to create and sustain a learning environment within DO; assisting offices in focusing on succession planning; providing the necessary support to implement ongoing government-wide initiatives to build a robust intelligence analysis capability; and expanding and formalizing the DO telework program to help attract, employ and retain the best and brightest from among today's workforce.

The Department of the Treasury is committed to strengthening the IT investment management, and has recently taken additional steps to do so. First, the Department has included all IT investments under the Department's *IT Capital Planning and Investment Control Policy* processes. Second, the Department is establishing a process to ensure that the Project and Program Managers are certified in accordance with OMB requirements. Finally, the Department is working to better engage the Department's executive leadership by re-establishing the Executive Investment Review Board (E-Board). The E-Board will: make recommendations to the Secretary on strategic IT priorities for the Treasury based on statutory requirements, the President's Management Agenda, the Treasury Strategic Plan, or issues identified by GAO or the Department's Inspectors General; annually review the IT Strategic Plan prepared by the Chief Information Officer (CIO); determine the IT investments (and corresponding budgets) that best support the Treasury's missions and program delivery processes; review the progress of existing systems and ongoing IT projects to determine if they should proceed as planned, be redirected or discontinued; and evaluate the results achieved by the use/operation of Treasury IT systems to ensure Treasury IT investments yield the planned results.

The Office of the Procurement Executive (OPE) continues to provide Department-wide acquisition policy and oversight, ensuring proper business controls, continuous improvement and achievement of key acquisition goals. OPE, in conjunction with the CIO, implemented a High Impact Acquisition (HIA) program designed to support improved oversight and management of the Department's information technology investments. The HIA program requires contract reviews by contracting officers in consultation with program managers as part of the quarterly Capital Planning and Investment Control quarterly reviews. These reviews cover over 150 contracts each quarter, and result in an executive scorecard of investments with contract issues that require corrective action planning. The HIA scorecard promotes executive level engagement in IT issues as it is distributed regularly to the Treasury Acquisition Council, the CIO Council (the Treasury Investment Review Board), and the Chief Financial Officer Council, and will be used in assessments of bureau budget requests.

Finally, the Office of Emergency Programs (OEP) facilitated a series of training exercises in the area of continuity of operations during critical national security and emergency events. OEP worked with the Secret Service to standardize emergency notification procedures in the Secret Service-Treasury Command Center. The office provided management support to over 30 Main Treasury incidents in FY 2006, and is on track to double this number in FY 2007. This office took the lead in managing numerous Treasury-wide incidents such as hurricanes, floods, and security incidents at remote facilities throughout the year and will continue to do so going forward.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Departmental Offices - S & E	FTE	Amount
FY 2008 Enacted	**1,133**	**$248,360**
Base Realignment:		
OIA – Base Realignment		(1,000)
OIA – Global Finance Initiative		1,000
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		2,396
Pay Annualization		837
Pay Inflation Adjustment		2,849
Initiative Annualization:		
IA - Annualization of FY 2008 Initiative	4	748
OFAC - Annualization of FY 2008 Initiatives	5	986
OIA - Annualization of FY 2008 Initiatives	9	1,465
TFFC - Annualization of FY 2008 Initiatives	4	803
TP - Annualization of FY 2008 Initiatives	2	431
Non-Recurring Costs:		
SCIF		(1,500)
Transfers In:		
DOIT - Disaster Recovery		1,724
Total FY 2009 Base	**1,156**	**$259,099**
Program Increases:		
DF - Debt Management Office Analytical Support	2	3,000
DF - Ensuring National Security Through CIP		1,300
DO - Operations Center	24	6,200
OFAC - State Sponsored Terrorism (Iran and Sudan)	4	1,380
OGC - General Counsel Support for CFIUS	2	483
OIA - Counterintelligence and Security Capabilities Enhancement	3	1,433
OIA - Global Finance Initiative	10	1,000
Subtotal FY 2009 Program Changes	**44**	**14,796**
Total FY 2009 Request	**1,200**	**$273,895**

2A – Budget Increases and Decreases Description

Base Realignment ....+$0 / +0 FTE

Office of Intelligence Analysis (OIA) - Base Realignment -$1,000,000 / +0 FTE

A portion of the Treasury base funding will be transferred within the DO budget to support the Global Finance Initiative.

OIA - Global Finance Initiative +$1,000,000 / +0 FTE

In FY 2009, Treasury will realign $1 million in base resources to support the Global Finance Initiative for a total of $2 million. This investment is described in more detail in the "Program Increases" section below.

Maintaining Current Levels (MCLs) ....+$6,082,000 / +0 FTE

Non-Pay Inflation Adjustment +$2,396,000 / +0 FTE

Funds are requested for the inflationary increases to non-labor related items such as contracts, travel, supplies, equipment, and General Services Administration (GSA) rent adjustments; and Department of State overseas Capital Security Cost Sharing.

Pay Annualization +$837,000 / +0 FTE
Funds are requested for the FY 2009 cost of the January 2008 pay increase.

Pay Inflation Adjustment +$2,849,000 / +0 FTE
Funds are requested for the proposed January 2009 pay raise.

Initiative Annualization ....+$4,433,000 / +23 FTE
Funds are requested for completing the full-year cost and FTE realization of positions from enacted FY 2008 initiatives.

Office of International Affairs (IA) - Annualization of FY 2008 Initiative +$748,000 / +4 FTE
In FY 2008, funds were enacted to recruit investment flow analysts and other specialists. This function is necessary to provide adequate support for, and measure progress toward, achieving the International Affairs objective of ensuring national security and increasing economic growth.

Office of Foreign Asset Control (OFAC) - Annualization of FY 2008 Initiatives +$986,000 / +5 FTE
In FY 2008, resources were enacted to continue the Treasury Department's efforts in combating terrorism networks and state sponsors of terrorism. New Executive Orders with respect to Sudan and Syria were issued in 2006 and the Administration is extensively engaged with respect to Iran. Funding was also enacted to expand the weapons of mass destruction (WMD) sanctions program by strengthening OFAC's ability to track, identify, and designate financiers and other supporters of WMD proliferation. Finally, additional support was enacted to expand enforcement capacity in support of investigation and blocking activities, which are critical to the enforcement of sanctions.

OIA - Annualization of FY 2008 Initiatives +$1,465,000 / +9 FTE
In FY 2008, funding was enacted to expand OIA's analytic programs to meet increased demands and expand the breadth and depth of its analytic coverage to address emerging national security threats and issues. Additionally, resources were provided to integrate Treasury further into the Intelligence Community (IC); to increase Departmental access to critical intelligence; and to expand the Department's ability to coordinate on terrorist-financing and WMD proliferation matters with the IC, law enforcement communities, and foreign partners. Finally, funding was enacted for OIA's Office of Intelligence Support (OIS) to provide intelligence on a full range of political, economic, and security matters to the Secretary, Deputy Secretary and other senior Treasury leadership. The information provided by OIS is critical for the participation by the Treasury Department's senior leaders in the policymaking process National Security Council.

Office of Terrorist Financing and Financial Crimes (TFFC) - Annualization of FY 2008 Initiatives +$803,000 / +4 FTE
In FY 2008, resources were enacted for additional policy advisors dedicated to disrupting terrorist financial networks in the Western Hemisphere, Africa and the Middle East-South

Asia nexus, bringing together the U.S. government tools available to law enforcement and national security agencies. Funding was also provided to target rogue regimes such as North Korea and other significant national security hot spots (including Afghanistan, Pakistan, India, and Central Asia).

Office of Tax Policy (TP) - Annualization of FY 2008 Initiatives +$431,000 / +2 FTE
In FY 2008, funds were enacted to increase tax policy analytical support. TP presently has only limited capability to produce analyses for a narrow range of tax policy changes. Additional resources dedicated to to this analysis will afford decision makers estimates of the full effect of tax policy changes decision-makers in order to inform tax policy determinations. The resources requested will facilitate production of these estimates for proposed Federal tax legislation. This funding annualizes that initiative to ensure full year funding for FY 2008 hires.

Non-Recurring Costs ....-$1,500,000 / +0 FTE
Sensitive Compartmented Information Facility (SCIF) -$1,500,000 / +0 FTE
Of the $3 million in SCIF funding enacted in FY 2008, $1.5 million is non-recurred in FY 2009.

Transfers In ....+$1,724,000 / +0 FTE
DOIT - Disaster Recovery +$1,724,000 / +0 FTE
The FY 2009 budget proposes to transfer funding for its disaster recovery site from the Department-wide Systems and Capital Investments Program account to the DO Salaries and Expenses account due to the fact that the funds are for continuing operations and not development. The DO disaster recovery site was established in 2002 at another government site in West Virginia. The servers, workstations and network devices were procured and installed as part of the seat management contract. Thus, the systems are paid for over a three- or four-year period and refreshed at the end of the cycle. The fixed cost of equipment, labor and leased telecommunications lines are mandatory expenses that will continue in perpetuity.

Program Increases ....+$14,796,000 / +44 FTE
DF - Debt Management Office Analytical Support +$3,000,000 / +2 FTE
A complete revamp of the Office of Debt Management's (ODM) information technology systems is necessary to equip decision makers with better models so that more accurate and timely projections can be made. This will result in more effective financing of the Federal Government and will increase the reliability of crucial data on which the capital markets rely. By investing in ODM’s systems, the Treasury Department will be in a position to significantly reduce the risk of operational failure, better manage its $9+ trillion debt portfolio and improve national security. Securing the ODM infrastructure through multiple failsafe mechanisms and backup facilities will ensure that the U.S. Treasury market remains the most important sovereign issuer in global capital markets. This modernization will make the U.S. debt management technology more comparable to the sophisticated systems used in other countries like the United Kingdom, Canada, and Japan. Additionally, the potential cost savings for the American public from completing

this initiative is significant - a one basis point reduction in interest costs would save the US taxpayer $430 million annually.

DF - Ensuring National Security Through the Office of Critical Infrastructure Protection +$1,300,000 / +0 FTE

This funding will help prepare the American financial services sector against disasters, either natural or manmade. The mission of this office is to lead the efforts of the Banking and Finance Sector to maintain and improve the security and resilience of the U.S. financial infrastructure. Initiatives currently underway have made a direct and positive impact on cooperative public-private sector efforts to identify threats and vulnerabilities, to share critical information, and to work together to mitigate risks to the sector and protect the U.S. economy and our national security. Given the important mission and its many accomplishments, the FY 2009 budget seeks additional resources to expand the work of providing for the resilience and protection of the Nation's financial services infrastructure. Additional funding will allow for further international exercises with entities such as the European Central Bank, extensive mapping of the financial sector, and the establishment of secure communications with financial institutions.

DO - Operations Center +$6,200,000 / +24 FTE

The war on terror and the increasing globalization of the world economy requires the Department of the Treasury's policy offices and bureaus to coordinate actions in a dynamic environment. Interactions with international financial markets, regulation of domestic financial markets, and the financial analysis of terrorist organizations demand continuous coordination. The global scope of the Treasury Department's operation requires a 24/7 monitoring capability. Only instant communication and continuous coordination will enable the Department to respond efficiently to an international or domestic financial crisis. The FY 2009 budget establishes an Operations Center that will act as a fusion center for the processing, dissemination, and coordination of crisis management actions of policy offices including international affairs, domestic finance, and intelligence analysis. It will incorporate and expand the existing Market Room's capacity to monitor international and domestic financial markets; coordinate actions with Federal agencies, foreign governments, and global financial markets; and manage the Department's global operations on a daily basis. The center will include representatives from key Treasury Department policy offices and will provide them with necessary communication equipment and information technology.

OFAC - State Sponsored Terrorism (Iran and Sudan) +$1,380,000 / +4 FTE

The FY 2009 budget proposes to enhance capacity to effectively administer and implement the application of economic sanctions to state-sponsors of terrorism, such as Iran and Sudan, as well as terrorists, terrorist groups, and their support networks. The funds will provide additional sanctions investigators; enforcement, compliance, licensing, blocking, and civil penalties officers; Freedom of Information Act specialists; and program advisor and records management specialists to support these efforts.

Office of General Counsel (OGC) - General Counsel Support for the Committee on Foreign Investment in the United States (CFIUS) +$483,000 / +2 FTE

The Office of the Assistant General Counsel for IA requires additional legal support so that it may meet the increased demand to support clients on the Treasury-chaired Committee on Foreign Investment in the United States. The number of cases reviewed by CFIUS has substantially increased, as has the scrutiny accorded to each case. Treasury Department attorneys are involved much earlier in the process of case review and are devoting far more time to each case in order to examine jurisdictional issues and participate in interagency discussions of possible mitigation agreements when potential national security threats are present.

OIA - Counterintelligence and Security Capabilities Enhancement +$1,433,000 / +3 FTE

Funding this initiative is critical to the Department's efforts to address current and emerging threats that affect its national security mission. These include: preventing espionage in the Department; thwarting adversarial threats to our personnel, programs, and facilities; and identifying and mitigating threats from compromise of Treasury critical programs or theft. As Treasury's national security mission increases, Treasury becomes a greater target of foreign adversaries. This initiative builds on the recent Departmental Counterintelligence assessment. Furthermore, this initiative aligns with the Director of National Intelligence's National Intelligence Strategy Enterprise Objective Seven and the National Counterintelligence Strategy.

OIA - Global Finance Initiative +$1,000,000 / +10 FTE

Targeted financial measures supported by sound financial intelligence have become one of the most effective weapons against national security threats, as policymakers continue to seek options short of military force. Treasury's efforts in this area have been instrumental in disrupting terrorist financing and applying pressure on countries such as Iran and North Korea in direct support of U.S. policy goals. This initiative provides $2 million, including a realignment of $1 million in base resources, and 10 positions to establish a capability to facilitate the coordination of global finance intelligence issues within the IC. These resources will enable OIA, Treasury's intelligence component, to effectively leverage information from the IC to provide actionable intelligence to senior policymakers in support of these increasingly utilized measures, and to play a critical role in facilitating coordination across the IC on matters related to financial intelligence. Resources will be targeted to aligning collection requirements on finance-related issues more closely with policymaker needs; developing and taking advantage of new sources of information; enhancing analysis on finance-related issues in coordination with the IC; expanding OIA's role and relationships within the IC; and ensuring OIA's infrastructure meets these new responsibilities. This initiative is aligned with key tasks and objectives of the National Security Strategy, the National Intelligence Strategy, the National Implementation Plan for the War on Terror, and the Treasury Strategic Plan.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Departmental Offices - S & E	FY 2007 Enacted	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	**1,055**	**1,133**			**1,200**
Object Classification:					
11.1 - Full-time permanent	107,172	112,379	0	112,378	130,297
11.3 - Other than full-time permanent	2,781	2,781	0	2,781	2,781
11.5 - Other personnel compensation	197	197	0	197	197
11.8 - Special personal services payments	0	0	0	0	0
12 - Personnel benefits	23,792	23,843	0	23,843	28,377
13 - Benefits for former personnel	0	0	0	0	0
21 - Travel and transportation of persons	4,200	6,789	0	6,790	5,047
22 - Transportation of things	0	0	0	0	0
23.1 - Rental payments to GSA	4,000	5,239	0	5,239	4,000
23.2 - Rental payments to others	0	0	0	0	0
23.3 - Comm, utilities, and misc charges	13,146	7,967	0	7,967	14,058
24 - Printing and reproduction	2,715	3,615	0	2,715	2,715
25 - Other contractual services	0	0	0	0	0
25.1 - Advisory and assistance services	26,690	52,837	(1,782)	51,055	37,699
25.2 - Other services	13,612	0	0	9,724	19,229
25.3 - Other purchases of goods and services from Govt. accounts	15,751	28,564	0	18,840	22,249
25.4 - Operation and maintenance of facilities	900	0	0	900	900
25.5 - Research and development contracts	0	0	0	0	0
25.6 - Medical care	0	0	0	0	0
25.7 - Operation and maintenance of equip	1,000	1,000	0	1,000	1,000
25.8 - Subsistence and support of persons	0	0	0	0	0
26 - Supplies and materials	0	3,857	0	3,857	3,426
31 - Equipment	392	1,073	0	1,073	1,920
32 - Land and structures	0	0	0	0	0
33 - Investments and loans	0	0	0	0	0
41 - Grants, subsidies, and contributions	0	0	0	0	0
42 - Insurance claims and indemnities	0	0	0	0	0
43 - Interest and dividends	0	0	0	0	0
44 - Refunds	0	0	0	0	0
Total Budget Authority	$216,348	$250,141	$(1,782)	$248,360	$273,895
Budget Activities:					
Executive Direction	19,728	19,816	933	20,749	21,592
Economic Policies and Programs	38,393	45,450	(1,208)	44,242	45,853
Financial Policies and Programs	24,695	28,869	595	29,465	34,735
Terrorism and Financial Intelligence	47,540	56,224	551	56,775	61,712
Treasury-wide Management and Programs	16,748	19,010	(348)	18,505	19,009
Administration Programs	69,244	80,772	(2,305)	78,624	90,994
Total Budget Authority	$216,348	$250,141	$(1,782)	$248,360	$273,895

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2007 Obligations[1]		FY 2007 Enacted		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:										
Executive Direction Programs	119	$19,094	119	$19,728	129	$20,749	131	21,592	1.16%	4.06%
Economic Policies and Programs	232	35,581	232	38,393	244	44,242	247	45,853	1.44%	3.64%
Financial Policies and Programs	181	24,878	181	24,695	194	29,465	198	34,735	1.80%	17.89%
Terrorism and Financial Intelligence	264	43,115	264	47,540	308	56,775	342	61,712	11.06%	8.70%
Treasury-wide Management Policies and Programs	99	15,705	99	16,748	99	18,505	99	19,009	0.00%	2.72%
Administration Programs	160	75,154	160	69,244	160	78,624	184	90,994	15.00%	15.73%
Subtotal Newly Appropriated Resources	1,055	213,527	1,055	216,348	1,133	248,360	1,200	273,895	5.87%	10.28%
Other Resources:										
Offsetting Collections - Reimbursable	86	$17,816	86	$19,800	90	$19,800	90	$18,500	0.00%	-6.57%
Subtotal Other Resources	86	17,816	86	19,800	90	19,800	90	18,500	0.00%	-6.57%
Total Resources Available for Obligation	1,141	$231,343	1,141	$236,148	1,223	$268,160	1,290	$292,395	5.44%	9.04%

1/ FY 2007 Obligations equal enacted less anticipated lapse

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY DEPARTMENTAL OFFICES Federal Funds **SALARIES AND EXPENSES:** For necessary expenses of the Departmental Offices including operation and maintenance of the Treasury Building and Annex; hire of passenger motor vehicles; maintenance, repairs, and improvements of, and purchase of commercial insurance policies for, real properties leased or owned overseas, when necessary for the performance of official business, [$248,360,000] *$273,895,000*, [of which not to exceed $10,840,000 is for executive direction program activities; not to exceed $9,909,000 is for general counsel program activities; not to exceed $44,242,000 is for economic policies and programs activities; not to exceed $29,464,000 is for financial policies and programs activities; not to exceed $56,775,000 is for terrorism and financial intelligence activities; not to exceed $18,505,000 is for Treasury-wide management policies and programs activities; and not to exceed $78,625,000 is for administration programs activities: Provided, That the Secretary of the Treasury is authorized to transfer funds appropriated for any program activity of the Departmental Offices to any other program activity of the Departmental Offices upon notification to the House and Senate Committees on Appropriations: Provided further, That no appropriation for any program activity shall be increased or decreased by more than 2 percent by all such transfers: Provided further, That any change in funding greater than 2 percent shall be submitted for approval to the House and Senate Committees on Appropriations:] Provided [further], That of the amount appropriated under this heading, not to exceed $3,000,000, to remain available until [September 30, 2009] *September 30, 2010*, is for information technology modernization requirements; not to exceed [$150,000] $200,000 is for official reception and representation expenses; 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	The language has been amended to remove the allocation of appropriated funds by budget activity. The amended language provides flexibility to the Secretary of the Treasury to meet critical requirements in a timely manner. This methodology is in line with submissions from prior years, and will make DO's reprogramming requirements the same as all other Treasury bureaus. The language requests that representation funds be increased by $50,000 to reflect Treasury's greater overseas presence and increased

accounted for solely on his certificate: Provided further, That of the amount appropriated under this heading, $[5,114,000] *5,232,443*, to remain available until [September 30, 2009] *September 30, 2010*, 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, [$3,000,000] $500,000, to remain available until [September 30, 2009] *September 30, 2010*, is for secure space requirements: Provided further, That of the amount appropriated under this heading, [$2,300,000] *$1,100,000*, to remain available until [September 30, 2009] *September 30, 2010*, is for salary and benefits for hiring of personnel whose work will require completion of a security clearance investigation in order to perform highly classified work to further the activities of the Office of Terrorism and Financial Intelligence: Provided further, That of the amount appropriated under this heading, [$2,100,000] *$3,400,000*, to remain available until [September 30, 2010] *September 30, 2011*, 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 amount appropriated under this heading $3,000,000 to remain available until September 30, 2011, is for modernizing the Office of Debt Management's information technology.*	international responsibilities.

2C – Legislative Proposals

Legislation has been proposed that will give the Secretary of the Treasury the ability to manage the government's short-term excess operating cash more efficiently. Under the current authority, which is codified at 31 U.S.C. 323, the Government is authorized to invest its short-term excess cash in obligations of the United States Government and depositary institutions, principally banks, savings and loan associations, and credit unions. This initiative would enable the Secretary of the Treasury to broaden investment options and improve earnings on investments. This initiative is expected to increase the interest earnings on the Treasury's investment of short-term excess cash by approximately $10 million a year. Such earnings would be deposited in the general fund of the Treasury.

This proposal is consistent with recommendations in the September 2007 GAO report entitled "Treasury has Improved Short-Term Investment Programs, but Should Broaden Investments to Reduce Risks and Increase Return." In its report, GAO suggests that Congress consider providing the Secretary of the Treasury with broader authority in the design of an expanded repossession program. Specifically, GAO recommended that Treasury explore the reallocation of its short-term investments and, if provided the authority to do so, implement a permanent expanded repossession program that would meet Treasury's short-term investment objectives while maintaining current minimal risk investment policies.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Goal[1]

Dollars in Thousands

TREASURY Strategic Goal	FY 2008 Enacted AMOUNT	FY 2009 Request AMOUNT	Percent Change AMOUNT
Effectively Managed U.S. Government Finances	56,431	60,087	6.48%
U.S. & World Economies Perform at Full Economic Potential	78,011	82,007	5.12%
Prevented Terrorism & Promoted the Nation's Security Through Strengthened International Systems	106,461	112,937	6.08%
Management and Organizational Excellence	25,957	37,364	43.95%
Total	**$266,860**	**$292,395**	**9.57%**

3A – Executive Direction *($21,592,000 from direct appropriations and $700,000 from reimbursable programs):* The Executive Direction program area provides direction and policy formulation to the Department and DO, and interacts with Congress and the public on Departmental policy matters. These include: the Office of the Secretary, Deputy Secretary, Chief of Staff, Executive Secretary, General Counsel, Legislative Affairs, Public Affairs, and Treasurer.

A portion of the funds from all reimbursable programs are allocated to the Executive Direction and Administrative Programs budget activities to support management and legal services provided to reimbursable programs

[1] DO activities support each of the Department's sixteen strategic outcomes. Presenting these dollars at the strategic goal level provides a better demonstration of DO's activity levels.

3.2.1 – Executive Direction Budget and Performance Plan

Executive Direction Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$14,430	$16,329	$19,094	$20,749	$21,592
Reimbursable Resources	$0	$0	$660	$0	$700
Total Resources	**$14,430**	**$16,329**	**$19,754**	**$20,749**	**$22,292**
Budget Activity Total	**$14,430**	**$16,329**	**$19,754**	**$20,749**	**$22,292**

No specific performance goals/measures are presented for this budget activity as the activity supports the mission of the entire Department.

3B – Economic Policies and Programs *($45,853,000 from direct appropriations and $3,200,000 from reimbursable programs):* A major mission of the Departmental 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. Offices within Economic Policies and Programs monitor domestic and international economic conditions and developments, and collect and analyze financial data including foreign credits and credit guarantees. They also provide advice and assistance to the Secretary in the formulation and execution of U.S. and international economic and financial policies.

Other Resources: Reimbursements totaling $3.2 million are collected from the U.S. Agency for International Development for Treasury economic and financial technical assistance to foreign governments and from the Mansfield Center for Pacific Affairs for personnel services rendered on a rotational basis to the Government of Japan's Ministry of Finance. (Note: A portion of these funds are allocated to the Executive Direction and Administrative Programs budget activities to support management and legal services provided to reimbursable programs.)

Office of International Affairs
The mission of the Office of International Affairs is to raise economic growth in developed and developing countries; improve financial stability and security in emerging and world markets; increase the effectiveness of U.S. assistance to the world's poorest countries; enhance the functioning of the international financial institutions; and promote an open and transparent international trade and investment regime.

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

Office of Economic Policy

The Office of Economic Policy plays 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. EP 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.

In recent years, Treasury has taken a leadership role on the Social Security and Medicare Working Group with EP representing the Treasury Department. This group 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 published a series of Issue Briefs detailing a set of criteria and associated metrics to allow evaluations and analysis of options related to Social Security reform.

3.2.2 – Economic Policies and Programs Budget and Performance Plan

Economic Policies and Programs Budget Activity					
Resource Level	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Enacted**	**FY 2009 Request**
Appropriated Resources	$31,203	$31,691	$35,581	$44,242	$45,853
Reimbursable Resources	$2,379	$8,504	$3,195	$7,204	$3,200
Total Resources	**$33,582**	**$40,195**	**$38,776**	**$51,446**	**$49,053**
Budget Activity Total	**$33,582**	**$40,195**	**$0**	**$51,446**	**$49,053**

Economic Policies and Programs Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**
Number of new trade and investment negotiations underway or completed (Oe)	N/A	N/A	N/A	Baseline	6
Improve International Monetary Fund (IMF) effectiveness and quality through periodic review of IMF programs (%)(Oe)	78%	100%	100%	90%	90%
Percentage of grant and loan proposals containing satisfactory frameworks for results measurement (%) (Oe)	78%	88%	92%	90%	90%
U.S. unemployment rate (%) (Oe)	5%	5%	5%	5%	5%
US Real Gross Domestic Product (GDP) growth rate (%) (Oe)	4%	3%	2%	3%	3%

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

Description of Performance: The Treasury Department is committed to participating in the negotiation and implementation of international agreements, which help to remove trade and investment barriers and stimulate domestic and global growth. This goal is accomplished by increasing the number of new Free Trade Agreements (FTAs) and Bilateral Investment Treaties (BITs). The Department continues to seek strong commitments from its trading partners to ensure those markets are available to the United States on a fair and open basis. Once implemented, the agreements serve as a core element for a trading partner's economic infrastructure, helping to enhance international economic and financial stability. In FY 2007, the Department of the Treasury surpassed its target.

To help ensure that the Multilateral Development Banks (MDBs) demonstrate results of their development assistance, MDBs closely monitor the percentage of grant and loan proposals containing satisfactory measurement frameworks. Over the past few years, most of the MDBs have made substantial progress towards developing frameworks that measure the results of their development assistance. For FY 2007, 92 percent of grant and loan proposals contained results measurement frameworks, exceeding the Department's target of 90 percent.

Currently, DO is working to develop meaningful performance measures that will align to the Treasury Department's Strategic Plan. Once completed in FY 2008, these new measures will replace the existing measures.

3C – Financial Policies and Programs *($34,735,000 from direct appropriations and $4,300,000 from reimbursable programs):* Offices within Financial Policies and Programs monitor and provide advice and assistance to the Secretary in the areas of tax policy and domestic finance.

Other Resources: Reimbursements totaling $4.3 million are collected from the Council of Economic Advisors and the Board of Governors of the Federal Reserve for personnel services rendered. (Note: A portion of these funds is allocated to the Executive Direction and Administrative Programs budget activities to support management and legal services provided to reimbursable programs.)

Office of Tax Policy

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. TP's analysis also supports the Department's management of the 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.

TP has supported the Administration's health care initiatives through significant and timely analysis of the taxation and employee benefits issues underlying many health and Medicare reform proposals. TP is currently facing two significant challenges: to improve its analytical capabilities by expanding its data systems and its economic modeling capabilities, and, working with the Internal Revenue Service, to reduce the "tax gap" through initiatives to enhance taxpayer compliance.

Office of Domestic Finance
The mission of the Office of Domestic Finance is to advise and assist the Secretary and Deputy Secretary on the domestic financial system, fiscal policy and operations, governmental assets and liabilities, and related economic and financial matters, as well as create the conditions necessary for the financial sector to be resilient in the event of unforeseeable future events.

DF covers diverse areas such as trading and clearing initiatives, risk mitigation, derivatives issues, bankruptcy/netting, hedge funds, Social Security reform, contingency of operations/business continuity planning, corporate governance and accounting issues, maintenance of the integrity of United States currency (including new currency design features), threat assessment issues, specific research and development, program planning and control, and analysis of policies related to government borrowing, banking and investing.

3.2.3 – Financial Policies and Programs Budget and Performance Plan

Financial Policies and Programs Budget Activity					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Resource Level	**Obligated**	**Obligated**	**Obligated**	**Enacted**	**Request**
Appropriated Resources	$25,231	$26,308	$24,878	$29,465	$34,735
Reimbursable Resources	$900	$936	$4,304	$936	$4,300
Total Resources	**$26,131**	**$27,244**	**$29,182**	**$30,401**	**$39,035**
Budget Activity Total	**$26,131**	**$27,244**	**$0**	**$30,401**	**$39,035**

Financial Policies and Programs Budget Activity					
Measure	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**
	Actual	**Actual**	**Actual**	**Target**	**Target**
Audit opinion received on government-wide financial statements (Oe)	1	1	1	1	1
Release Federal Government-wide financial statements on time (Oe)	1	1	1	1	1
Variance between estimated and actual receipts (annual forecast) (%) (Oe)	5%	4%	2%	5%	5%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction. *This data is an estimate.

Description of Performance: In FY 2007, for the fourth consecutive year, the Treasury Department's Office of Domestic Finance released the federal government-wide financial statements on time, and expects to meet its target for both FY 2008 and 2009. The prompt release of this statement is important because it represents the culmination of the recent government-wide campaign to accelerate the issuance of financial reporting. In addition, the Department manages the government's cash position to ensure that funds are available on a daily basis to cover federal payments and to maximize investment earnings and minimize borrowing costs. The Department of the Treasury met its goal of receiving audit opinions on government-wide financial statements, and has plans to meet FY 2008 and 2009 targets.

The Office of Fiscal Projections ensures that funds are available on a daily basis to cover federal payments, maximize investment earnings, and minimize borrowing costs. The metric "variance between estimated and actual receipts" measures the accuracy of the office's monthly forecast of budget receipts over the entire year.

In FY 2007, the Office of Fiscal Projections continued to improve its receipt forecasting and exceeded its targeted variance level of 5 percent. In FYs 2008 and 2009, a new analytical functionality will be added to make additional improvements in receipt projections. Combining improved receipt forecasting with more accurate projection of outlays and other cash flow components will allow the Department to reach its primary goals of cash and debt management: (1) lowest cost of borrowing over time; (2) adequate cash balances to meet Federal obligations at all times; and (3) investment of excess cash balances to increase the rate of return and lower even further the net cost of borrowing.

After review, it has been determined that the current performance measures are not adequate or meaningful. Therefore, the Department is in the process of developing new measures that align with the Treasury Strategic Plan. Once the new measures have been developed in FY 2008, existing measures will be discontinued and replaced.

3D – Terrorism and Financial Intelligence *($61,712,000 from direct appropriations and $4,000,000 from reimbursable programs):* The Office of Terrorism and Financial Intelligence (TFI) marshals 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.

Other Resources: Reimbursements totaling $4.0 million are collected from the Executive Office of Asset Forfeiture and the U.S. Department of Defense. (Note: A portion of these funds is allocated to the Executive Direction and Administrative Programs budget activities to support management and legal services provided to reimbursable programs.)

The Office of Foreign Asset Control

The Office of Foreign Asset Control 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, including residual enforcement actions associated with programs that have been lifted. Although these 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.

The majority of programs administered and enforced by OFAC arise from the President's authorities under the International Emergency Economic Powers Act (IEEPA). In administering and enforcing these economic sanctions, OFAC must maintain a close working relationship with other federal departments and agencies in order to ensure both that these programs are implemented in a manner consistent with U.S. national security and foreign policy interests, and that they are enforced effectively. To fulfill its mission, OFAC works directly with the Departments of State, Commerce, and Justice (including the Federal Bureau of Investigation and the Drug Enforcement Administration); the Department of Homeland Security's U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement; the Department of Defense; bank regulatory agencies; and other law enforcement and intelligence community agencies.

Office of Intelligence and Analysis

The Office of Intelligence and Analysis is responsible for the receipt, analysis, collation, and dissemination of foreign intelligence and foreign counterintelligence information related to the operation and responsibilities of the Department of the Treasury. OIA's mission is to support the formulation of policy and execution of Treasury authorities. OIA executes this mission by producing expert intelligence analysis on financial and other support networks for terrorist groups, proliferators, and other key national security threats, and by providing timely, accurate, and focused intelligence on the full range of economic, political, and security issues.

The Office of Terrorist Financing and Financial Crimes

The Office of Terrorist Financing and Financial Crimes is the policy and outreach apparatus for the Office of Terrorism and Financial Intelligence on terrorist financing, money laundering, financial crime, and sanctions issues. 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 WMD 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-CI criminal investigators – as well as with the regulatory community, the private sector, and its counterparts abroad to identify and address terrorist financing and WMD 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 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

Terrorism and Financial Intelligence Budget Activity Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$34,796	$39,540	$43,115	$56,775	$61,712
Reimbursable Resources	$6,167	$6,987	$3,934	$6,987	$4,000
Total Resources	**$40,963**	**$46,527**	**$47,049**	**$63,762**	**$65,712**
Budget Activity Total	**$40,963**	**$46,527**	**$47,049**	**$63,762**	**$65,712**

Terrorism and Financial Intelligence Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Increase the number of outreach engagements with the charitable and international financial communities (Ot)	95	45	85	70	70
Number of countries that are assessed for compliance with the Financial Action Task Force (FATF) 40+9 recommendations (Ot)	49	5	6	12	12
Number of open civil penalty cases that are resolved within the Statute of Limitations period (Ot)	85	85	296	120	120

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

Description of Performance: Currently, DO is working to develop meaningful performance measures that will align to the Treasury Department's Strategic Plan. Once these new measures have been developed in FY 2008, existing measures will be discontinued and replaced.

3E – Treasury-wide Management and Programs *($19,009,000 from direct appropriations and $2,700,000 from reimbursable programs):* Treasury-wide Management's (TWM) primary responsibility within the Department of Treasury is to create the conditions that allow for Administration priorities and goals to be achieved in the most efficient and effective manner. Treasury-wide Management provides strategic plans and policy direction in the fields of: human resources; emergency management (including Treasury employee evacuation and Continuity of Operations); information technology security; and financial administration (including the formulation and management of the Treasury budget). The development of these integrated plans helps to align policy and operations in order to produce maximum value for the American people.

Other Resources: Reimbursements totaling $2.7 million are collected from the Internal Revenue Service Oversight Board, Department of Homeland Security, D.C. Pensions, and other Treasury bureaus for services rendered. (Note: A portion of these funds is allocated to the Executive Direction and Administrative Programs budget activities to support management and legal services provided to reimbursable programs.)

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

Treasury-wide Management and Programs Budget Activity Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$16,245	$16,674	$15,705	$18,505	$19,009
Reimbursable Resources	$0	$3,373	$2,696	$3,373	$2,700
Total Resources	**$16,245**	**$20,047**	**$18,401**	**$21,878**	**$21,709**
Budget Activity Total	**$16,245**	**$20,047**	**$18,401**	**$21,878**	**$21,709**

Treasury-wide Management and Programs Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Injury and illness rate Treasurywide-including DO (Oe)	3	1	1	1	1
Number of open material weaknesses closed identified (Oe)	7	1	0	3	1
Management cost per Treasury employee ($) (E)	$ 39	$ 41	$ 30	$ 38	$ 38
Complete investigations of EEO complaints within 180 days (%) (Oe)	36%	20%	52%	50%	50%
Percent of complainants informally contacting EEO (for the purposes of seeking counseling or filing a complaint) who participate in the ADR process (%) (Oe)	25%	25%	29%	30%	30%

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

Description of Performance: DO, through TWM, is committed to building a strong institution that is dedicated to serving the public's interest and focused on delivering results. The focus of the past year has been on ways to measure progress toward key goals related to building a world-class organization Treasury-wide.

The Department met its goal of completing investigations of Equal Employment Opportunity (EEO) complaints within 180 days. In FY 2007, the Treasury Department instituted service level standards to assess the performance of the Treasury Complaint Mega Center, which processes all EEO complaints for all Treasury bureaus. This is part of the Department's initiative to improve oversight of the center and ensure continuous improvement in operations. The establishment of the position for Chief, Complaint Operations, is needed to assist the efforts to hold the organization accountable for improvements in quality and reduction in timeframes to process complaints.

The FY 2007 performance goal to reduce the percent of complainants informally contacting EEO (for the purposes of seeking counseling or filing a complaint) who participate in the ADR process was met. However, to reduce the Department's costs, increased attention and emphasis should be placed on effective dispute prevention programs, in addition to an effective ADR program that is viewed as fair and objective by employees and managers. In FY 2006, the Treasury Department spent over $1 million dollars to settle EEO complaints, and over $9 million in a U.S. Mint class action settlement.

In FY 2004, the Department of Labor recognized Treasury for reducing the total injury and lost time injury rates by more than 10 percent each, well below the recommended 3 percent for all federal agencies. In 2007, Treasury continued its aggressive occupational safety and health program and had an additional 1.4 percent reduction. In February 2007, Treasury received an award from the Department of Labor for reducing more injuries and illnesses, including those that resulted in time away from work, than any other Federal Agency.

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

3F – Administration Programs *($90,994,000 from direct appropriations and $3,600,000 from reimbursable programs):* Administration Programs provides operational support and shared services to all offices within DO. Activities include accounting, budget, human resources, information technology, procurement, facilities support, and travel services. Approximately one-third of the budget activity relates to information technology support (including desktop computers, printers, faxes, copiers, and helpdesk support). Another one-third consists of shared services: GSA rent, utilities, telecommunications, printing and graphics, public transit subsidy, workers compensation, and financial system support. By centralizing shared services, economies of scale and workload efficiencies are achieved. The final third consists of employee salaries, routine building maintenance, custodial services, library services, and the like.

A portion of the funds from all reimbursable programs is allocated to the Executive Direction and Administrative Programs budget activities to support management and legal services provided to reimbursable programs.

3.2.6 – Administration Programs Budget and Performance Plan

Administration Programs Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$56,506	$63,094	$75,154	$78,624	$90,994
Reimbursable Resources	$0	$0	$3,028	$0	$3,600
Total Resources	**$56,506**	**$63,094**	**$80,878**	**$78,624**	**$94,594**
Budget Activity Total	**$56,506**	**$63,094**	**$80,878**	**$78,624**	**$94,594**

No specific performance goals/measures are presented for this budget activity as the activity supports the mission of the entire DO, whose work is captured in other performance measures.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

By providing sound advice and guidance on staff employment/retention, recognition, relations/benefits, performance and development, the DO's Office of Human Resources (OHR) helps ensure the availability of HR tools required to manage human capital effectively to support relevant strategic goals and mission accomplishment.

Specific accomplishments for fiscal year 2007 include the following:

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

- Upon issuance of the 2006 Federal Human Capital Survey Results by the Office of Personnel Management (OPM), OHR immediately took assessment of the results specific to DO, which were generally quite favorable. Management briefings were conducted and action plans implemented to address areas of concern and the greatest challenges. Many of the issues raised in the survey were addressed through prior initiatives to revise several DO policies such as those covering Performance Management and telework. New strategies are being developed to better assess the training/developmental needs of all DO staff.

- Several DO Management and Policy offices have been identified for skill gap analyses and detailed succession plans to ensure vital components within Main Treasury continue to have the talent and skills necessary to accomplish their missions.

- Within OHR, further organizational restructuring resulted in the establishment of an area specifically dedicated to staff development and workforce analysis. Enhancements were made to all existing supervisory/leadership programs to better clarify training objectives and complete requirements. and ensure closer alignment with DO subject matter that is mission-related.

- OHR has worked to establish Senior Administrative Contacts for each policy office to partner with in the implementation of significant HR initiatives and provide administrative support and a sounding board for management to communicate their own unique organizational challenges.

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

- OHR continues to work closely with OIA to effectively meet and deal with significant recruitment challenges and quickly filling analyst positions with the best-qualified individuals to support anti-terrorist efforts.

- DO continued its exercise of excepted appointments to ensure that new talent is hired as quickly as possible, e.g., by using Presidential Management Fellows, the Student Career Experience Program, DO specific fellowship programs, and other authorities. DO actively supports initiatives aimed at increasing the diversity of its workforce, including the use of student interns under the Hispanic National Internship Program and the Washington Internships for Native American Students (WINS). Selected entry-level vacancy announcements are also referred automatically to organizations assisting qualified disabled applicants.

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

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

- OHR has continued conducting “Benefits Brown Bag” sessions. These one-hour sessions are scheduled to address staff benefit programs to help employees make better informed choices and relevant decisions in order to enhance their quality of life. Sessions fill quickly and the feedback is overwhelmingly positive.

- Because of the substantial number of DO employees eligible to retire within the next five years, OHR plans to contract with an outside vendor to provide several retirement seminars during this fiscal year.

- Plans have also been implemented to conduct a special session for DO staff concerning Estate Planning.

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

- Plans are underway to implement the E-OPF (Official Personnel Folder) initiative mandated by the Office of Personnel Management by FY 2010. Cost projections have been prepared, appropriate requests submitted and a search has begun for possible immediate residual funding resources. Electronic employment files will contribute to the paperless, efficient, versatile operation of OHR particularly in meeting the challenges associated with employment data needs on short notice or during government shutdowns or other unexpected emergencies. Employee access to electronic SF-50 Personnel Actions was accomplished in July, 2007.

- Concerted efforts have been implemented to identify those remaining DO staff not registered into the HR Connect system. A concentrated marketing effort and plan is being implemented to get to a 100% staff registration rate. A special training system on HR Connect system capabilities has been provided to the Senior Administrative Contacts. Also, an HR Connect training session for participants was incorporated into the DO New Supervisory Readiness Training Program.

- A new OHR phone system is being implemented to connect customers directly to the appropriate resource based on specific customer needs. Callers will also have the option of remaining on the line for the next available staff member (as opposed to leaving a voicemail).

As in the previous fiscal year, DO is confronted with numerous human capital challenges in FY 2008:

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

  Strategies for Addressing Challenge:

- Increase education about and support of a variety of hiring/retention flexibilities and incentives, such as direct hire (where request to OPM is appropriate), superior qualifications appointments, recruitment bonuses, student loan repayment, retention allowances, alternative work arrangements/schedules and other work life issues.
- Contractual arrangements are under consideration to obtain the services of the Corporate Executive Board Recruiting Roundtable to explore cutting edge strategies to meet DO's most challenging recruitment goals.
- Enhance workplace flexibilities such as implementation of a revised telework policy to attract good applicants, increase employee job satisfaction, and retain employees them for years to come.

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

  Strategies for Addressing Challenge:
  - Increase emphasis on determining leadership bench strength and supporting leadership/executive development programs that help to identify and prepare cadres of future leaders, and gain approval to hire at a level needed to continue to meet mission objectives.
  - Work with DO policy offices to identify succession issues and develop appropriate strategies, emphasizing an overall need to conduct workforce planning to transition and maintain technical knowledge.
  - Implement a broad, systematic approach whereby both line staff and management can assess individual staff training needs on an annual basis and identify relevant fiscal requirements in meeting them.

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

  Strategies for Addressing Challenge:

- Implementation of a revised performance management policy that is clear, direct, and identifies and links commitments to organizational goals that are measurable and results-based.

- Conduct perpetual reviews of DO policy office performance management programs to ensure staff are on performance plans and receiving timely feedback from their supervisors.

- Ensure performance awards are distributed in a fair manner and that their justification is based on objective, relevant, and merit-based criteria.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments 1/							
Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Enacted 2/	FY 2007 Enacted	FY 2008 Enacted	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
Securities Management	Financial Policies and Programs	$425	$0	$0	N/A	$3,000	N/A
Treasury Foreign Intelligence Network (TFIN)	Terrorism and Financial Intelligence (TFI)	$0	$0	$3,000	N/A	$3,314	27.0%
Treasury Secure Data Network (TSDN)	Executive Direction, Economic Policy, TFI	$2,772	$1,283	$3,072	139.4%	$1,183	-61.5%
Subtotal, Major IT Investments		$3,197	$1,283	$6,072	373.3%	$7,497	23.5%
Non-Major IT Investments		$4,937	$5,112	$4,779	-6.5%	$4,918	2.9%
Infrastructure Investments		$20,100	$26,483	$29,347	10.8%	$26,242	-10.6%
Enterprise Architecture		$1,397	$0	$2,120	N/A	$450	-78.8%
Total IT Investments		$29,631	$32,878	$42,318	28.7%	$39,107	-7.6%

1/ This chart includes appropriated resources only, and may not reflect total project costs.

2/ This column reflects appropriated resources provided to a project in FY 2006 and any previous years.

4B – Information Technology Strategy

The Office of the Chief Information Officer (OCIO) Telecommunications Management organization (OCIO-TM) provides direct and indirect support to the Secretary in the fight against terrorism by providing technology and communications required to ensure a stable domestic and international economy. In addition to supporting the Secretary, the OCIO-TM supports the IT infrastructure and operations of critical offices including the Office of the Secretary, the Assistant Secretary for Management, DO policy offices, and the Office of Terrorism and Financial Intelligence. OCIO-TM also provides the Office of Domestic Finance with support to facilitate timely decisions on yield curve and interest rates; provides the Office of Intelligence Analysis with the ability to communicate timely data between bureaus and other intelligence communities; shares finance-related data to protect the banking and financial industry against cyber-terrorism; and provides oversight to the District of Columbia's pension fund.

As part of the OCIO-TM strategy the CIO's office established a governance structure that ensures Treasury delivers quality, responsive services that securely meet our customers needs most economically. As discussed in Section 1B, the Department of the Treasury is taking steps to improve its IT management. The Department is now including all IT investments under the Department's *IT Capital Planning and Investment Control Policy* processes; has established a process to ensure that the Project and Program Managers are certified in accordance with OMB requirements; and is re-establishing the Executive Investment Review Board (E-Board).

Modernize the DO IT Infrastructure: Modernization of the DO IT infrastructure provides enhanced functionality, performance, and security to allow offices to achieve their missions more effectively. Specific projects will include enhanced disaster recovery capabilities, consolidation of remote access solutions, software and hardware upgrades, and overall optimization of the DO IT network. Realignment with the Infrastructure Line of Business is in the initial stages, and DO continues to integrate and consolidate network components where feasible and practical.

Improve IT Governance and Project Management: OCIO is committed to ensuring that information and IT resources are managed efficiently and effectively. In support of DO IT governance and project management, the OCIO Telecommunications Management team was successful in establishing a separate governance structure for the Departmental Offices to provide greater oversight and guidance to the non-enterprise major and non-major investments.

The Departmental Office's envisions a two year effort to consolidate services under the pending OCIO TNET wide area network service offering. The vision is as follows:

FY08 Transition of Existing TCS Contract Services: The risk-mitigating strategy of the Departmental Offices (OCIO, HQ IT) is to limit the FY 2008 focus to transitioning the existing DO funded TCS services to the TNET offering. The TCS contract provisioned services for the DO includes:

- 36 TCS circuits of various types
- 3 Firewalls
- 4 ATM connections
- VPN services; and
- Hosting services for a DO application.

FY09 Business Case Assessment for Further Consolidation: Outside the TCS contract, DO has an inventory of circuits and services obtained from a it's existing GSA and Treasury infrastructure contracts. In early FY 2009, HQ IT will conduct Business Case Assessment for the consolidation of these non-TCS circuits and network services to the Treasury TNET contract. Thereafter, based upon the funding and the business case approved recommendations, the DO will commence a two-year phased consolidation consistent with the business case recommendations.

DO investments met 99 percent of their performance goals in FY 2007. In its diligence to provide taxpayers with the most efficiency, OCIO-TM continues working with Enterprise Architecture (EA) staff and the Office of Performance Budgeting (OPB) to improve its metrics and methodologies to better track established milestones. For instance, DO delivered uninterrupted network availability 99.9 percent of the time in FY 2007 with a satisfaction rate of 3.61, slightly higher than the planned 3.5.

The secure systems Treasury Foreign Intelligence Network (TFIN) and the Treasury Secure Data Network (TSDN) work in conjunction with the intelligence community to provide faster, more timely data to an increased number of users with access to secret and top secret information in order to support the fight against terrorism. By the end of the FY 2007, all metrics were on target for both TSDN and TFIN with the number of TFIN users increasing to 115.

4.2 – PART Evaluation Table

PART Name:	Economic and Trade Sanctions Program - OFAC
Year PARTed:	FY 2002
Rating:	RND

OMB Major Findings/Recommendations
1. The program lacks long-term performance goals with specific targets.
2. The program has not yet instituted annual performance goals to determine the effectiveness of its sanctions.
3. The program is lacking unit cost measures.

Bureau Actions Planned or Underway
1. Working to develop long-term performance goals with specific timeframes and measures.
2. Adopting annual performance goals and aligning them with the long-term performance goals.

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

4C – Terrorism Risk Insurance (TRIA)

The Terrorism Risk Insurance Program Reauthorization Act of 2007 (P.L. 110-160) reauthorized and revised the program established by the Terrorism Risk Insurance Act (TRIA) of 2002 (P.L. 107-297). The Act extended the Terrorism Insurance Program for seven years, through December 31, 2014. The 2007 extension of TRIA added a requirement for commercial property and casualty insurance companies to make available coverage for losses from domestic as well as foreign acts of terrorism. The Act maintains for all seven years an insurer deductible of 20 percent of direct earned premiums and an insurer co-payment of 15 percent of insured losses above the insurer's deductible. In addition, the Act sets the event trigger amount for Federal payments at $100 million in aggregate insured losses from an act of terrorism and the annual cap of $100 billion on total insurer losses from acts of terrorism for which payment of the Federal share of compensation could be made. The 2007 extension changes recoupment provisions, requiring Treasury to collect 133 percent of the Federal payments made under the program up to $27.5 billion, and accelerates time horizons for recoupment by certain dates up to September 30, 2017.

The Budget, for the first time, includes the estimated Federal cost of compensating providers of terrorism risk insurance, reflecting the 2007 TRIA extension. The growth in the private insurance market for this coverage provides data in the form of insurance premiums that show how private insurers estimate the likelihood of attack and price their projected losses. Using this market driven data, the Government can project annual outlays and recoupment under TRIA. These estimates represent the weighted average of TRIA payments over a full range of scenarios, most of which include no acts of terrorism (and therefore no TRIA payments), and some of which include acts of terrorism of varying magnitudes. The Budget projections, however, are in no way an official forecast of future attacks. On this basis, the Budget projects the 2007 TRIA extension will have a net deficit impact (spending less receipts from premium surcharges) of $1.78 billion over the 2009-2013 period and $3.85 billion over the 2009-2018 period.

4.3 - TRIA Baseline Outlays and Receipt Table

Dollars in billions

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-2013	2009-2018
Changes in Direct Spending (Insurance Claim Outlays)													
Projected Budget Authority	0.1	0.4	0.7	1	1.3	1.4	1.6	1.5	1.2	0.9	0.6	4.9	10.8
Projected Outlays	0.1	0.4	0.7	1	1.3	1.4	1.6	1.5	1.2	0.9	0.6	4.9	10.8
Change in Revenues (Recoupment of Claim Outlays)													
Projected Revenues	0	0.1	0.3	0.6	1.3	0.8	0.9	1	1	0.8	0.1	3.1	6.9
Net Impact													
Projected Net Outlays	0.1	0.3	0.4	0.5	-0.1	0.7	0.7	0.5	0.3	0.1	0.5	1.8	3.8

Department-wide Systems and Capital Investments Program

Mission Statement

The Department-wide Systems and Capital Investments Program (DSCIP) is authorized to be used by or on behalf of 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 2007	FY 2008	FY 2009		
Departmental Offices- Department-wide Systems and Capital Investments Program	Enacted	Enacted	Request	$ Change	% Change
Department-wide Systems and Capital Investments Program	$30,268	$18,710	$26,975	$8,265	44.17%
Total Appropriated Resources	**$30,268**	**$18,710**	**$26,975**	**$8,265**	**44.17%**
Total FTE	**0**	**0**	**0**	**0**	**0.00%**

FY 2009 Priorities

- Restore and repair the Treasury Annex Building;
- Upgrade the Treasury Secure Data Network (TSDN);
- Improve the Treasury Department's ability to secure critical infrastructure / key resources, address cyber security weaknesses, and conduct real-time security assessments;
- Continue implementation of an Enterprise Content Management (ECM) program; and
- Continue leadership in E-Government initiatives.

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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. Continuing investments include the Annex Repair and Renovation (ARR), Treasury Secure Data Network (TSDN), Cyber Security, Enterprise Content Management (ECM), and E-Government initiatives.

<u>Top Priorities for FY 2009</u>

- **Annex Repair and Renovation (ARR) –** The ARR project will address the immediate need to correct critical building and system deficiencies to ensure the safety and health of the occupants.

- **Treasury Secure Data Network** – This initiative will provide TSDN analysts with data search tools, which can find information more quickly and allow for faster analysis.

- **Cyber Security** - The Cyber Security program protects the security and integrity of Treasury's classified and unclassified systems, the information they process, and the services they perform.

- **Enterprise Content Management** – The ECM project will result in increased efficiencies, enhanced mission effectiveness, reduced total cost of ownership; and the retirement of legacy systems.

- **E-Government –** E-Government initiatives drive the Treasury Department to identify opportunities to leverage existing systems and services in order to reduce costs and duplication within the Treasury Department and across government.

The FY 2009 total budget for DSCIP is $26,975,000.

1B – Program History and Future Outlook

The Treasury Department utilized DSCIP funding to establish a disaster recovery site for Departmental Offices (DO) activities which support the policy and administration oversight for the Department. DO has established e-mail capabilities as well as access to user data files at the disaster site and some critical applications have also been established. Current capabilities include the ability to copy files from the production site at Main Treasury several times daily to ensure that critical files are available in the event of an emergency. This site now has the capability to bring Treasury systems back online within a couple days in the event of a disaster. Since some aspects of this system are entering into operations and maintenance (O&M) mode, the Treasury Department is requesting funding under the DO Salaries & Expenses account to provide for O&M as well as to support developmental activities which will enable Treasury systems to come back online within hours instead of days.

The Treasury Department has designated DSCIP funding to stabilize and modernize the infrastructure of TSDN. The improvement project for TSDN will replace 500 workstations with new workstations running supported Microsoft operating systems and related office software. In addition, the cable plant is being replaced by a Protected Distribution System that meets new security requirements. Servers will be replaced with new servers running Microsoft Windows Server 2003. Additionally, all communication switches will be replaced. The system, which is currently experiencing significant performance problems, will be upgraded to support at least 800 users.

The Department of the Treasury has a three-phased approach to planning, development, and deployment of the ECM solution sets across the Department. This type of strategy recognizes and avoids the one-size fits all approach. The Department's strategy to incrementally implement the ECM solution sets using a "Lines of Business" approach with a mission emphasis will result in increased efficiencies, enhanced mission effectiveness, reduced total cost of ownership, and the orderly retirement of legacy systems.

DSCIP's major challenge is transitioning initiatives from the developmental stage to operations. DSCIP will look to identify redundant systems as the Department retires out-dated systems and migrates to E-Government approved systems. DSCIP will ensure contracted activities stay within established Earned Value Management (EVM) standards and schedules.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Departmental Offices- Department-wide Systems and Capital Investments Program	FTE	Amount
FY 2008 Enacted	**0**	**$18,710**
Non-Recurring Costs:		
DSCIP Base		(16,986)
Transfers Out:		
Backup Disaster Recovery		(1,724)
Total FY 2009 Base	**0**	**$0**
Program Increases:		
Annex Repair and Renovation		11,518
Cyber Security		3,000
Electronic Government		2,057
Enterprise Content Management		6,000
Treasury Secure Data Network		4,400
Subtotal FY 2009 Program Changes	**0**	**26,975**
Total FY 2009 Request	**0**	**$26,975**

2A – Budget Increases and Decreases Description

Non-Recurring Costs ....-$16,986,000 / +0 FTE

DSCIP Base -$16,986,000 / +0 FTE

The Department-wide Systems and Capital Investment Program is a zero-based budget.

Transfers Out ....-$1,724,000 / +0 FTE

Backup Disaster Recovery -$1,724,000 / +0 FTE

The DO disaster recovery site was established in 2002 at another government site in West Virginia. The servers, workstations and network devices were procured and installed as part of the SEAT management contract. Thus, the systems are paid for over a three or four year period and refreshed at the end of the cycle. The equipment costs, labor costs along with the costs for the leased telecommunications lines are fixed, ongoing and are required to be paid every year.

Program Increases ....+$26,975,000 / +0 FTE

Annex Repair and Renovation +$11,518,000 / +0 FTE

The purpose of the Annex Repair and Renovation (ARR) project is to support Treasury's strategic goal of creating the conditions that enable program goals to be accomplished. The Treasury Annex is considered an American treasure, constructed in 1918 and 1919, and is part of the Lafayette Square National Register Historic District. The current status of upkeep and maintenance for the building is based on code compliance, failure of equipment, and/or minimal routine maintenance. The overall program need is to repair the mechanical, electrical, plumbing and life safety systems to provide a safe, comfortable and efficient facility to house Department of the Treasury personnel and programs.

The FY 2009 proposed funding will enable Treasury to address the immediate need to correct critical building and system deficiencies to ensure the safety and health of the occupants. Substantial corrective measures are necessary to address the advance state of erosion of building elements and replacement of infrastructure that is at the end of its life cycle. In preparation for this effort, the General Services Administration (GSA) will assist the Treasury Department in conducting an overall assessment of the Annex's condition during the second quarter of FY 2008.

FY 2009 ARR priorities include:

- Correcting failing systems, such as the HVAC and plumbing systems;
- Correcting structural elements, such as the ground level ventilation system;
- Correcting advanced state of erosion of building elements; and
- Introducing more energy efficient systems.

Cyber Security +$3,000,000 / +0 FTE

The Cyber Security program performs a critical function in protecting the security and integrity of classified and unclassified Treasury systems, the information they process, and the vital services they perform. This funding is mission critical to support the efforts of the Department-wide cyber security program, which provides a comprehensive security policy and compliance framework to ensure the implementation and effectiveness of information security controls over cyber assets Department-wide. In doing so, the central program works with and supports the system-specific security activities of Treasury bureaus and their program officials responsible for individual systems. Furthermore, funding provides continuity of support for security policy, oversight, and compliance activities, principally including: 1) operation of the Department-wide cyber security program for unclassified systems, to include the functioning of the Treasury Computer Security Incident Response Center (TCSIRC); 2) leading the Department-wide cyber security program for national security systems; and 3) complying with the requirements of the Federal Information Security Management Act (FISMA). This support is mission-critical to securing classified and sensitive information technology at the Treasury Department and to address weaknesses identified by the Inspectors General in our overall program.

Electronic Government +$2,057,000 / +0 FTE

The President's Management Agenda (PMA) and E-Government initiatives drive the Treasury Department to identify opportunities to leverage existing systems and services in order to reduce costs and duplication within the Department and across government. The Treasury Department provides program management oversight and coordination for each of the initiatives assuring compliance by all bureaus. E-Government enables the Treasury Department to continue to meet the implementation milestones in the OMB approved E-Government Implementation Plan, positively impacting the Treasury Department's ability to implement best practices and leverage government-wide technologies. The Treasury Department’s active involvement in the Budget Formulation and Execution Line of Business – managed by the Department of Education – provides cross-agency interoperable, flexible, and cost effective solutions linking formulation and execution of the federal budget. The Treasury Department supports several other E-Government initiatives, which are discussed in the E-Government chapter of this Congressional Justification.

Enterprise Content Management +$6,000,000 / +0 FTE

The requested funding will enable the Department of the Treasury to continue with the phased implementation of an ECM solution in FY 2009. The Treasury Department processes a massive volume of data (e.g., documents, records, and case files) and much of this information is subject to statutory/regulatory handling and storage requirements. The Department of the Treasury currently has an array of disparate and incompatible systems used for information tracking, management, retention and storage. The Treasury Department is unable to quickly and, with a high level of certainty, retrieve information from across all bureaus and organizations related to a specific subject matter without a considerable amount of staff hours dedicated to coordinating and verifying that the correct information is going forward and that only those with the need to know have access to this information. The Treasury Department concluded that there is an urgent need for an ECM system to minimize duplication of effort and infrastructure investments, to address workflow, document and case management, and reporting challenges. The enterprise-wide approach, under the oversight of the Treasury Department's Chief Information Officer, will ensure that all Department-wide ECM efforts map to consistent standards, are aligned with related government-wide initiatives, such as the Case Management Line of Business, and leverage commonalities in requirements among Treasury Department components, thereby achieving economies of scale and efficiencies in information sharing.

Treasury Secure Data Network +$4,400,000 / +0 FTE

The TSDN was established in 2000 to serve as a secure network for the Office of International Affairs and the bureaus. The applicability of TSDN expanded with the creation of the Office of Terrorism and Financial Intelligence (TFI). This initiative will provide TSDN analysts with data searching tools to mine information more quickly and allow for more immediate trend analysis and review. These trends are currently difficult and time consuming to follow due to the lack of an automated storage and retrieval system and are now done manually using paper copies of files. The initiative will also provide funds to begin the establishment of a disaster recovery capability for the TSDN system, which is extremely vulnerable now due to the lack of said disaster recovery capability. With the establishment of TFI in FY 2004, the Treasury Department's requirement for a secure and classified network has increased considerably, as TFI has a role in coordinating responses from Treasury Department offices such as Office of Foreign Assets Control (OFAC), Financial Crimes Enforcement Network (FinCEN), and Office of Intelligence and Analysis (OIA), which all make major contributions to Treasury Department's support of the IC and the national and international finance and banking communities.

2.2 – Operating Levels Table

Operating Levels
(Dollars in Thousands)

Bureau: DSCIP	FY 2007 Enacted	FY 2008 Enacted	Cong. Action including Rescission	Proposed Reprogrammings	FY 2009 Requested Level
FTE	-	-			-
Object Classification:					
11.1 Full-Time Permanent Positions....................	$0	$0			$0
11.1 Other than Full-Time Permanent Positions....	0	0			0
11.5 Other Personnel Compensation...................	0	0			0
11.8 Special Personal Services Payments...........	0	0			0
11.9 Personnel Compensation (Total)..............	$0	$0	$0	$0	$0
12.0 Personnel Benefits.......................................	0	0			0
13.0 Benefits to Former Personnel.......................	0	0			0
21.0 Travel...	81	40			5
22.0 Transportation of Things..............................	0	0			0
23.1 Rental Payments to GSA.............................	467	200			0
23.2 Rent Payments to Others.............................	0	0			0
23.3 Communications, Utilities, & Misc................	0	0			0
24.0 Printing and Reproduction............................	0	0			0
25.1 Advisory & Assistance Services...................	2,769	1,000			1,000
25.2 Other Services...	20,803	14,000			11,527
25.3 Purchase of Goods/Serv. from Govt. Accts..	3,738	1,970			2,000
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........	787	500			400
25.8 Subsistence & Support of Persons...............	0	0			0
26.0 Supplies and Materials.................................	292	200			25
31.0 Equipment..	1,331	800			500
32.0 Lands and Structures...................................	0	0			11,518
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………………………………	$30,268	$18,710	$0	$0	$26,975

2.3 – Appropriations Detail Table

Appropriation Detail Table
(Dollars in Thousands)

Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Department-wide Systems & Capital Investment Program	0	$24,608	0	$30,268	0	$18,710	0	$26,975	0.00%	44.17%
Subtotal New Appropriated Resources	0	$24,608	0	$30,268	0	$18,710	0	$26,975	0.00%	44.17%
Other Resources:										
Subtotal Other Resources	0	$0	0	$0	0	$0	0	$0	0.00%	0.00%
Total Resources Available for Obligation	0	$24,608	0	$30,268	0	$18,710	0	$26,975	0.00%	44.17%

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT-WIDE SYSTEMS AND CAPITAL INVESTMENTS PROGRAM Federal Funds **GENERAL AND SPECIAL FUNDS:** For development and acquisition of automatic data processing equipment, software, and services for the Department of the Treasury, [$18,710,000] *$26,975,000*, to remain available until September 30, [2010] *2011*: *Provided, That $11,518,000 is for repairs to the Treasury Annex Building*: *Provided further*, That these funds shall be transferred to accounts and in amounts as necessary to satisfy the requirements of the Department's offices, bureaus, and other organizations: *Provided further*, That this transfer authority shall be in addition to any other transfer authority provided in this Act: *Provided further*, That none of the funds appropriated shall be used to support or supplement ``Internal Revenue Service, Operations Support” or ``Internal Revenue Service, Business Systems Modernization". (Department of the Treasury Appropriations Act, 2008.)	No legislative changes requested.

2C – Legislative Proposals

DSCIP does not have any pending legislative proposals.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

TREASURY Strategic Goal *TREASURY Strategic Objective* TREASURY Strategic Outcome	**FY 2008 Enacted** AMOUNT	**FY 2009 Request** AMOUNT	**Percent Change** AMOUNT
Accountability & trans	6,000	6,000	**0.0%**
Aligned organization	2,466	13,575	**450.5%**
National security	8,000	4,400	**-45.0%**
U.S. & intl financial sys	2,244	3,000	**33.7%**
Total	**$18,710**	**$26,975**	**44.2%**

3A – Department-wide Systems and Capital Investments Program *($26,975,000 from direct appropriations):* DSCIP funding improved infrastructure, modernizes business processes, and increases efficiencies through IT investment. All of the DSCIP efforts provide tangible benefits in their specific areas to produce an improved overall IT environment for the Department of the Treasury. The following section describes what the Treasury Department expects to accomplish with the requested DSCIP funding and the specific benefits each program will provide at the completion of FY 2009.

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

Department-Wide Systems and Capital Investments Program
(Dollars in Thousands)

Department-Wide Systems and Capital Investments Program Resource Level	FY 2005 Obligations	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$31,931	$20,635	$24,608	$30,268	$18,710	$26,975
Reimbursable Resources	0	0	0	0	0	0
Total Resources	$31,931	$20,635	$24,608	$30,268	$18,710	$26,975

Annex Repair and Renovation - The FY 2009 proposed funding for the Annex Repair and Renovation (ARR) project will enable Treasury to address the immediate need to correct critical building and system deficiencies to ensure the safety and health of the occupants. Substantial corrective measures are necessary to address the advance state of erosion of building elements and replacement of infrastructure that is at the end of its life cycle. FY 2009 ARR priorities include correcting failing systems, such as the HVAC and plumbing systems; correcting structural elements, such as the ground level ventilation system; correcting the advanced state of erosion of building elements; and introducing more energy efficient systems. A comprehensive project plan will be developed that will address issues of cost, schedule, and performance. A project manager will be appointed who will provide senior management with in-process reviews for the express purpose of monitoring milestones and deliverables while ensuring that costs and schedules are met.

Treasury Secure Data Network – Funding for the continued improvement of the Treasury Secure Data Network (TSDN) operating system and hardware components will assure continued functionality throughout FY 2009. As a consequence, the Treasury Department will continue to have reliable access to the SIPRNET and the Department of Defense classified communications network, which will ensure ongoing communications with officials in law enforcement as well as the Departments of Defense and State. These activities will help ensure that the department is able to assist in reducing the threat posed by terrorism and associated activities to interdict terrorism, the proliferation of weapons of mass destruction (WMD), and narcotics trafficking.

Cyber Security – Cyber Security funds will be used to ensure that all Treasury Department's Critical Infrastructure / Key Resources (CI/KR) are identified and, furthermore, to protect these systems against possible terrorist attack by ensuring that strong security requirements are established and monitored. This program will provide greater protection against network intrusions, which can result in significant disruptions and delays in its business activities. Funding in this area will also support reviews of selected bureau security programs, and will support the Treasury Department in improving its overall compliance with FISMA. This funding will also support enhanced protection of the Department's classified systems, thus directly support the goal of better protecting the national security, by reducing the risk to those systems.

Enterprise Content Management – Funding for the Enterprise Content Management (ECM) program will be used to continue implementation of an enterprise-wide ECM project for the Department of the Treasury. The ECM project will address the critical and urgent business needs of the Office of Foreign Asset Control (OFAC) and the Financial Crimes Enforcement Network (FinCEN), both of which are struggling under an increasingly burdensome paper-based system of operations. This approach to ECM will minimize duplication of effort and infrastructure investments by capitalizing on Department and government-wide efforts. By the end of FY 2009, the Treasury Department will have significantly improved the workflow processes for both OFAC and FinCEN, as well as positioned the Department for a full transition to a Department-wide ECM solution. The Treasury's ECM program will directly support the department's goal to reduce the threat to national security from terrorist related financial activities by enhancing and developing the ability of related offices to quickly access and assess department-wide records and files in a centralized manner.

E-Government Initiatives – The Treasury Department funds 14 of the 27 E-Government initiatives and six of the nine E-Government Lines of Business, which includes funding from the DSCIP account. More information on the benefits of each E-Government initiative can be found in the E-Government chapter of this budget request. Overall, funding for the E-Government initiative will allow the Treasury Department to execute all required memoranda of understanding with Presidential E-Government Managing Partners. E-Government activities enable a more citizen-centered, results-oriented environment across government.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4B – Information Technology Strategy

DSCIP supports a broad range of IT programs and initiatives which are critical to improving Treasury's IT security capabilities, protecting its critical infrastructure and achieving enterprise-wide benefits through E-Government, ECM, and other Department-wide initiatives. These program areas are aligned with and support OCIO and Departmental IT strategic goals and objectives.

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

DSCIP's telecommunications activities include enhancements to the TSDN. This initiative will provide TSDN analysts with data search tools to allow for more rapid and immediate trend analysis and review.

DSCIP activities are developmental and designed to maximize and leverage technology to achieve efficiencies and improved performance. Activities associated with DSCIP projects are normally contracted and we rigorously apply Earned Value Management (EVM) techniques to the management of these contracted vehicles, ensuring that the services provided are within expectations for cost and schedule and other EVM measurements.

Office of Inspector General

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2007	FY 2008	FY 2009		
Salaries and Expenses	Enacted	Enacted	Request	$ Change	% Change
Audit	$11,639	$12,658	$13,280	$622	4.91%
Investigations	5,318	5,792	6,076	284	4.90%
Total Appropriated Resources	**$16,957**	**$18,450**	**$19,356**	**$906**	**4.91%**
Total FTE	**111**	**112**	**115**	**3**	**2.68%**

FY 2009 Priorities

Ensure the effectiveness and integrity of Treasury programs by:

- Completing 100 percent of mandated audits on time;
- Focusing on programs to combat terrorist financing and money laundering, the security of Treasury's information systems, and Treasury's management of capital investments;
- Addressing requirements related to financial statements, information security and failed financial institutions;
- Investigating allegations of fraud, waste, abuse, and employee misconduct; and
- Conducting proactive efforts to detect, deter and investigate electronic crimes and threats to Treasury's physical and cyber infrastructure.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Fiscal Year (FY) 2009 President's Budget request for the Office of Inspector General (OIG) will be used to provide critical audit and investigative services, ensuring the effectiveness and integrity of Treasury's programs and operations. OIG will continue, as the first audit priority, to address mandated requirements related to financial statements, information security, and as necessary, failed financial institutions resulting in material losses (more than $25 million) to the deposit insurance funds. While there are a number of critical areas where the OIG will provide audit oversight, highlights of three of the Department's most serious management challenges where OIG will focus its resources include:

- Improving regulatory gaps in the detection of and/or timely enforcement action against financial institutions for Bank Secrecy Act (BSA) and related violations, and strengthening Office of Foreign Assets Control (OFAC) compliance examinations for the institutions examined by the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS).
- Improving the Department's compliance with information technology security policies, procedures, standards, and guidelines as required by the Federal Information Security Management Act (FISMA)
- Improving Treasury's management of large acquisitions of systems and other capital investments to prevent costly or failed acquisition projects

The requested funding will also allow OIG to continue to prevent fraud, waste and abuse, at all non-IRS Treasury bureaus and offices, including investigating complaints of alleged employee misconduct, and allegations of fraud and other crimes involving Treasury programs, performing oversight of the Treasury's police operations at the Bureau of Engraving and Printing and the U.S. Mint, and conducting proactive efforts to detect, investigate, and deter electronic crimes and other threats to the Department's physical and cyber critical infrastructure.

Additional resources provided in the FY 2009 Budget request will enable OIG to hire two auditors and one investigator to assist in the oversight of the critical management challenges cited above.

Total resources required to support OIG activities for FY 2009 are $25,656,000, including $19,356,000 from direct appropriation, and $6,300,000 from offsetting collections and reimbursable programs.

1B – Program History and Future Outlook

In FY 2007, the OIG completed 64 Audit products, reviewed 450 allegations, opened 130 investigations, and referred 188 investigations, including 64 one-time referrals from a GAO investigation into Metrocheck fraud and 10 one-time referrals from a cyber initiative. Audits identified potential monetary benefits totaling nearly $35 million. Investigations led to nearly $700 thousand collected in fines, restitution, recoveries, and settlements.

In FYs 2008 and 2009, the OIG expects to complete 56 and 60 Audit products, respectively, and refer 105 investigations (each year) for criminal prosecution, civil litigation, or administrative action.

In FYs 2006 and 2007, the OIG met mandated audit requirements while focusing its self-initiated audit resources to address the major management and performance challenges identified by the Inspector General. The OIG expects to continue this trend in FYs 2008 and 2009.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Salaries and Expenses	FTE	Amount
FY 2008 Enacted	**112**	**$18,450**
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		87
Pay Annualization		101
Pay Inflation Adjustment		318
Total FY 2009 Base	**112**	**$18,956**
Program Increases:		
Increased Audit & Investigative Capability	3	400
Subtotal FY 2009 Program Changes	**3**	**400**
Total FY 2009 President's Budget Request	**115**	**$19,356**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$506,000 / +0 FTE

Non-Pay Inflation Adjustment +$87,000 / +0 FTE

Funds inflation for non-labor related items such as contracts, travel, supplies, equipment and GSA rent.

Pay Annualization +$101,000 / +0 FTE

Funds are requested for the FY 2009 cost of the January 2008 pay raise.

Pay Inflation Adjustment +$318,000 / +0 FTE

Funds are requested for the January 2009 pay raise.

Program Increases ....+$400,000 / +3 FTE

Increased Audit & Investigative Capability +$400,000 / +3 FTE

This initiative provides funding for two auditors and one investigator. These FTE will enable OIG to improve audit coverage in high risk areas, such as programs to combat terrorist financing and money laundering, management of capital investments, particularly IT projects, and IT system security in meeting FISMA and OMB requirements. These additional FTE will also help to reduce investigative caseload backlog.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Salaries and Expenses	FY 2007 Enacted	FY 2008 President's Budget	Cong. Action including Recission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	**112**	**112**		**112**	**115**
Object Classification:					
11.1 - Full-time permanent	10,740	10,765	0	10,765	11,303
11.3 - Other than full-time permanent	45	60	0	60	65
11.5 - Other personnel compensation	400	500	0	500	515
11.8 - Special personal services payments	0	0	0	0	0
12 - Personnel benefits	0	2,775	0	2,775	2,894
13 - Benefits for former personnel	2,480	0	0	0	0
21 - Travel and transportation of persons	240	475	0	475	450
22 - Transportation of things	0	0	0	0	0
23.1 - Rental payments to GSA	0	1,326	0	1,326	1,240
23.2 - Rental payments to others	1,410	0	0	0	0
23.3 - Comm, utilities, and misc charges	350	439	0	439	500
24 - Printing and reproduction	10	15	0	15	15
25 - Other contractual Services	0	0	0	0	0
25.1 - Advisory and assistance services	0	0	0	0	0
25.2 - Other services	200	385	0	385	450
25.3 - Other purchases of goods and services from Govt. accounts	710	975	0	975	1,013
25.4 - Operation and maintenance of facilities	0	225	0	0	0
25.5 - Research and development contracts	0	0	0	0	0
25.6 - Medical care	32	40	0	40	42
25.7 - Operation and maintenance of equip	150	0	0	225	250
25.8 - Subsistence and support of persons	0	0	0	0	0
26 - Supplies and materials	90	150	0	150	244
31 - Equipment	100	320	0	320	375
32 - Land and structures	0	0	0	0	0
33 - Investments and loans	0	0	0	0	0
41 - Grants, subsidies, and contributions	0	0	0	0	0
42 - Insurance claims and indemnities	0	0	0	0	0
43 - Interest and dividends	0	0	0	0	0
44 - Refunds	0	0	0	0	0
Total Budget Authority	$16,957	$18,450	$0	$18,450	$19,356
Budget Activities:					
Audit	11,639	12,658	0	12,658	13,280
Investigations	5,318	5,792	0	5,792	6,076
Total Budget Authority	$16,957	$18,450	$0	$18,450	$19,356

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Audit	72	$11,561	72	$11,639	72	$12,658	74	$13,280	2.78%	4.91%
Investigations	39	5,292	40	5,318	40	5,792	41	6,076	2.50%	4.90%
Subtotal New Appropriated Resources	111	$16,853	112	$16,957	112	$18,450	115	$19,356	2.68%	4.91%
Other Resources:										
Offsetting Collections - Reimbursable	3	1,375	4	1,300	0	6,300	0	6,300	0.00%	0.00%
Transfer in of Multi-year Funds/50%Balance		420		431						
Subtotal Other Resources	3	$1,795	4	$1,731	0	$6,300	0	$6,300	0.00%	0.00%
Total Resources Available for Obligation	114	$18,648	116	$18,688	112	$24,750	115	$25,656	2.68%	3.66%

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, 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; [$18,450,000] $*19,356,000*, of which not to exceed $2,500 shall be available for official reception and representation expenses. (Consolidated Appropriations Act, 2008)	

2C – Legislative Proposals

The Office of Inspector General has no legislative proposals for FY 2009

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

TREASURY Strategic Outcome	FY 2008 Enacted AMOUNT	FY 2009 Request AMOUNT	Percent Change AMOUNT
Accountability & trans	24,750	25,656	**3.7%**
Total	**$24,750**	**$25,656**	**3.7%**

3A – Audit *($13,280,000 from direct appropriations and $6,300,000 from reimbursable programs):* The Office of Audit conducts audits and produces more than 50 products annually; and provides firsthand, unbiased perspectives and recommendations for improving the economy, efficiency, and effectiveness of Treasury programs and operations. The Office often identifies significant cost savings to the government, principally through self-initiated audits. The Office also responds to requests by Treasury officials and the Congress for specific work. While statute requires certain audits be conducted every year, the number of required and requested products has increased in recent years. Reimbursable funding supports agreements for contract audits of other Treasury bureaus.

3.2.1 – Audit Budget and Performance Plan

Audit Budget Activity					
Resource Level	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Enacted**	**FY 2009 Request**
Appropriated Resources	$10,582	$11,549	$11,561	$12,658	$13,280
Reimbursable Resources	$2,208	$2,009	$1,795	$6,300	$6,300
Total Resources	**$12,790**	**$13,558**	**$13,356**	**$18,958**	**$19,580**
Budget Activity Total	**$12,790**	**$13,558**	**$13,356**	**$18,958**	**$19,580**

Audit Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**
Percent of statutory audits completed by the required date (%) (E)	100.00%	100.00%	100.00%	100.00%	100.00%
Number of completed audit products (Ot)	54	57	64	56	60

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

Description of Performance: In FYs 2006 and 2007, the Office of Audit completed 57 and 64 audit products, identified potential monetary benefits totaling nearly $35 million and $7 million, respectively, and completed all statutory audits by the required dates. In FYs 2008 and 2009, the Office plans to complete 56 and 60 Audit products, respectively.

In FYs 2006 and 2007, the Office of Audit met mandated audit requirements while focusing its self-initiated audit resources to address the major management and performance challenges identified by the OIG. In FY 2007 those challenges were (1) Corporate Management, (2) Management of Capital Investments, (3) Information Security, (4) Linking Resources to Results and (5) Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement. The OIG expects to continue to meet mandated audit requirements and focus its self-initiated audit resources to address the major management and performance challenges identified by the OIG in FYs 2008 and 2009.

3B – Investigations *($6,076,000 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 and state or local prosecutors for criminal prosecution or civil litigation, or to agency officials for corrective administrative action.

3.2.2 – Investigations Budget and Performance Plan

Investigations Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$5,621	$5,281	$5,292	$5,792	$6,076
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$5,621**	**$5,281**	**$5,292**	**$5,792**	**$6,076**
Budget Activity Total	**$5,621**	**$5,281**	**$5,292**	**$5,792**	**$6,076**

Investigations Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Number of investigations referred for criminal prosecution, civil litigation or corrective administrative action. (Oe)	85	144	188	105	105

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

Description of Performance: In FY 2006, the Office of Investigations reviewed 489 allegations, opened 129 investigations, and referred 144 investigations. Investigations led to nearly $600 thousand collected in fines, restitution, recoveries, and settlements. In FY 2007, the Office reviewed 450 allegations, opened 130 investigations, and referred 188 investigations, including 64 one-time referrals from a GAO investigation into Metrocheck fraud, and 10 one-time referrals from a cyber initiative. Investigations led to nearly $700 thousand collected in fines, restitution, recoveries, and settlements. In FYs 2008 and 2009, the Office expects to refer 105 investigations for criminal prosecution, civil litigation, or corrective administrative action.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

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

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

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments 1/ Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Enacted 2/	FY 2007 Enacted	% Change from FY06 to FY07	FY 2008 Likely Enacted	% Change from FY07 to FY08	FY 2009 Request	% Change from FY08 to FY09
				N/A		N/A		N/A
Subtotal, Major IT Investments		$0	$0		$0		$0	
Non-Major IT Investments	Audit Investigations	$900	$390	-56.7%	$450	15.4%	$450	0.0%
OIG STEADY STATE OPERATING COSTS								
Infrastructure Investments			$0					
Enterprise Architecture			$0					
Total IT Investments		$900	$390	-56.7%	$450	15.4%	$450	0.0%

1/ This chart includes appropriated resources only, and may not reflect total project costs.

2/ This column reflects appropriated resources provided to a project in FY 2006 and any previous years.

4B – Information Technology Strategy

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

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

4.2 – PART Evaluation Table

Not applicable to the OIG.

Treasury Inspector General for Tax Administration

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2007	FY 2008	FY 2009		
Salaries and Expenses	Enacted	Enacted	Request	$ Change	% Change
Audit	$50,260	$52,959	$55,055	$2,096	3.96%
Investigations	82,601	87,574	90,681	3,107	3.55%
Total Appropriated Resources	**$132,861**	**$140,533**	**$145,736**	**$5,203**	**3.70%**
Total FTE	**817**	**835**	**835**	**0**	**0.00%**

FY 2009 Priorities

- Adapting to the Internal Revenue Service's (IRS) continuously evolving operations and mitigating intensified risks associated with modernization, addressing the tax gap, and enforcement efforts;
- Responding to 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 cost savings and enhancing IRS' service to taxpayers; and
- Informing Congress and the Secretary of the Treasury of problems and progress made to resolve them.

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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 Congress to provide independent oversight of the IRS. TIGTA's investigations and audits protect and promote the fair administration of the American tax system. Its responsibilities include ensuring that the IRS is accountable for more than $2 trillion in tax revenue received each year. TIGTA's investigations ensure the integrity of IRS employees, contractors, and other tax professionals; provide for infrastructure security; and protect the IRS from external attempts to threaten or corrupt the administration of the tax laws. TIGTA conducts audits that advise Congress, the Secretary of the Treasury, and IRS management of high-risk issues, problems, and deficiencies related to the administration of IRS programs and operations. TIGTA's audit recommendations aim to improve IRS systems and operations, while maintaining fair and equitable treatment of taxpayers. TIGTA's oversight is essential to the efficiency and equity of the federal tax administration system.

TIGTA's FY 2009 budget request is $145,736,000, an increase of 3.7 percent above the 2008 enacted level. These requested resources will finance critical investigative and audit services, ensuring the integrity of tax administration on behalf of the nation's taxpayers. TIGTA's investigative and audit priorities include:

- Adapting to the IRS' continuously evolving operations and mitigating intensified risks associated with modernization, addressing the tax gap, and enforcement efforts;
- Responding to 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 cost savings and enhancing the IRS service to taxpayers; and
- Informing Congress and the Secretary of the Treasury of problems and progress made to resolve them.

Additionally, TIGTA's strategic goals contribute to the Department goals and objectives. These strategic goals are to:

- Promote the Economy, Efficiency, and Effectiveness of Tax Administration;
- Protect the Integrity of Tax Administration and;
- Be an Organization that Values Its People.

1B – Program History and Future Outlook

Previously a longstanding enforcement office within the IRS, TIGTA was established as an independent office in January 1999 in accordance with the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). TIGTA is mandated to provide independent audit and investigative services necessary to improve the quality and credibility of IRS oversight. TIGTA's investigations and audits are integral to the efficient and equitable application of the nation's tax laws and thereby ensure that this critical source of federal revenue is prudently and fairly administered and secure from internal and external threats. Oversight activities are explicitly designed to identify high-risk systemic inefficiencies in IRS operations and investigate exploited weaknesses in tax administration.

In FY 2007, TIGTA's accomplishments included:

Ensuring Taxpayer Privacy and Security: Millions of taxpayers entrust the IRS with sensitive financial and personal data, which is processed and stored by IRS computer systems. This trust is the cornerstone of the nation's voluntary tax compliance system. However, increased reports of identity theft from both the private and public sectors emphasize the importance of protecting taxpayer data. In response to increased reports of theft of government-owned computers over the past year, TIGTA and the IRS Computer Security Incident Response Center (CSIRC) worked together to mitigate any adverse impact on tax administration resulting from these computer or data thefts. Specifically, TIGTA and CSIRC signed a Memorandum of Understanding that included a process to accurately report and document lost and/or stolen IRS information technology assets. This immediate notification process will promote a swift response, and preemptive measures to protect sensitive information maintained by the IRS.

Tax Compliance: TIGTA's increased community outreach efforts have helped the IRS to deliver quality customer service to taxpayers and the tax practitioner community. TIGTA worked diligently to make contact with large segments of the IRS workforce and other external entities. By doing so, TIGTA developed relationships with these groups that assist in identifying crimes against the IRS and taxpayers. The outreach efforts resulted in increased reports of bribery, unauthorized access and disclosure of private taxpayer information (UNAX) violations, and other offenses that undermine effective tax administration. Between October 2006 and September 2007, TIGTA provided presentations to more than 52,000 IRS employees and external entities. Specifically, TIGTA's Office of Investigations (OI) provided integrity and fraud awareness presentations to revenue officers and revenue agents at their continuing professional education conferences. During this same period, OI worked to educate tax professionals by providing 101 awareness presentations to 8,784 tax practitioners and preparers at professional conferences.

Additionally, TIGTA continues to provide comprehensive coverage and oversight of all aspects of the IRS' daily operations. TIGTA's Office of Audit (OA) not only focuses on the economy and efficiency of IRS functions, but also works to ensure that taxpayers' rights are protected and the taxpaying public is adequately served. Overall, as of

September 30, 2007, audit reports potentially produced financial benefits of approximately $3.55 billion, and potentially impacted approximately 5.7 million taxpayers' accounts in areas such as taxpayer burden, rights, and entitlements, taxpayer privacy and security, protection of resources/reliability of information, and increased revenue/revenue protected. TIGTA's audits have identified potential unsubstantiated noncash contributions as well as opportunities to assess additional Social Security and Medicare taxes on wages. TIGTA's investigative and audit compliance efforts helped the IRS deliver quality service, ensure equitable treatment of taxpayers, and identify the potential loss of revenue to the federal government.

Advising Congress: As of September 30, 2007, TIGTA provided 5 testimonies, 18 briefings, and 250 responses to Congress and its professional staff regarding investigative and audit activities. Through direct communication, TIGTA aims to address the interest of congressional committees on critical issues, thus avoiding unsubstantiated concerns that may needlessly impede IRS operations. Accordingly, TIGTA's Inspections and Evaluations (I&E) group began its first year of operation after a successful pilot project during FY 2006. The I&E group complements the work of our 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 Congress and other IRS stakeholders. The scope of the group's efforts ranges from answering congressional concerns to evaluating tax issues in regard to the IRS' ability to administer the tax laws.

The I&E group has positioned TIGTA well to respond to external stakeholders promptly. To meet the challenge in FY 2007, TIGTA reallocated resources. As the group continues its work, we expect its influence in overseeing tax administration to grow and its service of informing interested parties to expand.

Overall Investigative Outcomes: Between October 1, 2006, and September 30, 2007, 81 percent of the 3,597 final closed investigations generated results, including 1,663 cases of employee misconduct referred for action and 206 cases accepted for prosecution with final legal action. Specifically, unauthorized access to confidential tax information remains a significant problem for the IRS. During the same period, TIGTA opened 521 new UNAX cases and closed 621 cases, 594 of which resulted in personnel action against IRS employees.

Overall Audit Outcomes: TIGTA issued a total of 180 audit, inspection, and evaluation reports between October 1, 2006, and September 30, 2007, identifying approximately $3.55 billion in potential financial benefits (i.e., costs savings, increased/protected revenue, taxpayer rights and entitlements, and inefficient use of resources). These audits returned $52 for each $1 invested this fiscal year.

In FY 2008, as the IRS evolves, TIGTA faces the challenge of adapting its oversight activities to address increasingly complex and high-risk issues associated with IRS operations. Some of these issues include detection and investigation of fraud and electronic crime, procurement activities, taxpayer privacy, and an increasing number of requests for IRS program reviews from Congress and other IRS stakeholders. Each of these areas presents significant challenges for TIGTA and the IRS. The following are highlights of these issues and their challenges:

Fraud and Electronic Crime: TIGTA's reviews have identified persistent IRS computer weaknesses that could jeopardize the security of personally identifiable information. The sensitivity of the data makes the IRS an attractive target for employees, hackers, and others who could use the information for fraud and identity theft. TIGTA's audit and investigative work provides for coverage of this growing national problem, providing proactive prevention and detection efforts that are required of 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 leading to a decline in voluntary compliance represents a potential risk to national security.

Taxpayer Privacy: The protection of confidential taxpayer information is of critical importance to Congress and the taxpaying public. In August 1997, the Taxpayer Browsing Protection Act rendered the willful inspection and/or disclosure of federal tax information without proper approval, known as unauthorized access by IRS employees, state and other federal employees, and contractors, a criminal offense. As the IRS continues its modernization effort, TIGTA faces the challenge of keeping pace with the increased risk of UNAX violations expected to result from IRS' plans to install 261 new records systems. Uninvestigated, UNAX violations undermine the taxpaying public's trust in the federal tax system to safeguard confidential tax information. In addition, they erode voluntary compliance, facilitate criminal violations, and enable potentially hazardous security breaches of IRS computer systems.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Salaries and Expenses	FTE	Amount
FY 2008 Enacted	**835**	**$140,533**
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		615
Pay Annualization		799
Pay Inflation Adjustment		2,419
Transfers In:		
Transfer from IRS for building operations		1,370
Total FY 2009 Base	**835**	**$145,736**
Total FY 2009 President's Budget Request	**835**	**$145,736**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$3,833,000 / +0 FTE

Non-Pay Inflation Adjustment +$615,000 / +0 FTE

Funds are requested for the other non-labor related items such as contracts, travel, supplies, equipment, and GSA rent.

Pay Annualization +$799,000 / +0 FTE

Funds are requested for FY 2009 costs of January 2008 pay raise.

Pay Inflation Adjustment +$2,419,000 / +0 FTE

Funds are requested for the FY 2009 pay raise.

Transfers In ....+$1,370,000 / +0 FTE

Transfer from IRS for building operations +$1,370,000 / +0 FTE

Transfer of $1,370,000 from IRS to fund expenses for building operations and selected support services currently provided by IRS on behalf of TIGTA.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Salaries and Expenses	**FY 2007 Enacted**	**FY 2008 President's Budget**	**Cong. Action including Recission**	**FY 2008 Enacted Level**	**FY 2009 Requested Level**
FTE	**817**	**835**		**835**	**835**
Object Classification:					
11.1 - Full-time permanent	74,148	75,901	0	75,901	78,314
11.3 - Other than full-time permanent	463	576	0	576	576
11.5 - Other personnel compensation	8,109	9,398	0	9,398	9,131
11.8 - Special personal services payments	0	0	0	0	0
12 - Personnel benefits	25,289	25,226	0	25,226	26,298
13 - Benefits for former personnel	0	0	0	0	0
21 - Travel and transportation of persons	3,616	4,552	0	4,552	4,834
22 - Transportation of things	57	24	0	24	24
23.1 - Rental payments to GSA	7,853	8,024	0	8,024	8,952
23.2 - Rental payments to others	272	282	0	282	288
23.3 - Comm, utilities, and misc charges	2,609	8,688	0	8,688	2,570
24 - Printing and reproduction	19	8	0	8	8
25 - Other contractual Services	0	0	0	0	0
25.1 - Advisory and assistance services	424	1,152	0	1,152	1,175
25.2 - Other services	659	921	0	921	986
25.3 - Other purchases of goods and services from Govt. accounts	3,941	0	0	0	6,695
25.4 - Operation and maintenance of facilities	225	407	0	407	407
25.5 - Research and development contracts	0	0	0	0	0
25.6 - Medical care	0	0	0	0	0
25.7 - Operation and maintenance of equip	1,154	1,252	0	1,252	1,277
25.8 - Subsistence and support of persons	0	0	0	0	0
26 - Supplies and materials	1,030	1,170	0	1,170	1,193
31 - Equipment	2,809	2,750	0	2,750	2,805
32 - Land and structures	0	0	0	0	0
33 - Investments and loans	0	0	0	0	0
41 - Grants, subsidies, and contributions	0	0	0	0	0
42 - Insurance claims and indemnities	130	150	0	150	150
43 - Interest and dividends	0	0	0	0	0
44 - Refunds	0	0	0	0	0
91.0 - Confidential Expenditures	54	52	0	52	53
Total Budget Authority	$132,861	$140,533	$0	$140,533	$145,736
Budget Activities:					
Audit	50,260	52,959	0	52,959	55,055
Investigations	82,601	87,574	0	87,574	90,681
Total Budget Authority	$132,861	$140,533	$0	$140,533	$145,736

2.3 – Appropriations Detail Table

Dollars in Thousands

Appropriation Detail Table
(Dollars in Thousands)

Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Audit	325	$49,087	341	$50,260	349	$52,959	349	$55,055	0.00%	3.96%
Investigations	467	83,427	476	82,601	486	87,574	486	90,681	0.00%	3.55%
Subtotal New Appropriated Resources	792	$132,514	817	$132,861	835	$140,533	835	$145,736	0.00%	3.70%
Other Resources:										
Offsetting Collections - Reimbursable	3	927	3	1,200	3	900	3	900	0.00%	0.00%
Subtotal Other Resources	3	$927	3	$1,200	3	$900	3	$900	0.00%	0.00%
Total Resources Available for Obligation	795	$133,441	820	$134,061	838	$141,433	838	$146,636	0.00%	3.68%

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, not to exceed $6,000,000 for official travel expenses; and not to exceed $500,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General for Tax Administration [$140,533,000] $145,736,000; and of which not to exceed $1,500 shall be available for official reception and representation expenses. (*Department of the Treasury Appropriations Act, 2008*)	

2C – Legislative Proposals

TIGTA does not have any legislative proposals for FY 2009.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

TREASURY Strategic Outcome	FY 2008 Enacted AMOUNT	FY 2009 Request AMOUNT	Percent Change AMOUNT
Accountability & trans	141,433	146,636	**3.7%**
Total	**$141,433**	**$146,636**	**3.7%**

3A – Audit *($55,055,000 from direct appropriations and $500,000 from reimbursable programs):* The Office of Audit's (OA) mission is to provide comprehensive coverage and oversight of all aspects of the IRS' daily operations. Audits, inspections, and evaluations 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. Moreover, IRS implementation of audit recommendations results in: cost savings and increased or protected revenue; reduction of taxpayer burden; protection of taxpayer rights and entitlements, taxpayer privacy and security; and protection of IRS resources. Overall, as of September 30, 2007, audit reports produced potential financial benefits of approximately $3.55 billion, and potentially impacted approximately 5.7 million taxpayer accounts in areas such as taxpayer burden, rights and entitlements, taxpayer privacy and security, protection of resources/reliability of information, and increased revenue/revenue protected.

Each fiscal year, OA develops an annual audit plan that communicates oversight priorities to Congress, the Department of the Treasury, and the IRS. This plan includes statutory audit coverage and high risk audit work. The statutory coverage includes audits mandated by the IRS Restructuring and Reform Act of 1998, as well as reviews that address computer security and financial management. The high-risk workload includes issues pertaining to the IRS' modernization efforts, major management challenges, response to the President's Management Agenda, progress in achieving its strategic goals, as well as Congressional and other stakeholder requests for audit coverage. By focusing on these critical areas, OA ensures that TIGTA audits identify and recommend improvements in IRS programs, including:

Tax Compliance: The tax gap exemplifies the considerable challenges the IRS faces in collecting sufficient revenue and the federal tax system's critical dependence on voluntary compliance. In February 2006, the IRS estimated the gross tax gap, defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year, to be $345 billion for Tax Year 2001. TIGTA evaluated the reliability of the IRS-developed tax gap figures and concluded that the IRS lacked sufficient information to completely and accurately assess the tax gap and voluntary compliance rate. A reliable estimate of the overall tax gap and its components is critical to tax administration and tax policy decision-makers. TIGTA recommended that the IRS continue to conduct reviews on a regular basis for major segments of the tax gap and that it consider establishing a tax gap advisory panel that includes tax and economic experts to identify ways to improve the methods to measure voluntary compliance. IRS management agreed with the recommendations. Continued TIGTA oversight of tax gap issues, including data reliability, enforcement of laws, and taxpayer assistance, is necessary to ensure that the IRS enhances voluntary compliance by balancing taxpayer services and enforcement without jeopardizing taxpayer rights.

In FY 2007, TIGTA completed a review that included an assessment of the processing of individual income tax returns reporting deductions for noncash charitable contributions, and estimated that 101,236 taxpayers could have claimed unsubstantiated noncash contributions totaling approximately $1.8 billion for the period of January 15 through September 21, 2006. The IRS agreed to implement a number of corrective actions in this area. TIGTA plans to do follow-up work and will test the effectiveness of these corrective actions once they have been implemented.

Further, as the tax collectors for the Social Security program, the IRS must help taxpayers meet their tax responsibilities by assessing and collecting the proper amount of employment taxes in this area. Based on the results of an audit addressing the IRS' processing of Form 4137, Social Security and Medicare Tax on Unreported Tip Income, TIGTA estimated that the IRS could assess an additional $108 million[1] in Social Security and Medicare taxes each year. The IRS agreed to revise Form 4137 to capture the data necessary to assess the employer's share of Social Security and Medicare taxes on unreported tip income and to create a new form for reporting the employee's share of these taxes on wage income. Once these corrective actions have been implemented, TIGTA will reevaluate the IRS' improvements in this area.

Regarding the 2007 filing season, one of TIGTA's concerns was the IRS' Telephone Excise Tax Refund (TETR) program. The refund is the most wide-reaching refund in the history of the IRS. The IRS estimated that between 145 million and 165 million individual taxpayers would be eligible to claim this one-time refund, including many without a filing requirement. Because the IRS had collected approximately $8 billion from individual taxpayers for the applicable period, it had a goal to return as close to this amount as possible while minimizing the total refunds made above this amount. To minimize the number of overstated refund requests and administrative burden on individual taxpayers, the IRS offered individuals standard refund amounts. TIGTA pointed out that a significant amount of the telephone excise tax may never be refunded.

[1] This is comprised of approximately $20 million in Social Security and Medicare taxes on tips and approximately $88 million in Social Security and Medicare taxes on wages.

TIGTA attributed this to the success of the standard refund amounts and to the fact that many taxpayers were simply unaware of the refund despite the IRS' efforts. Early in the filing season, TIGTA found that certain processing controls needed strengthening to ensure taxpayers claiming amounts greater than one of the standard amounts included required documentation. Upon notification, the IRS took action to address this issue. TIGTA also found that more than 26,000 taxpayers would unnecessarily receive a Tax Year 2007 Tax Package as a result of their TETR program claim. The unnecessary packages would cost the IRS additional resources to send and cause taxpayers burden. IRS is using TIGTA's data to suppress the mailing of unnecessary tax packages to taxpayers.

TIGTA also raised concerns that erroneous claims often went unchallenged by the IRS. Many taxpayers, possibly due to misunderstanding the Form 8913 (Credit for Federal Telephone Excise Tax Paid), may have claimed refunds of the total amounts of their telephone bills. (Form 8913 was not focus tested to ensure taxpayers understood it.) Other taxpayers and preparers may have intentionally overstated their claims. As of June 2007, over 52,000 potentially egregious claims had been received that did not meet the IRS' criteria for review. The amount of telephone excise tax on these claims totaled more than $43 million. Over 38,000 of these claims were on tax returns with no Schedules C (Profit or Loss From Business), E (Supplemental Income and Loss) or F (Profit or Loss From Farming), which makes the claimed amounts even more questionable. If each of the 38,000 returns claimed the standard excise tax refund amount of $60, the total refunds would equal approximately $2.3 million. Because the refunds have been issued for these returns and because any incorrect or abusive refunds would have to be recovered through court proceedings, TIGTA's recommendations only act as a lessons learned for similar future refund programs. However, TIGTA believes the IRS could have reduced the number of incorrect or abusive refunds if it had reexplored all its options during the filing season. These options included sending notices (prior to refunds being issued) that offered taxpayers the opportunity to self-correct their returns; the postponement of some Examination function work; and the working (or partial working) of some of the simpler TETR cases by non-Examination function employees.

Quality of Taxpayer Services: The IRS has experienced a steady growth in electronic filing (e-filing) of income tax returns over the past several years. However, while the number of e-filed returns increased 9.18 percent in 2007, the total volume of e-filed returns was less than projected, and OA has expressed concern regarding the projected slowing of the growth of e-filed returns. The slower growth rate will extend the time period needed to achieve the goal of 80 percent e-filed returns and delays associated cost savings. Current IRS projections show that by 2013, about 72 percent of individual income tax returns will be e-filed. A contributing factor to the slowing growth of e-filed returns is the disappointingly low use of the Free File Program, and the IRS' decision to eliminate the Telefile Program in 2005. Of the 93 million taxpayers eligible for the Free File Program in 2006, only 3.9 million (4.2 percent) used it. The number of Free File users declined even more in 2007 to 3.8 million. OA raised concerns regarding the quality and accessibility of the free e-filing services offered by the IRS. TIGTA also plans to audit the IRS strategy to modernize submission processing. The IRS strategy includes implementing Modernized e-File and Web Direct filing to increase electronic filings and employing technology and operational improvements to process returns, payments, and refunds more accurately and efficiently by 2011. The strategy also includes a redesign of the form 1040 and implementation of 2-D barcoding.

Correspondingly, the Subcommittee on Oversight of the House Committee on Ways and Means requested that OA review recent amendments made to the IRS' Free File Alliance Agreement in order to evaluate the differences from the previous agreement and to assess the impact on electronic filing and taxpayer services. OA's review showed that the amended agreement substantially reduced the number of taxpayers eligible to use the program and that Free File services are often inaccessible, time-consuming and difficult to use for eligible taxpayers. In addition, the Free File Program software did not always accurately compute taxes due, and the "Guide Me To A Company" feature that helps taxpayers select a program vendor was not always complete or accurate. Errors and omissions in the tax preparation software and the tools provided by the IRS to aid taxpayers when using the program could undermine taxpayers' confidence in the program and negatively affect the IRS' efforts to reach its goal of increasing the use of electronic filing. OA's recommendations will help ensure that the free filing options provided by the IRS contribute to the growth rate of e-filing.

Additionally, TIGTA completed a review aimed at determining whether the IRS E-Help Desk is providing quality customer service. The E-Help Desk provides assistance to users of IRS electronic products and services. TIGTA determined that improvements to the E-Help Desk are needed to support the IRS' expanding e-services. As a result, TIGTA had several concerns about the E-Help Desk Program. The IRS recognizes the need to provide customers of its electronic products and services with the ability to obtain the assistance needed to successfully use these products. Since the inception of the E-Help Desk in 2002, the IRS has continued to identify ways to improve program efficiency and customer service. Continued expansion in the availability and use of electronic products and services requires that improvements are made to ensure that the program can continue to provide effective customer service.

Privacy and Security: Millions of taxpayers entrust the IRS with sensitive financial and personal data stored in and processed by IRS computer systems. Recent reports of identity theft from both the private and public sectors have heightened awareness of the need to protect this data. The risks that sensitive data or computer systems could be compromised and computer operations disrupted continue to increase. These risks are caused by: internal factors, such as increased connectivity of computer systems and increased use of portable laptop computers; and external factors, such as the volatile threat environment related to increased terrorist and hacker activity.

The IRS annually processes more than 220 million tax returns containing personal financial information and personally identifiable information such as Social Security numbers. A TIGTA audit found that IRS employees lost at least 490 computers between January 2, 2003, and June 13, 2006. Also, employees did not properly encrypt data on computer devices, and password controls over laptop computers were not adequate. As a

TIGTA made several recommendations to improve the privacy of personally identifiable information. The IRS agreed with the recommendations and provided adequate corrective actions. TIGTA is planning an audit in FY 2008 to evaluate the effectiveness of the IRS' corrective actions.

In another review, TIGTA noted that: the IRS' process for prescreening its employees prior to conducting background investigations on employees was appropriate and effective; and IRS employee background investigations were appropriate for the level of risk associated with the positions. However, background investigations were not completed timely for IRS and contractor employees. Of the background investigations TIGTA sampled, the IRS did not complete 77 percent of the IRS employee investigations and 72 percent of the contractor employee investigations within established IRS baselines. Delays in processing background investigations increase the risk that the IRS may be hiring unsuitable employees that could compromise sensitive taxpayer information, physically harm employees, and disrupt operations. TIGTA made recommendations to improve the background investigation process. The IRS agreed with the findings and provided corrective actions to use available management information to track background investigations and to periodically advise appropriate IRS employees to ensure that contractors have been prescreened before providing them access to computer systems.

The value of TIGTA's mission and the effectiveness of its oversight are demonstrated by the increased number of requests for audits TIGTA receives. OA faces the challenge of addressing increasing demands from Congress and other IRS stakeholders in a timely and efficient manner. TIGTA expects the trend of increased congressional interest and requests for action to continue into future fiscal years.

Other Resources: TIGTA receives $500,000 in offsetting collections and reimbursements to support activity related to DCAA audits conducted on behalf of the IRS and other activity conducted on behalf of the Department of the Treasury.

3.2.1 – Audit Budget and Performance Plan

Audit Budget Activity					
Resource Level	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Enacted**	**FY 2009 Request**
Appropriated Resources	$48,919	$48,916	$49,087	$52,959	$55,055
Reimbursable Resources	$1,093	$915	$300	$500	$500
Total Resources	**$50,012**	**$49,831**	**$49,387**	**$53,459**	**$55,555**
Budget Activity Total	**$50,012**	**$49,831**	**$49,387**	**$53,459**	**$55,555**

Audit Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Percentage of Audit Products Delivered When Promised to Stakeholders	N/A	N/A	68.00%	60.00%	65.00%
Percentage of Recommendations Made That Have Been Implemented	N/A	N/A	90.00%	80.00%	83.00%

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

Description of Performance: The likelihood that TIGTA's products will be used is enhanced 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 for our work to produce financial or non-financial benefits. This measure assesses TIGTA's effect on improving the IRS' 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 (4) years ago that have been implemented, rather than the results of our activities during the fiscal year in which the recommendations are made. TIGTA is able to track its recommendations that have not been implemented by the IRS. TIGTA also has a formal process with the IRS for closing out unimplemented recommendations for which circumstances may have changed, or for when the IRS has taken alternative corrective measures that address concerns identified by TIGTA.

3B – Investigations *($90,681,000 from direct appropriations and $400,000 from reimbursable programs):* While most Offices of Inspector 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 violations and administrative misconduct by IRS employees, protects the IRS against external attempts to corrupt tax administration, and ensures IRS employee safety and IRS data and infrastructure security. The following summaries highlight TIGTA's investigative efforts in these three core areas:

Employee Integrity: The IRS' ability to deliver taxpayer service, enforce tax laws effectively, and collect the proper amount of taxes can be undermined by employee misconduct. Over 50 percent of TIGTA's current investigations involve alleged employee misconduct. These investigations of employee misconduct allegations include extortion, theft, taxpayer abuse, false statements, and financial fraud. In addition, an integral part of the employee integrity program involves investigations of unauthorized access to confidential taxpayer records by IRS employees.

Employee and Infrastructure Security: In 1998, The President of the United States designated IRS operations as a critical infrastructure.[2] TIGTA meets the challenge of maintaining IRS employee and infrastructure security by conducting investigations in reaction to incidents in which IRS employees, facilities, and infrastructure are sabotaged, threatened, or assaulted. Potential threats to tax administration are identified by TIGTA's administration of a Criminal Intelligence Program that utilizes law enforcement and intelligence resources to proactively identify individuals and groups who may pose a threat to tax administration.

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

In FY 2009, OI expects major IRS programs to be highly at risk to corruption of federal tax administration and thus require intensified oversight. Particularly important to TIGTA are phishing scams that falsely depict e-mails from the IRS.[3] Such schemes attempt to retrieve a user's Social Security number and banking information by replicating an official IRS seal and/or requesting information required for depositing tax refunds. Since November 2005, TIGTA and the IRS received a total of 32,576 (as of September 30, 2007) complaints or inquiries regarding these internet schemes. Oversight in this area is necessary to ensure that misuse of the IRS name, impersonation of an IRS employee, and identity theft incidents are resolved properly.

Congressional concern regarding the magnitude of uncollected revenue has prompted the IRS to intensify enforcement activities. If effective, heightened enforcement is likely to cause a rise in external threats to IRS employees and infrastructure. Both TIGTA's proactive and reactive initiatives are critical to mitigating such future risks. OI currently participates on the Federal Bureau of Investigation (FBI) Joint Terrorism Task Forces and conducts criminal intelligence gathering to uncover and track external threats to tax administration from individuals, anti-government groups, and terrorists. From FY 2005 through the end of FY 2007, OI initiated 1,005 investigations of assaults and/or threats made against IRS employees, and 97 investigations of assaults and/or threats made against IRS facilities.

Current resources committed to addressing external security risks include six special agents working full-time and 32 special agents working part-time on domestic terrorism. The office also includes one intelligence analyst gathering information to protect against external threats. OI presently oversees security for the top 15 at-risk IRS locations, as identified by the IRS Mission Assurance Office. Proactive measures in this area are critical to preventing breaches of security and deterring threats in future years.

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[2] *Presidential Decision Directive NSC-63.*
[3] 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.

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

Other Resources: TIGTA receives $400,000 in offsetting collections and reimbursements to support activity related to the Inspector General Academy and other activity conducted on behalf of the Department of the Treasury.

3.2.2 – Investigations Budget and Performance Plan

Investigations Budget Activity					
Resource Level	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Enacted**	**FY 2009 Request**
Appropriated Resources	$79,368	$82,686	$83,427	$87,574	$90,681
Reimbursable Resources	$1,783	$711	$627	$400	$400
Total Resources	**$81,151**	**$83,397**	**$84,054**	**$87,974**	**$91,081**
Budget Activity Total	**$81,151**	**$83,397**	**$84,054**	**$87,974**	**$91,081**

Investigations Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**
Percentage of Results from Investigative Activities (%) (Oe)	82.00%	79.00%	81.00%	76.00%	76.00%

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

Description of Performance: Examples of the types of results generated from investigative activities include: 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. As of September 30, 2007, actual performance has exceeded expectations (actual performance was 81 percent, while the target was 73 percent). These results are indicative of TIGTA'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/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

TIGTA's human capital strategy is consistent with the goals, vision, and priorities of the Department. One of the major goals of the Department is to "be an organization that values its people." The objective associated with this goal is to "ensure a high-quality, diverse, and motivated workforce with the knowledge, skills, and abilities needed to produce quality products in an efficient and effective manner." To support this goal, TIGTA's performance management program differentiates levels of employee performance, incorporates TIGTA's strategic goals and objectives, and holds employees accountable for performance. During FY 2009, TIGTA will update its Strategic Human Capital Plan to support a revised TIGTA Strategic Plan.

In recent years, TIGTA's overall employee population has declined 12 percent from FY 2001 through FY 2006 (a decrease from 938 in FY 2001 to 825 at the end of FY 2006) and is expected to decline over the foreseeable future. In addition, approximately 38 percent of all TIGTA employees will be retirement eligible by September 30, 2011. More dramatic are the percentages of retirement eligibility in certain TIGTA occupations. Approximately 41.5 percent of GS-0511 auditors and GS-2210 information technology specialists, and 33 percent of TIGTA's GS-1811 criminal investigators will be retirement eligible by then. This threatens TIGTA's overall ability to effectively fulfill its core mission.

Labor reductions will also reduce TIGTA's enforcement capacity and circumscribe efforts to combat IRS employee misconduct and external threats to the security and integrity of IRS personnel and infrastructure. FTE losses further reduce opportunities to examine high-risk areas and thereby reduce financial benefits from audit recommendations and impact fewer taxpayer accounts. The loss would also require TIGTA to curtail, delay, and/or fail to initiate reviews of high-risk areas and/or eliminate entire programs.

TIGTA must also address critical staffing deficiencies in terms of having the right number of people with the right skills to accomplish its mission. Because of the IRS' modernization effort and its increasingly computerized operating systems and environment, TIGTA faces critical skill gaps. Auditors and criminal investigators with strong analytical skills and experience using business intelligence tools to identify fraud and other improprieties in IRS computer systems are needed.

To help address these challenges, in FY 2008 TIGTA will implement a bureau-wide electronic learning management system containing a skills assessment program that identifies the critical skills needed for each of TIGTA's major occupations and provides a means to assess resident skill levels. TIGTA will also develop a strategic recruitment program to fill critical vacancies and align future hiring in geographic areas where most of TIGTA's workload is located.

While the TIGTA workforce is not being supplemented by on-site contractors, most of the human resources, accounting, travel, and acquisitions work is outsourced to the Bureau of the Public Debt's Administrative Resource Center. Additionally, TIGTA is considering supplementing the federal workforce with contract support in the areas of physical security, telecommunications, and employee performance management policy.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments 1/							
Major IT Investments / Funding Source	**Budget Activity**	**FY 2006 & Earlier Enacted**	**FY 2007 Enacted**	**FY 2008 Likely Enacted**	% Change from FY07 to FY08	**FY 2009 Request**	% Change from FY08 to FY09
		2/					
Subtotal, Major IT Investments		**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Performance and Results Information System (PARIS)	TIGTA: Audit and Investigations Activity	**$1,000**	**$1,000**	**$1,000**	0.0%	**$1,000**	0.0%
PARIS Property Module (PPM)	TIGTA: Audit and Investigations Activity	**$500**	**$500**	**$500**	0.0%	**$500**	0.0%
Non-Major IT Investments	TIGTA: Audit and Investigations Activity	**$1,500**	**$1,500**	**$1,500**	**0.0%**	**$1,500**	**0.0%**
TIGTA End User Systems and Services	TIGTA: Audit and Investigations Activity	**$2,450**	**$2,450**	**$8,000**	226.5%	**$8,293**	3.7%
Telecommunications Systems and Services	TIGTA: Audit and Investigations Activity	**$1,329**	**$1,329**	**$3,100**	133.3%	**$3,300**	6.5%
Data Center Systems and Services	TIGTA: Audit and Investigations Activity	**$267**	**$267**	**$1,000**	274.5%	**$1,000**	0.0%
IT Security	TIGTA: Audit and Investigations Activity			**$750**		4/	
Infrastructure Investments	TIGTA: Audit and Investigations Activity	**$4,046**	**$4,046**	**$12,850**	**217.6%**	**$12,593**	**-2.0%**
				3/			
Consolidated Enterprise Content Management	TIGTA: Audit and Investigations Activity	**$0**	**$0**	**$0**		**$129**	
						5/	
Consolidated Identity Management	TIGTA: Audit and Investigations Activity	**$0**	**$0**	**$0**		**$128**	
						5/	
Enterprise Architecture	TIGTA: Audit and Investigations Activity	**$250**	**$250**	**$250**	**0.0%**	**$250**	**0.0%**
Total IT Investments	TIGTA: Audit and Investigations Activity	**$5,796**	**$5,796**	**$14,600**	**151.9%**	**$14,600**	**0.0%**

1/ This chart includes appropriated resources only, and may not reflect total project costs.
2/ This column reflects appropriated resources provided to a project in FY 2006 and any previous years.
3/ The $8.8 million increase in Infrastructure from FY 2007 to FY 2008 is due to the inclusion of TIGTA costs which were previously not reflected.
4/ The $750 thousand decrease reflects the impact of eliminating IT Security as a separate investment and reflecting those resources with End User and Telecommunication systems and services.
5/ The resources were realigned from End User systems and services to be reflected in the new Enterprise Content Management and Identity Management consolidated investments.

4B – Information Technology Strategy

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

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

Telecommunications Systems and Services: OIT supports a wide area network (WAN) with access points throughout the United States and Puerto Rico in direct support of a geographically distributed investigative and audit workforce. The WAN provides adequate bandwidth for internal and external data transmissions while providing secure access to TIGTA resources, and other governmental computer networks and entities. For example, the WAN provides a secure interconnection between TIGTA and the IRS that is used for electronic data exchange as well as for cost-effective access to IRS information systems. The WAN also enables secure, remote access from alternative work locations, supporting an award-winning telework program. TIGTA also operates a Land Mobile Radio (LMR) system that permits investigators to safely conduct field operations with reliable wireless communication devices.

Data Center Systems and Services: OIT operates information systems at various offices. In accordance with the OIT Strategic Plan and continuing cost containment measures, OIT is consolidating information technology services, where feasible, into data center facilities. The consolidation effort is designed to increase information system and resource utilization, and eliminate unneeded redundancies while improving TIGTA's ability to support core investigative and audit activities. As part of a TIGTA data center, OIT provides extensive data analysis services in direct support of investigative and audit activities. For example, these services permit TIGTA to meet its responsibilities under the *Taxpayer Browsing Protection Act of 1997*. Specifically, the services are designed to analyze large volumes of data so that potential UNAX violations may be identified.

Enterprise Architecture: TIGTA operates several programs to comply with various legislative mandates and to improve the reliability, availability and effectiveness of its information technology. TIGTA's enterprise architecture initiative responds to the

Clinger-Cohen Act's requirement to align business practices with technology needs. By doing so, enterprise architecture will provide for better decision-making ability on information technology investment and related resource allocation decisions.

Identity Management: Although OIT prides itself on delivering a full set of IT support and services to TIGTA auditors and investigators, some administrative applications and services are better delivered at departmental and governmental levels. To support future authentication demands of those applications, TIGTA intends to manage the TIGTA aspect of identity management in concert with the IRS, the Department and the federal government. TIGTA currently maintains the production of its own non-Homeland Security Presidential Directive-12 (HSPD-12) credentials using HSPD-12 processes and procedures and will migrate to departmental HSPD-12 solutions as they become available.

Enterprise Content Management: TIGTA continues to use Microsoft Share Point as an internal content delivery service to our auditors and investigators. There are a number of other applications TIGTA uses that contain Enterprise Content Management (ECM) functionality, but the functionality is minor to the business processes the applications serve. As a result, these investments are not included in TIGTA ECM, but remain with their associated IT infrastructure. As the Department ECM initiative presents opportunities, TIGTA will evaluate transition to those document, record, content and tracking, and workflow management functions.

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

4.2 – PART Evaluation Table

Not applicable to TIGTA.

Community Development Financial Institutions Fund

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

Program Summary by Budget Activity
Dollars in Thousands

Appropriation	FY 2007	FY 2008	FY 2009		
Community Development Financial Institutions Fund	Enacted	Enacted	Request	$ Change	% Change
Community Development Financial Institutions Program	$31,881	$58,480	$24,417	($34,063)	-58.25%
New Markets Tax Credit Program	4,258	4,120	4,203	83	2.01%
Bank Enterprise Award	12,551	21,400	0	(21,400)	-100.00%
Native Initiatives	5,816	10,000	0	(10,000)	-100.00%
Total Appropriated Resources	**$54,506**	**$94,000**	**$28,620**	**($65,380)**	**-69.55%**
Total FTE	**68**	**75**	**75**	**0**	**0.00%**

FY 2009 Priorities

- Provide allocations of tax credits through the New Markets Tax Credit Program,
- Provide awards through the Community Development Financial Institutions (CDFI) Program as well as training, and
- Manage the Fund’s existing portfolio of awards and allocations including strengthening its compliance management program.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

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

The Fund has three priorities:

1. To Support the Growth and Capacity of Community Development Financial Institutions (CDFIs) Through the CDFI Program – The CDFI Program provides financial assistance and technical assistance awards to CDFIs through annual competitive funding rounds to carry out the Fund's mission. In addition, the Fund is authorized to provide support through training as well as evaluating the impact of the programs through evaluation and research.

2. To Increase Investment Capital in Low Income Communities Through the New Markets Tax Credit (NMTC) Program – The NMTC Program attracts private sector capital into low-income communities through investments in Community Development Entities (CDEs). CDEs raise funds by providing tax credits to private investors in exchange for equity investments, which are then invested in low-income communities. CDEs apply for allocations of NMTCs through annual, competitive allocation rounds.

3. To Manage the Fund's Existing Portfolio of Awards Including Strengthening its Compliance Management Program – Certain activities pertaining to the existing portfolio of grant awards are required. These activities consist of finalizing the terms of assistance agreements with recent awardees, making disbursements under awards not fully disbursed as of the end of FY 2008, and monitoring awardee compliance with the terms of their three-year award assistance and allocation agreements. This later step includes reviewing annual reports provided by awardees and conducting site visits, to ensure that awardee performance meets the goals as stipulated in the assistance agreements and that unmet performance is explained.

1B – Program History and Future Outlook

The CDFI Fund administers two direct funding programs in support of Community Development Financial Institutions (the CDFI Program) and Native American communities (the Native American CDFI Assistance – NACA - Program), and also administers the New Markets Tax Credit (NMTC) Program.

In FY 2007, the Fund processed $197 million of award applications which resulted in awards totaling approximately $42 million through the CDFI and NACA programs. The Fund also processed $27.9 billion of applications competing for $3.9 billion in allocations under the New Markets Tax Credit program. Those selected for award will be announced later in the calendar year.

In FY 2007, the Fund reported 35,022 jobs created or retained by CDFI Program awardees, which exceeded the projected target of 34,009 jobs. For NMTC allocatees, 98,530 jobs were created or retained, pertaining to real estate development/rehabilitation and/or business support. In addition, CDFI Program financial assistance awards leveraged an additional $778 million dollars, which equates to a leverage factor of $19:$1 (every $1 of the Fund's financial assistance awards resulted in an additional $19 raised and leveraged by awardees).

During FY 2007 the Fund took in 290 applications, most of which were through the consolidated Grants.gov intake system, as required by the Presidential Management Agenda (PMA) initiative. The Fund began preparing its migration plan to the PMA Grants Management Line of Business (GMLoB) initiative and has selected the Department of Health and Human Services, Administration for Children and Families as its partner for this effort. The Fund also commenced significant planning to support the implementation of the Federal Funding Accountability and Transparency Act (FFATA), which requires the Office of Management and Budget to maintain a single website providing information about federal spending in FY 2007 and beyond. The Fund began using the Trusted Agent FISMA (TAF) tool developed so that all Treasury bureaus and offices can document and track compliance with FISMA security mandates.

Future Challenges
A challenge facing the Fund is the transitioning of its award-making activities to the Grants Management Line of Business (GMLoB). One of the requirements of the President's Management Agenda is for the development and administration of uniform requirements for grant processing among all federal agencies. The intent of these uniform requirements is to support end-to-end grants management activities that promote citizen access, customer service, and agency financial and technical stewardship. These uniform requirements are referred to as the GMLoB. Certain federal agencies provide these grant processing functions for their grant-making federal agency customers. The Fund is in the process of transitioning its award administration requirements (currently met in-house) to the Department of Health and Human Services, which provides such services. This transition process will require a complete evaluation of the Fund's award activities, from application to award, to determine when the activities can be transitioned, and the most efficient process for making the transition.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Community Development Financial Institutions Fund	FTE	Amount
FY 2008 Enacted	**75**	**$94,000**
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		119
Pay Annualization		48
Pay Inflation Adjustment		111
Total FY 2009 Base	**75**	**$94,278**
Program Decreases:		
Bank Enterprise Award Program	(6)	(21,428)
CDFI Program	12	(34,190)
Native Initiatives	(6)	(10,040)
Subtotal FY 2009 Program Changes	**0**	**(65,658)**
Total FY 2009 President's Budget Request	**75**	**$28,620**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$278,000 / +0 FTE

Non-Pay Inflation Adjustment +$119,000 / +0 FTE

Funds are requested for other non-labor related items such as contracts, travel, supplies, equipment and GSA rent.

Pay Annualization +$48,000 / +0 FTE

Funds are requested for the FY 2009 cost of the January 2008 pay raise.

Pay Inflation Adjustment +$111,000 / +0 FTE

Funds are requested for the January 2009 pay raise.

Program Decreases ....-$65,658,000 / +0 FTE

Bank Enterprise Award Program -$21,428,000 / -6 FTE

The Fund is not requesting resources for the Bank Enterprise Award (BEA) Program in FY 2009.

CDFI Program -$34,190,000 / +12 FTE

The FY 2009 budget request seeks to reduce funding for this program. The increase in FTEs pertains to the transfer of staff administering the Bank Enterprise Award Program (6 FTEs) and Native Initiatives (6 FTEs).

Native Initiatives -$10,040,000 / -6 FTE

No separate authorization exists for Native Initiatives so no separate set aside is being requested in FY 2009.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Community Development Financial Institutions Fund	FY 2007 Enacted	FY 2008 President's Budget	Cong. Action including Recission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	**68**	**63**	**12**	**75**	**75**
Object Classification:					
11.1 - Full-time permanent	5,413	5,267	1,823	5,660	6,230
11.3 - Other than full-time permanent	0	0	0	0	0
11.5 - Other personnel compensation	0	0	0	0	0
11.8 - Special personal services payments	0	0	0	0	0
12 - Personnel benefits	1,408	1,373	97	1,470	1,619
13 - Benefits for former personnel	0	0	0	0	0
21 - Travel and transportation of persons	119	112	7	119	114
22 - Transportation of things	20	20	0	20	20
23.1 - Rental payments to GSA	1,319	1,353	(17)	1,411	1,447
23.2 - Rental payments to others	127	130	99	193	189
23.3 - Comm, utilities, and misc charges	303	317	0	317	332
24 - Printing and reproduction	20	20	0	20	20
25 - Other contractual Services	0	0	0	0	0
25.1 - Advisory and assistance services	3,635	2,550	(27)	2,484	2,522
25.2 - Other services	490	271	737	1,008	438
25.3 - Other purchases of goods and services from Govt. accounts	649	598	269	867	911
25.4 - Operation and maintenance of facilities	0	0	0	0	0
25.5 - Research and development contracts	0	0	0	0	0
25.6 - Medical care	0	0	0	0	0
25.7 - Operation and maintenance of equip	0	0	0	0	0
25.8 - Subsistence and support of persons	0	0	0	0	0
26 - Supplies and materials	91	94	12	106	111
31 - Equipment	75	75	0	75	75
32 - Land and structures	0	0	0	0	0
33 - Investments and loans	1,300	740	0	2,170	530
41 - Grants, subsidies, and contributions	39,537	15,637	62,443	78,080	14,062
42 - Insurance claims and indemnities	0	0	0	0	0
43 - Interest and dividends	0	0	0	0	0
44 - Refunds	0	0	0	0	0
Total Budget Authority	$54,506	$28,557	$65,443	$94,000	$28,620
Budget Activities:					
Community Development Financial Institutions Program	31,881	24,437	34,043	58,480	24,417
New Markets Tax Credit Program	4,258	4,120	0	4,120	4,203
Bank Enterprise Award	12,551	0	21,400	21,400	0
Native Initiatives	5,816	0	10,000	10,000	0
Total Budget Authority	$54,506	$28,557	$65,443	$94,000	$28,620

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted		FY 2008 Enacted		FY 2009 President's Budget		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Community Development Financial Institutions Program	30	$31,847	33	$31,881	55	$58,480	55	$24,417	0.00%	-58.25%
New Markets Tax Credit Program	15	3,704	19	$4,258	20	$4,120	20	$4,203	0.00%	2.02%
Bank Enterprise Award Program	5	12,469	6	$12,551	0	$21,400	0	$0	0.00%	-100.00%
Native Initiatives	7	5,500	10	$5,816	0	$10,000	0	$0	0.00%	-100.00%
Subtotal New Appropriated Resources	57	$53,520	68	$54,506	75	$94,000	75	$28,620	0.00%	-69.55%
Other Resources:										
Recoveries		658	0	658	0	500	0	2,000	0.00%	300.00%
Unobligated Balance		1,533	0	1,533	0	986	0	500	0.00%	-49.29%
Offsetting Collections		600	0	600	0	500	0	500	0.00%	0.00%
Available multi-year/no-year funds		50	0	402	0	402	0	402	0.00%	0.00%
Subtotal Other Resources	0	$2,841	0	$3,193	0	$2,388	0	$3,402	0.00%	42.46%
Total Resources Available for Obligation	57	$56,361	68	$57,699	75	$96,388	75	$32,022	0.00%	-66.78%

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND PROGRAM ACCOUNT To carry out the Community Development Banking and Financial Institutions Act of 1994 (Public Law 103-325), including services authorized by 5 U.S.C. 3109, but at rates for individuals not to exceed the per diem rate equivalent to the rate for ES-3, [94,000,000] *$28,620,000* to remain available until September 30, [2009] *2010*, of which [$8,000,000 shall be for financial assistance, technical assistance, training and outreach programs designed to benefit Native American, Native Hawaiian, and Alaskan 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, and] up to [$13,500,000] *$13,778,000* may be used for administrative expenses, including administration of the New Markets Tax Credit, up to [$7,500,000] *$1,200,000* may be used for the cost of direct loans, and up to $250,000 may be used for administrative expenses to carry out the direct loan program: *Provided*, That the cost of direct loans, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974, as amended: *Provided further*, That these funds are available to subsidize gross obligations for the principal amount of direct loans not to exceed [$16,000,000] *$3,000,000*.	

2C – Legislative Proposals

The CDFI Fund has no legislative proposals for FY 2009.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

TREASURY Strategic Outcome	FY 2008 Enacted AMOUNT	FY 2009 Request AMOUNT	Percent Change AMOUNT
Economic competitiveness	94,000	28,620	**-69.6%**
Total	**$94,000**	**$28,620**	**-69.6%**

3A – Community Development Financial Institutions Program *($24,417,000 from direct appropriations):* The CDFI Program enables the Fund to carry out its mission of expanding the capacity of financial institutions to provide credit, capital and financial services to underserved populations and communities in the United States. The CDFI Program also addresses Treasury's strategic objective to increase economic growth and create jobs. The program is comprised of three components: Financial Assistance, Technical Assistance, and Training.

- **Financial Assistance (FA) awards** are only provided to entities that have been certified by the Fund as meeting the statutory criteria to be a CDFI. Because of the wide range of institution types that can be certified as CDFIs, the FA application process contains a degree of complexity not shared by other Fund award programs. Each applicant must describe and demonstrate its financial health, management capacity, and ability, based on historic and future projected activity, to deliver a product or service that will increase access to capital, credit and quality financial services in underserved communities. For every $1 in FA awards, awardees are able to raise an additional $19, so the approximately $11 million in FY 2009 FA awards should result in an additional $209 million raised and deployed into low income communities.
- **Technical Assistance (TA) grants** serve to secure a sound foundation for developing CDFIs and can be used for training, technology and other one-time costs generally related to start-up or major growth phases of a CDFI.
- **Training programs** are designed to support identified areas of skills improvement for CDFIs and other members of the financial service industry. The program supports Treasury's objective to increase economic growth and create jobs by providing needed education and support for skills development to enable relevant parties to deliver or utilize financial services.

In addition to the above, the Fund is actively engaged in developing strategies to share as much data as possible with the public to increase the ability of CDFIs and CDEs to address the financing needs of low income communities. In FY 2007 the Fund released its first aggregated data sets, making available data pertaining to CDFIs for FY 2003, 2004 and 2005. The Fund also engages in studies, evaluations, and research designed to complement the Fund's programs, measure the impact on low income communities and low income persons and increase the level of knowledge and understanding of successful business strategies necessary to meet the financing needs of low income communities.

Other Resources: Other resources of funds in FY 2009 total $3,402,000 which are available for use by the CDFI Program, as follows (amounts in thousands):

- Unobligated Balances - $500,000
  Consists of amounts appropriated for FY 2008 not obligated by the end of that fiscal year. The Fund's appropriations are available for use over a two-year period.
- Offsetting Collections - $500,000
  Consists of current year investment income as well as the proceeds from the redemption of investments during the year, available for new awards.
- Recoveries - $2,000,000
  Consists of awards obligated during FY 2008 which were subsequently deobligated, and so are available for obligation in FY 2009.
- Available multi-year / no-year funds - $402,000
  Consists of offsetting collections from prior years available for new awards.

3.2.1 – Community Development Financial Institutions Program Budget and Performance Plan

Community Development Financial Institutions Program Budget Activity Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$24,595	$30,268	$31,847	$58,480	$24,417
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$24,595**	**$30,268**	**$31,847**	**$58,480**	**$24,417**
Budget Activity Total	**$24,595**	**$30,268**	**$31,847**	**$58,480**	**$24,417**

Community Development Financial Institutions Program Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008* Target	FY 2009* Target
FTE - Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI Program Awardees (Oe)	23,656	22,329	35,022	TBD	TBD
Administrative costs per Financial Assistance (FA) application processed (E)	$ 5,130	$ 8,710	$7,180	TBD	TBD
Private Dollars - Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance. (in millions) (Oe)	$ 1,800	$ 1,400	$ 778	TBD	TBD

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

* Targets for performance measures in 2008 and 2009 will be established in early 2008.

Description of Performance: In FY 2007, the Fund made $23.9 million in CDFI Program awards to CDFIs that primarily serve rural and urban low-income communities.

In FY 2007, the Fund leveraged $778 million in private and non-CDFI Program dollars, which was slightly less than the target of $861 million. The shortfall was due to two reasons: 1) in FY 2007 there was a decrease in the amount of FA disbursements compared to that which was projected; and 2) the calculated leverage ratio decreased from $27:1, to $19:1. The leverage ratio will change over time simply because the size and composition of the group of CDFIs that provides leverage information changes every year. Different CDFIs have varying ability to raise equity and borrow against that equity, and will invest in widely different projects.

In FY 2007, the Fund created or maintained 35,022 full-time equivalent jobs in underserved communities, a slight improvement over its goal of 34,009 jobs.

3B – New Markets Tax Credit Program *($4,203,000 from direct appropriations):* The NMTC Program spurs investment of private capital into a range of privately managed investment vehicles called Community Development Entities (CDEs). CDEs apply for allocations of NMTCs through annual, competitive allocation rounds. A CDE receiving an allocation of tax credits is authorized to provide such credits to private sector investors in exchange for equity investments (Qualified Equity Investments, or QEIs) in the CDEs. The CDE then uses the proceeds from these equity investments to make loans and equity investments in New Markets businesses located in and serving economically distressed communities. An investor in the CDE receives tax credits against its Federal income taxes for making the QEI. The tax credits provided to an investor total 39 percent of the cost of the investment and can be claimed over a seven-year credit allowance period. A total of $19.5 billion in investor capital will be raised under the NMTC Program. Five funding rounds have been completed corresponding to tax credit allocations supporting $16.0 billion in private sector capital, with the CY 2008 funding round remaining, which will provide allocations of tax credits supporting $3.5 billion in investor capital.

The FY 2009 budget request will fund the costs required to administer the NMTC program. Because it is a tax credit program, there is no program funding requested in this account.

3.2.2 – New Markets Tax Credit Program Budget and Performance Plan

New Markets Tax Credit Program Budget Activity					
Resource Level	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Enacted**	**FY 2009 Request**
Appropriated Resources	$11,926	$3,936	$3,704	$4,120	$4,203
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$11,926**	**$3,936**	**$3,704**	**$4,120**	**$4,203**
Budget Activity Total	**$11,926**	**$3,936**	**$3,704**	**$4,120**	**$4,203**

New Markets Tax Credit Program Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Administrative costs per number of New Markets Tax Credit (NMTC) applications processed ($) (E)	$ 5,390	$ 4,360	$5,320	$ 4,875	$ 4,875
Private Equity - Amount of investments in low-income communities that Community Development Entitites (CDEs) have made with capital raised through their New Markets Tax Credit (NMTC) tax credit allocations ($ in billions)(Oe)	$ 1.1	$ 2	$ 2.5	$ 2.5	$ 2.5

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

Description of Performance: In FY 2007, the Fund made $3.9 billion in tax credit allocations, providing recipients the potential ability to raise this amount of capital to invest in low-income communities. For FY 2008, a total of $3.5 billion in tax credit authority is available (allocations are made later in the year). The Fund works closely with the IRS to implement this program.

As reported in FY 2007 (applicable to awards made during FY 2006), Community Development Entities (CDEs) exceeded the anticipated $2.1 billion in Qualified Low-Income Community Investments (QLICIs), by closing $2.5 billion in QLICIs. The Fund will continue to analyze the increasing rate that allocatees raise equity and make qualified investments, and use this analysis to set appropriate targets going forward.

Also as reported in FY 2007 (applicable to FY 2006), the NMTC Program created or maintained 98,530 jobs. Of this amount, 90,385 jobs pertained to real-estate development /rehabilitation projects (i.e. categorized as “construction”) and 8,145 jobs were associated to non real-estate projects (i.e. categorized as “business-support”). There is no target against which this number can be measured, as there is no reliable process to project the number of jobs created or maintained for the NMTC Programs.

3C – Bank Enterprise Award *(No funding):* The FY 2009 budget does not request funding for the Bank Enterprise Award (BEA) Program. Through the BEA Program, the CDFI Fund provides monetary awards to FDIC insured depository institutions as incentives to increase their lending and investments in economically distressed communities. Funding is not being requested for FY 2009 primarily because the program’s structure requires that awards be made on the basis of past activity.

The Fund will undertake changes to the BEA Program in the FY 2009 funding round, should the program be funded in future years. These modifications will require that BEA awards be used for future activities that are eligible for award under the BEA Program. This change will better align the use of BEA awards with the Program’s goals and objectives. The current program has no such requirement. The steps to affect effect this change will include amendments to the BEA regulations, application, assistance agreement, and the creation of a compliance and monitoring system that does not currently exist for this Program.

3.2.3 – Bank Enterprise Award Budget and Performance Plan

Bank Enterprise Award Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$9,782	$13,286	$12,469	$21,400	$0
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$9,782**	**$13,286**	**$12,469**	**$21,400**	**$0**
Budget Activity Total	**$9,782**	**$13,286**	**$12,469**	**$21,400**	**$0**

3D – Native Initiatives *(No funding):* The FY 2009 budget does not request funding for Native Initiatives. No separate authorization exists for Native Initiatives so no separate set aside is being requested in FY 2009. Native Initiatives is a funding program that is targeted to increasing the number and capacity of existing or new CDFIs serving Native American Communities (Native American CDFIs), and includes complementary capacity-building initiatives that seek to foster the development of Native American CDFIs through training and technical assistance.

3.2.4 – Native Initiatives Budget and Performance Plan

Native Initiatives Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$1,704	$5,416	$5,500	$10,000	$0
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$1,704**	**$5,416**	**$5,500**	**$10,000**	**$0**
Budget Activity Total	**$1,704**	**$5,416**	**$5,500**	**$10,000**	**$0**

Native Initiatives Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008* Target	FY 2009 Target
Administrative costs per number of Native American CDFI Assistance (NACA) applications processed ($)(E)	$ 10,050	$ 8,130	$13,510	TBD	N/A
Total Assets - Annual percentage increase in the total assets of Native CDFIs (%) (Oe)	103.00%	182.00%	19.00%	TBD	N/A

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

* Targets for performance measures in 2008 will be established in early 2008.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Over the past several years the Fund has experienced a large number of staff vacancies; however, in FY 2007 the Fund was successful in filling many of them. The staff vacancies were due partly to the two Strengthening America's Communities initiatives (SACI) proposed by the administration as part of the FY 2006 and FY 2007 President's Budgets. Under these initiatives, a number of Federal community development programs, including those administered by the Fund, were to be consolidated within a single federal agency. In anticipation of implementing these initiatives, the Fund began downsizing its workforce.

As a result of funding levels provided in FY 2007 and FY 2008, the Fund began backfilling its vacant positions in FY 2007. As a result, the Fund projects a total of 75 FTE positions in FY 2009. Since most of these positions were being filled throughout FY 2007 and early FY 2008, FY 2008 will be the first year in which most of this increased FTE level will be reflected. With elimination of funding for the Bank Enterprise Award (BEA) Program and Native Initiatives in FY 2009, FTEs which administered those programs will be transferred to different responsibilities associated with the CDFI Program.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Enacted 1/	FY 2007 Enacted	FY 2008 Enacted	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
None							
Subtotal, Major IT Investments		$0	$0	$0	N/A	$0	NA
Community Investment Impact System (CIIS)	Community Development Financial Institutions and New Markets Tax Credit Programs	$670	$0	$414		$427	
Non-Major IT Investments		$670	$0	$414	-100.0%	$427	3.1%
CDFI Infrastructure (Telecommunications)	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	$200	$150	$0		$0	
CDFI Infrastructure (Office Automation)	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	$2,690	$750	$1,966		$2,179	
CDFI Infrastructure (IT Security)	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	$360	$0	$364		$0	
CDFI Infrastructure (Infrastructure)	Community Development Financial Institutions, Bank Enterprise Awards, Native Initiatives and New Markets Tax Credit Programs	$190	$100	$335		$335	
Infrastructure Investments		$3,440	$1,000	$2,665	-70.9%	$2,514	-5.7%
None							
Enterprise Architecture		$0	$0	$0	N/A	$0	NA
Total IT Investments		$4,110	$1,000	$3,079	-75.7%	$2,941	-4.5%

1/ This chart reflects appropriated resources only and may not reflect total project costs.

2/ this column reflects appropriated resources provided to a project in FY 2006 and any previous years.

4B – Information Technology Strategy

The Fund does not have any Major IT investments (using Department of the Treasury and OMB Circular A-11 guidelines for defining Major IT investments) and, as such, is not required to submit an OMB Exhibit 300. The Fund does, however, have a Chief Information Officer (CIO) Operating Plan which is administered by the CIO and ensures all decision making is integrated into the organizations planning, operations and budgeting processes. The operating plan utilizes existing processes and structures such as the Director's Operations Committee and the Budget Advisory Committee to ensure that the Fund's IT investments are tied to the organization's strategic plan, support the agency's mission and remain strictly within the approved budget.

The Fund's CIO is also responsible for ensuring that the agency's IT strategic goals conform to required legislation as well as Treasury and Presidential goals, such as the Federal Information Security Management Act (FISMA), the E-Gov Act, the Privacy Act, the President's Management Agenda, Grants.gov and the Grants Management Line of Business. This information, as well as budget and project management information for the Capital Planning and Investment Control process, are coordinated with the Treasury CIO office as part of the overall Treasury IT management process.

4.2 – PART Evaluation Table

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

OMB Major Findings/Recommendations

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

Bureau Actions Planned or Underway

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

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

OMB Major Findings/Recommendations

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

Bureau Actions Planned or Underway

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

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

Financial Crimes Enforcement Network

Mission Statement

To 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 2007	FY 2008	FY 2009		
Salaries and Expenses	Enacted	Enacted	Request	$ Change	% Change
BSA Administration and Analysis	$64,780	$76,889	$82,157	$5,268	6.85%
Regulatory Support Programs	8,436	8,955	9,178	223	2.49%
Total Appropriated Resources	**$73,216**	**$85,844**	**$91,335**	**$5,491**	**6.40%**
Total FTE	**326**	**334**	**343**	**9**	**2.69%**

FY 2009 Priorities

- Improve regulatory effectiveness by ensuring consistent application of Bank Secrecy Act (BSA) regulations through implementation of memoranda of understanding allowing information sharing between FinCEN and additional state regulators and enhanced communication and clarification of regulatory requirements to financial industries;
- Strengthen effectiveness of international anti-money laundering and counter-terrorist financing efforts and combat foreign threats by improving analytical products and responsiveness to foreign government counterparts; and
- Ensure the safety and security of FinCEN’s employees and property through the implementation of additional physical security measures.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Financial Crimes Enforcement Network (FinCEN), a bureau within Treasury's Office of Terrorism and Financial Intelligence, ensures safer and more transparent U.S. and international financial systems through the administration of the Bank Secrecy Act (BSA), in support of the Department of the Treasury's strategic goal "Prevented Terrorism and Promoted the Nation's Security through Strengthened International Financial Systems."

The BSA requires financial institutions to file reports on certain types of financial activity and to establish appropriate internal controls to guard against money laundering, terrorist financing, and other types of illicit finance. These reports have a high degree of usefulness in criminal, tax, and regulatory matters as well as counter-terrorist financing. The documents filed by businesses pursuant to the BSA requirements are heavily used by law enforcement agencies, both domestically and through exchanges with international counterparts to identify, detect and deter money laundering whether it is in furtherance of a criminal enterprise, terrorism, tax evasion or other unlawful activity. FinCEN also serves as the nation's financial intelligence unit (FIU). An FIU serves as a national center set up to collect, analyze, disseminate, and exchange information pursuant to a country's anti-money laundering/counter-terrorist financing legislation and regulations. This includes information about suspicious or unusual financial activity reported by the finanical sector.

FinCEN is in the process of updating its strategic plan for FY 2008 – FY 2012 to align with the new Treasury Department strategic plan. The bureau's priorities are linked to the following strategic goals proposed in the revised plan:

- Financial systems resistant to abuse by money launderers, terrorists and their financial supporters, and other perpetrators of financial crime;
- Detection and deterrence of money laundering, terrorist financing, and other illicit activity; and
- Enhanced management, use, and security of BSA information.

The total resources required to support FinCEN for FY 2009 are $96,586,000 including $91,335,000 for direct appropriation and $5,251,000 from offsetting collections.

1B – Program History and Future Outlook

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

FinCEN's regulatory policy efforts focus on efficient and effective administration of the BSA. This includes improving consistency in the application of BSA regulations to the regulated financial institutions and providing feedback enabling greater clarity regarding regulatory expectations and optimized understanding of the value of their contributions. FinCEN's regulatory policy protects the financial system and enhances national security by making relevant data available to law enforcement authorities and the regulatory agencies that examine for BSA compliance, and maximizes the effectiveness and efficient use of government resources.

Specific FY 2007 accomplishments in the regulatory area include:

- Published the following final and amended BSA regulations: Amendment to the Bank Secrecy Act Regulations-Imposition of Special Measure Against Banco Delta Asia, Including Its Subsidiaries Delta Asia Credit Limited and Delta Insurance Limited, as a Financial Institution of Primary Money Laundering Concern (March 2007); Amendments to the Bank Secrecy Act Regulations Regarding Casino Recordkeeping and Reporting Requirements (June 2007); Anti-Money Laundering Programs-Special Due Diligence Programs for Certain Foreign Accounts (August 2007);
- Published additional BSA guidance to financial institutions to improve consistency in the interpretation and application of BSA regulations, and reduce misperception of excessive regulatory expectations. Specific guidance included: Guidance (Frequently Asked Questions) – Suspicious Activity Reporting Requirements for Mutual Funds (October 2006); Advisory – Potential Money Laundering Risks related to Shell Companies (November 2006); Guidance (Frequently Asked Questions) – Customer Identification Programs and Banks Serving as Insurance Agents (December 2006); Guidance – Application of the Customer Identification Program Rule to Future Commission Merchants Operating as Executing and Clearing Brokers in Give-Up Arrangements (April 2007); Guidance – Requests by Law Enforcement for Financial Institutions to Maintain Accounts (June 2007); Guidance – Suspicious Activity Report Supporting Documentation (June 2007);
- Delivered complex analytical studies targeted to regulatory authorities from each of the 43 state regulators with which FinCEN has entered into a memoranda of understanding to exchange information;
- Developed and provided reports on mortgage loan fraud, money laundering through the commercial real estate sector, and shell companies to assist in the promulgation of guidance to financial institutions and regulatory examiners about vulnerabilities and associated compliance obligations;
- Participated as a speaker/panelist in 99 domestic and overseas outreach events;
- Enhanced outreach activities to the money services business (MSB) industry by using information from law enforcement partners that encounter potential unregistered MSBs to focus FinCEN's education initiatives;
- Translated MSB brochures into seven languages;
- Developed a strategy in conjunction with the Internal Revenue Service (IRS) to focus resources for ensuring BSA compliance by non-bank financial institutions;
- Implemented an action plan to address concerns among domestic and international policymakers, law enforcement, and financial institutions about the misuse of various types of business entities (e.g., corporations, limited liability companies, limited partnerships, trusts, etc.) to facilitate money laundering and other financial crimes;

- Assessed civil money penalties against financial institutions for willful violations of BSA requirements, including through joint or concurrent actions with federal and state agencies; and
- Contributed to the revisions of the Federal Financial Institutions Examination Council (FFIEC) BSA/AML examination manual, which helps ensure consistent application by federal and state supervisors of their regulatory authority.

In FY 2008/2009, FinCEN will expand regulatory policy efforts to include:

- Implementing additional information sharing agreements with federal and state regulators, with a focus on insurance commissioners;
- Identifying compliance trends and patterns across industries subject to the BSA and publishing, as appropriate, studies promoting greater awareness of emerging money laundering trends and vulnerabilities;
- Continuing efforts to overhaul BSA regulations for inclusion in a new Code of Federal Regulations chapter to provide greater clarity in regulations and make them easier for industry to follow, as well as more intuitive and responsive to industry feedback;
- Publishing final and amended BSA regulations for the anti-money laundering program rule for dealers in precious metals, precious stones, or jewels;
- Continuing efforts to implement and refine strategies with regard to the MSB industry, including partnerships to identify unregistered MSBs, consider options to simplify and clarify the regulatory framework, and continue to enhance outreach activities concerning this industry;
- Continuing efforts, in conjunction with the federal banking agencies, to match risk-based examination for BSA compliance with actual risks posed by products and services offered, and customers and geographic locations served by depository institutions;
- Undertaking enforcement actions against financial institutions, as necessary, for willful violations of BSA requirements, including joint or concurrent actions with federal and state agencies;
- Reducing any undue perception of excessive regulatory responsibilities by providing clarification to regulated industries regarding their programmatic, recordkeeping, and reporting requirements under the BSA;
- Increasing efforts to provide regulatory partners with analytical products and information to identify institutions with potential compliance problems, thereby promoting enhanced consistency across examinations;
- Reducing the time to coordinate and complete compliance reviews with regulatory examination authorities, while promoting speedy remediation by industry of identified deficiencies; and
- Streamlining regulatory requirements and other modifications relating to MSBs, subsequent to a review of the existing regulatory framework and current issues.

FinCEN's analytic efforts focus on developing products and services that help law enforcement better utilize resources to enhance detection and deterrence of domestic and international money laundering, terrorist financing, and other illicit activity. This includes exchange of information with counterpart foreign government FIUs in over 100 countries that are members of the Egmont Group.

Specific FY 2007 accomplishments related to analytic efforts include:

- Enhanced support to law enforcement agencies by focusing on actionable analyses targeted at high-priority money laundering and terrorist financing targets;
- Collaborated on analytical projects with key federal law enforcement customers, such as the FBI's Terrorist Financing Operations Section, the Drug Enforcement Administration, Customs and Border Protection's Tactical Analysis Group, Immigration and Customs Enforcement's Financial and Trade Division, and other analytical agencies like the National Drug Intelligence Center;
- Published a technical reference guide for law enforcement officials on MSBs to describe traditional types of remittances and services, as well as emerging services such as online payments and prepaid card services;
- Collaborated with other FIUs in the Egmont Group to improve understanding of how emerging payments methods, such as internet-based payment methods, might be exploited for illicit activity;
- Completed collaborative efforts with other FIUs, law enforcement agencies, and the intelligence community to take full advantage of financial intelligence sources and resources;
- Worked with Egmont Group partners to develop actionable intelligence concerning illicit money flows across the northern and southwestern borders of the U.S.;
- Provided greater and more sustained technical assistance and training to Egmont Group candidates under FinCEN's sponsorship and to Egmont members whose organizational capabilities have been strained by growing needs to collect and analyze financial intelligence and building the information technology infrastructure for these activities; and
- Supported the establishment of a permanent Egmont Group Secretariat with the appointment of the Executive Secretary and opening of a permanent office in Toronto July 3, 2007.

In FY 2008/2009, FinCEN will continue to develop analytic products and services that enhance detection and deterrence of illicit activity. These efforts include:

- Continuing the proactive evaluation, analysis and referral of potential terrorism and financial crimes related SARs to the law enforcement and intelligence communities;
- Expanding capabilities and methodologies for geographic and industry threat assessments and for financial analysis;
- Enhancing the focus on transnational financial crimes, to include cross-border money flows, the South Florida region, and an annual threat/targeting assessment of the Southwest Border;
- Expanding the complexity of FinCEN products to better meet the needs of the bureau's international partners, and increasing U.S. law enforcement use of the Egmont FIU process to combat money laundering and terrorist financing;
- Continuing outreach to U.S. law enforcement and regulatory agencies to educate them on the benefits provided by the global network of FIUs in terms of investigative and intelligence resources and information sharing;
- Increasing the number of analyst exchanges with partner FIUs, and expanding customized technical assistance and training provided to meet the needs of specific FIUs in vulnerable international geographic areas; and

- Continuing to publish technical reference manuals for law enforcement officials describing investigational approaches to payment systems.

FinCEN's efforts related to the management, use, and security of BSA information focus on maximizing utilization by improving the overall information infrastructure and enhancing information technology management capabilities.

Specific FY 2007 accomplishments related to the management, use, and security of BSA information include:

- Expanded access to BSA information to enable authorized law enforcement and regulatory users to quickly and efficiently query the data when needed;
- Conducted a feasibility analysis with the financial services industry and law enforcement to determine the benefits and costs to all affected parties as a part of a Congressionally mandated study of the feasibility of implementing a cross-border electronic funds transfer reporting requirement;
- Established a formal Data Issue Management process and framework and Data Management Council, including representatives from FinCEN and the IRS, to address BSA data quality issues in a consistent and repeatable fashion;
- Maintained the focus on promoting electronic filing of BSA reports as a way to enhance speed, economy, and data quality;
- Deployed disaster recovery capability for the BSA E-Filing system to ensure continuity of system operations for stakeholders in the event of a major outage;
- Launched FinCEN's first enterprise-wide business transformation and IT modernization program, based on an effective collaboration of BSA stakeholders and a rigorous program management framework; and
- Established a new Program Management Office (PMO), which will create a disciplined environment in which proven project management principles, tools, and techniques will be consistently applied across the bureau's major information technology initiatives to identify, manage, and mitigate risks.

In FY 2008/2009, FinCEN will accelerate efforts related to the management, use, and security of BSA information to include:

- Continuing deployment of a disaster recovery capability for critical systems to minimize or eliminate system downtime in the event of the loss of access or system use at FinCEN's primary location;
- Pending final approval by the Secretary of the Treasury, beginning development of the technological systems required to receive, securely store, analyze and disseminate cross-border wire transfer data;
- Enhancing project management capabilities and oversight of information technology projects by expanding Capital Investment Planning, Enterprise Architecture, Configuration Management, and Change Management controls;
- Beginning to upgrade various technology components to meet the expanded user population, and increase electronic filing alternatives; and
- Continuing planning efforts and establishing the foundation for future BSA data management and quality activities.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Salaries and Expenses	FTE	Amount
FY 2008 Enacted	**334**	**$85,844**
Maintaining Current Levels (MCLs):		
Pay Annualization		300
Pay Inflation Adjustment		861
Non-Pay Inflation Adjustment		981
Initiative Annualization:		
Annualization of Project Management Initiative	6	1,337
Transfers In:		
Transfer from IRS for BSA E-Filing		1,000
Total FY 2009 Base	**340**	**$90,323**
Program Decreases:		
Reprioritization of Resources	(4)	(697)
Information Technology Funding Realignment		(3,449)
Program Reinvestment:		
BSA Data Management and Analysis		2,897
Program Increases:		
Improve BSA Effectiveness/Consistency	5	1,139
Strengthen Global Anti-Money Laundering Efforts	2	865
Increase Physical Security		257
Subtotal FY 2009 Program Changes	**3**	**1,012**
Total FY 2009 President's Budget Request	**343**	**$91,335**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$2,142,000 / +0 FTE

Pay Annualization +$300,000 / +0 FTE

Funds are requested for the FY 2009 cost of the January 2008 pay raise.

Pay Inflation Adjustment +$861,000 / +0 FTE

Funds are requested for the proposed January 2009 pay raise.

Non-Pay Inflation Adjustment +$981,000 / +0 FTE

Funds are requested for non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments.

Initiative Annualization ....+$1,337,000 / +6 FTE

Annualization of Project Management Initiative +$1,337,000 / +6 FTE

These funds will allow FinCEN to complete implementation of the Project Management Office (PMO) approved in FY 2008. This annualization provides the remaining funding for OMB, Treasury and GAO recognized requirements to improve FinCEN's project management capability for both information technology and non-information technology projects, which are especially critical at this time of modernization of FinCEN's core IT systems and functions.

Transfers In ....+$1,000,000 / +0 FTE

Transfer from IRS for BSA E-Filing +$1,000,000 / +0 FTE

The IRS annually reimburses FinCEN for the cost associated with operations and maintenance contract supporting the Bank Secrecy Act (BSA) e-filing system which is administered and controlled by FinCEN. This transfer will provide FinCEN with the base funding it needs to continue supporting its BSA e-filing system.

Program Decreases ....-$4,146,000 / -4 FTE

Reprioritization of Resources -$697,000 / -4 FTE

Base reductions were identified as the result of business process efficiencies from consolidation of administrative responsibilities and reductions in the number of commercial, financial, and law enforcement database queries due to the automation of the commercial database and networking functions.

Information Technology Funding Realignment -$3,449,000 / +0 FTE

This program decrease realigns funding from the terminated BSA Direct Retrieval and Sharing project.

Program Reinvestment ....+$2,897,000 / +0 FTE

BSA Data Management and Analysis +$2,897,000 / +0 FTE

BSA Data Management and Analysis encompasses the data management and quality activities of FinCEN, including the original objectives from the BSA Direct retrieval and sharing (R&S) program. Investments in information technology are at the core of FinCEN's national security mission to make BSA information available for hundreds of government agencies and international partners to fight terrorism and money laundering. With this reinvestment, FinCEN will focus resources to improve BSA data quality and integrity, resulting in expanded utilization of the BSA information.

Program Increases ....+$2,261,000 / +7 FTE

Improve BSA Effectiveness/Consistency +$1,139,000 / +5 FTE

Effective administration of the Bank Secrecy Act (BSA) requires timely exchange of information, consistent BSA application, and tailored outreach to assist regulated industries to better target their limited resources. The initiative aims to realize efficiencies for all entities subject to the regulatory framework. Greater efficiency will reduce regulatory burden on the financial industry, while at the same time enhancing effectiveness in providing law enforcement and regulators with information needed to combat the financing of terrorism and money laundering. Proposed funding will enable FinCEN to better align regulatory requirements with global risk management strategies developed by the largest global conglomerates, while also reducing risk-based obligations on some of the smallest institutions. A significant part of this effort will be to avoid potential anti-competitive effects through enhanced consistency of application across different sectors of the financial industry. Some sectors subject to the USA PATRIOT Act mandate, such as the insurance sector, have yet to be fully brought under the BSA administration and compliance framework. FinCEN must devote additional resources to clarifying regulatory requirements to financial industries and leveraging partner regulatory agencies, including the federal banking agencies, SEC, CFTC, IRS and various regulators in 50 states covering the banking, securities, insurance, money services business, and gaming industries. Requested funding will enable FinCEN to tailor present and future requirements, expand outreach efforts, and execute information sharing agreements with and provide related support to additional state regulatory authorities. Overall, funding will enable FinCEN to increase coordination of regulatory agencies from 40 to 62 percent of those with jurisdiction over industries covered under the BSA, while at the same time easing industry compliance obligations by reducing public reporting and recordkeeping obligation time.

Strengthen Global Anti-Money Laundering Efforts +$865,000 / +2 FTE
FinCEN works with FIUs around the world to intensify international anti-money laundering collaboration and combat terrorist financing. In recent years, FinCEN, together with other U.S. agencies, has invested significant resources in the FIUs to strengthen their investigative and analytical capacity to provide greater information on money laundering/terrorist financing activities. Additional resources are required to take further advantage of the FIUs newly expanded and strengthened capacities, including expanded information exchanges to benefit U.S. law enforcement. The Egmont Group has grown from 58 foreign FIU members in FY 2001 to an anticipated 106 members by FY 2008. As a result, the number of FIU case requests increased 23 percent from FY 2005 to FY 2007, and continued growth is projected. This increased case load has resulted in a backlog that, without additional resources, will reach 666 by FY 2010, and has already lengthened the average completion time to 5.5 months, more than five times the Egmont Group best practices timeframe. Results from FinCEN's 2006 customer satisfaction survey indicated that almost one-third of FIU respondents were dissatisfied with the case response time and reflected a desire for FinCEN to conduct more in-depth research on case requests. FinCEN estimates that approximately 20 percent of FIU case requests can be improved by conducting more advanced analysis. Additional funding will allow FinCEN to reduce the FIU case request backlog from 128 in FY 2009 to 4 by FY 2011, reduce the average completion time to less than one month, and redirect a portion of resources to expand analytical efforts on applicable FIU cases, beginning with 0 percent in FY 2009 and reaching 20 percent in FY 2011.

Increase Physical Security +$257,000 / +0 FTE
FinCEN will utilize FY 2009 funds to enhance its Physical Security Program to mitigate vulnerabilities. Currently, FinCEN leases over 240,000 square feet of office space for its Virginia headquarters location. Presently 440 federal employees and other personnel have access to this office space. A recent review of FinCEN's physical security environment by the Federal Protective Service identified security vulnerabilities. This funding will allow FinCEN to procure additional security equipment to enhance its Physical Security Program in order to mitigate some of those vulnerabilities.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Salaries and Expenses	FY 2007 Enacted	FY 2008 President's Budget	Cong. Action including Recission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	**326**	**352**		**334**	**343**
Object Classification:					
11.1 - Full-time permanent	28,773	31,531	0	31,531	33,092
11.3 - Other than full-time permanent	284	284	0	284	284
11.5 - Other personnel compensation	526	526	0	526	526
11.8 - Special personal services payments	0	0	0	0	0
12 - Personnel benefits	7,414	8,433	0	8,433	9,030
13 - Benefits for former personnel	0	0	0	0	0
21 - Travel and transportation of persons	1,032	1,190	0	1,190	1,216
22 - Transportation of things	0	0	0	0	0
23.1 - Rental payments to GSA	4,800	5,117	0	5,117	5,343
23.2 - Rental payments to others	43	1,328	0	1,328	70
23.3 - Comm, utilities, and misc charges	996	0	0	0	1,364
24 - Printing and reproduction	250	400	0	400	450
25 - Other contractual Services	0	0	0	0	0
25.1 - Advisory and assistance services	522	1,815	0	1,815	1,815
25.2 - Other services	9,354	11,758	0	11,758	13,136
25.3 - Other purchases of goods and services from Govt. accounts	9,454	12,706	0	12,706	14,198
25.4 - Operation and maintenance of facilities	960	960	0	960	960
25.5 - Research and development contracts	0	0	0	0	0
25.6 - Medical care	120	145	0	145	153
25.7 - Operation and maintenance of equip	4,908	4,815	0	4,815	5,003
25.8 - Subsistence and support of persons	0	0	0	0	0
26 - Supplies and materials	369	409	0	409	444
31 - Equipment	3,411	4,427	0	4,427	4,251
32 - Land and structures	0	0	0	0	0
33 - Investments and loans	0	0	0	0	0
41 - Grants, subsidies, and contributions	0	0	0	0	0
42 - Insurance claims and indemnities	0	0	0	0	0
43 - Interest and dividends	0	0	0	0	0
44 - Refunds	0	0	0	0	0
Total Budget Authority	$73,216	$85,844	$0	$85,844	$91,335
Budget Activities:					
BSA Administration and Analysis	64,780	76,889	0	76,889	82,157
Regulatory Support Programs	8,436	8,955	0	8,955	9,178
Total Budget Authority	$73,216	$85,844	$0	$85,844	$91,335

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
BSA Administration and Analysis	302	$61,386	326	$64,780	334	$76,889	343	$82,157	2.69%	6.85%
Regulatory Support Programs		7,924		8,436		8,955		9,178		2.49%
Subtotal New Appropriated Resources	302	$69,310	326	$73,216	334	$85,844	343	$91,335	2.69%	6.40%
Other Resources:										
Offsetting Collections - Reimbursable		1,960		2,600		5,251		5,251		0.00%
Available multi-year/no-year funds		5,872		9,418		7,343		2,500		-65.95%
Transfers In/Out		225		225		225		225		
Subtotal Other Resources	0	$8,057	0	$12,243	0	$12,819	0	$7,976		-37.78%
Total Resources Available for Obligation	302	$77,367	326	$85,459	334	$98,663	343	$99,311	2.69%	0.66%

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 of non-Federal and foreign government personnel to attend meetings and training concerned with domestic and foreign financial intelligence activities, law enforcement, and financial regulation; not to exceed $14,000 for official reception and representation expenses; and for assistance to Federal law enforcement agencies, with or without reimbursement, [$85,844,000] *$91,335,000* of which not to exceed $16,340,000 shall remain available until September 30, [2010] *2011*; and of which [$8,955,000] *$9,178,000* shall remain available until September 30, [2009] *2010*: Provided, that funds appropriated in this account may be used to procure personal services contracts.	

2C – Legislative Proposals

FinCEN does not have any legislative proposals for FY 2009.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

TREASURY Strategic Outcome	FY 2008 Enacted AMOUNT	FY 2009 Request AMOUNT	Percent Change AMOUNT
U.S. & intl financial sys	91,095	96,586	**6.0%**
Total	**$91,095**	**$96,586**	**6.0%**

3A – BSA Administration and Analysis *($82,157,000 from direct appropriations and $5,251,000 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 filed by the regulated industries, as well as analytic activities. Internationally, FinCEN promotes the development of anti-money laundering regimes through training and technical assistance. Analytical programs include support to U.S. law enforcement and international FIUs in combating financial crime by facilitating the exchange of investigative information; identifying foreign and domestic money laundering and terrorist financing trends, patterns, and techniques; and liaison with and support of intelligence initiatives within the intelligence community and within Treasury. This activity also incorporates efforts to support large-scale, complex law enforcement investigations involving 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 certain 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.

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 the expertise and capabilities of personnel with anti-money laundering/counter-terrorist financing missions.

FinCEN supports law enforcement agencies, intelligence agencies, and foreign FIUs investigating financial 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.

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

Other Resources: Offsetting collections and reimbursements totaling $5,251,000 are collected to support joint activities with other agencies such as the Department of State for technical assistance provided to foreign countries and Treasury Forfeiture Fund for special projects to support law enforcement.

3.2.1 – BSA Administration and Analysis Budget and Performance Plan

BSA Administration and Analysis Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$71,922	$64,458	$64,780	$76,889	$82,157
Reimbursable Resources	$1,195	$4,473	$1,541	$5,251	$5,251
Total Resources	**$73,117**	**$68,931**	**$66,321**	**$82,140**	**$87,408**
Budget Activity Total	**$73,117**	**$68,931**	**$66,321**	**$82,140**	**$87,408**

BSA Administration and Analysis Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Average time to process enforcement matters (in Years) (E)	1	1	1	1	1
Percentage of Regulatory Resource Center Customers rating the guidance received as understandable	%	94.00%	91.00%	90.00%	90.00%
Percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule.	%	%	5.20%	5.20%	5.20%
Percentage of customers finding FinCEN�s analytic reports highly valuable.	%	%	82.00%	79.00%	80.00%
Percentage of customers satisfied with the BSA E-Filing (Oe)	%	92.00%	94.00%	90.00%	90.00%
Number of federal and state regulatory agencies with which FinCEN has concluded memoranda of understanding/information sharing agreements.	41	48	50	52	59

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

Description of Performance

In the regulatory area, FinCEN achieved its FY 2007 targets related to increasing compliance oversight through establishment of information sharing MOUs with regulators and the Regulatory Resource Center customer satisfaction rating. FinCEN also established a baseline for a new performance measure relating to industry compliance for depository institutions.

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 with regulators. In FY 2007, FinCEN executed two additional such agreements and has met its FY 2007 target of 50. With the resources requested in FY 2009, FinCEN can increase the number of compliance MOUs to 59, with an ultimate goal of 73 by 2011. These information exchanges help ensure effective application of the BSA regulations across all regulated financial service industries by providing vital compliance data across all industries subject to BSA regulations.

FinCEN works closely with its regulatory partners to take enforcement action against institutions that systemically and egregiously violate the provisions of the BSA, including through imposition of civil money penalties in appropriate matters. Timely enforcement action communicates urgency to financial institutions, and is paramount to deterring non-compliance. In FY 2007, FinCEN experienced a slight increase in the average processing time, exceeding the 1.0 year average by 21 days, resulting in an average of 1.1 years. This was the result of two enforcement cases that closed in the fourth quarter of FY 2007 after abnormally long periods of time. Each of those enforcement actions was taken on a joint/concurrent basis with both the Department of Justice and the respective financial supervisor(s), which also had to complete their respective investigations. Moreover, the process of coordination with other interested government authorities, which itself is a Departmental priority, will often require longer time periods than unilateral actions. As such, the time periods of these two cases were outliers, and FinCEN will reconsider in the future whether the processing time target is appropriate for joint enforcement actions.

FinCEN established an FY 2006 baseline of 94 percent of Regulatory Resource Center customers rating regulatory guidance received as understandable, and a target of maintaining at least a 90 percent level in FY 2009. In FY 2007, FinCEN met its target with 91 percent rating the guidance received as understandable. Providing understandable guidance to financial institutions is critical to their establishing anti-money laundering programs that comply appropriately with the BSA.

FinCEN established a baseline for the new performance measure "percentage of bank examinations conducted by federal banking agencies indicating a systemic anti-money laundering program failure" in FY 2007. This measure provides an indicator to FinCEN of trends in regulatory compliance and examination efforts. FinCEN will continue to work toward developing additional improved outcome measures to address the impact of program activities on preventing the misuse of the financial system by those engaged in illicit activities.

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, as well as progress toward achieving the bureau's long term goal of increasing the percentage of advanced analytical products produced by FinCEN analysts.

In FY 2006, FinCEN revised its value of analytical products measure to more accurately target its disparate audiences as well as its different products. The reformulated measure more closely ties to how BSA information is used by law enforcement, regulators and international partners to identify, investigate, and prevent abuse of the financial system. In FY 2007, FinCEN surpassed its target of 78 percent with 82 percent of its customers finding the analytic products highly valuable.

FinCEN has also reevaluated its long term goals for increasing the percentage of advanced analytical products and revised the methodology based on the increased support provided to foreign FIU counterparts. FinCEN found that continuing to measure the percentage of complex analytic products in the manner originally developed will result in an apparent decrease in complexity beginning in FY 2007. The reason for this is the significant projected increases of FIU cases. Since FIUs are prohibited from receiving direct access to BSA information, FinCEN performs the required research and analysis on these cases. The significant projected increase in the number of FIU cases, which are non-discretionary and non-complex, skews the complexity measure. FinCEN originally projected a target of 50 percent in FY 2007 and a sustained rate of 75 percent complexity by FY 2008. The goal for FY 2009, with the additional resources requested, is to achieve 50 percent, with an ultimate long-term goal of 70 percent by 2011.

In the management, use, and security of BSA information, FinCEN conducted a baseline 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 2007 target was to maintain at least a 90 percent satisfaction level. In FY 2007, FinCEN exceeded its target with 94 percent of respondents being satisfied with the BSA E-Filing system. This measure ties to the FinCEN goal of enhanced management, use, and security of BSA information. The information and the technology used to facilitate analysis are at the core of FinCEN's mission to deter and detect criminal activity, and safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems. FinCEN will continue to satisfy E-filing customer expected service levels with at least a 90 percent satisfaction level in FY 2009. FinCEN developed a survey to further assess customer satisfaction by authorized law enforcement, regulatory, and intelligence agencies that directly access BSA information. The 2007 survey result of 74 percent establishes the baseline for this measure.

3B – Regulatory Support Programs *($9,178,000 from direct appropriations):* This activity supports implementation, strengthening and clarification of the programmatic (anti-money laundering, Customer Identification Program, and suspicious activity reporting), recordkeeping, and reporting requirements of the BSA for financial institutions subject to those requirements. FinCEN will continue efforts with the IRS, especially related to the money services business (MSB) industry to ensure compliance, respond to public inquiries, distribute forms and publications, and support collection and maintenance of BSA information. This may include enhancing the capability to correct identified data quality issues, enhance electronic filing, potentially explore overall forms design, and other related enhancements to the BSA collection and dissemination systems. These resources also fund IRS BSA compliance activities for non-bank financial institutions, especially related to the money services business industry.

3.2.2 – Regulatory Support Programs Budget and Performance Plan

Regulatory Support Programs Budget Activity					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Resource Level	**Obligated**	**Obligated**	**Obligated**	**Enacted**	**Request**
Appropriated Resources	$0	$8,436	$8,436	$8,955	$9,178
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$0**	**$8,436**	**$8,436**	**$8,955**	**$9,178**
Budget Activity Total	**$0**	**$8,436**	**$8,436**	**$8,955**	**$9,178**

Regulatory Support Programs Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**

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

Description of Performance.
FinCEN achieved the following quantifiable results in FY 2007 and plans to enhance these results with the FY 2009 funding requested above:

- Increased the number of registered MSBs to 38,379 as of December 19, 2007. FinCEN plans to maintain or exceed this level by FY 2009;
- Continue to analyze SARs on a monthly basis for indications of possible unregistered MSBs, coordinating with law enforcement and state regulatory agencies on

appropriate outreach, and continue efforts to educate MSBs regarding requirements for registration by publishing guidance and participating in industry outreach events. From September 2002 through August 2007, 4,770 individuals/entities suspected of being engaged in unregistered MSB activity have been identified through a review of SARs filed by depository institutions; and

- Continue to investigate methods for measuring the extent of BSA compliance among MSBs.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

FinCEN's strategic human capital objective to attract, develop and retain a high-performing diverse workforce includes efforts to improve workforce planning and deployment, leadership and knowledge management, establish a results-oriented performance culture, promote diversity, recruit and retain a talented workforce, and improve accountability.

The FinCEN FY 2008-2012 Strategic Plan includes areas that require employees with enhanced skills. Additionally, the Strategic Plan has a management goal of a properly staffed and fully developed organization capable of providing the highest quality public service.

In terms of competitive sourcing, FinCEN submitted its FY 2007 FAIR Act Inventory to the Department in April 2007, and continues to rely upon the private sector to perform commercial activities, especially in the information technology environment.

FinCEN recently completed several organizational realignments throughout the bureau to more closely align functions and support the mission of the organization. For example, FinCEN's regulatory division has established an office to provide outreach to institutions that are subject to the BSA programmatic, recordkeeping, and reporting requirements. Additionally, the information technology division is establishing a customer service center that provides FinCEN employees with the support to better serve external customers.

FinCEN leaders and managers effectively manage people and sustain a learning environment that drives continuous improvement in performance. In FY 2007, FinCEN continued its aggressive training strategy for managers and trained the majority of managers in executive leadership competencies. In addition, seven employees participated in government-sponsored leadership development programs.

FinCEN estimates that 25 percent of the current workforce will be eligible for retirement between now and FY 2011. To confront this management challenge, the bureau is emphasizing leadership development activities at all levels. In FY 2007, FinCEN leaders participated in a competency assessment that resulted in the development of a bureau leadership competency model. That model defines what FinCEN values in its leaders and identified the critical competencies required to be successful, and formed the basis for FinCEN's Leadership Development Program. FinCEN will focus initial development efforts on three of the eight competencies included in the Leadership Competency Model: Managing Change, Communicating Effectively, and Developing Others. Components of the Leadership Effectiveness through Active Development (LEAD) program will include an annual skills assessment, a minimum of 24 hours of leadership/management training each year, books and journal articles, and a curriculum for high potentials. In March 2007, FinCEN initiated a monthly newsletter entitled "SMART" (Stimulate Managers'

Reflective Thinking); this newsletter highlights articles that discuss the latest, most innovative thinking on leadership and leadership development. As part of leadership development, FinCEN offered “Leadership Skills for Non-Supervisors” training to 40 employees.

In order to create a results-oriented, high performing workforce, FinCEN abolished the pass/fail performance system in FY 2005 and established a new five-tier performance management system. The new performance system requires that each employee be placed on performance standards that include three individual commitments linked directly to the strategic plan. The new performance system allows managers to differentiate performance levels among employees and hold employees accountable for meeting specified performance goals and targets. In addition, each employee is also placed on an annual Individual Development Plan to identify areas for further growth and development.

Subsequently, FinCEN implemented the Awards and Recognition Program, including the Director’s Awards and Recognition Program. In FY 2006, 67.5 percent of the workforce was rated above the fully successful level and were appropriately recognized, while 1.3 percent was rated below fully successful and appropriate remedial actions were taken.

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

- Continued participation in the Treasury Diversity Council and its support group;
- Maintained a Diversity Advisory Committee; and
- Continued a mandatory Equal Employment Opportunity (EEO)/Diversity element in all supervisory performance plans to address EEO principles, workplace conflict, supporting EEO plans and diversity hiring requirements.

FinCEN is committed to developing defined paths for career progression, mentoring and coaching programs to identify and grow talent, and enhancing the skills of existing employees. In FY 2007, FinCEN’s Information Technology (IT) Specialists participated in the IT Workforce Capability Assessment. Results of that assessment determined the specialized skills training for FinCEN’s IT Specialists. FinCEN conducted a skills gap assessment for its mission critical Intelligence Research Specialists. Results of that assessment will target training needs for the remainder of the fiscal year. FinCEN will also complete similar skills gap assessments for its mission critical Regulatory Specialists and Law Enforcement Liaison Specialists in FY 2008. In FY 2007, specialized training was provided on improving job performance in these occupations. FinCEN’s leadership actively encourages employees to take advantage of available training opportunities.

Additionally, FinCEN took advantage of various hiring authorities and flexibilities within the last year. For example, in FY 2007, four students were hired under the Student Temporary Employment Program (STEP); 16 in FY 2006, and 10 in FY 2005. In FY 2007, two students were hired under the Student Career Employment Program (SCEP). FinCEN utilized both the Veterans Employment Opportunity Act (VEOA) and the Veteran Rehabilitation Act (VRA) by making two appointments over the past two years.

As reported in the Quarterly Hiring Timeline Report over the last four quarters, FinCEN averaged 40.25 days, which is under the 45 day hiring timeframe.

Results from the 2006 Federal Human Capital Survey indicated that 80 percent of FinCEN employees know how their work relates to the agency’s goals and priorities and 76 percent feel that they are held accountable for achieving results. FinCEN continues to clearly show distinctions of and consequences in levels of performance. FinCEN is following up on some issues from the latest Federal Human Capital Survey to identify ways to increase scores by improving employee satisfaction. FinCEN continues to review the performance management system to identify areas for improvement.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments	Budget Activity	FY 2006 Enacted	FY 2007 Enacted	% Change from FY06 to FY07	FY 2008 Enacted	% Change from FY07 to FY08	FY 2009 Request	% Change from FY08 to FY09
Non-Major IT Investments	BSA Administration and Analysis	10,378	11,424	10.1%	17,273	51.2%	18,108	4.8%
Infrastructure Investments	BSA Administration and Analysis	8,295	8,474	2.2%	9,711	14.6%	9,800	0.9%
FinCEN EA Investment	BSA Administration and Analysis	100	203	103.0%	237	16.7%	385	62.4%
Total IT Investments	BSA Administration and Analysis	18,773	20,101	7.1%	27,221	35.4%	28,293	3.9%

4B – Information Technology Strategy

Information and the technology used to facilitate its analysis are at the core of FinCEN's mission to deter and detect criminal activity, and safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems. However, FinCEN is currently facing a critical need to improve the quality and accessibility of its data and increase responsiveness to stakeholders by introducing flexible and innovative technical solutions.

In 2006, the number of BSA reports filed rose by 12 percent to approximately 17.6 million, with more than one million SARs for all covered industries. FinCEN recognizes the enormous obligation on one of its critical stakeholders—regulated financial institutions. Feedback from financial institutions, obtained through a recent survey on e-filing, indicated that FinCEN needs to streamline how it captures information through the various forms and simplify means to submit information.

Based on the growing need to reduce the obligation on the financial institutions while increasing the quality and timeliness of the information provided to the bureau's stakeholders, FinCEN has launched an information technology modernization vision and transition strategy (IT Modernization V&S). This strategy spans all of the bureau's lines of business and will serve as the organization's roadmap for aligning its IT portfolio with its business objectives and processes.

Over the last several months, the integrated team dedicated to this initiative has documented the current business operating model and future business transformation goals and objectives, identified capability gaps, and created an actionable, five-year enterprise transition strategy with near-term (0-2 years) and long-term (3-5 years) business process reengineering and IT initiatives.

As a result of the IT Modernization V&S effort, FinCEN has developed its five-year strategic vision, which focuses on two keys aspects—information management and analysis, and stakeholder relations and collaboration. By establishing an enterprise-wide information management and analysis framework, FinCEN will be equipped with better decision-making ability and control of BSA data collection and processing, as well as improved data quality and integrity. FinCEN also envisions implementing emerging technology that provides the capability to securely manage stakeholder contact information and provide a proactive mechanism to identify stakeholder needs and continuously improve customer service.

As next steps, FinCEN will use the results of the IT Modernization V&S effort to develop a new IT Strategic Plan (to be released in FY 2008) and realign its IT initiative portfolio by enhancing existing systems and introducing proven shared services and infrastructure. In addition, as FinCEN moves forward, it will continue to collaborate with the IRS on how best to partner on new technologies and explore opportunities that reduce the overall cost to the Department, while still meeting the needs of its various stakeholders.

This five-year IT Modernization V&S supports FinCEN's goal to enhance the management, use and accessibility of BSA information and the Department's goal to prevent terrorism and promote the nation's security through strengthened international financial systems. Specifically, by increasing the timeliness and quality of the BSA information, FinCEN will enable stakeholders to more quickly identify terrorist and criminal threats.

4.2 – PART Evaluation Table

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

OMB Major Findings/Recommendations

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

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

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

Bureau Actions Planned or Underway

- FinCEN created a measure and targets to track the number of top 650 filers who file reports electronically. FinCEN will continue to monitor the progress and tracking of this measure and identify where improvements can be made. This will be a critical project as this measure is linked to the long-term E-Filing goals.

- FinCEN will survey BSA users to systematically find out if users are receiving the information they need in a timely manner, if the information they are receiving is helpful, and if there are any problems with the information, format, etc. A survey of BSA E-Filers was completed, and FinCEN began surveying the Secure Outreach and WebCBRS users. FinCEN plans to examine both surveys and determine appropriate improvements.

- FinCEN has taken steps to create a performance measure to measure the quality of information provided on Suspicious Activity Reports. In FY 2006, FinCEN established a measure, including a target rate, that tracks the critical field omission rate of E-Filed SARs to measure the quality of information provided on SARs. FinCEN will continue to monitor duplicate SAR data for filers with systemic duplicate filings, implement established referral procedures on all filers with systemic omission rate problems, and monitor future duplicate SAR data to verify referred institutions have corrected their systemic problems.

- Increase the quality of BSA data by correcting data quality issues. In FY 2007, FinCEN, in collaboration with IRS, initiated a BSA Data Management framework process to increase the quality of BSA data. This initiative identified issues that affect the quality of BSA data, which were prioritized. FinCEN and IRS have established a process for updating and tracking these issues. In FY 2008, FinCEN and IRS plan to implement a minimum of two releases of system changes to address between 20 percent – 25 percent of the issues prioritized as of July 2007. FinCEN and IRS will meet quarterly to review their progress toward improving BSA data quality. FinCEN will also evaluate the BSA Information framework process established to measure the overall progress and identify ways to simplify or improve the process.

- FinCEN will look at ways to reduce filing burden on the financial community, including streamlining reporting obligations and increasing feedback and notices to filers. Progress will be tracked and reported to stakeholders/published by FinCEN.

- FinCEN will work with stakeholders, through a formal partnership established in 2007, to identify additional steps on how to increase efficiency in completing and filing required reports. In order to highlight and track progress, FinCEN will quantify and publish the reduction in filing burden.

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

OMB Major Findings/Recommendations

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

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

- FinCEN has developed plans to expand the percentage of advanced analytic products that it produces, but significant effort will be required to achieve its long-term target of 75 percent in FY 2008. FinCEN has increased the percentage of advanced analytic products from 1.6 percent in FY 2004 to 39 percent in FY 2006.

Bureau Actions Planned or Underway

- Developing a plan to improve the survey response rate from domestic law enforcement. FinCEN has devised a plan to improve its survey response rate and will continue to monitor the response rates and make adjustments as necessary.

- Evaluating the feasibility of better assessing law enforcement impact of FinCEN's products. During FY 2007, FinCEN took numerous steps, including meeting with internal and external stakeholders, to evaluate the options for better assessing the law enforcement impact related to the utility of BSA data. In FY 2008, based on the information collected, FinCEN will draft a recommendation on the next steps to implement a process to collect information that would quantify the impact of utilization of BSA data to law enforcement.

- Developing measures of the impact of FinCEN's efforts to strengthen anti-terrorist financing and anti-money laundering programs worldwide. In FY 2007, FinCEN determined that an annual customer survey would be the most appropriate mechanism for measuring the impact of FinCEN's efforts to strengthen anti-terrorist financing and anti-money laundering programs worldwide. In the remainder of FY 2007, FinCEN: identified international liaison activities that could be utilized to measure impact, drafted a survey to solicit customer input, and created a database to capture requisite contact information for potential respondents. In FY 2008, FinCEN will administer the survey and review and analyze the response rate.

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

OMB Major Findings/Recommendations

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

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

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

Bureau Actions Planned or Underway

- Expanding outreach efforts to certain targeted industries to augment their understanding of the value of BSA data. FinCEN has developed a BSA value presentation for standard outreach presentations and training sessions targeted toward depository institutions presented by FinCEN. In FY 2008, FinCEN will continue including the BSA value presentation in standard outreach presentations, with a focus on expanding use of presentations to involve other covered industries.

- Developing a long-range plan to expand compliance oversight and reporting by state regulators for newly covered industries. FinCEN is currently in discussions with the IRS, the federal banking agencies, and state regulatory agencies and their associations to develop a long-range plan for compliance oversight over the money services business industry.

- Developing measures of the impact of program activities on preventing the misuse of the financial system by those engaged in illicit activities. In FY 2007, FinCEN developed a working group to examine options and data available to create a meaningful performance measure to assess the impact of project activities on preventing the misuse of the financial system by those engaged in illicit activities and determined a survey of its regulatory partners will best capture the performance. In FY 2008, FinCEN will develop and conduct the survey and establish a baseline and future targets.

- FinCEN will meet with staff from the Office of Information and Regulatory Policy (OIRA) to discuss the tools and methods they employ when making cost/benefit decisions related to regulations.

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

Alcohol and Tobacco Tax and Trade Bureau

Mission Statement

To collect alcohol, tobacco, firearms, and ammunition excise taxes that are rightfully due; to protect the public from adulterated product, and misleading or confusing marketing; and to assist industry members to understand and comply with Federal tax and regulatory requirements.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2007	FY 2008	FY 2009		
Salaries and Expenses	**Enacted**	**Enacted**	**Request**	**$ Change**	**% Change**
Collect the Revenue	$46,215	$47,693	$49,420	$1,727	3.62%
Protect the Public	44,403	45,822	47,480	1,658	3.62%
Total Appropriated Resources	**$90,618**	**$93,515**	**$96,900**	**$3,385**	**3.62%**
Total FTE	**544**	**544**	**525**	**(19)**	**-3.49%**

FY 2009 Priorities

- Collect roughly $15 billion in excise taxes rightfully due to the federal government;
- Process permit applications that allow for the commencement of new alcohol and tobacco businesses;
- Process applications for certificate of label approval required to introduce alcohol beverage products into the marketplace;
- Conduct criminal investigations to effectively administer the Internal Revenue Code and Federal Alcohol Administration Act provisions with the objective to minimize tax fraud and diversion risks;
- Complete audits of large and at risk taxpayers who pay federal excise taxes;
- Conduct field investigations of alcohol and tobacco industry members regarding permit applications, consumer complaints, Federal Alcohol Administration Act trade practice violations, tax fraud, and alcohol beverage product integrity verifications.
- Refresh information technology infrastructure to ensure technology is operating to support the tax collection and regulatory functions; and
- Promote e-filing of industry member data, including taxpayer operational reports and tax returns, as well as certificate of label approval applications.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Alcohol and Tobacco Tax and Trade Bureau (TTB) serves as the nation's primary federal authority in the regulation of the alcohol and tobacco industries. TTB is responsible for the administration and enforcement of federal law, namely those sections of the Internal Revenue Code of 1986 associated with the collection of excise taxes on alcohol, tobacco, firearms and ammunition; and the Federal Alcohol Administration Act, which provides for the regulation of those engaged in the alcohol beverage industry and the protection of consumers of alcohol beverages.

In Fiscal Year (FY) 2009, TTB will continue to focus efforts on helping industry members comply with alcohol, tobacco, firearms and ammunition laws and regulations, thus ensuring that all the appropriate excise taxes are collected and that alcohol beverages meet federal production, labeling, advertising and marketing requirements.

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

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

The total resources required to support TTB activities for FY 2009 are $99,768,000 including $96,900,000 from direct appropriations and $2,868,000 from offsetting collections, mainly from the Puerto Rico cover-over program.

1B – Program History and Future Outlook

Program History - TTB has two primary activities that focus on collecting all the revenue rightfully due and ensuring products meet regulatory standards.

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

The excise taxes collected by TTB come from approximately 8,500 businesses, and the taxes are imposed and collected at the producer and importer level of operations. Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. About 200 of the largest taxpayers account for 98 percent of the annual excise tax collected. In FY 2007, the majority of taxes collected were from tobacco (49 percent) and alcohol (49 percent), with the remainder from firearms and ammunition (2 percent).

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

The investments in this activity resulted in the following performance highlights and accomplishments during FY 2007:

- Collected $14.7 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries.
- Expanded the e-filing program to allow all excise taxpayers to file and pay taxes and file monthly operational reports electronically through the Pay.Gov system. In FY 2007, 98 percent of TTB's tax receipts were collected electronically.
- Improved voluntary compliance – 75 percent of taxpayers filed payments on or before the scheduled due date.
- Processed $459 million in cover-over payments to Puerto Rico and $8 million to the 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 $336 million in drawback claims. Under current law, persons who use non-beverage alcohol in the manufacture of medicines, food products, flavors,

extracts, or perfume and other non-potable products may be eligible to claim drawback of excise taxes paid on distilled spirits used in their products. The TTB laboratory analyzes and approves a product formula before a company can manufacture a product and file a claim. The Non-Beverage Products Lab completed 7,300 non-beverage drawback formulas and 1,623 specially denatured alcohol formulas.

- Laboratories analyzed a total of 2,000 beverage alcohol samples for product integrity, pre-import analysis, and IRC section 5010-tax credit determination. TTB also analyzed 152 tobacco product samples for tax classification. TTB laboratories review formulations or analyze alcohol and tobacco products to ensure compliance with TTB tax and classification regulations.
- Rulemaking initiatives included new regulatory guidance on the tax classification of cigars and cigarettes. The regulatory changes seek to provide industry with clearer and more objective classification criteria for tobacco products in order to reduce the risks of misclassification of cigarettes as little cigars. This regulatory change is in the comment and analysis stage.

This table displays the amount of federal excise tax collections at the bureau from FY 2003 – 2007 by revenue type.

Revenue Type	2003	2004	2005	2006	2007
Alcohol	$6,857,456,528	$6,989,010,058	$7,075,430,170	$7,183,043,493	$7,232,154,000
Tobacco	$7,435,494,644	$7,440,206,609	$7,408,285,850	$7,350,594,192	$7,194,097,000
Firearms Ammunition Mfg	$193,414,143	$216,005,637	$225,817,132	$249,577,917	$287,835,000
Special Occupational Taxes 1/	$102,178,604	$100,573,837	$10,189,069	$2,895,164	$2,808,000
TOTALS	$14,588,543,918	$14,745,796,141	$14,719,722,221	$14,786,110,766	$14,716,894,000

1/ Special Occupational Taxes (SOT) were suspended on most alcohol taxpayers, effective July 1, 2005 and repealed for all alcohol taxpayers effective July 1, 2008. However, the SOT relating to tobacco permittees (manufacturers, importers, and export warehouses) remained intact.

Economic Impact and Tax Collections from the Alcohol Industry

Studies of the wine,[1] distilled spirits,[2] and beer industries [3] disclosed that the annual economic impact from those businesses on the U.S. domestic economy is rapidly approaching $500 billion (Wine - $162 billion; Beer - $189 billion; and Distilled Spirits - $103 billion) and represents 3 to 4 percent of the GNP. The alcohol beverage industry in the United States pays over $7 billion in federal excise taxes each year and also contributes tax revenues for state and local governments. Economic forecasts predict continued modest growth in the alcohol industry, and taxes collected on alcoholic beverages are expected to continue to rise throughout the period FY 2007 – FY 2009. TTB envisions that in the next few years the increase in new alcohol businesses will be most prominent in the number of new alcohol fuel plants (ethanol), wineries, craft breweries, and craft distilleries.

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[1] "*The Impact of Wine, Grapes and Grape Products on the American Economy 2007*," MKF Research LLC.
[2] "*The National Trade Association Representing Producers and Marketers of American's Favorite Brands of Distilled Spirits,*" Distilled Spirits Council of the United States.
[3] "*The Beer Industry Economic Contribution Study* Prepared for The Beer Institute," Guerrilla Economics, LLC, April 2007.

Tobacco Collections
The federal excise tax collections from tobacco imports and domestic sales fell slightly in 2007. TTB collects the federal excise tax only upon products from domestic manufacturers and U.S. Customs and Border Protection (CBP) collects the tax on imported tobacco products. The reduction of tobacco tax collections is likely attributable to an increased consumption of domestic cigarette alternatives (such as little cigars and roll your own tobacco), which are taxed at lower rates than cigarettes. Also, this decline in domestic sales may also be attributable to a proliferation of the sale of illegal or smuggled cigarettes, which adversely impacts collections at TTB. Based upon the bureau's own findings as well as recent Center of Disease Control findings,[4] TTB does not believe decreased collections are the result of an overall decrease in the use of tobacco products.

Since many states increased their taxes on cigarettes following the Master Settlement Agreement [5] (particularly premium brands), sales of domestic cigarettes have decreased, while sales of lower-taxed alternative tobacco products (such as little cigars and roll your own tobacco) have increased. Even so, the increases in lower-taxed alternative domestic tobacco product sales are too modest to fully compensate for the decrease in domestic cigarette sales.

Finally, while consumers purchase less expensive cigarettes (generic) manufactured in the United States over their premium brand competitors, TTB has found an increased risk in underreporting related to tax liability for many generic products. To ensure that all taxes rightfully due are collected for generic products, TTB has deployed audit and investigation resources to investigate these cases and take appropriate action to resolve liability and associated compliance violations.

Firearms, Ammunitions 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 firearms and ammunition business industry continues to grow. Federal excise tax collections on firearms and ammunition has increased from $193 million in FY 2003 to $289 million during FY 2007, an increase of $96 million over the past four years, or 50 percent growth in federal revenues. The increase in reported tax revenue can be attributed to industry growth; effective outreach initiatives at the bureau; and the presence of field audits which continues to promote voluntary taxpayer compliance.

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[4] "*Cigarette Smoking Among Adults – United States, 2006*," Morbidity and Mortality Weekly Reports, November 9, 2007.

[5] In 1998, the Attorneys General of 46 states signed the Master Settlement Agreement (MSA) with the four largest tobacco companies in the United States to settle state suits to recover billions of dollars in costs associated with treating smoking-related illnesses. Four states - Florida, Minnesota, Mississippi, and Texas - settled their tobacco cases separately from the MSA states.

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 45,600 alcohol and tobacco businesses. Under this activity, 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. TTB conducts these activities through investigations, application reviews, laboratory testing, and educational programs. TTB works with industry, foreign and state governments, and other interested parties to make it easier to comply with regulatory requirements and to maintain the appropriate level of oversight to ensure public safety. Education, partnerships, and open communication are paramount strategies in facilitating compliance with regulatory requirements.

The investments in this budget activity have resulted in the following performance highlights and accomplishments during FY 2007:

- Processed 125,117 Certificate of Label Approval (COLAs) applications, of which 63,811 applications were filed electronically through COLAs Online, a total of 51 percent. The Federal Alcohol Administration Act requires importers and bottlers of alcoholic beverages to obtain a COLA prior to introduction of the product into commerce.
- Issued 4,600 original permits, approved 22,116 amended permits, and prepared related correspondence. TTB issues original and amended permits to persons who are engaged in the alcohol and tobacco industries. Illicit activity in these industries has the potential to be highly lucrative, so it is crucial that organized crime and terrorists are kept out of these industries.
- The Scientific Services Division (SSD) received its accreditation from the International Organization for Standardization (ISO).
- Conducted 467 field investigations on the most high-risk applications to ensure objectives of the Anti-Terrorism Act of 2001 were met.
- Conducted 945 field application investigations of industry members regarding applications, consumer complaints, tax fraud, trade practice violations, and product and labeling integrity verifications.
- Assisted in the labeling agreement with the World Wine Trade Group (WWTG). WWTG members include the U.S., Argentina, Australia, Canada, Chile, and New Zealand. The labeling agreement was signed in January 23, 2007, which will facilitate the export trade in wine from the U.S. to WWTG countries.

Specific Challenges in FY 2009

Law Enforcement

TTB is dependent upon the availability of other agencies to supply law enforcement resources to pursue criminal cases. The law enforcement challenges on the alcohol and tobacco industries revolve around tax fraud, label fraud, unlawful diversion, and unlawful trade practices. Tax fraud issues have also arisen in the firearms and ammunition industry as well.

Tax fraud, through unlawful diversion or other means, represents an extremely high risk to the revenue as well as a funding source for organized crime and terrorists. The lost revenue from these illegal activities is estimated to be in the range of $1 billion, conservatively. The proliferation of alcohol fuel plants presents a serious concern for significant revenue loss that may result from unlawful diversion. Label fraud and unlawful trade practices also represent a serious threat to the economic stability of the alcohol trade. Label fraud deceives consumers as to what they are buying, but also threatens domestic producer's ability to effectively trade in interstate commerce. Unlawful trade practices present a similar threat to free commerce because of their potential to undermine healthy small business activity and limit consumer choices.

Alcohol Fuel Plants (AFPs)
Another challenge is the accelerated growth of alcohol fuel production. In 2005, total U.S. production of alcohol for fuel use was approximately 4 billion gallons, and in 2006 it was nearly 5 billion gallons. Current capacity is nearly 7 billion gallons per year, and plants under construction will make an additional 5 billion gallons annually. The recent 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 only 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 four fiscal years. TTB currently has 1,567 active alcohol fuel plants. These developments present a serious concern for TTB because of the possibility for significant revenue losses that would result from unlawful diversion.

Succession Planning
Succession planning is high on the list of TTB strategic priorities, especially regarding TTB's investigative forces. TTB expects to lose forty percent of its workforce by 2010 due to retirements and other attrition. To mitigate these losses, TTB continues to use the personnel interventions identified in the Pay Demonstration project to enable the bureau to improve its capacity to recruit, develop, and retain high-caliber employees. TTB uses tailored approaches designed, developed, and implemented specifically for the bureau's continuing and evolving needs in order to meet mission requirements and remain competitive for highly skilled talent. The FY 2009 budget seeks authority to continue this program an additional year.

Rulemaking
Over the next few years TTB anticipates continued industry and interest group petitions, inquiries, and other expressions of interest in more detailed beverage labeling. An advance notice of proposed rulemaking published in mid-2005 on the labeling and advertising of wines, distilled spirits, and malt beverages sought comments on various labeling issues including, among others, information panels, alcohol content, and allergen labeling; this notice generated over 19,000 comments. In July 2006, TTB published in the Federal Register an interim rule setting forth standards for voluntary allergen labeling of alcohol beverages concurrently with a notice of proposed rulemaking for mandatory allergen labeling for alcohol beverages. In FY 2008 and 2009, the bureau will consider

the feasibility of regulatory changes in response to the comments received on the 2005 advance notice.

In July 2007, TTB published in the Federal Register for public comment proposed regulatory changes which would require a statement of alcohol content for all alcohol beverage products, expressed as a percentage of alcohol by volume and appearing on any label affixed to the container. Also included in the proposed regulatory changes is a requirement for a Serving Facts panel on alcohol beverage labels, which would include a content statement covering calories, carbohydrates, fat, and protein. Under the proposals, industry members may also disclose on the serving facts panel the number of U.S. fluid ounces of pure alcohol per serving as part of a statement that includes alcohol content expressed as a percentage of alcohol by volume. The new regulations would also specify reference serving sizes for wines, distilled spirits, and malt beverages based on the amount of beverage customarily consumed as a single serving rather than based on a definition of a standard drink. The purpose of these proposed regulatory changes is to ensure that alcohol beverage labels provide consumers with adequate information about the products they are consuming.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Salaries and Expenses	FTE	Amount
FY 2008 Enacted	**544**	**$93,515**
Base Realignment:		
Base Realignment from Collect the Revenue		(935)
Base Realignment to Protect the Public		935
Increased Reimbursable Payments from PR Gov't	(11)	(1,149)
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		752
Pay Annualization		402
Pay Inflation Adjustment		1,075
Total FY 2009 Base	**533**	**$94,595**
Program Decreases:		
Efficiency Savings	(8)	(685)
Program Increases:		
IT Infrastructure (Hardware Refresh)		2,990
Subtotal FY 2009 Program Changes	**(8)**	**2,305**
Total FY 2009 Request	**525**	**$96,900**

2A – Budget Increases and Decreases Description

Base Realignment ....-$1,149,000 / -11 FTE

Base Realignment from Collect the Revenue -$935,000 / +0 FTE

Realignment of funds from the Collect the Revenue Budget Activity based on historical spending patterns.

Base Realignment to Protect the Public +$935,000 / +0 FTE

Realignment to Protect the Public Budget Activity.

Increased Reimbursable Payments from Puerto Rican Government -$1,149,000 / -11 FTE

Recovery for indirect costs for general administrative, information technology, legal, and other enforcement bureau activities which support the Puerto Rico cover over program. The cost model which was adopted by the bureau was determined to be in full compliance with the guidelines promulgated by the Office of Management and Budget, the CFO Act, and Statements of Federal Financial Accounting Standards. These reimbursable funds have been used to supplant the direct appropriations.

Maintaining Current Levels (MCLs) ....+$2,229,000 / +0 FTE

Non-Pay Inflation Adjustment +$752,000 / +0 FTE

Non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments.

Pay Annualization +$402,000 / +0 FTE

Funds are requested for the FY 2009 cost of the January 2008 pay increase.

Pay Inflation Adjustment +$1,075,000 / +0 FTE

Funds are requested for the January 2009 pay raise.

Program Decreases ....-$685,000 / -8 FTE
Efficiency Savings -$685,000 / -8 FTE
Reduction in funding due to anticipated savings to be realized from improvements in business processes, systems, and operations at the bureau.

Program Increases ....+$2,990,000 / +0 FTE
IT Infrastructure (Hardware Refresh) +$2,990,000 / +0 FTE
The funding will be used to refresh the information technology hardware and infrastructure in order to facilitate mission critical functions in support of departmental and bureau strategic goals and objectives of collecting the revenue and protecting the public. TTB has two core business applications to support this mission: Integrated Revenue Information System (IRIS) and Certification/Exception of Label/Bottle Approval (COLAs) Online. IRIS supports the collection of nearly $15 billion in federal excise taxes per year by automating the examination of industry member tax accounts. COLAs Online provides industry members with an internet-based application to submit, track, and review applications for label approval, thereby expediting TTB business processes and improving customer service.

Based on internal systems reviews and industry best practices, TTB has determined that by FY 2009 a significant portion of the current infrastructure will become technically obsolete and that the risk of business disruption from malfunctioning equipment will negatively impact basic tax and regulatory services. TTB has identified significant impacts of an obsolete infrastructure including, but not limited to, risks to excise tax collection, public safety concerns, decreased customer satisfaction, management reporting issues, staff productivity inefficiencies and impacts to the compliance with federal mandates. Meeting federal mandates such as Internet Protocol Version 6, HSPD-12, GPEA, FISMA, and e-government initiatives will be facilitated with this infrastructure refresh.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Salaries and Expenses	FY 2007 Enacted	FY 2008 President's Budget	Cong. Action including Recission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	**544**	**544**		**544**	**525**
Object Classification:					
11.1 - Full-time permanent	42,695	43,640	0	43,640	44,940
11.3 - Other than full-time permanent	0	0	0	0	0
11.5 - Other personnel compensation	698	778	0	778	778
11.8 - Special personal services payments	0	0	0	0	0
12 - Personnel benefits	10,979	11,525	0	11,525	11,235
13 - Benefits for former personnel	0	0	0	0	0
21 - Travel and transportation of persons	3,265	3,363	0	3,363	3,000
22 - Transportation of things	98	101	0	101	101
23.1 - Rental payments to GSA	4,943	4,981	0	4,981	5,219
23.2 - Rental payments to others	0	0	0	0	0
23.3 - Comm, utilities, and misc charges	4,787	4,931	0	4,931	5,049
24 - Printing and reproduction	367	378	0	378	387
25 - Other contractual Services	0	0	0	0	0
25.1 - Advisory and assistance services	0	0	0	0	0
25.2 - Other services	20,762	21,733	0	21,733	22,131
25.3 - Other purchases of goods and services from Govt. accounts	0	0	0	0	0
25.4 - Operation and maintenance of facilities	0	0	0	0	0
25.5 - Research and development contracts	0	0	0	0	0
25.6 - Medical care	0	0	0	0	0
25.7 - Operation and maintenance of equip	0	0	0	0	0
25.8 - Subsistence and support of persons	0	0	0	0	0
26 - Supplies and materials	650	670	0	670	670
31 - Equipment	1,374	1,415	0	1,415	3,390
31.6 - ADP Equipment	0	0	0	0	0
32 - Land and structures	0	0	0	0	0
33 - Investments and loans	0	0	0	0	0
41 - Grants, subsidies, and contributions	0	0	0	0	0
42 - Insurance claims and indemnities	0	0	0	0	0
43 - Interest and dividends	0	0	0	0	0
44 - Refunds	0	0	0	0	0
Total Budget Authority	$90,618	$93,515	$0	$93,515	$96,900
Budget Activities:					
Collect the Revenue	46,215	47,693	0	47,693	49,420
Protect the Public	44,403	45,822	0	45,822	47,480
Total Budget Authority	$90,618	$93,515	$0	$93,515	$96,900

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Collect the Revenue	277	$46,215	277	$46,215	277	$47,693	268	$49,420	-3.25%	3.62%
Protect the Public	267	44,403	267	44,403	267	45,822	257	47,480	-3.75%	3.62%
Subtotal New Appropriated Resources	544	$90,618	544	$90,618	544	$93,515	525	$96,900	-3.49%	3.62%
Other Resources:										
Recoveries										
Offsetting Collections - Reimbursable	15	3,024	15	3,024	15	3,755	15	2,868	0.00%	-23.62%
Available multi-year/no-year funds										
Transfers In/Out										
Subtotal Other Resources	15	$3,024	15	$3,024	15	$3,755	15	$2,868	0.00%	-23.62%
Total Resources Available for Obligation	559	$93,642	559	$93,642	559	$97,270	540	$99,768	-3.40%	2.57%

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY ALCOHOL AND TOBACCO TAX AND TRADE BUREAU Federal Funds **<u>SALARIES AND EXPENSES:</u>** For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, [$93,515,000] *$96,900,000* 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.	
<u>Treasury Administrative Provisions:</u> Sec. 115. Section 122(g) (1) of Public Law 105-119 as amended (5 U.S.C. 3104 note), is further amended by striking ["8 years"] *"10 years"* and inserting ["10 years"] *"11 years"*.	TTB proposes to continue the Pay Demonstration Program by amending the language to extend the program for one additional year.

2C – Legislative Proposals

Extend Pay Demonstration Program for one additional year. TTB proposes to continue the Pay Demonstration Program (Pay Demo) by amending the general provision language to extend the program for one additional year. This project was established to enhance TTB'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. In FY 2006, TTB contracted for a study to provide an independent evaluation of this program. The results of the study are being examined.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

TREASURY Strategic Goal *TREASURY Strategic Objective* TREASURY Strategic Outcome	**FY 2008 Enacted** AMOUNT	**FY 2009 Request** AMOUNT	**Percent Change** AMOUNT
Economic competitiveness	47,662	48,885	**2.6%**
Revenue collected	49,608	50,883	**2.6%**
Total	**$97,270**	**$99,768**	**2.6%**

3A – Collect the Revenue *($49,420,000 from direct appropriations and $1,463,000 from reimbursable programs):* The Collect the Revenue activity works toward providing the most effective and efficient systems for the collection of tax revenue, eliminating or preventing tax evasion and other criminal conduct, and providing high quality service while imposing the least regulatory burden on taxpayers. TTB will employ a number of strategies to ensure that the revenue that is rightfully due is collected. The Tax Audit Division (TAD) will focus its audit resources on large and at risk taxpayers. The Office of Field Operations will continue to provide industry outreach to facilitate voluntary compliance, investigate allegations or indications of tax fraud, verify destruction of large quantities of taxable commodities, and conduct compliance investigations of permittees who have substantial potential for tax liability.

Reducing taxpayer burden and improving service remain priorities at TTB. The ultimate goal is to allow permittees and taxpayers to file all payments, returns, and applications online with the National Revenue Center. The FY 2009 budget request enables the continuation of efforts to achieve the performance measures supporting TTB's strategic goal of providing the most effective and efficient system for the collection of all revenue that is rightfully due, eliminating or preventing tax evasion and other criminal conduct, and providing high quality service while imposing the least regulatory burden.

Offsetting Collections…………………………………………………Total $1,463,000
Federal Sources (Laboratory Services)…………………………………………………$27,000
Non Federal Sources (Puerto Rico)………………………………………………1,436,000

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 roughly $459 million in cover-over taxes collected in the United States on products originating in Puerto Rico. Also, the bureau collects a nominal amount of reimbursable funding for lab services performed to support criminal investigations being conducted at the Alcohol Tobacco Firearms and Explosives Agency (ATFE).

3.2.1 – Collect the Revenue Budget and Performance Plan

Collect the Revenue Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$45,285	$49,618	$46,215	$47,693	$49,420
Reimbursable Resources	$935	$935	$1,512	$1,915	$1,463
Total Resources	**$46,220**	**$50,553**	**$47,727**	**$49,608**	**$50,883**
Budget Activity Total	**$46,220**	**$50,553**	**$47,727**	**$49,608**	**$50,883**

Collect the Revenue Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of revenue) (Revenue %) (Oe)	86	87	86	87	87
Cumulative percentage of excise tax revenue audited over 3 years (%) (Ot)	82%	93%	16%	74%	90%
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)(%) (Oe)	70%	76%	75%	75%	75%
Percentage of total tax receipts collected electronically (%) (E)	98%	98%	98%	98%	98%
Resources as a percentage of revenue (%) (E)	.37%	.31%	.31%	.34%	.34%
Unit cost to process an excise tax return based on new legislation ($) (E)	Baseline	76	61	76	76

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

Description of Performance:

In FY 2007, TTB met all of its performance measures under the Collect the Revenue strategy, while showing continued improvements in performance scores. TTB continues to collect nearly $15 billion in federal excise taxes in a highly efficient manner. Also, key performance metrics show that 98 percent of the federal excise tax receipts are collected electronically at the bureau and that 75 percent of industry members voluntarily file their tax and operational reports on or before the scheduled due date and the filing information is both accurate and reliable. TTB's audit strategy is to audit regulated businesses based on its risk model, and continue its audits of the largest taxpayers, with its goal of 90 percent revenue audited in its second cycle by FY 2009. TTB's "Resources as a percentage of revenue (%)" measure continues to benchmark as one of the most efficient tax collection agencies or bureaus in the world.

3B – Protect the Public *($47,480,000 from direct appropriations and $1,405,000 from reimbursable programs):* The Protect the Public activity ensures the integrity of products and industry members in the marketplace, ensures compliance with laws and regulations by regulated industries, and provides information to the public as a means to prevent consumer deception. Under this activity, TTB enforces compliance with federal laws related to the issuance of permits to industry members and the production, importation, exportation, labeling, advertising, and marketing of alcohol products. TTB conducts investigations, application reviews, laboratory testing, and educational programs in support of its mission. TTB works with industry, other federal and state governments, and other interested parties to make it easier to comply with regulatory requirements, while maintaining the appropriate level of oversight to ensure public safety. Innovation, partnerships, and open communication are paramount to achieving this strategic goal.

TTB monitors trade practices of the alcohol industry and takes enforcement actions on violations or discrepancies, monitors and reviews international trade in alcohol beverages to identify trade barriers and incidents of international fraud and contaminated products; and to promote international agreements on product integrity.

Users of specially denatured alcohol (SDA) are required to submit a formula to the TTB Laboratory. Likewise, those using alcohol for non-beverage purposes, such as in the manufacture of flavorings or medicines, must also gain approval of their formula in order to file a claim for drawback of excise taxes previously paid. In both cases, the TTB Lab reviews the formula and analyzes samples to grant or deny the action requested by the applicant.

TTB also protects the consumer by monitoring alcohol products and investigating incidents of suspected unsafe conditions or product deficiencies related to production and labeling. TTB does this by testing samples of alcohol beverages sold at the retail level and obtained directly from producers. The purpose of this testing is to ensure that alcohol beverages marketed in the United States meet formulation and labeling requirements, do not contain unauthorized substances or contaminants, and are properly classified for tax purposes.

Offsetting Collections…………………………………………………Total $1,405,000
Federal Sources (Laboratory Services)…………………………………………….....$26,000
Non-Federal Sources (Puerto Rico)……………………………………………. $1,379,000

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 roughly $359 million in cover-over taxes collected in the United States on products originating in Puerto Rico. Also, the bureau collects a nominal amount of reimbursable funding for lab services performed to support criminal investigations being conducted at ATFE.

3.2.2 – Protect the Public Budget and Performance Plan

Protect the Public Budget Activity Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$37,051	$40,597	$44,403	$45,822	$47,480
Reimbursable Resources	$765	$765	$1,512	$1,840	$1,405
Total Resources	**$37,816**	**$41,362**	**$45,915**	**$47,662**	**$48,885**
Budget Activity Total	**$37,816**	**$41,362**	**$45,915**	**$47,662**	**$48,885**

Protect the Public Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Percent of electronically filed Certificate of Label Approval applications (%) (E)	25%	38%	51%	48%	48%
Percentage of COLA approval applications processed within 9 calendar days of receipt (%) (E) (This measure will become inactive beginning in FY 2008.)	50%	44%	42%	35%	Discontinued
Percentage of permit application (original and amended) processed by the National Revenue Center within 60 days (%) (E)	81%	86%	85%	80%	80%
Unit cost to process a Wine Certificate of Label Approval	null%	null%	34%	34%	85%

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

Description of Performance:

In FY 2007, TTB met all but one of its performance measures under the Protect the Public budget activity. The results from the metrics, along with program performance during the year, demonstrate that the bureau administered the laws and regulations in a manner that protects the consumer, promotes voluntary compliance, and facilitates import and export trade in beverage and industrial alcohols. The performance measure not met was the "Percentage of certificate of label applications (COLA) processed within 9 calendar days of receipt." TTB examines all alcohol labels prior to their use and issues a certificate of label approval (COLA) to ensure alcohol beverage labels adequately identify the product and do not contain misleading information. The performance metric target was 45 percent and the final result was 42 percent. This measure was difficult to achieve because the complexity and volume of this COLA workload, which is driven from industry members, has continued to increase for several years. Since 1999, COLA applications have risen over 84 percent, while the available staff dedicated to this operation has remained constant. While this challenge will continue, the bureau fully expects to gain efficiency of operations from encouraging industry members to file their COLA applications electronically versus paper. The number of electronic submissions has increased from 25 percent in FY 2005 to over 50 percent in FY 2007.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

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

- Effectively managed U.S. government finances;
- U.S. and world economies perform at full economic potential,

To accomplish and fulfill both TTB's and the Department of the Treasury's strategic plans, TTB has taken several steps to maintain and improve its current professional workforce. TTB's Human Capital Strategic Plan, which is aligned with the Bureau Strategic Plan, documents strategies to improve skill and competency gaps, demographics, workforce management and performance measurement efforts, and succession planning. The model for strategically assessing TTB's skills gap outlook for future years is predicated on assumptions regarding future changes in the workforce, including retirement eligibility rules and rates of attrition.

Succession planning is a strategic priority for TTB's future transitioning, especially as it relates to the bureau's mission critical positions. TTB expects to lose approximately forty percent of its workforce between 2008 and 2010 due to retirements and other attrition. To mitigate these losses, it is vital that TTB continue to recruit, develop, and retain high-caliber employees in mission critical positions.

Other HR Highlights

During FY 2007, TTB:

- Completed an independent evaluation of the TTB Pay Demonstration Project over a three year period. This included conducting an Attitude Survey and Survey Follow-up Focus Groups with Pay Demo Project employees and supervisors and an analysis of cost comparisons with General Schedule and other Pay Demonstration Programs. As a result of the evaluation, TTB chartered a Labor/Management Workgroup that developed cost containment options for future Pay Demo Project Performance Payouts that were implemented for the FY 2007 performance cycle.
- Achieved a top five percent of agency subcomponents ranking according to the Partnership for Public Service's report on "The Best Places to Work in the Federal Government". The ranking was based on employee responses to the 2006 Federal Human Capital Survey. TTB's response rate on the survey was the highest within the Department of the Treasury (78 percent).
- Designed, developed, tested, and deployed a new performance management program and automated performance management system that provides a clear line of sight for each employee to the overall Bureau strategic plan. In addition, conducted related Performance Management Training for both General Schedule and Pay Demonstration Project employees.
- Negotiated the first Master Labor Agreement exclusively for TTB with the National Treasury Employees Union (NTEU).

- Established an Early Conflict Prevention and Resolution (CPR) Program to assist TTB employees in seeking fair, equitable solutions to work-related concerns through an informal confidential process apart and separate from both the Equal Employment Opportunity (EEO) Complaints and the Administrative Grievance processes. The CPR Program assists with maintaining a harmonious and productive workplace for our employees.
- Implemented a Mentoring Program to provide guidance and motivation, strengthen relationships, and ensure that all the talents and skills of Bureau employees are maximized in accomplishing the Bureau's mission. The Mentoring Program supports workforce and succession planning by developing employees to be future leaders.
- Established three Leadership Development Programs (LDPs) based on grade level and supervisory level. These programs consist of short-term executive, management, leadership and supervisory programs to prepare employees for the next level in their career progression and professional development and create a cadre of employees prepared to compete for positions with greater leadership responsibility to meet the bureau's needs.
- Published the first TTB recruitment brochure featuring TTB's mission critical positions.
- Continued to exceed the Treasury hiring goal of 45 days with an annual overall average of 33 days time to hire.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments (Dollars in Thousands) Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Enacted	FY 2007 Enacted	FY 2008 President's Budget	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
Subtotal, Major IT Investments	Collect the Revenue/Protect the Public	$ -	$ -	$ -	0.0%	$ -	0.0%
Non-Major IT Investments	Collect the Revenue/Protect the Public	$ 2,780	$ 2,850	$ 2,925	2.6%	$ 3,001	2.6%
Infrastructure Investments	Collect the Revenue/Protect the Public	$ 15,111	$ 15,514	$ 15,915	2.6%	$ 19,320	12.0%
Enterprise Architecture	Collect the Revenue/Protect the Public	$ 464	$ 477	$ 491	2.9%	$ 502	2.2%
Total IT Investments	Collect the Revenue/Protect the Public	$ 18,355	$ 18,841	$ 19,331	2.6%	$ 22,823	10.4%

4B – Information Technology Strategy

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

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

TTB's investment review board ensures compliance with guidance and legislation (OMB Circular A-130, Management of Federal Information Resources and Clinger Cohen Act of 1996). A scoring criterion was developed to help ensure that only sound and viable initiatives that support the bureau's mission and strategic goals are included in the portfolio.

4.2 – PART Evaluation Table

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

OMB Major Findings/Recommendations

1. Develop baseline for annual performance measures .

2. Improve estimates of how funds are distributed across TTB's two lines of business to ensure that funds are obligated in accordance with planned schedules.

3. Develop a baseline to compare the incremental cost and net benefits of regulation.

Bureau Actions Planned or Underway

1. TTB is in the process of completing the baselines for its annual performance measures in FY 2006.

2. TTB currently uses the BPD ARC accounting system, which allows for the allocation and tracking of funds. In FY 2008 TTB introduced a new account code structure to capture and measure costs by strategic goals, programs, projects and budget activities.

3. TTB has completed several economic impact studies which provide incremental cost and social net benefits of regulations. TTB has only collected several cost/social net benefit studies (e.g. economic impact studies which support TTB's impact study positions).

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

Financial Management Service

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2007	FY 2008	FY 2009		
Financial Management Service	Enacted	Enacted	Request	$ Change	% Change
Payments	$148,408	$145,977	$147,445	$1,468	1.01%
Collections	17,434	19,804	21,481	1,677	8.47%
Debt Collection	5,029	0	0	0	0.00%
Government wide Accounting and Reporting	64,510	68,642	70,418	1,776	2.59%
Total Appropriated Resources	**$235,381**	**$234,423**	**$239,344**	**$4,921**	**2.10%**
Total FTE	**1,761**	**1,692**	**1,500**	**(192)**	**-11.35%**

FY 2009 Priorities

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

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

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

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

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Financial Management Service (FMS) plays a key role in supporting the Department of the Treasury's strategic goal of managing the United States Government's finances effectively by operating as the financial manager and principal fiscal agent for the federal government. This role includes managing the nation's finances by collecting money due to the United States, making its payments and performing central accounting functions. Three FMS programs – payments, collections and cash forecasting – are part of the nation's Financial Critical Infrastructure which requires these activities to be fully operational at all times.

FMS' Strategic Goals, as reflected in the FY 2009 priorities, are to:

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

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

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

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

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

FMS provides critical services to millions of United States taxpayers and other customers. It embodies Treasury's leadership strategy to create value for the American people, provide responsible and effective stewardship over the government's finances, and focus on quality service results and innovation. The breadth, scope and impact of FMS programs on the economy and the American public are enormous. FMS' activities touch millions of American citizens, virtually every Federal Program Agency (FPA) and state governments across the country, as well as having international reach.

As the government's financial manager, FMS oversees a daily cash flow in excess of $60 billion, disbursing 85 percent of the federal government's payments. 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 over $3.0 trillion in FY 2007. FMS provides cash management guidance to FPAs, maintains the government's accounting books, and compiles and publishes government-wide financial information used to monitor the government's financial status. Finally, FMS serves as the government's central debt collection agency for delinquent non-tax debt.

1B – Program History and Future Outlook

The Payments program develops and implements federal payment policy and procedures, issues and distributes payments, promotes the use of electronics in the payment process, and assists agencies in converting payments from paper checks to Electronic Funds Transfer (EFT). This includes controlling and providing financial integrity to the payments process through reconciliation, accounting, and claims activities. It also includes special payments such as Federal Emergency Management Agency payments and the recent telephone excise tax refund. In FY 2007, FMS issued over 981 million non-Defense payments worth $1.6 trillion to a wide variety of recipients, such as those who receive Social Security benefits, IRS tax refunds and veterans' benefits. Seventy-eight percent of all payments disbursed were issued via direct deposit

Streamlining the payments processes while continually investing in state-of-the-art technology is integral in processing payments accurately, timely, and more safely and securely for the taxpayer. In FY 2009, FMS will continue to expand the use of electronic media to deliver federal payments. Electronic media provides a safer, more secure and reliable method of payment for recipients. It also decreases the number of paper checks issued, which minimizes costs and inefficiencies associated with the delivery of non-electronic benefits.

The Collections program collects revenues needed to operate the federal government through the effective management of the government's collections infrastructure. In FY 2007, FMS collected $3.1 trillion through a network of more than 9,000 financial institutions, of which 79 percent were done electronically. Dollar revenues collected in FY 2007 exceeded those collected in FY 2006 by six percent. The most important program that supports electronic collections is the Electronic Federal Tax Payment System (EFTPS). EFTPS is a tax payment system that offers all businesses and individuals the convenience of making their federal tax payments electronically 24 hours a day, seven days a week.

In FY 2009, FMS will continue to expand the use of electronic collection mechanisms that use the most advanced and secure collection technologies that are flexible enough to accommodate the varying needs and technical sophistication of all taxpayers and FPAs. In addition, FMS will work to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. Currently, collection agents report collections information to many FPAs and multiple U.S. Treasury systems. To collect this information, the FPAs and U.S. Treasury systems interface with many different sources using a variety of formats and interface technologies. FMS is developing a system which will provide a single touch point for information reporting and retrieval via transaction brokering, data warehousing, and business intelligence. The single touch point will enable the standardization and consolidation of collections information and eliminate redundancies in the federal government's 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.

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 (DCIA) of 1996 and related legislation.

In FY 2007, FMS collected a record \$3.76 billion in delinquent debt. Debt referrals from creditor agencies were at 100 percent of eligible debt at the end of FY 2007. As a result of FMS' continued program improvements, total collections since the enactment of the DCIA in 1996 are over \$31.7 billion. By FY 2009, FMS' Integrated FedDebt system will have combined FMS' Cross-Servicing program and the Treasury Offset Program (TOP) into one system. This reduces redundancies, improves data integrity, and provides agencies direct online access. FMS will also continue to roll out Debt Check, an online program used to help agencies bar delinquent debtors from obtaining new loans or loan guarantees. In addition, a Federal Contractor Tax Compliance Task Force subgroup consisting of the FMS, the IRS, and the Center for Medicare and Medicaid Services (CMS) is examining how best to incorporate CMS payments to Medicare providers into the Federal Payment Levy Program.

The Government-wide Accounting and Reporting program maintains the federal government's books and accounts for its monetary assets and liabilities by operating and overseeing the government's central accounting and reporting system. For FY 2007, FMS released the Financial Report of the United States Government (FR) 75 days after the fiscal year-end for the fourth consecutive year. The FR presents a picture of government-wide finances that complements the traditional federal government budget information. It is invaluable when assessing the long-term impact of the government's policy decisions and the timely availability of this additional information is critical to a fully informed budget process. To complement and support the accelerated release of the FR, Treasury continues to release the Monthly Treasury Statement (the monthly public source of budgetary results) on the eighth workday of each month. With this release schedule, agency financial managers are better able to verify and use the data in their own reports.

In FY 2009, FMS will continue to revamp and implement government-wide accounting processes to provide more useful and reliable financial information on a regular basis. FMS has two major initiatives which will modernize long standing federal accounting processes and provide agencies with methodologies and tools to improve the accuracy and consistency of their financial data.

FMS is building and implementing a system that replaces existing government-wide accounting functions and processes that vastly improves the exchange of financial information among FMS, FPAs, Office of Management and Budget (OMB) and the banking community. This system will improve the reliability, usefulness, and timeliness of the government's financial information, provide agencies and other users with better access to that information, and will eliminate duplicate reporting and reconciliation burdens by agencies, resulting in significant government-wide savings. As part of the system redesign, FMS provides agencies with a web-based account statement resembling a bank statement, which contains summarized Treasury fund account balance activity. Once fully implemented, agencies will have daily direct access through a web-based system to the data supporting the items on the account statement for reconciliation and fund reclassification, rather than having to use multiple systems. Fund balance information will be available to agencies on a near real-time (one-day lag) basis. This will move the government one step closer to achieving its objective of producing financial information on a regular, recurring basis more quickly and reliably. In FY 2009, FMS will be working with FPAs to report payment, collection and intra-governmental payment and collection transactions to the new Government-wide Accounting System.

In FY 2009, FMS will also continue moving forward on the Financial Information and Reporting Standardization (FIRST) initiative. This initiative integrates budget and financial reports from FPAs. FIRST will improve the consistency of the budgetary and proprietary accounting data recorded in agency financial statements and reported to FMS through its trial balance. FIRST is designed to provide authoritative information, contained in Treasury's central accounting system, to the agencies to facilitate the reconciliation process for specific intra-governmental transactions.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Financial Management Service	FTE	Amount
FY 2008 Enacted	**1,692**	**$234,423**
Base Realignment:		
FTE Adjustment	(192)	
Maintaining Current Levels (MCLs):		
Non-Pay Inflation Adjustment		553
Pay Annualization		1,080
Pay Inflation Adjustment		3,288
Total FY 2009 Base	**1,500**	**$239,344**
Program Decreases:		
Government-Wide Accounting & Reporting Modernization Program		(326)
Payments Operations		(172)
Accounting Architecture		(460)
Program Reinvestment:		
Financial Information Reporting Standardization (FIRST)		958
Subtotal FY 2009 Program Changes	**0**	**0**
Total FY 2009 President's Budget Request	**1,500**	**$239,344**

2A – Budget Increases and Decreases Description

Base Realignment .... +$0 / -192 FTE

FTE Adjustment +$0 / -192 FTE

FMS identified 192 unfunded base FTE upon review of its FY 2008 proposed financial plan, which is reflected by this adjustment.

Maintaining Current Levels (MCLs) .... +$4,921,000 / +0 FTE

Non-Pay Inflation Adjustment +$553,000 / +0 FTE

Funds are requested for other non-labor related items such as contracts, travel, supplies, equipment and GSA rent.

Pay Annualization +$1,080,000 / +0 FTE

Funds are requested for the FY 2009 cost of the January 2008 pay raise.

Pay Inflation Adjustment +$3,288,000 / +0 FTE

Funds are requested for the FY 2009 pay raise.

Program Decreases .... -$958,000 / +0 FTE

Government-Wide Accounting & Reporting Modernization Program -$326,000 / +0 FTE

As a result of efficiencies gained through modernization and a decreased requirement for contractor support for legacy applications and the certification and accreditation process, funding can be redirected from the Government-wide Accounting and Reporting budget activity to cover a portion of the Financial Information Reporting Standardization (FIRST) initiatives.

<u>Payments Operations -$172,000 / +0 FTE</u>
As a result of improvements in the payments activity (e.g. presort equipment), FMS can redirect this funding to the Financial Information Reporting Standardization initiative.

<u>Accounting Architecture -$460,000 / +0 FTE</u>
Funding has been identified in Government-wide Accounting and Reporting from prior years Accounting Architecture initiative. These funds can be redirected to the Financial Information Reporting Standardization initiative.

Program Reinvestment ....+$958,000 / +0 FTE
<u>Financial Information Reporting Standardization (FIRST) +$958,000 / +0 FTE</u>
FMS is requesting an increase of $958,000 to the current base of $2,393,000 for FIRST. This initiative will be fully funded by redirects from savings generated from the GWA program, Payments Operations and Accounting Architecture.

FIRST integrates budgetary and proprietary financial data from FPAs. Currently, budgetary and proprietary accounting data are collected separately in four different systems. FIRST will improve the consistency of agency financial information, which is reported in agency financial statements and submitted to FMS through agency accounting trial balances. This investment will move FMS closer to achieving its strategic goal of producing accurate, accessible and timely government-wide financial information and reports that contribute to improved quality of the nation's financial decision making. FIRST will accomplish this by:

- Automating the maintenance and distribution of the United States Standard General Ledger (USSGL) accounting rules and guidance through an interactive database on the internet, making it more accurate and consistent, easier to maintain, and easier to use.
- Combining four current FMS stovepipe accounting data collection systems into one quarterly submission.
- Improving the accuracy, consistency and timeliness of agency reporting by validating the agency data and balances against authoritative balances in FMS' central accounting system.
- Realizing the full benefit of the United States Standard General Ledger (USSGL) in the financial accounting and reporting for the U.S. Government.

Consistent reporting is required for central managers to make sound decisions, and is crucial to attaining FMS' strategic goal of facilitating the achievement of a clean audit opinion on the Financial Report of the United States Government (FR). This initiative provides a systemic solution to improve data accuracy and consistency for all government-wide accounting and reporting operations. FIRST will address two material weaknesses of the FR: (1) the Accounting for and Reconciliation of Intragovernmental Activity and Balances; and (2) the Preparation of Consolidated Financial Statements.

The applications that FIRST is replacing are not compliant with the FMS technical reference model. The additional resources will be used to develop the Accounting Trial

Balance (ATB) system and its interfaces to Standards and Guidance of the USSGL Interactive Database (SID) and Government-wide Financial Reporting System (GFRS) by the end of FY 2011. There will also be efficiencies realized in having only one application on one platform to maintain. In addition, government-wide agency savings, conservatively estimated at $31 million annually, will be realized when FIRST is fully implemented. If FMS does not build FIRST, the four current reporting systems will need to be upgraded to comply with FMS' enterprise architecture at significant cost without improving functionality.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Financial Management Service	FY 2007 Enacted	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	**1,761**	**1,692**		**1,692**	**1,500**
Object Classification:					
11.1 - Full-time permanent	118,323	118,955	0	118,955	124,208
11.3 - Other than full-time permanent	1,500	1,500	0	1,500	1,500
11.5 - Other personnel compensation	2,500	3,000	0	3,000	3,000
11.8 - Special personal services payments	0	0	0	0	0
12 - Personnel benefits	26,172	26,200	0	26,200	29,888
13 - Benefits for former personnel	175	175	0	175	175
21 - Travel and transportation of persons	1,553	1,603	0	1,603	1,503
22 - Transportation of things	195	195	0	195	195
23 - Rent, Communications and Utilities	0	0	0	0	0
23.1 - Rental payments to GSA	14,950	13,500	0	13,500	13,500
23.2 - Rental payments to others	365	365	0	365	670
23.3 - Comm, utilities, and misc charges	12,658	12,569	0	12,569	11,413
24 - Printing and reproduction	700	500	0	500	500
25 - Other contractual Services	0	0	0	0	0
25.1 - Advisory and assistance services	4,750	4,800	0	4,800	6,002
25.2 - Other services	22,157	22,081	0	22,081	19,035
25.3 - Other purchases of goods and services from Govt. accounts	6,009	7,037	(768)	6,269	6,000
25.4 - Operation and maintenance of facilities	950	1,000	0	1,000	500
25.5 - Research and development contracts	0	0	0	0	0
25.6 - Medical care	0	0	0	0	0
25.7 - Operation and maintenance of equip	7,500	7,500	0	7,500	8,005
25.8 - Subsistence and support of persons	0	0	0	0	0
26 - Supplies and materials	4,250	4,300	0	4,300	3,600
31 - Equipment	10,149	9,386	0	9,386	9,100
32 - Land and structures	475	475	0	475	500
33 - Investments and loans	0	0	0	0	0
41 - Grants, subsidies, and contributions	0	0	0	0	0
42 - Insurance claims and indemnities	50	50	0	50	50
43 - Interest and dividends	0	0	0	0	0
44 - Refunds	0	0	0	0	0
Total Budget Authority	$235,381	$235,191	$(768)	$234,423	$239,344
Budget Activities:					
Payments	148,408	146,465	(488)	145,977	147,445
Collections	17,434	19,869	(65)	19,804	21,481
Debt Collection	5,029	0	0	0	0
Government wide Accounting and Reporting	64,510	68,857	(215)	68,642	70,418
Total Budget Authority	$235,381	$235,191	$(768)	$234,423	$239,344

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Payments	924	$147,055	1,173	$148,408	1,112	$145,977	963	$147,445	-13.42%	1.01%
Collections	147	19,649	113	$17,434	137	$19,804	135	$21,481	-1.39%	8.47%
Debt Collection	0	0	56	$5,029	0	$0	0	$0	0.00%	0.00%
Gov. Accounting and Reporting	412	64,954	419	$64,510	443	$68,642	402	$70,418	-9.21%	2.59%
Subtotal New Appropriated Resources	1,483	$231,658	1,761	$235,381	1,692	$234,423	1,500	$239,344	-11.35%	2.10%
Other Resources:										
Recoveries										
Offsetting Collections - Reimbursable	408	201,445	370	196,282	428	215,179	441	228,010	3.04%	5.96%
Available multi-year/no-year funds										
Transfers In/Out										
Subtotal Other Resources	408	$201,445	370	$196,282	428	$215,179	441	$228,010	3.04%	5.96%
Total Resources Available for Obligation	1,891	$433,103	2,131	$431,663	2,120	$449,602	1,941	$467,354	-8.44%	3.95%

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, [$234,423,000] *$239,344,000* of which not to exceed $9,220,000 shall remain available until September 30, [2010] 2011, for information systems modernization initiatives, of which not to exceed $2,500 shall be available for official reception and representation expenses. [*Department of the Treasury Appropriations Act, 2008]*	

2C – Permanent, Indefinite Appropriations

Federal Reserve Bank Permanent, Indefinite Appropriation

The Federal Reserve Banks (FRBs) act as fiscal agents of the United States when directed by the Secretary of the Treasury in accordance with 12 United States Code (U.S.C.) 391. The FRBs support the fiscal operations and provide banking and financial services on behalf of the Treasury of the United States. The Federal Reserve Reimbursement and Fiscal Responsibility Act of 1997 amended section 3302 (f) of title 31, U.S.C. and provided a permanent and indefinite appropriation of amounts necessary to pay the FRBs for the services they provide as fiscal agents on behalf of the Treasury. Since the FRBs support each FMS program activity, the performance measures listed in the Salaries and Expense section of this budget apply to the work done by the FRBs. FMS estimates that the cost of FRB services for FY 2009 will be approximately $305 million.

Financial Agent Services Permanent, Indefinite Appropriation

Congress has given the Secretary of the Treasury longstanding, broad discretion to deposit money in financial institutions and to obtain banking services by designating financial institutions to act/serve as Financial Agents (FA) of the United States Government. The services are in support of such programs as Electronic Federal Tax Payment System (EFTPS), the Lockbox Networks, plastic cards, e-commerce systems, and CA$HLINKII, a deposit reporting and cash concentration system. These and other programs are vital to FMS strategic goals, the government's financial critical infrastructure, and the President's emphasis on expanding E-Government. The services provided by such financial institutions are authorized under numerous statutes including, but not limited to, 12.U.S.C. 90 and 265. In FY 2004, Treasury received a permanent indefinite appropriation to pay for these services.

FMS estimates that the cost of FA services for FY 2009 will be approximately $593 million. Of this amount, approximately $40 million is appropriated to other bureaus to pay for these services, which is reimbursed to FMS and deposited into the General Fund. The increase in the estimate from prior years is a direct result of the significant increase in volume, complexity, and transactions processed for "identity programs," such as passport and immigration fee collections. For example, as a result of the Intelligence Reform and Terrorism Prevention Act of 2004, which requires a passport for entry to the United States via air and ship from Canada, the Caribbean, and Mexico, the financial agents have seen the volume of passport applications nearly double. They have had to hire hundreds of new employees to manage the workload, open additional processing locations, implement 24 hours a day, seven days a week processing, and invest in additional sorting, extraction, imaging, and document management hardware and software. Passport applications are expected to rise again once passports are required for land border crossings from Mexico and Canada, beginning in FY 2008, and after the State Department begins to offer the option for a wallet sized passport card in addition to the traditional passport. None of the offsetting passport fees are deposited into this fund. Other identity programs administered by U.S. Citizenship and Immigration Services will lead to additional increases in transaction volume processed by financial agents, and even greater increases in volume if immigration reform legislation is passed. Given the complexity, requirements, and volumes for processing fees under these and other identity programs, outlays for this fund may increase by 50 percent over recent historical rates.

2.4 – Permanent, Indefinite Appropriations

Table 2.4
Permanent, Indefinite Appropriations
(Dollars in Thousands)

Permanent, Indefinite Appropriation	2007 Enacted	2008 Enacted	FY 2009 Request
Federal Reserve Bank	$245,000	$295,000	$305,000
Financial Agent Services	$311,000	$426,000	$593,000

2C – Legislative Proposals

Eliminate the 10-year Limitations Period on Offset (31 U.S.C. 3716)
This proposal would eliminate the 10-year limitation on the collection of delinquent non-tax federal debts by administrative offset. This would ensure that delinquent debts can be collected by offset without regard to any statutory, regulatory or administrative limitation on the period within which debts may be collected. The proposed change would allow for the collection by offset of other federal debts consistent with the current law for student loans.

The proposal would be consistent with the Supreme Court's decision to allow the Department of Education to offset social security benefits to collect student loans over 10 years old.

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

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

TREASURY Strategic Outcome	FY 2008 Enacted AMOUNT	FY 2009 Request AMOUNT	Percent Change AMOUNT
Financial information	68,642	73,597	**7.5%**
Payments	283,826	286,029	**1.2%**
Revenue collected	97,134	107,728	**9.5%**
Total	**$449,602**	**$467,354**	**3.9%**

3A – Payments *($147,445,000 from direct appropriations and $138,584,000 from reimbursable programs):* The Payments activity issues and distributes payments, develops and implements federal payment policy and procedures, promotes the use of electronics in the payment process, and assists agencies in converting payments from paper checks to Electronic Funds Transfer (EFT). This activity also includes controlling and providing financial integrity to the payments process through reconciliation, accounting and claims activities. Included in this activity is the claims activity which settles claims against the United States. These claims result 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.

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

Direct deposit offers 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 - each payment converted from paper to direct deposit saves the taxpayer over 88 cents per transaction. However, FMS faces challenges in increasing growth in electronic payments. As the government prepares for the huge increase in retiring baby boomers in the near future, it is critical that FMS dramatically increase use of direct deposit for issuing benefit payments. To increase the use of direct deposit for federal benefit payments, FMS began a nationwide campaign called "Go Direct" to encourage current check recipients to switch to direct deposit. In the first year, Go Direct exceeded the goal to convert approximately half a million check recipients to direct deposit, savings millions of dollars for the United States Treasury in the years to come. In December 2007, the Go Direct campaign achieved a major milestone, converting 1.6 million check recipients to direct deposit, since the inception of the campaign.

Additionally, in FY 2007, FMS implemented a pilot program, Direct Express, which targeted the un-banked, to disburse benefit payments through debit cards. A survey of the Direct Express cardholders in July 2007 showed that 85 percent of those surveyed are satisfied with Direct Express, and four out of five people report that they would recommend the card. After conducting an evaluation of the pilot, FMS expects to roll out this debit card program nationwide and extend it to other benefit payments in the summer of 2008. Debit cards represent another electronic payment alternative to checks and one that holds promise for the unbanked. FMS is also working with the Social Security Administration to develop plans (entitled Universal Direct Deposit) which will require newly enrolled beneficiaries to receive payments electronically unless they do not have a bank account.

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

- *Stored Value Card (SVC)*: This is a smartcard, similar to a credit/debit card, using an encrypted computer chip to process "electronic money" stored on the card. This program is aimed at reducing the float-loss associated with the more than $2 billion in coin and currency in circulation at military bases, ships at sea, and other closed government locations around the world. From 1997 to September 2007, over 8 million EFT transactions with a dollar value in excess of $1.3 billion were processed via the SVC programs.

- *Automated Standard Application for Payments (ASAP.gov):* ASAP is a web-based system built by FMS in coordination with the Federal Reserve Bank of Richmond. Through this all electronic grants payment system, organizations including states, universities, for-profit and non-profit entities receive federal funds from accounts pre-authorized by federal agencies. ASAP is one of two systems authorized by the Chief Financial Officer's Council to disburse civilian grant payments on behalf of program agencies. Twenty-five federal agencies use ASAP.gov and the total FY 2007 disbursements to organizations were $447 billion.

- *Internet Payment Platform (IPP):* The IPP will provide a centralized electronic invoicing and payment information portal accessible to all participants in federal payment transactions: agencies, payment recipients, and FMS. The use of IPP lowers costs for FMS and federal agencies by converting paper-based financial management activities, such as purchase orders and invoices, into automated online processes. It also provides a single central repository that allows suppliers access to the data they need to handle many inquiries on their own and avoid numerous disputes. The IPP is designed to yield government-wide efficiencies by (1) reducing paper processing by accounts payable, (2) enhancing Treasury's value and service to its citizens by increasing access to and quality of payment data, and (3) providing a single central application in which government finance departments can engage with their suppliers, and in which government suppliers can engage with agencies.

Other Resources:
Offsetting collections and reimbursements totaling $138,584,000 are collected for disbursement of federal agency payments to beneficiaries, including Social Security payments, Railroad Retirement Board payments, tax refunds and the Department of Veterans Affairs benefit payments.

3.2.1 – Payments Budget and Performance Plan

Payments Budget Activity					
Resource Level	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Enacted**	**FY 2009 Request**
Appropriated Resources	$135,872	$142,979	$147,055	$145,977	$147,445
Reimbursable Resources	$129,264	$134,400	$132,712	$137,849	$138,584
Total Resources	**$265,136**	**$277,379**	**$279,767**	**$283,826**	**$286,029**
Budget Activity Total	**$265,136**	**$277,379**	**$279,797**	**$283,826**	**$286,029**

Payments Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**
Number of check payments (Millions) (Ot)	228	219	215	208	204
Number of electronic payments (Millions) (Ot)	725	745	767	787	809
Unit cost for Federal Government payments ($) (E)	$.35	$.37	$.39	$.40	$.40
Percentage of Treasury Payments and associated information made electronically (%) (Oe)	76.00%	77.00%	78.00%	79.00%	80.00%
Percentage of paper check and Electronic Funds Transfer (EFT) payments made accurately and on time (%) (Oe)	100.00%	100.00%	100.00%	100.00%	100.00%

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

Description of Performance: FMS disburses 85 percent of the federal government's payments to a wide variety of recipients, such as those who receive Social Security Administration payments, Internal Revenue Service tax refunds, and the Department of Veterans Affairs benefits. In FY 2007 FMS issued over 981 million non-Defense payments, with a dollar value of approximately $1.6 trillion. Seventy-eight percent of these transactions were issued by Electronic Funds Transfer. In FY 2009, FMS is targeting the percentage of electronic payments to be 80 percent.

3B – Collections *($21,481,000 from direct appropriations):* The Collections activity collects revenues needed to operate the federal government through the management of the federal government's collections infrastructure. FMS collected a record of $3.1 trillion in FY 2007 through a network of more than 9,000 financial institutions. It also manages the collection of federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines and proceeds from leases. FMS establishes and implements collection policies, regulations, standards and procedures for the federal government. The majority of dollar collections are made electronically. In FY 2007, 79 percent of dollar collections were electronic. FMS has set its FY 2009 target for the percentage collected electronically to be 80 percent.

FMS develops and operates a variety of collection mechanisms and systems to meet program agency needs. It has initiated a comprehensive effort to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. This effort, Collections and Cash Management Modernization, 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. Through the expanded use of web-based technologies, this effort supports the integration of financial and performance information government-wide by providing data on a daily basis.

FMS continues to promote the use of electronics in the collections process and assist agencies in converting collections from paper to electronic media with programs such as:

- *Electronic Federal Tax Payment System (EFTPS):* This is an accurate, secure and convenient way to pay all federal tax payments, including corporate, excise and employment taxes and 1040 quarterly estimated taxes via the internet or a telephone voice response system. EFTPS processes 95 percent of United States tax dollars and is required for businesses with annual federal tax obligations above $200,000. FMS is also working to communicate the benefits of EFTPS – accuracy, security, simplicity and flexibility – to financial institutions, small businesses and tax practitioners. The goal is to encourage businesses and individuals to pay their federal taxes electronically through EFTPS rather than by using paper Federal Tax Deposit coupons, which number close to 38 million. FMS 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. Through September 30, 2007, more than 90 million payments were processed through EFTPS, which represents an 8.33 percent increase over FY 2006.

- *Pay.gov*: Pay.gov is an innovative system that allows individuals and businesses to make non-tax payments to federal agencies over the internet. Pay.gov provides collections, form submittal, bill presentment, authentication and agency financial reporting services. Since inception, it has processed approximately 23.5 million transactions valued at over $86.6 billion. Pay.gov responds to the increasing demands of consumers and businesses for electronic alternatives by providing the opportunity to complete forms and applications, make payments, and submit queries online 24 hours a day, seven days a week. Pay.gov, which has been implemented with 102 federal agencies representing 317 cash flows, collected $37.9 billion in FY 2007 and $29.5 billion in FY 2006. New development will focus on interfaces with new systems within the new Collections Business Line Enterprise Architecture.

- *Check Conversion and Truncation:* This collections settlement service converts a paper check either into an image that is cleared through the banking system or into an EFT debit against the check writer's bank account. In both cases, paper checks are digitized at the point of receipt and the transactions are cleared and settled electronically. This service is a key program in realizing FMS' goal of increasing electronic collections and reducing collection costs. In FY 2007, more than 9.7 million items received over the counter, representing more than $14 billion, were processed through check conversion or truncation. Additionally, through FY 2007 more than 7.7 million items received through the mail at lockboxes, representing more than $6.4 billion, were similarly processed. By the end of FY 2009, it is FMS' goal that all paper checks remitted to the federal government via lockboxes will be converted or truncated and processed electronically.

3.2.2 – Collections Budget and Performance Plan

Collections Budget Activity					
Resource Level	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Enacted**	**FY 2009 Request**
Appropriated Resources	$16,229	$18,291	$19,649	$19,804	$21,481
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$16,229**	**$18,291**	**$19,649**	**$19,804**	**$21,481**
Budget Activity Total	**$16,229**	**$18,291**	**$169,649**	**$19,804**	**$21,481**

Collections Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**
Unit cost to process a Federal revenue collection transaction ($) (E)	$1.20	$1.10	$1.19	$1.30	$1.27
Percentage collected electronically of total dollar amount of Federal government receipts (%) (Oe)	79.00%	79.00%	79.00%	79.00%	80.00%

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

Description of Performance: In FY 2007, FMS collected a record $3.1 trillion through a network of more than 9,000 financial institutions. The majority of the dollar amounts of FMS collections were made electronically – 79 percent of the $3.1 trillion collected. However, approximately half of the transactions, 51.6 percent in FY 2007, are paper checks. In FY 2007, taxpayers paid more than $2.0 trillion using EFTPS, up 8.3 percent from FY 2006, and the number of payments to the government rose 8 percent, to 90 million. FMS stepped up its efforts in FY 2007 to work with federal agencies to promote the use of electronics in the collections process and assists agencies in converting collections from paper to electronic media.

3C – Debt Collection *($86,247,000 from reimbursable programs):* The Debt Collection activity collects delinquent government and child support debt by providing centralized debt collection, oversight and operational services to Financial Program Agencies (FPAs) and states as required by the Debt Collection Improvement Act of 1996 and related legislation. The services include, but are not limited to, collecting delinquent debts through Cross-Servicing and offsetting federal payments, providing a database for use as a tool for barring delinquent debtors, providing post-judgment collection, advising and educating agencies towards improving debt management, and referrals to the Department of Justice.

By FY 2009, FMS will collect delinquent debt through FedDebt, a comprehensive system that integrated FMS' previous collection tools: Cross-Servicing and the Treasury Offset Program (TOP). The TOP FedDebt function compares the names and Taxpayer Identifying Numbers (TINs) of debtors with the names and TINs of recipients of federal payments. If there is a match, the federal payment is reduced, or "offset," to satisfy the overdue debt. Cross-Servicing activities include applications for various collection tools such as offset, demand letters to debtors, repayment agreements, administrative wage garnishment, referrals to the Department of Justice, credit bureau reporting, reporting discharged debts to the Internal Revenue Service (IRS), and use of private collection agencies.

FedDebt, which integrates the payment offset and cross-servicing applications, 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 Cross-Servicing or TOP debts. 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 agency customers and service partners. FMS will continue developing FedDebt by implementing a service-oriented architecture.

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. FMS is working with the Center for Medicare and Medicaid Services (CMS) and IRS to determine the most efficient approach for bringing CMS medical debts into the levy and offset programs. In addition, 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 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Enacted**	**FY 2009 Request**
Appropriated Resources	$8,738	$5,393	$0	$0	$0
Reimbursable Resources	$29,793	$28,312	$67,611	$77,330	$86,247
Total Resources	**$38,531**	**$33,705**	**$67,611**	**$77,330**	**$86,247**
Budget Activity Total	**$38,531**	**$33,705**	**$67,611**	**$77,330**	**$86,247**

Debt Collection Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**
Amount of delinquent debt collected per $1 spent ($) (E)	$36.23	$39.97	$53.55	$40.00	$42.00
Amount of delinquent debt collected through all available tools (Billions $) (Ot)	$3.25	$3.34	$3.76	$3.40	$3.50
Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral (%) (Ot)	97.00%	95.00%	100.00%	95.00%	95.00%

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

Description of Performance: In FY 2007, FMS collected a record $3.76 billion in delinquent debt, which exceeded the FY 2007 target of $3.2 billion. This includes $1.7 billion in past due child support, $1.47 billion in federal non-tax debt, and over $586 million 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 2007. As a result of the continued program improvements, collections have steadily increased to more than $31.7 billion since the enactment of the Debt Collection Improvement Act of 1996. In calendar year 2007, the Internal Revenue Service referred an additional $32.2 billion of tax debts for continuous levy, a 14 percent increase from calendar year 2006 for the same period.

3D – Government wide Accounting and Reporting *($70,418,000 from direct appropriations and $3,179,000 from reimbursable programs):* The Government-wide Accounting and Reporting activity maintains the federal government's books and accounts for its monetary assets and liabilities by operating and overseeing the government's central accounting and reporting system. It also works with federal agencies to adopt uniform accounting and reporting standards and systems and provides support, guidance and training to assist FPAs in improving their government-wide accounting and reporting responsibilities. FMS gathers and publishes government-wide financial information which is used in establishing fiscal and debt management policies and is also used by the public and private sectors to monitor the government's financial status. These publications include: the Daily Treasury Statement, the Monthly Treasury Statement, the Treasury Bulletin, the Combined Statement of the United States Government, and the Financial Report of the United States Government (FR).

FMS is building and implementing a system to improve the exchange of financial information among FMS, FPAs, OMB and the banking community. Once completed, this project, the Government-wide Accounting (GWA) Modernization Project will comprehensively replace current government-wide accounting functions and processes that are both internal and external to FMS. In FY 2008 and FY 2009, FMS will be working with FPAs to roll-out the new GWA system for the reporting of payments, collections and intra-governmental collection and payment transactions. It will improve the reliability, usefulness, and timeliness of the government's financial information, provide FPAs and other users with better access to that information, and will eliminate duplicate reporting and reconciliation burdens by agencies. In addition, FPAs will have better tools for reporting financial information and access to daily account statements for monitoring the status of their financial information at the Treasury Department. This initiative will result in significant savings throughout government as agencies will no longer have to prepare month-end reports classifying all of their disbursement and collection transactions or performing reconciliations on statements of differences associated with this month-end reporting.

FMS is taking significant steps to address the material weaknesses found in the compilation process of Financial Report (FR) of the United States Government, including:

- Requiring comprehensive accounting data from agencies on a quarterly basis that will allow FMS to better analyze the data for consistency and completeness.

- Providing agencies with authoritative data to reconcile inter-agency transfers and other transactions that agencies report to the central accounting system.

- Using the Chief Financial Officers (CFO) Council, Treasury Reporting Group as a forum to discuss these accounting and reporting issues that affect the FR.

- Working with the CFO Council and OMB to develop more consistent business rules for intra-governmental transactions.

- Encouraging greater auditor participation by requiring agency auditors to more closely scrutinize intra-governmental out-of-balance conditions with other agencies.

The goal of these actions is to remove the compilation process as a barrier to a clean audit opinion for the FR.

In FY 2009, FMS will continue moving forward on the Financial Information and Reporting Standardization (FIRST) initiative. This initiative integrates budget and financial reports from FPAs. FIRST will improve the consistency of the budgetary and proprietary accounting data recorded in agency financial statements and reported to FMS through its trial balance. FIRST is designed to provide authoritative information, contained in Treasury's central accounting system, to the agencies, to facilitate the reconciliation process for specific intra-governmental transactions.

3.2.4 – Government wide Accounting and Reporting Budget and Performance Plan

Government wide Accounting and Reporting Budget Activity Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$62,668	$67,338	$64,954	$68,642	$70,418
Reimbursable Resources	$0	$0	$1,122	$0	$3,179
Total Resources	**$62,668**	**$67,338**	**$66,076**	**$68,642**	**$73,597**
Budget Activity Total	**$62,668**	**$67,338**	**$66,076**	**$68,857**	**$73,597**

Government wide Accounting and Reporting Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Unit Cost to Manage $1 Million Dollars of Cash Flow	Baseline	$8.50	$10.36	$11.72	$13.39
Percentage of Government-wide accounting reports issued accurately (%) (Oe)	100.00%	100.00%	100.00%	100.00%	100.00%
Percentage of Government-wide accounting reports issued timely (%) (E)	100.00%	100.00%	100.00%	100.00%	100.00%

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

Description of Performance: FMS issues 100 percent of its government-wide accounting reports accurately and timely. For the fourth consecutive year, FMS released the *Financial Report of the United States Government* (FR) 75 days after the fiscal year-end. In FY 2006, Government Accountability Office (GAO) acknowledged and noted improvements with regard to consistency with agency information in the Balance Sheet, the Statement of Net Cost and Statement of Social Insurance and in the note disclosures that are directly linked to the amounts on these principal financial statements.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

FMS' strategic management of human capital is consistent with its mission, vision and priorities supporting the President's Management Agenda, and Treasury's strategic goal to manage the United States Government's Finances Effectively.

FMS is on the technology forefront in the performance of its mission. FMS has taken steps to improve the quality of its professional workforce. A Human Capital Strategic Plan has been developed to identify current structure weaknesses and build upon its strengths. Achieving the following objectives will support and strengthen its work force:

- *Strategic Alignment*: A human capital strategy is aligned with FMS' mission, goals, organizational objectives, and is integrated into the strategic plans, performance plans and budgets.
- *Workforce Planning & Deployment:* FMS is citizen-centered, delayered, mission-focused, and leverages E-Government and competitive sourcing.
- *Leadership & Knowledge Management:* Leaders and managers effectively manage people, ensure continuity of leadership, and sustain a learning environment that drives continuous improvement in performance. Succession strategies result in a diverse leadership talent pool that is continually updated.
- *Results-Oriented Performance Culture:* FMS has a diverse, results-oriented, high performance workforce, a performance management system and awards program that effectively differentiates between high and low performance. It holds employees accountable, links individual/team/unit performance to organizational goals and desired results.
- *Diversity:* Under-representation is addressed, particularly in mission-critical occupations and leadership positions and processes are in place to sustain diversity.
- *Talent:* FMS has significantly reduced mission-critical skills, knowledge and competency gaps. FMS is making significant progress and demonstrates continued improvement in meeting agreed-upon hiring timeline goals, i.e., the 45-day hiring model.
- *Accountability:* Human capital decisions are guided by a data-driven results-oriented planning and accountability system.

Through these objectives FMS has strengthened its human capital position. Proactive identification and filling of vacant positions is a part of recruiting and retaining new talent. Delegated Examination and student intern program authorities are used extensively to attract talent from some of the best colleges and universities.

FMS has action plans to attain and maintain the right number of people with the right skills to accomplish the mission. It continually manages the ongoing challenge of recruiting and retaining highly skilled individuals in critical areas, including Accountants (with strong analytical skills) and IT Specialists. These challenges have increased with heightened competition from the private sector. In addition, there is ongoing position management and assessment of FTE distribution. As vacancies occur, they are reviewed to determine whether the position should be back-filled, the FTE be redirected as appropriate, or the FTE be eliminated. This is how FMS counters the possibility of either a surplus or deficiency of staff in certain job occupations.

Through FY 2010, 26 percent of FMS' current employees are eligible for Optional Retirement and 43 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: SES Candidate Development, Project Management Certification, Management Preparatory Development, Federal Career Intern Program, Leadership, and Mentoring.

Another strategy to manage staffing needs is use of contractors and/or outsourcing. FMS supplements its workforce with contractors in security, building maintenance, IT support and various finance functions provided by the Bureau of the Public Debt. Government collections are outsourced to financial institutions and Federal Reserve Banks who serve as financial and fiscal agents of the Treasury Department.

FMS believes that a diverse workforce is vital to achieve its mission. It monitors recruitment and diversity goals to improve areas of under-representation and actively supports programs and initiatives to recruit minority college students. The following programs have been established to ensure a diverse workforce:

- SES candidate program was developed to create a diverse pipeline of future senior executives.
- Special emphasis programs were expanded and Equal Employment Opportunity 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 pipeline for new Hispanic employees.

In addition, FMS has increased participation in the Washington Internship for Native Students program as well as the Department of Labor's Workforce Recruitment Program for students with disabilities was increased. FMS continues to use the Federal Career Internship Program to facilitate and accelerate general hiring of qualified and talented minority student interns.

FMS has a solid and viable Human Capital Strategy to fulfill its mission.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Enacted	FY 2007 Enacted	% Change from FY06 to FY07	FY 2008 Likely Enacted	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
Automated Standard Application for Payments (ASAP)	Payments	8,739	2,245	-74.3%	2,235	-0.4%	2,422	8.4%
FMS S&E no FTE		689	69	-90.0%	88	27.5%	77	-12.5%
FMS S&E FTE Costs		8,050	2,176	-73.0%	2,147	-1.3%	2,345	9.2%
Multi-Year		0	0	N/A	0	N/A	0	N/A
Debt Management Accounting System (DMAS)	Debt Collection	0	0	0.0%	0	0.0%	0	0.0%
FMS S&E no FTE		0	0	N/A	0	N/A	0	N/A
FMS S&E FTE Costs		0	0	N/A	0	N/A	0	N/A
Multi-Year		0	0	N/A	0	N/A	0	N/A
Deposit and Data Management (DDM)	Collections	730	1,156	0.0%	1,226	0.0%	1,276	4.1%
FMS S&E no FTE		0	0	N/A	0	N/A	0	N/A
FMS S&E FTE Costs		730	1,156	N/A	1,226	0.0%	1,276	4.1%
Multi-Year		0	0	N/A	0	N/A	0	N/A
FMS EFTPS (Electronic Federal Tax Payment System)	Collections	617	617	N/A	638	3.4%	659	3.3%
FMS S&E no FTE		0	0	N/A	0	N/A	0	N/A
FMS S&E FTE Costs		617	617	N/A	638	3.4%	659	3.3%
Multi-Year		0	0	N/A	0	N/A	0	N/A
FedDebt	Debt Collection	0	0	0.0%	0	0.0%	0	0.0%
FMS S&E no FTE		0	0	N/A	0	N/A	0	N/A
FMS S&E FTE Costs		0	0	N/A	0	N/A	0	N/A
Multi-Year		0	0	N/A	0	N/A	0	N/A
Financial Information and Reporting Standardization (FIRST)	Government-wide Accounting	3,384	4,107	21.4%	5,792	41.0%	7,056	21.8%
FMS S&E no FTE		838	138	-83.5%	2,309	1573.2%	3,351	45.1%
FMS S&E FTE Costs		2,298	3,367	46.5%	3,399	1.0%	3,705	9.0%
Multi-Year		248	602	N/A	84	N/A	0	N/A
Government-Wide Accounting and Reporting Modernization (GWA)	Government-wide Accounting	80,711	15,361	-81.0%	10,094	-34.3%	9,568	-5.2%
FMS S&E no FTE		38,669	3,349	-91.3%	2,250	-32.8%	1,668	-25.9%
FMS S&E FTE Costs		29,282	9,460	-67.7%	5,492	-41.9%	5,941	8.2%
Multi-Year		12,760	2,552	N/A	2,352	N/A	1,959	N/A
Internet Payment Platform (IPP)	Payments	533	291	0.0%	300	3.1%	309	3.0%
FMS S&E no FTE		0	0	N/A	0	N/A	0	N/A
FMS S&E FTE Costs		533	291	N/A	300	3.1%	309	3.0%
Multi-Year		0	0	N/A	0	N/A	0	N/A

4.1 – Summary of IT Resources Table (continued)

Dollars in Thousands

Information Technology Investments Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Enacted	FY 2007 Enacted	% Change from FY06 to FY07	FY 2008 Likely Enacted	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
FMS S&E FTE Costs		4,104	500	-87.8%	500	0.0%	552	10.4%
Multi-Year		0	0	N/A	0	N/A	0	N/A
PACER	Payments	11,134	2,325	-79.1%	2,489	7.1%	2,631	5.7%
FMS S&E no FTE		6,680	1,441	-78.4%	1,578	9.5%	1,693	7.3%
FMS S&E FTE Costs		4,454	884	-80.2%	911	3.1%	938	3.0%
Multi-Year		0	0	N/A	0	N/A	0	N/A
Pay.gov	Collections	1,560	522	-66.5%	545	4.4%	569	4.4%
FMS S&E no FTE		0	0	N/A	0	N/A	0	N/A
FMS S&E FTE Costs		1,560	522	-66.5%	545	4.4%	569	4.4%
Multi-Year		0	0	N/A	0	N/A	0	N/A
Payment Application Modernization (PAM)	Payments	12,445	12,776	2.7%	12,697	-0.6%	11,939	-6.0%
FMS S&E no FTE		1,490	985	-33.9%	1,027	4.3%	1,039	1.2%
FMS S&E FTE Costs		10,730	11,566	7.8%	11,445	-1.0%	10,675	-6.7%
Multi-Year		225	225	N/A	225	N/A	225	N/A
Secure Payment System (SPS)	Payments	16,815	3,517	-79.1%	3,875	10.2%	3,901	0.7%
FMS S&E no FTE		8,039	1,660	0.0%	1,737	0.0%	1,712	-1.4%
FMS S&E FTE Costs		8,776	1,857	0.0%	2,138	0.0%	2,189	2.4%
Multi-Year		0	0	N/A	0	N/A	0	N/A
Treasury Check Information System (TCIS)	Payments	5,519	857	-84.5%	836	-2.5%	854	2.2%
FMS S&E no FTE		552	0	N/A	0	N/A	0	N/A
FMS S&E FTE Costs		4,967	857	-82.7%	836	-2.5%	854	2.2%
Multi-Year		0	0	N/A	0	N/A	0	N/A
Subtotal, Major IT Investments		288,478	88,048	-69.5%	81,954	-6.9%	82,920	1.2%
Non-Major IT Investments [1/]		11,300	4,845	-57.1%	4,893	1.0%	3,789	-22.6%
Infrastructure Investments [2/]		20,056	20,056	0.0%	20,056	0.0%	23,200	15.7%
Enterprise Architecture		1,800	1,400	-22.2%	1,400	0.0%	1,370	-2.1%
Total IT Investments		321,634	114,349	-64.4%	108,303	-5.3%	111,279	2.7%

1/ In FY 2009, the number of Non-Majors reporting increased to 14 investments.

2/ Figures provided for FY 2009 include funding amounts for the Treasury Web Application Infrastructure (TWAI) platform that were not included in previous years.

4B – Information Technology Strategy

The FMS IT Strategy addresses all bureau information resource management. It focuses on technology and how it supports FMS' Strategic Planning Goals. The FMS Strategic Plan 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.

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's requirements for Capital Planning and Investment Control, and Enterprise Architecture. Before projects are started or a major change implemented, there is a formal approval process beginning with the Division Information Officers (DIO) Council. Each project provides the DIO Council with project business case documentation, which describes the project, documents benefits, 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 is 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 process includes recommendations by the DIO council for approval/disapproval of all IT investments and major enhancements. The FMS executive board (EB) must also approve all large scale IT projects and it conducts quarterly reviews of all FMS investments with Exhibit 300s.

4.2 – PART Evaluation Table

PART Name:	Debt Collection
Year PARTed:	FY 2003
Rating:	Effective

OMB Major Findings/Recommendations

1. Develop a more ambitious long-term performance measure.
2. Set interim targets and describe interim actions necessary to achieve the long-term performance measure.
3. Level fund the debt collection program for FY 2005.
4. Propose legislation to increase and enhance debt collection opportunities.

Bureau Actions Planned or Underway

1. FMS establishes annual performance measures for collections and referrals of debt by agencies. Listed are examples of collection tools and initiatives used by FMS to achieve long-term measures:
• Administrative Wage Garnishment (AWG)
• DebtCheck
• Continuous Agency Outreach
• President's Management Agenda (PMA)
• Receivables Reporting

2. A Federal Contractor Tax Compliance Task Force consisting of FMS, IRS, and the Center for Medicare and Medicaid Services is examining the issue of how best to incorporate CMS payments to Medicare providers into the Federal Payment Levy Program.

3. As a result of increased debt revenues, in FY 2008 FMS' Debt Collection Budget Activity will be fully funded by fee revenue.

4. FMS supports numerous legislative proposals which will enable FMS to significantly enhance our debt collection opportunities. Listed are some of the debt collection enhancement proposals for 2007-08:
• (26 U.S.C. 6402) Offsets of past-due, legally enforceable state unemployment compensation debts against overpayment. This proposal will allow FMS to offset federal tax refunds to collect past-due state unemployment compensation debts.
• (21 U.S.C. 3716) Eliminate the Ten-year period of Offset. This proposal will eliminate the ten-year limitation on the collection of delinquent non-tax deferral debts by administrative offset.
• Allow the IRS to issue its due process notice for levy after the levy has been served.

5. The debt long-term measure will be evaluated and updated as part of FMS' update to its Strategic Plan. For 2007, FMS has a target of $3.2 billion in collections.

PART Name:	Collection
Year PARTed:	FY 2004
Rating:	Effective

OMB Major Findings/Recommendations

1. Work with program partners to explore opportunities to better reduce paper-based collections.

2. Provide 2006 funding at the same level as in 2005 (excluding funding received for services provided to other federal agencies).

Bureau Actions Planned or Underway

1. FMS has initiated a comprehensive effort to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. This effort will improve financial performance by enabling FMS and government agencies to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes.

2. FMS partnered with the State of Illinois to pilot joint Federal and state tax payments through the Electronic Federal Tax Payment System (EFTPS). An evaluation is underway to determine whether this pilot can be expanded cost-effectively to additional states. For Fiscal Year 2007, EFTPS is on track to increase the volume of payments by 8% and the dollar amount of payments by 10% over Fiscal Year 2006.

3. FMS will continue to promote its other electronic collection mechanisms such as:
• Electronic Check Processing (ECP) System which converts paper checks received at a lockbox to electronic debits or truncates the checks and processes the images via Check 21. All non-tax lockbox collections will be collected through ECP by the end of 2007 and we expect to convert tax lockbox collections by the end of 2009.
• Pay.gov collects money for 99 Federal agencies. FMS will be working with a number of Federal agencies, including the Departments of Housing and Urban Development and Education to move their large cash flows to Pay.gov.
• The Paper Check Conversion Over the Counter (PCC OTC) System converts paper checks to electronic debits or truncates the checks and processes the images via Check 21. PCC OTC supports 32 Federal agencies in the U.S. and overseas.
• TGAnet, a web-based deposit reporting system for over-the-counter collections, is now capable of supporting activity for both domestic and international deposits. FMS will continue to convert more agencies and banks to TGAnet over the next few years.

4. Operate within budgetary resources.

PART Name:	Payments
Year PARTed:	FY 2005
Rating:	Effective

OMB Major Findings/Recommendations

1. The program must continue its efforts toward and all electronic treasury.

Bureau Actions Planned or Underway

1. Working with Federal agencies to reduce the number of paper check payments and increasing the number of more efficient and secure electronic payments. This reflects FMS' efforts to work toward its 2010 goal of 90 percent of all payments made electronically.

2. FMS will continue to promote its electronic payment mechanisms such as Stored Value Card (SVC), a smartcard, similar to a credit/debit card, using an encrypted computer chip to process "electronic money" stored on the card and the Internet Payment Platform (IPP) which provides a centralized electronic invoicing and payment information portal accessible to all participants in federal payment transactions: agencies, payment recipients, and FMS.

3. Implemented Go Direct, a nationwide campaign to encourage current Federal check recipients to switch to direct deposit. Go Direct has converted one million check recipients to direct deposit since its inception.

4. In FY 2007, FMS implemented a pilot program, Direct Express, which is targeted at the un-banked, to disburse benefit payments through debit cards.

5. FMS is developing plans entitled Universal Direct Deposit which will require at some future date, that all newly enrolled beneficiaries receive payments electronically unless they do not have a bank account.

PART Name:	Government-wide Accounting and Reporting
Year PARTed:	FY 2006
Rating:	Moderately Effective

OMB Major Findings/Recommendations

1. The program must develop a baseline for its efficiency performance measure. While FMS has unit cost, timeliness, and accuracy measures in its internal and external performance reporting that are used to manage for improved efficiency, at the time of this PART evaluation, a baseline for the new unit cost measure had yet not been established.

2. More work needs to be done in order to ahieve a clean opinion on the Financial Report of the U.S. Government. Improvement is needed on material weakness in the areas of accounting data compilation/consolidation and reconciliation of intragovernmental reporting differences.

Bureau Actions Planned or Underway

1. FMS has developed a baseline for the efficiency performance measure that measures the unit cost to manage one million dollars of cash flow.

2. FMS has two major initiatives which will modernize long standing Federal accounting processes and provide agencies with methodologies and tools to improve the accuracy and consistency of their financial data:

• The Government-wide Accounting (GWA) Modernization project which will replace existing government-wide accounting functions and processes. This project will improve the reliability, usefulness, and timeliness of the government's financial information, provide agencies and other users with better access to that information, and will eliminate duplicate reporting and reconciliation burdens by agencies, resulting in significant government-wide savings. It will also improve the budgetary information being collected from the agencies at the transaction level.

• The Financial Information and Reporting Standardization (FIRST) initiative integrates budget and financial reports from Federal Program Agencies. FIRST will improve the consistency of the budgetary and proprietary accounting data recorded in agency financial statements and reported to FMS through its trial balance.

3. FMS is taking the following actions to address unreconciled intra-governmental transactions:

• Requiring comprehensive intragovernmental accounting data from agencies on a quarterly basis that will allow FMS to provide data to all federal agencies for them to better analyze and reconcile intragovernmental differences.

• Working with the CFO Council and OMB to enforce the business rules for intra-governmental transactions and to organize the Dispute Resolution Committee.

• Encouraging greater auditor participation by requiring agency auditors to more closely scrutinize intra-governmental out-of-balance conditions with other agencies.

• Moving forward on the FIRST initiative which is being designed to provide authoritative information contained in Treasury's central accounting system to the agencies to facilitate the reconciliation process for specific intra-governmental transactions.

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

Bureau of the Public Debt

Mission Statement

To borrow the money needed to operate the federal government, account for the resulting debt and provide reimbursable support services to federal agencies.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2007	FY 2008	FY 2009		
Administering the Public Debt	Enacted	Enacted	Request	$ Change	% Change
Wholesale Securities Services	$19,996	$20,518	$21,047	$529	2.58%
Government Agency Investment Services	14,594	14,648	14,497	(151)	-1.03%
Retail Securities Services	137,020	140,573	144,194	3,621	2.58%
Summary Debt Accounting	7,244	7,132	7,316	184	2.58%
Total Appropriated Resources	**$178,854**	**$182,871**	**$187,054**	**$4,183**	**2.29%**
Total FTE	**1,390**	**1,371**	**1,371**	**0**	**0.00%**

Note: FY 2007 Total Appropriated Resources include $3,000,000 in projected user fee collections. FY 2008 and FY 2009 Total Appropriated Resources include $10,000,000 in projected user fee collections.

FY 2009 Priorities

- Ensure that the most efficient systems are in place to conduct borrowing operations and deliver securities services to investors.
- Continue to adopt technological advances to ensure that Public Debt's various information technology systems remain secure.
- Encourage investors to convert their marketable securities and paper savings bonds to TreasuryDirect.
- Communicate with customers about the benefits of dealing directly with Treasury to purchase securities and manage their holdings online.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Bureau of the Public Debt's 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 $4 trillion in Treasury bills, notes, bonds and Treasury Inflation-Protected Securities (TIPS); effectively administers the regulation of the primary and secondary Treasury securities markets; ensures that reliable systems and processes are in place for issuing, transferring, paying interest on and redeeming Treasury securities; issues and redeems more than 78 million paper savings bonds each year; administers in excess of $4 trillion in investments for some 230 federal trust funds; and provides timely and accurate information on the public debt.

In support of Treasury's strategic outcome of financing the government at the lowest possible cost over time, Public Debt's top priority is to ensure that the most efficient systems are in place to conduct borrowing operations and deliver securities services to investors. To that end, Public Debt continues to enhance its TreasuryDirect system where retail customers can purchase and manage their holdings of Treasury securities over the internet and will, in the first quarter of calendar year 2008, replace its aging auction system. As it increasingly relies on conducting business electronically, Public Debt also places a high priority on adopting technological advances to ensure that its systems remain secure.

Public Debt's major operational initiative is to consolidate all Government Agency Investment Services functions into one automated system by FY 2012 to reduce costs and facilitate future enhancements. To date, the Government Account Series (GAS) and borrowings functions are operating from the same automated platform and the effort to merge the State and Local Government Series (SLGS) program is underway.

Issuing all Treasury securities electronically is a long-term goal for the retail program; however, the timetable for achieving that goal depends on several factors. A key challenge is to communicate with customers about the benefits of dealing directly with Treasury to purchase securities and manage their holdings online. As the public becomes increasingly comfortable with conducting financial business online, Public Debt believes more customers will take advantage of these benefits.

With its resources, Public Debt:

- Conducts more than 200 marketable securities auctions annually, resulting in the issuance of more than $4 trillion in Treasury bills, notes, bonds and TIPS;
- Administers in excess of $4 trillion in GAS investments, which amount to 45 percent of the public debt;
- Manages some 6,900 active SLGS securities accounts valued at $297 billion;
- Serves more than 50 million retail customers holding marketable and savings securities, including nearly 300,000 investor accounts in the internet-accessed TreasuryDirect system;

- Accounts for and reports on $219 billion in federal agency borrowings from Treasury in 78 funds;
- Accounts for and reports on the balance and composition of the nearly $9 trillion in public debt, the single largest liability on the federal government's balance sheet, and reconciles more than $77 trillion in securities transactions reported from numerous systems to cash flowing in and out of the federal government each year; and
- Annually receives unqualified audit opinions on the *Schedules of Federal Debt*.

The total resources required to support Public Debt activities in FY 2009 are $202,061,000, including $187,054,000 from direct appropriations, of which $10,000,000 are user fees, and $15,007,000 from offsetting collections and reimbursable programs.

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, Public Debt has dramatically reduced the time required to complete marketable securities auctions. Results are now consistently released within two minutes, plus or minus 30 seconds, of closing. By reducing the time bidders are exposed to the risk of adverse market movements, auction participants are likely to bid at more favorable rates and yields to the federal government.

In the first quarter of calendar year 2008, Public Debt will replace its aging auction system to fully automate the announcement, auction and issuance of marketable securities and, at the same time, provide greater speed and flexibility to Treasury debt managers in bringing new types of securities to market. By eliminating manual processes, the new Treasury Automated Auction Processing System (TAAPS) will help ensure error-free auction results. Going forward, Public Debt will upgrade TAAPS to keep pace with changes in technology to ensure financing operations are conducted timely and with 100 percent accuracy.

Public Debt continues its commitment to providing efficient mechanisms for federal, state and local government entities to purchase GAS and SLGS securities and borrow from Treasury. Public Debt will also continue to work with the Financial Management Service and federal agency customers to simplify financial reporting and streamline the reconciliation processes associated with producing government-wide financial statements.

Public Debt will continue to enhance and support TreasuryDirect. To take advantage of the efficiencies of electronic processing, Public Debt will encourage investors to convert their marketable securities and paper savings bonds to TreasuryDirect. In FY 2009, TreasuryDirect will be expanded to enable fiduciaries, trusts and other organizations to open and maintain accounts. Also in FY 2009, Public Debt will streamline gift purchases in TreasuryDirect.

Public Debt continues to work to improve the clarity, utility and availability of federal debt information. Public Debt began producing daily public debt financial statements in June 2007. This effort supports the President's Management Agenda goal of providing accurate and timely financial information. Going forward, Public Debt will work to modernize its system used for public debt accounting by migrating common summary debt accounting financial information to a shared service provider. This will potentially reduce operational risks and costs, while standardizing system, business and data elements.

Although not supported by appropriated funding, Public Debt has made its franchise operations, the Administrative Resource Center and Information Technology Group, a significant part of what it does. As a recognized Shared Service Provider (SSP), Public Debt's Administrative Resource Center supplies reimbursable support services to federal agencies, generating revenue to pay all organizational expenses. This designation fosters customer growth, as the Office of Management and Budget and the General Services Administration encourage agencies to use the efficiencies offered by SSPs, thus allowing customers to focus on mission-related activities. Public Debt's Information Technology Group offers a combination of experience and know-how that allows it to effectively plan and execute government IT solutions. Additional information technology services, such as application hosting, are also provided to customers through the Information Technology Group. For FY 2009, Public Debt's Administrative Resource Center and Information Technology Group plan to serve 78 customers with $103 million in revenue.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Administering the Public Debt	FTE	Amount
FY 2008 Enacted	1,371	$182,871
Maintaining Current Levels (MCLs)		
Non-Pay Inflation Adjustment		1,497
Pay Annualization		769
Pay Inflation Adjustment		2,445
Total FY 2009 Base	1,371	187,582
Program Decreases:		
Government Agency Investment Services System (GAISS) Savings		(528)
Subtotal FY 2009 Program Changes	0	(528)
Total FY 2009 Request	0	$187,054
Adjustments to Request User Fees:		
User Fees		(10,000)
Subtotal FY 2009 Offsetting Fees and Rescissions	0	(10,000)
Total FY 2009	0	$177,054

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$4,711,000 / +0 FTE

Non-Pay Inflation Adjustment +$1,497,000 / +0 FTE

Funds are requested for other non-labor related items such as contracts, travel, supplies, equipment and GSA rent.

Pay Annualization +$769,000 / +0 FTE

Funds are requested for the FY 2009 cost of the January 2008 pay raise.

Pay Inflation Adjustment +$2,445,000 / +0 FTE

Funds are requested for the proposed January 2009 pay raise.

Program Decreases ....-$528,000 / +0 FTE

Government Agency Investment Services System (GAISS) Savings -$528,000 / +0 FTE

Due to the consolidation of Public Debt's Special Purpose Security and InvestOne systems, Public Debt projects a $528,000 savings for its GAISS. The decrease is the result of a 20 percent savings due to the consolidation, offset by inflation and a 10 percent increase for contract expenses. Through consolidation, Public Debt will streamline the technology used for supporting this business line and standardize its internal control of processes common to all Government Agency Investment Services programs.

Adjustments to Request User Fee ....-$10,000,000 / +0 FTE

User Fees -$10,000,000 / +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.

2.2 – Operating Levels Table

Bureau: Bureau of the Public Debt	FY 2007 Enacted	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	Proposed Reprogrammings	FY 2008 Proposed Operating Level	FY 2009 Requested Level
FTE	1,390	1,390		1,371		1,371	1,371
Object Classification:							
11.1 Full-Time Permanent Positions....................	$83,937	$89,149	-	81,920	-	81,920	$84,003
11.3 Other than Full-Time Permanent Positions....	201	213	-	213	-	213	218
11.5 Other Personnel Compensation..................	4,310	2,989	-	2,989	-	2,989	3,065
11.8 Special Personal Services Payments...........	-	-	-	-	-	-	-
11.9 Personnel Compensation (Total)..............	$88,448	$92,351	$0	$85,122	$0	$85,122	$87,286
12.0 Personnel Benefits.......................................	22,534	23,403	-	23,403	-	23,403	24,453
13.0 Benefits to Former Personnel.......................	30	28	-	50	-	50	50
21.0 Travel...	1,842	1,732	-	1,661	-	1,661	1,673
22.0 Transportation of Things..............................	90	85	-	90	-	90	91
23.1 Rental Payments to GSA.............................	6,217	6,393	-	6,762	-	6,762	7,262
23.2 Rent Payments to Others.............................	5	5	-	2	-	2	2
23.3 Communications, Utilities, & Misc................	15,845	15,384	-	14,240	-	14,240	14,339
24.0 Printing and Reproduction............................	1,956	1,837	-	1,735	-	1,735	1,747
25.1 Advisory & Assistance Services...................	502	472	-	344	-	344	346
25.2 Other Services...	24,914	25,402	-	26,069	-	26,069	26,249
25.3 Purchase of Goods/Serv. from Govt. Accts..	7,869	7,392	-	10,376	-	10,376	10,448
25.4 Operation & Maintenance of Facilities..........	557	742	-	868	-	868	874
25.5 Research & Development Contracts............	-	-	-	-	-	-	-
25.6 Medical Care..	19	18	-	22	-	22	22
25.7 Operation & Maintenance of Equipment........	2,420	2,273	-	3,906	-	3,906	3,933
25.8 Subsistence & Support of Persons...............	10	-	-	-	-	-	-
26.0 Supplies and Materials.................................	2,365	2,222	-	2,247	-	2,247	2,263
31.0 Equipment..	3,134	3,030	-	5,752	-	5,752	5,792
32.0 Lands and Structures...................................	95	89	-	220	-	220	222
33.0 Investments & Loans....................................	-	-	-	-	-	-	-
41.0 Grants, Subsidies...	-	-	-	-	-	-	-
42.0 Insurance Claims & Indemn.........................	2	2	-	2	-	2	2
43.0 Interest and Dividends……………………….	-	11	-	-	-	-	-
44.0 Refunds..	-	-	-	-	-	-	-
Total Budget Authority………………………………	$178,854	$182,871	$0	$182,871	$0	$182,871	$187,054
Budget Activities:							
Wholesale Securities Services………………………	19,996	12,474	-	$20,518	-	20,518	21,047
Government Agency Investment Services…………	14,594	13,239	-	$14,648	-	14,648	14,497
Retail Securities Services……………………………	137,020	151,359	-	$140,573	-	140,573	144,194
Summary Debt Accounting……………………………	7,244	5,799	-	$7,132	-	7,132	7,316
Total Budget Authority………………………………	$178,854	$182,871	$0	$182,871	$0	$182,871	$187,054

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted 1/		FY 2008 Enacted 2/		FY 2009 Request 2/		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Wholesale Securities Services	146	$19,475	155	$19,996	154	$20,518	154	$21,047	0.00%	2.58%
Government Agency Investment Services	104	13,903	113	$14,594	110	$14,648	110	$14,497	0.00%	-1.03%
Retail Securities Services	1,002	133,425	1,066	$137,020	1,054	$140,573	1,054	$144,194	0.00%	2.58%
Summary Debt Accounting	51	6,769	56	$7,244	53	$7,132	53	$7,316	0.00%	2.58%
Subtotal New Appropriated Resources	1,303	$173,572	1,390	$178,854	1,371	$182,871	1,371	$187,054	0.00%	2.29%
Other Resources:										
Offsetting Collections - Reimbursable	16	13,970	17	14,058	17	14,565	17	15,007	0.00%	3.03%
Available multi-year/no-year funds		3,299		5,311		3,658				
User Fees		2,797								
Recoveries				12		70				
Subtotal Other Resources	16	20,066	17	19,381	17	18,293	17	15,007	0.00%	-17.96%
Total Resources Available for Obligation	1,319	$193,638	1,407	$198,235	1,388	$201,164	1,388	$202,061	0.00%	0.45%

1/ Subtotal New Appropriated Resources include $3,000,000 in projected user fee collections.

2/ Subtotal New Appropriated Resources include $10,000,000 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, [$182,871,000]*$187,054,000*, of which not to exceed $2,500 shall be available for official reception and representation expenses, and of which not to exceed $2,000,000 shall remain available until September 30, [2010]*2011*, for systems modernization: *Provided*, That the sum appropriated herein from the general fund for fiscal year [2008]*2009* shall be reduced by not more than $10,000,000 as definitive security issue fees and Legacy Treasury Direct Investor Account Maintenance fees are collected, so as to result in a final fiscal year [2008]*2009* appropriation from the general fund estimated at [$172,871,000]*$177,054,000*. In addition, [$70,000]*$90,000* 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. *(Department of the Treasury Appropriations Act, 2008.)*	The $10,000,000 in user fees associated with the Legacy Treasury Direct system was enacted in FY 2008. Legacy Treasury Direct is a book-entry system that has been in operation since 1986.

2B – Permanent, Indefinite Appropriations

<u>Reimbursements to the Federal Reserve Banks</u>

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 2009 is estimated at $130,170,000.

<u>Government Losses in Shipment</u>

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 2009, the funding estimated to support payments for the replacement of valuables is $500,000.

2C – Legislative Proposals

Public Debt has no legislative proposals for FY 2009.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

TREASURY Strategic Outcome	FY 2008 Enacted AMOUNT	FY 2009 Request AMOUNT	Percent Change AMOUNT
Financial information	7,585	$7,783	2.6%
Government financing	189,851	194,278	2.3%
Total	$197,436	$202,061	2.3%

Note: FY 2008 and FY 2009 totals include $10,000,000 in projected user fee collections.

3A – Wholesale Securities Services *($21,047,000 from direct appropriations and $1,343,000 from reimbursable programs):* The Wholesale Securities Services activity involves the announcement, auction, issuance and settlement of marketable Treasury bills, notes, bonds and TIPS. It also provides an efficient infrastructure for the transfer, custody and redemption of these securities. Large market participants buy most of Treasury's marketable securities at auction. In FY 2007, Public Debt conducted more than 200 marketable securities auctions resulting in the issuance of more than $4 trillion in securities. Treasury's commercial book-entry system holds approximately $4.3 trillion, or 98 percent, of Treasury marketable securities. Treasury uses this system to issue most of its marketable debt, make principal and interest payments and support the active secondary market in Treasury securities. It is estimated that about $1.23 trillion per day in Treasury securities are transferred among account holders in the commercial book-entry system.

This activity directly supports the Department of the Treasury's strategic outcome of financing the government at the lowest possible cost over time. To help meet this outcome, in the first quarter of calendar year 2008, Public Debt will replace its auction system to fully integrate the automated announcement, auction and issuance of marketable securities and provide greater speed and flexibility to Treasury debt managers in bringing new types of securities to market. Public Debt will continue to seek opportunities in U.S. and global markets to listen and learn from holders of its securities and share information. The Bureau will also educate current and potential investors about Treasury's debt financing policies, the auction process and its securities. —

Public Debt also has the responsibility of regulating the government securities market. Public Debt administers Treasury's regulations that provide investor protection and maintain the integrity, liquidity and efficiency in the government securities market under the Government Securities Act of 1986, as amended. Public Debt also administers the rules for Treasury's securities auctions and buybacks and prescribes provisions for Treasury's Fiscal Service collateral programs, including collateral eligibility and valuation. Fiscal Service collateral programs ensure that government funds on deposit or invested at commercial banks are secured.

Other Resources:
Reimbursements totaling $1,343,000 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 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$13,290	$17,987	$19,475	$20,518	$21,047
Reimbursable Resources	408	1,594	1,301	1,302	1,343
Total Resources	$13,698	$19,581	$20,776	$21,820	$22,390

Wholesale Securities Services Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Cost per debt financing operation ($) (E)	$126,828	$148,926	$235,172	$263,306	$275,610
Percent of auction results released in 2 minutes +/- 30 seconds (%) (Oe)	95.00%	100.00%	99.10%	95.00%	95.00%

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

Description of Performance: Public Debt established an efficiency measure for its cost per debt financing operation, which is incurred in Public Debt's annual appropriation as well as in its permanent indefinite fund established to reimburse Federal Reserve Banks that act as Treasury's fiscal agents. In FY 2007, the actual cost per debt financing operation was $235,172, which exceeded Public Debt's target by $6,763. Contributing to the increased costs were one fewer auction than anticipated and a delay in implementing the new auction system. Increased necessary testing of the new system resulted in a delayed implementation and the need to also run the existing auction system longer than originally anticipated.

The cost per debt financing operation is estimated at $263,306 in FY 2008 and $275,610 in FY 2009. Increases in the cost per debt financing operation are due to the implementation of a new auction system requiring a complete replacement of the existing network, hardware and software. This new system will provide enhanced back-up and recovery capability, ease and flexibility in placing bids in Treasury securities auctions and improved information sharing to Public Debt's customers and stakeholders.

In FY 2007, Public Debt surpassed its performance target of releasing auction results within two minutes, plus or minus 30 seconds, 95 percent of the time. Reductions in requested FY 2009 funding would risk decreases in staffing levels and the ability to provide contingency processing.

3B – Government Agency Investment Services *($14,497,000 from direct appropriations and $3,827,000 from reimbursable programs):* The Government Agency Investment Services (GAIS) program supports federal, state and local government agency investments in non-marketable Treasury securities as well as federal agency borrowing from Treasury.

Public Debt offers two major non-marketable special purpose investment programs to government agencies. Government Account Series (GAS) securities are issued only to federal agencies with statutory investment authority. There are some 230 trust and investment funds held by federal agencies. For 18 of the funds, Public Debt also maintains the investment accounts and performs additional administrative functions on behalf of the Secretary of the Treasury. These additional functions include processing receipts into and transfers out of the funds to the related federal program agencies for the purpose of administering the underlying programs that are supported by the trust funds. Some of the more recognizable federal trust funds are the four Social Security and Medicare Funds, as well as the Unemployment and Highway Trust Funds. With more than $4 trillion in investments, federal government and other entities' holdings of GAS securities make up 45 percent of the public debt outstanding.

State and Local Government Series (SLGS) securities are issued to state and local government entities across the nation. At approximately $297 billion outstanding, the SLGS program is important to over 6,900 state and local government entities that use these securities to help comply with provisions of the Internal Revenue Code.

Public Debt also accounts for and reports on the principal borrowings from and repayments to Treasury for 78 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 about $219 billion in loans and loan guarantees.

At the federal level, Public Debt's services in this activity directly help customers produce timely and accurate financial information that contributes to the reliability and usefulness of the government-wide financial statements. Instant access to account information has significantly simplified reconciliation and audit confirmation efforts across the country and assisted SLGS purchasers in complying with Internal Revenue Service requirements related to the issuance of tax exempt securities.

Other Resources:
Reimbursements totaling $3,827,000 are allocated to this program for providing administrative support to Public Debt's franchise operation and investment accounting on behalf of the Secretary of the Treasury.

3.2.2 – Government Agency Investment Services Budget and Performance Plan

Government Agency Investment Services Budget Activity					
Resource Level	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Enacted**	**FY 2009 Request**
Appropriated Resources	$13,825	$14,599	$13,903	$14,648	$14,497
Reimbursable Resources	$2,641	$3,418	$3,170	$3,744	$3,827
Total Resources	**$16,466**	**$18,017**	**$17,073**	**$18,392**	**$18,324**
Budget Activity Total	**$16,466**	**$18,017**	**$17,073**	**$18,392**	**$18,324**

Government Agency Investment Services Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**
Number of Government Agency Investment Services control processes consolidated	N/A	N/A	3	3	2
Cost per federal funds investment transaction ($) (E)	$88.74	$62.64	$68.53	$77.10	$77.70
Percentage of Government Agency customer initiated transactions conducted online (%) (Oe)	72.70%	97.03%	97.31%	Discontinued	Discontinued

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

Description of Performance: In the GAIS budget activity, Public Debt has an efficiency measure to track the cost per federal funds investment transaction. Federal investments are special-purpose securities issued only to federal agencies that manage trust, deposit and other special funds. Public Debt handles issuing, paying interest on and redeeming the securities held by each fund, as well as handling all of the debt-related accounting and reporting for the securities on the consolidated financial statement of the federal government. Public Debt projects the cost per federal funds investment transaction to be $77.10 for FY 2008 and $77.70 for FY 2009. The projected cost per federal funds investment transaction is increasing each year due to inflationary cost increases and transaction volumes that are projected to remain constant.

Public Debt established a long-term goal to reduce the number of systems used to support GAIS. Through systems reduction, Public Debt will streamline the diversity of technology involved in supporting this business line. Additionally, this effort will allow the Bureau to consolidate and standardize the internal controls over processes common to all GAIS programs. The control environment consists of 18 processes that will be transformed into six standardized processes. Consolidating the three systems that house GAIS data into a single, integrated control environment will provide one location for all investment activities. This will reduce operational risks, while standardizing system, business and data elements.

3C – Retail Securities Services *($144,194,000 from direct appropriations, including $10,000,000 from user fee collections and $9,370,000 from offsetting collections and 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 goal of the retail program is to migrate products and services to the internet-accessed TreasuryDirect system so that eventually all retail securities are issued and maintained in book-entry form. TreasuryDirect enables Public Debt to serve customers more effectively and manage resources more efficiently since investors are able to purchase securities online and self-manage their holdings. To accelerate these efficiencies, Public Debt encourages customers to convert holdings to TreasuryDirect. The potential for conversions is significant since there are over 700 million paper savings bonds and nearly 400,000 accounts in the Legacy Treasury Direct marketable securities system. While moving to all-electronic processing, Public Debt remains committed to supporting its legacy systems.

Other Resources:
Offsetting collections totaling $10,000,000 are collected for definitive securities issue and Legacy Treasury Direct Investor Account maintenance fees. In addition, $9,370,000 in reimbursements are collected for providing computer matching for the Social Security Administration and 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 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$140,084	$132,939	$133,425	$140,573	$144,194
Reimbursable Resources	4,348	11,873	9,047	9,066	9,370
Total Resources	$144,432	$144,812	$142,472	$149,639	$153,564

Retail Securities Services Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Cost per TreasuryDirect assisted transaction ($) (E)	$8.51	$4.97	$6.65	$10.83	$12.58
Cost per TreasuryDirect online transaction ($) (E)	$3.43	$3.06	$3.24	$3.88	$3.93
Percentage of retail customer service transactions completed within 12 business days (%) (Oe)	88.70%	98.00%	99.43%	90.00%	90.00%

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

Description of Performance: Public Debt has three performance measures for Retail Securities Services that include two efficiency and one outcome measure.

The first efficiency measure is the cost per TreasuryDirect assisted transaction. Although TreasuryDirect promotes 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. The FY 2007 unit cost of $6.65 exceeded the projected unit cost of $6.16 due to an increase in costs to handle more complex transactions. Public Debt projects unit costs of $10.83 in FY 2008 and $12.58 in FY 2009 for TreasuryDirect assisted transactions. While BPD expects the workload to remain steady or increase slightly, Retail workload is sensitive to changes in market rates. When market rates are low, TreasuryDirect accounts are not likely to grow at the pace seen in prior years. Cost increases reflect additional direct and support costs to handle a continuing increase in more complex work.

The second efficiency measure is the cost per TreasuryDirect online transaction. In Public Debt's internet-accessed system, investors set up accounts, purchase electronic securities and manage their holdings. Since investors have this self-service capability, Public Debt tracks the cost of online transactions, including establishing accounts, purchasing and redemption of securities and changing account information online. The FY 2007 unit cost of $3.24 exceeded BPD's projected unit cost by $0.28 due to its refinement of IT cost allocations among Public Debt programs and a lower volume of online transactions. Public Debt projects unit costs of $3.88 in FY 2008 and $3.93 in FY 2009 for TreasuryDirect online transactions since Retail workload is sensitive to changes in market rates. When market rates are low, TreasuryDirect accounts are not likely to grow at the pace seen in prior years. BPD expects workload to remain steady, while costs to operate the TreasuryDirect system should remain relatively constant.

The third measure includes the timeliness of processing retail customer service transactions, including answering phone and email inquiries, processing payments or changes to payment instructions and handling TreasuryDirect assisted transactions. For FY 2007, Public Debt processed 99.43 percent of retail customer service transactions within 12 business days, surpassing its target of 90 percent. Future goals are to complete 90 percent of transactions within 11 business days in FY 2009 and within 10 business days in FY 2010. Reaching a ten-day turnaround for retail customer service transactions represents the culmination of a long-term goal for expedited quality service set by Public Debt in FY 2004. Sufficient funding, efficiencies gained from improved work processes and an increase in electronic transactions will allow Public Debt to meet these goals.

3D – Summary Debt Accounting *($7,316,000 from direct appropriations and $467,000 from reimbursable programs):* The Summary Debt Accounting program accurately accounts for and reports timely on the outstanding public debt and related interest expenses. The program provides daily information on the balance and composition of the public debt, and summary level accounts represent the control totals for dozens of subordinate investment systems.

Each year, Public Debt reconciles more than $77 trillion in securities transactions reported from numerous systems to cash flowing in and out of the federal government. Public Debt's summary level accounting system provides detailed financial information on the nearly $9 trillion in public debt and associated interest expense for publication in the annual *Financial Report of the United States Government*, Treasury's *Performance and Accountability Report*, and the *Schedules of Federal Debt Managed by the Bureau of the Public Debt.*

The Bureau publishes information on the balance and composition of the public debt in the *Monthly Statement of the Public Debt of the United States* on its website. In June 2007, Public Debt began producing daily public debt financial statements.

Public Debt has always been committed to maintaining strong accounting controls to ensure the integrity of operations and the accuracy of the information provided to the public. The Bureau has consistently received unqualified audit opinions on the *Schedules of Federal Debt*, which presents details supporting the largest single liability on the government-wide financial statement.

Other Resources:
Reimbursements totaling $467,000 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 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$5,402	$6,431	$6,769	$7,132	$7,316
Reimbursable Resources	166	570	452	453	467
Total Resources	$5,568	$7,001	$7,221	$7,585	$7,783

Summary Debt Accounting Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Cost per summary debt accounting transaction ($) (E)	$12.62	$10.96	$9.29	$9.74	$9.97

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

Description of Performance: Public Debt has an efficiency measure to track 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. Public Debt projects the cost per summary debt accounting transaction to be $9.74 in FY 2008 and $9.97 in FY 2009. The projected cost per summary debt accounting transaction is increasing each year due to inflationary cost increases and transaction volumes that are projected to remain constant.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Public Debt's strategic management of human capital is consistent with its mission, vision and priorities and supports not only the President's Management Agenda, but also Treasury's strategic goal of *Effectively Managed U.S. Government Finances*.

Public Debt has developed a comprehensive recruitment program to attract candidates with the necessary competencies to minimize skill gaps. As a part of its program, Public Debt attends approximately 25 career fairs per year and solicits applications through diversity specific magazines and websites to identify and hire a talented and diverse workforce. Extensive work is done with management before and during the recruitment process to identify staffing needs and pinpoint the particular characteristics and skills necessary for Public Debt to succeed.

A prime component of Public Debt's human capital strategy is operating as a values-based organization. Public Debt is known in the local and surrounding communities as a values-based organization where candidates want to work and employees want to stay. Public Debt's recognition of the need for a balanced family and work life makes it an attractive employer. In fact, according to the report, *Best Places to Work in the Federal Government 2007,* Public Debt is ranked in the top 11 percent of federal agencies. This ranking is based on results from the Office of Personnel Management's 2006 Human Capital Survey.

Public Debt uses the full range of pay flexibilities to recruit and retain high quality candidates with the skills necessary to accomplish its mission. Specifically, Public Debt uses superior qualifications appointments, student loan repayments and recruitment and retention incentives. Public Debt also uses special employment programs to hire quality candidates. The Bureau has been very successful using the Federal Career Intern Program, Student Career Experience Program, and Veterans' Recruitment Act to provide a source of highly qualified applicants.

Public Debt fosters a learning culture that provides employees at all levels with opportunities for continuous development. Management invests in education, training and other developmental opportunities to help employees build mission-critical competencies, both leadership and technical, that are beneficial to the Bureau. The readiness of Public Debt's workforce, including its Mission Critical Occupations, is determined through skills gap assessments. Public Debt works with focus groups to assess the training needs necessary to keep employee skills current and develop the future training opportunities needed to prevent skills gaps. These focus groups ensure that Public Debt employees are among the best trained in the government and remain abreast of new technologies affecting their work.

Public Debt has identified three Mission Critical Occupations (MCOs): Customer Service Specialist (CSS), Accountant, and Financial Systems Analyst. Workforce analysis indicates that retirement eligibility among the CSS positions is relatively high compared to the other MCOs. To offset the potential retirement issue among the CSS positions, Public Debt recruits applicants with basic communication and customer service skills. Once on board, these basic skills, coupled with specific training, ensure a ready source of qualified employees. Public Debt's workforce analysis indicates that as employees retire, it will continue to have a sufficient pool of internal candidates to fill CSS positions.

Human capital initiatives, including succession planning, are another important part of Public Debt's strategic plan. Public Debt is very successful in filling senior-level positions internally. This success can be attributed, in part, to leadership development programs and knowledge transfer techniques. To cultivate leadership and management skills, Public Debt uses programs such as Management Candidate Development, Senior Executive Service Candidate Development, and Supervisory Excellence. Of the GS-13 level and above workforce, 42 percent of employees are eligible to retire by December 31, 2012. Public Debt will continue to use these types of programs to fill future vacancies.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments								
Major IT Investments / Funding Source		Budget Activity	FY 2006 & Earlier Enacted 1/	FY 2007 Enacted	FY 2008 President's Budget	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
Government Agency Investment Services System (GAISS)[/2]		Government Agency Investment Services	$0	$4,447	$3,790	-14.8%	$3,262	-13.9%
Public Debt Accounting and Reporting System (PARS)		Summary Debt Accounting	$2,038	$1,914	$1,971	3.0%	$2,030	3.0%
SaBRe		Retail Securities Services	$4,344	$4,873	$4,640	-4.8%	$4,795	3.3%
Treasury Automated Auction Processing System (TAAPS)		Wholesale Securities Services	$44,900	$47,080	$31,623	-32.8%	$32,024	1.3%
Subtotal:	TAAPS Appropriated Funding		$2,996	$10,570	$11,332	7.2%	$11,783	4.0%
Subtotal:	TAAPS Permanent Indefinite Funding		$41,904	$36,510	$20,291	-44.4%	$20,241	-0.2%
TreasuryDirect		Retail Securities Services	$5,013	$5,191	$5,389	3.8%	$5,579	3.5%
Subtotal, Major IT Investments			$56,295	$63,505	$47,413	-25.3%	$47,690	0.6%
Non-Major IT Investments			$9,456	$9,581	$9,793	2.2%	$10,008	2.2%
Infrastructure Investments			$24,563	$15,553	$15,895	2.2%	$16,245	2.2%
Enterprise Architecture			$200	$321	$342	6.5%	$352	2.9%
Total IT Investments			$90,514	$88,960	$73,443	-17.4%	$74,295	1.2%

1/ This column reflects appropriated resources provided to a project in FY 2006 and any previous years.

2/ SPSS and InvestOne merged into GAISS beginning FY07.

4B – Information Technology Strategy

The Bureau of the Public Debt operates systems that process a wide range of customer service transactions, initiate trillions of dollars in customer payments and account for the public debt at both the detail and summary accounting levels. By delivering services to customers online and automating work processes, these major IT investments are the most cost-effective means to conduct borrowing and deliver securities services to investors.

Public Debt's Capital Planning and Investment Control program is a disciplined, integrated process that addresses system prioritization of new and existing IT investments, risk management, long-range planning, business objectives, alternative analysis and governance. Public Debt's quarterly enterprise architecture reviews ensure alignment of its IT investments to the strategic enterprise direction of Treasury and identify potential duplication of systems. By tracking and reporting the progress of each investment and the performance measures achieved each quarter, Public Debt ensures its IT system portfolio is well managed, cost effective and supports the strategic goal of *Effectively Managed U.S. Government Finances*. Through Public Debt's management of its IT system portfolio, the government's critical financing needs are met while maintaining the integrity of primary and secondary markets for Treasury securities. Public Debt's IT system portfolio is comprised of certified and accredited applications, ensuring financially secure E-Government systems.

For example, the new Treasury Automated Auction Processing System (TAAPS), designed to fully automate the announcement, auction and issuance of marketable debt, is scheduled for implementation in the first quarter of calendar year 2008 and will replace a number of aging legacy systems. The new system is also designed to provide Treasury debt managers with the ability to bring new types of securities to market with greater speed. TAAPS is being developed to meet the Bureau's performance goal to consistently release auction results within two minutes, plus or minus 30 seconds, of closing. Shorter, accurate and consistent auction releases reduce the time auction bidders are exposed to the risk of adverse market movements, thereby reducing the cost of borrowing for Treasury.

The TreasuryDirect system is another example of Public Debt ensuring that project management methods are used to meet cost, schedule and performance goals. This system is an internet-accessed application that offers all retail Treasury securities available to the public at one convenient location. The system is designed to maximize customer self-sufficiency and minimize off-line transaction processing by customer service personnel. By enabling investors to manage their Treasury securities holdings online, Public Debt better serves retail customers and, at the same time, manages resources more efficiently. The TreasuryDirect system continues to be enhanced using Rapid Application Development techniques that give the program manager the flexibility to quickly incorporate new functionality into the system.

4.2 – PART Evaluation Table

PART Name:	Administering the Public Debt
Year PARTed:	2003
Rating:	Effective

OMB Major Findings/Recommendations

1. The Bureau of the Public Debt has a clear purpose and is well designed and managed.
2. The program meets its annual performance goals and continues to improve targets for subsequent fiscal years.
3. The Bureau of the Public Debt identifies new long-term goals to improve efficiency and effectiveness.

Bureau Actions Planned or Underway

1. By 2012, 90% of Primary Dealers demonstrate the ability to participate in a live auction from their disaster recovery sites.
2. Consolidate Government Agency Investment Services into a single, integrated control environment by FY 2012.
3. Migrate Summary Debt Accounting to a shared service solution by FY 2013.

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

Internal Revenue Service

Mission Statement

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

Program Summary by Appropriations Account

Dollars in Thousands

	FY 2007	FY 2008	FY 2009		
Appropriation	Enacted [1]	Enacted	Request	$ Change	% Change
Taxpayer Services	$2,138,238	$2,150,000	$2,150,000	$0	0.00%
Enforcement	4,686,477	4,780,000	5,117,267	337,267	7.06%
Operations Support	3,544,835	3,680,059	3,856,172	176,113	4.79%
Business Systems Modernization	212,659	267,090	222,664	(44,426)	-16.63%
Health Insurance Tax Credit Administration	14,856	15,235	15,406	171	1.12%
Total Appropriated Resources	$10,597,065	$10,892,384	$11,361,509	$469,125	4.31%

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

FY 2009 Priorities

The Internal Revenue Service (IRS) administers America's tax laws and collects the revenue that funds most federal government operations. The IRS taxpayer service program assists millions of taxpayers with understanding and meeting their tax obligations. The IRS enforcement program is aimed at deterring taxpayers inclined to evade their responsibilities while vigorously pursuing those who violate tax laws.

In FY 2009, the IRS will continue efforts to implement tax compliance strategies addressed in *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance* (see http://www.irs.gov/pub/irs-news/tax_gap_report_final_080207_linked.pdf) and the *IRS Taxpayer Assistance Blueprint* (TAB) (see http://www.irs.gov/individuals/article/0,,id=156394,00.html) by focusing on the following priorities:

- Improve voluntary compliance and reduce the tax gap by:
    - Increasing front-line enforcement resources,
    - Improving taxpayer service options,
    - Enhancing research, and
    - Implementing legislative and regulatory changes.
- Maintain balance between taxpayer service and enforcement.
- Invest in technology to improve infrastructure, modernize, and increase the productivity of existing resources.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The FY 2009 President's Budget request supports the IRS and the Department of the Treasury Strategic Plans, the Taxpayer Assistance Blueprint (TAB), and the recently released report, *Reducing the Federal Tax Gap*: *A Report on Improving Voluntary Compliance*. These plans underscore IRS commitment to ensure fairness, observe taxpayer rights, and reduce taxpayer burden while working in a balanced manner to reduce non-compliance. The IRS strategic plan goals are:

- **Improve Taxpayer Service –** Help people understand their tax obligations, making it easier for them to participate in the tax system.
- **Enhance Enforcement of the Tax Law –** Ensure taxpayers meet their tax obligations, so that when Americans pay their taxes, they can be confident their neighbors and competitors are also doing the same.
- **Modernize the IRS through its People, Processes, and Technology –** Strategically manage resources, associated business processes, and technology systems to effectively and efficiently meet service and enforcement strategic goals.

In support of these goals, the FY 2009 IRS Budget priorities follow the guiding principle of *Service plus Enforcement equals Compliance* and sustain the IRS objectives to:

- Simplify the tax process and improve service options for the taxpaying public;
- Discourage and deter non-compliance with emphasis on corrosive activity by corporations, high-income taxpayers and other contributors to the tax gap including abusive domestic and off shore tax entities; and
- Modernize information systems and business processes to maximize resources and improve service and enforcement.

The IRS established a set of enterprise-wide long-term goals, which the IRS Oversight Board approved in March 2007. These long-term goals link to the *IRS 2005-2009 Strategic Plan* and serve as overarching indicators of achieving objectives that support IRS mission-critical programs.

These goals provide focus and rigor for measuring the effectiveness of IRS programs that manage the nation's tax system. The long-term goals are:

- Increase the voluntary compliance rate,
- Improve the electronic filing (e-File) rate,
- Increase individual taxpayer satisfaction as measured by the American Customer Satisfaction Index (ACSI) score,
- Increase level of non-revenue enforcement activity, and
- Improve employee engagement/satisfaction.

FY 2009 President's Budget Request

The FY 2009 President's Budget request for the IRS is $11.4 billion, which is $469.1 million, or an increase of 4.3 percent above the FY 2008 enacted level. The funding request for Taxpayer Services is $2.2 billion; Enforcement is $5.1 billion; Operations Support is $3.9 billion; Business Systems Modernization (BSM) is $222.7 million; and Health Insurance Tax Credit Administration (HITCA) is $15.4 million. In FY 2009, the IRS budget will continue to restore enforcement activities targeted at improving compliance by reducing the tax gap for large businesses and small business/self employed, increasing reporting of compliance of domestic taxpayers with offshore activity, and continuing research activities. This budget request will also implement legislative changes to improve tax compliance. These legislative proposals will generate about $36 billion in revenue over the next ten years. In addition, the IRS will continue modernizing its technology to strengthen taxpayer service and enforcement programs.

The IRS $469.1 million increase consists of:

- $200.9 million for changes to the base, including:
  - $265.0 million for Maintaining Current Levels,
  - –$1.4 million transfer to Treasury Inspector General for Tax Administration,
  - –$1.0 million transfer to FinCEN,
  - –$71.4 million for efficiency savings,
  - –$22.9 million for program savings, and
  - $32.6 million in base reinvestments.

- $268.2 million for program changes, including:
  - –$92.7 million for program changes to taxpayer assistance centers and outreach, Taxpayer Advocate Service, VITA grants program, and BSM activities;
  - $286.8 million to expand enforcement activities aimed at improving compliance and reducing the tax gap;
  - $51.1 million to increase support for research to determine the reasons for taxpayer non-compliance; and
  - $23.0 million to implement legislative proposals to improve compliance.

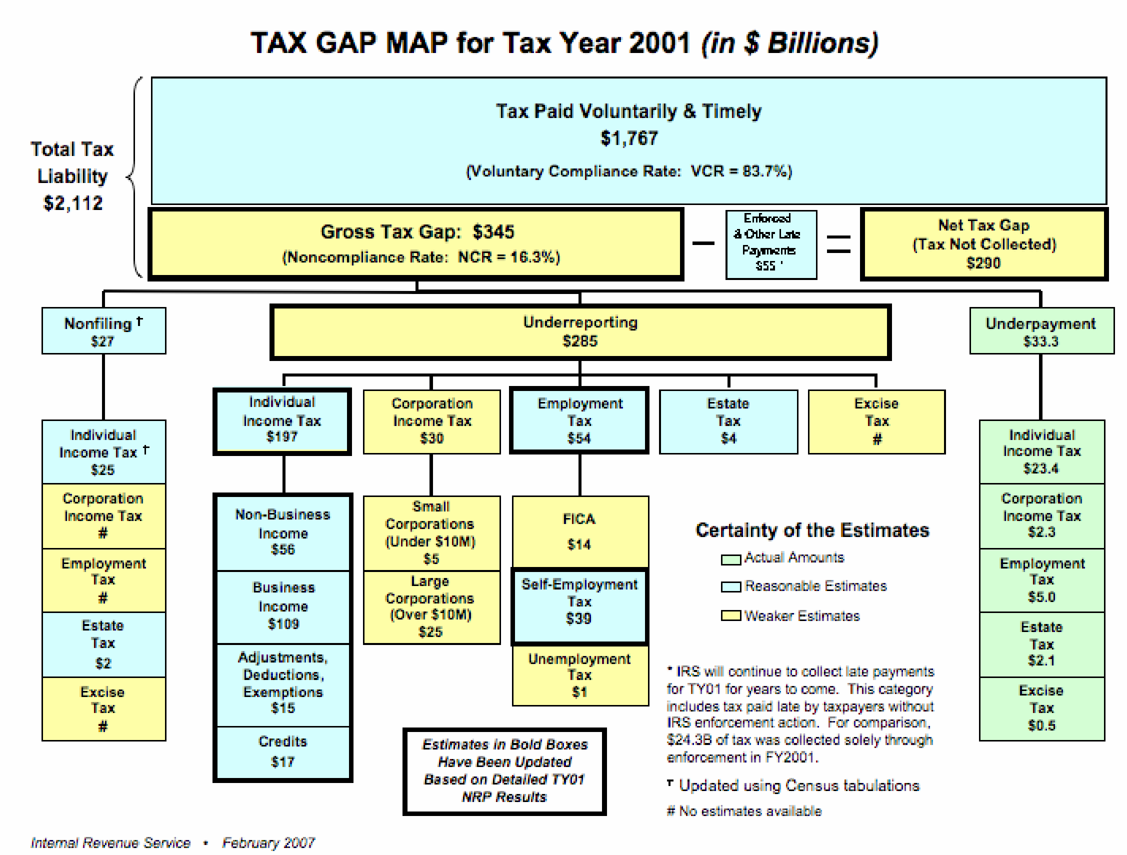
Reducing the Tax Gap

In FY 2007, the IRS collected $2.7 trillion in taxes (gross receipts before tax refunds), 96 percent of total federal government receipts. The IRS improved tax compliance by increasing enforcement and enhancing taxpayer service. From 2001 to 2007, the IRS increased revenue from its enforcement programs by 75 percent from $33.8 billion to an all-time high of $59.2 billion, yielding a 5.6 to 1 return on investment in 2007. Revenue growth has been greatest in the areas of corporate taxes and high income individual taxes. The FY 2009 President's Budget request will support Administration and Congressional deficit reduction efforts by strengthening the federal government's ability to collect more legally owed taxes.

The tax gap is defined as the aggregate amount of tax liability imposed by law for a given tax year that is not paid voluntarily and timely. Tax liability means the amount of tax that would be determined for the tax year in question if all relevant aspects of the tax law were applied correctly to all of the relevant facts of that taxpayer's situation. The gross tax gap, about $345 billion for Tax Year 2001, represents the amount of non-compliance with the tax laws. There are three categories of non-compliance:

- 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.

Underreporting tax liability accounts for 83 percent of the gross tax gap. The remainder is almost evenly divided between nonfiling (8 percent) and underpaying (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.



The gross tax gap estimate, however, does not take into account taxes paid voluntarily but paid late, or tax collections resulting from IRS enforcement activities. Considering these factors, the "net tax gap" is estimated at $290 billion.

Non-compliance may not be deliberate and 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. Accordingly, helping taxpayers understand and fulfill their obligations under the tax law is a critical part of addressing the tax gap. However, some non-compliance is willful, even to the point of criminal tax evasion. Because both taxpayer service and enforcement are critical to improving voluntary compliance and reducing the tax gap, the IRS remains committed to its working equation of:

Service + Enforcement = Compliance

In August 2007, the Department of the Treasury and the IRS released a report, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance*, addressing efforts to improve the level of voluntary compliance with federal tax laws, which builds upon the Department of the Treasury's "A Comprehensive Strategy for Reducing the Tax Gap" issued in September 2006. The report provides details on activities and efforts taken and planned to improve voluntary compliance. In addition, the report presents an outreach approach to ensure all taxpayers understand their tax obligations and recognizes the importance of having a multi-year research program that will help the IRS understand both the scope of and reasons for non-compliance. This report, combined with legislative changes and tax simplification, will guide IRS efforts to reduce the tax gap.

Taxpayer Service and Enforcement Programs

The IRS and its employees represent the face of the federal government to more American citizens than any other government agency. IRS taxpayer service programs provide the information and tools taxpayers need to calculate and understand their tax obligations; collect, process, and store filed tax returns; and collect and process tax receipt and refunds owed. IRS enforcement activities, such as examination and collection, will continue to target its casework and enforcement activities to more effectively deliver results and drive down the tax gap.

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. Moreover, assisting taxpayers with their tax questions before they file their returns addresses inadvertent non-compliance 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, the IRS.gov web site, Taxpayer Assistance Centers (TACs), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites.

The IRS delivered Phase 1 of the TAB Report to Congress in April 2006. Phase 1 defined the population that uses IRS services and identified leading practices, opportunities for improvement, and a plan for additional research. In April 2007, the IRS delivered Phase 2 of the TAB Report to Congress, which outlines a five-year strategic plan for taxpayer service that will help the IRS enhance the services delivered to taxpayers and partners. The TAB strategic plan includes performance measures, service improvement initiatives, and an implementation strategy for improving future service investment decisions. The TAB Report provides the future direction of IRS service delivery and identifies strategic challenges, including:

- Complexity and changes to the tax code;
- Need for additional data on the causes of non-compliance;
- Expanding use of third parties;
- Scope and diversity of the taxpaying population; and
- Keeping pace with technology and taxpayer expectations.

IRS enforcement activities are also important for improving voluntary compliance with federal tax laws and implementing the Department of the Treasury's tax gap strategy. Increased resources for IRS enforcement programs yield a positive return on investment (ROI). As shown in the table below, the proposed IRS FY 2009 enforcement initiatives will generate about $2.0 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2011.

Return on Investment for IRS Enforcement Initiatives

Dollars in Millions	First Year (FY 2009)			Full Performance (FY 2011)		
FY 2009 Enforcement Investment	Cost	Revenue	ROI	Cost	Revenue	ROI
All Enforcement Initiatives	$360.8	$769.0	2.1	$306.1	$2,001.1	6.5
Direct Revenue Producing Initiatives	$337.8	$769.0	2.3	$283.1	$2,001.1	7.1
Reduce the Tax Gap for Small Business/Self-Employed	168.5	422.0	2.5	136.7	980.8	7.2
Increase Reporting Compliance of Domestic Taxpayers with Offshore Activity	13.7	39.5	2.9	11.3	101.9	9.0
Reduce the Tax Gap for Large Business	69.5	121.0	1.7	61.3	543.9	8.9
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	51.1	15.1	0.3	42.3	15.9	0.4
Expand Document Matching	35.1	171.4	4.9	31.5	358.6	11.4
Other Enforcement Initiatives	$23.0	$0.0	0.0	$23.0	$0.0	0.0

IRS enforcement activities also yield indirect revenue by deterring non-compliance. This effect is more difficult to measure, but it is estimated to be at least three times the direct revenue impact. IRS enforcement efforts improved in virtually every area over the last several years. While the increase in enforcement revenue is most obvious, the increased audit coverage in all segments of the filing population demonstrates IRS continued emphasis on reductions to the tax gap.

Fully Costing the Taxpayer Service and Enforcement Programs

IRS taxpayer service and enforcement programs depend on support activities, such as information technology and rent, funded by the Operations Support appropriation. As shown in the following table, the IRS allocates this appropriation funding to its core operational program funded in the Taxpayer Service and Enforcement appropriations in order to reflect the full cost of operating these programs (see Section 3, Operations Support, for further description of the allocation methodology).

Taxpayer Service and Enforcement Programs

Dollars in Thousands				
Programs	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Request[1]	%Change FY 2008 to FY 2009
Taxpayer Service	$3,547,252	$3,612,833	$3,636,230	0.6%
Taxpayer Services Appropriation	2,138,238	2,150,000	2,150,000	
Operations Support Appropriation	1,409,014	1,462,833	1,486,230	
Enforcement	$6,822,298	$6,997,226	$7,487,209	7.0%
Enforcement Appropriation	4,686,477	4,780,000	5,117,267	
Operations Support Appropriation	2,135,821	2,217,226	2,369,942	
Total Taxpayer Services and Enforcement	$10,369,550	$10,610,059	$11,123,439	4.8%

[1] The Operations Support funds allocated to the Taxpayer Service and Enforcement programs in FY 2009 use the FY 2008 President's Budget allocation methodology. In order to execute FY 2009 spending, the Administration is proposing language to adjust Operations Support allocations by up to 1 percent with prior notification to the Appropriations Committees.

1B – Program History and Future Outlook

Each year, IRS employees make millions of contacts with American taxpayers and businesses. These contacts encourage and facilitate self-sufficiency for taxpayers in meeting their tax obligations. The IRS also enforces the tax laws to ensure non-compliant taxpayers pay their fair share. To improve voluntary tax compliance, the IRS must provide the proper balance of service and enforcement.

Strategic Goal I: Improve Taxpayer Service

Helping the public understand their tax reporting and payment obligations is the cornerstone of taxpayer compliance and is vital for maintaining public confidence in the tax system. Assisting taxpayers with their tax questions before they file their returns addresses inadvertent non-compliance and reduces burdensome post-filing notices and other correspondence from the IRS. Thus, the IRS continued to address taxpayer needs and make improvements in key services for taxpayers in FY 2007.

The IRS delivered a successful 2007 filing season despite several new challenges. Challenges included the implementation of the Telephone Excise Tax Refund (TETR), a one-time payment designed to refund long distance telephone taxes introducing split refund capability, which provided taxpayers with more control over their refunds by allowing direct deposit of a refund to up to three financial accounts and making the necessary changes to forms and systems to accommodate late passage of provisions of the Tax Relief and Health Care Act of 2006. Results of the 2007 filing season include:

- The IRS issued more than 105 million refunds totaling more than $261 billion for those individual tax filers. Providing quality taxpayer service, and continuing to improve that service, remains a strategic priority for the IRS.
- The overall American Customer Satisfaction Index (ACSI) score for all individual tax filers increased 17 points, from 51 in 1999 to 68 in 2007. The ACSI score for the popular IRS website, IRS.gov, increased five points over the 2005 filing season to 74.
- The IRS outreach and educational services were enhanced through partnerships between the IRS and public organizations. Through its 11,922 VITA and TCE sites, the IRS provided free tax assistance to the elderly, disabled, and limited English proficient individuals and families. Over 76,000 volunteers filed 2.63 million returns, a 14 percent increase over FY 2006. Additionally, the IRS established 16 new clinics in rural areas to help low income taxpayers meet their tax obligations.
- More than 3.9 million taxpayers used the free services offered by the Free File Alliance. Home computer filing of returns increased to 22.5 million in 2007, while tax professional use of e-file increased 10 percent to 57.2 million returns.
- The IRS successfully implemented TETR by delivering an integrated approach, which enabled the filing of over 94 million 2006 tax returns including TETR refund claims, of more than $4.81 billion. In addition, the IRS prevented more than $291 million in potential erroneous refunds with the aid of a return selection tool created specifically to catch questionable TETR requests. The comprehensive approach to administering this refund allowed the IRS to successfully meet taxpayer and stakeholder expectations.
- Seventy-five percent (9 of 12) of the taxpayer service performance targets were met or within 98.5 percent of the target. The IRS continues its upward trend in most categories with over 83 percent of the taxpayer service measures exceeding FY 2006 levels.

The table below highlights IRS taxpayer service performance and workload trends for FY 2005 through FY 2007.

Performance Measures and Workload Statistics by Fiscal Year

Performance Measures	FY 2005	FY 2006	FY 2007
Percent of Individuals Filing Electronically	51.1%	54.1%	57.1%
Percent of Business Returns Filed Electronically	17.8%	16.6%	19.1%
Toll Free Assistance Level of Service	82.6%	82.0%	82.1%
Toll Free Tax Law Accuracy	89.0%	90.9%	91.2%
Toll Free Accounts Accuracy	91.5%	93.2%	93.4%
Workload Statistics	**FY 2005**	**FY 2006**	**FY 2007**
Number of IRS.gov Page Visits (in Millions)	177.0	194.0	215.0
Number of IRS.gov Page Views (in Millions)	1,259.0	1,302.0	1,350.0
"Where's My Refund?" Usage (in Millions)	22.1	24.7	32.1

To further address taxpayer needs, the IRS delivered two phases of the TAB to Congress and established a Taxpayer Services Program Management Office and IRS Services Committee to formalize integrated service investment decision-making. Research conducted for the Phase 2 TAB, submitted in April 2007, indicated the following: the majority of taxpayers who used IRS assistance indicated a willingness to use electronic services; fewer customers visit TACs as opposed to other options, such as phone and correspondence; taxpayers are most concerned with first contact resolution; and 9 out of 10 taxpayers using IRS services in 2005 reported they would use the same method again.

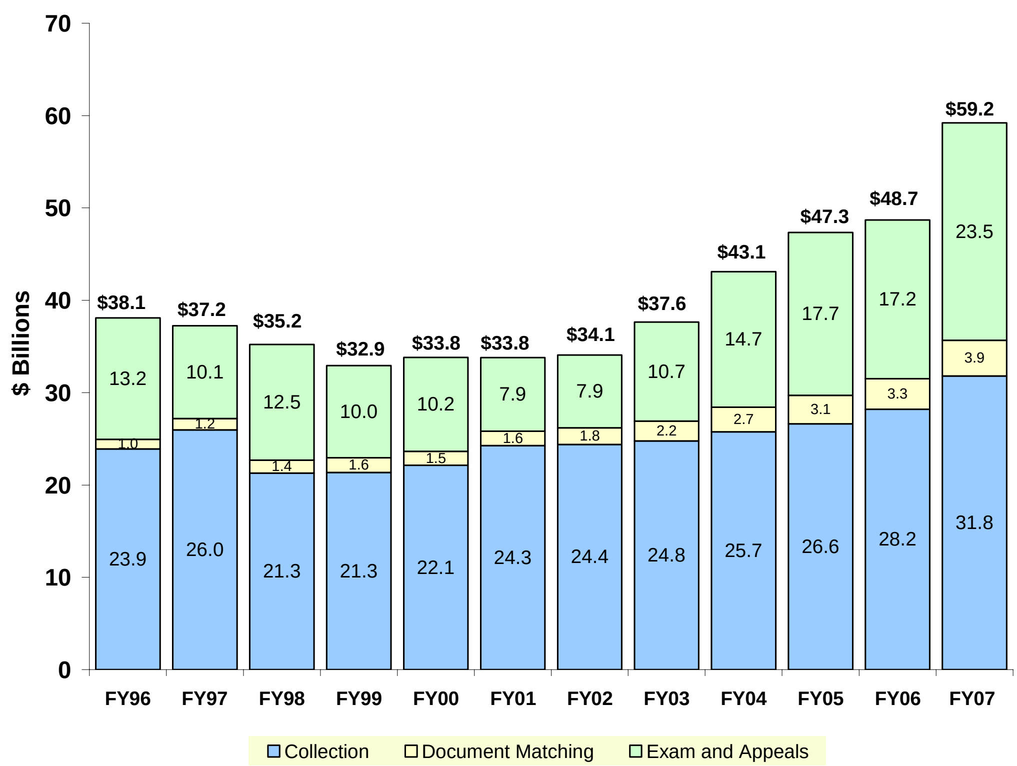
Going forward, the IRS will continue integration of the TAB Strategic Plan within planning and budgeting processes and will implement service-wide improvement initiatives and future research projects identified by the TAB. Additionally, the IRS will implement a multi-year research portfolio by making service-related decisions based on taxpayer data and develop new measures for compliance, taxpayer, partner, and government value.

Strategic Goal II: Enhance Enforcement of the Tax Law

The potential for narrowing the nation's tax gap hinges primarily on IRS efforts to improve compliance with tax laws. Non-compliance may not be deliberate and can stem from a wide-range of causes, including lack of knowledge, confusion, poor record-keeping, differing legal interpretations, unexpected personal emergencies, and temporary cash flow problems. However, some non-compliance is willful, even to the point of criminal tax evasion.

FY 2007 was a record year for collections related to enforcement activities. Enforcement revenue from all sources rose 75 percent from $33.8 billion in FY 2001 to an all-time high of $59.2 billion in FY 2007 (see chart below). The increased enforcement revenue collected resulted from the IRS focus on noncompliant activities of corporations, high-income taxpayers, and other major violators of the tax code. Targeting high-risk taxpayers improves IRS examination efficiency, reduces the burden on compliant taxpayers, and concentrates enforcement presence where needed.

Enforcement Revenue Continues to Rise
(Dollars in Billions)



The IRS continues to build on its enforcement efforts, while emphasizing early identification of tax liabilities through increased audits and focused collection activities.

Since FY 2005, the IRS steadily progressed in its enforcement efforts and showed marked increases in performance and workload statistics, as illustrated in the table below.

Percent Change of Performance and Workload Statistics

Performance Measures	FY 2005 to FY 2006	FY 2006 to FY 2007
Criminal Investigations Completed	1.0%	3.0%
Workload Statistics		
Individual Audits	7.0%	8.0%
High-Income Audits (Total Positive Income Over $200,000)	18.0%	29.0%
Small-Business Audits (Total Gross Receipts Less Than $10 Million)	8.0%	17.0%
Collection Case Closures	15.0%	12.0%
Revenue Received from Collection Case Closures	9.0%	13.0%

In FY 2007, the IRS substantially enhanced its productivity by implementing technological and process improvements in the Automated Underreporter (AUR), Examination, and Compliance Services Collection Operations. Significant improvements made in FY 2007 included:

- Implementing a new AUR case selection and scoring methodology for individuals, resulting in a 20.5 percent increase in assessments;
- Controlling and directing incoming examination toll-free calls through an Intelligent Call Management system, resulting in a 6.1 percent increase in the level of service; and
- Automating the process of installment agreement problem cases freed resources to process additional installment agreement compliance work. Over 43 percent of installment problem cases were handled using the new automated process.

The IRS continued to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. Emphasizing early identification of tax liabilities through increased audits and more focused collection activities, the IRS undertook the following actions in FY 2007:

- Piloted new Automated Substitute for Return screening and batching procedures, with the increased efficiencies resulting in a productivity improvement of over 156 percent, from 7.5 cases per hour to 19.2 cases per hour;
- Increased detection of fraudulent activities and the number of recommendations for civil fraud penalties by 49 percent over the prior year level; and
- Developed an employment tax strategy that includes eliminating/reducing overlaps and gaps in processes to enhance organizational effectiveness, expanding work relationships with federal and state authorities, conducting studies to better understand the tax gap, and assessing new ways to impact taxpayer behavior.

Strategic Goal III: Modernize the IRS through its People, Processes and Technology

The BSM program combines best practices and expertise in business solutions and internal management from the IRS, business, and technology sectors to develop a world-class tax administration system that fulfills the revenue collection requirements of the United States as well as taxpayer needs and expectations.

The IRS met most of its targets for BSM project deliveries and continued to adhere to established governance processes that ensure success in managing complex and complicated system development efforts. Notable modernization accomplishments for FY 2007 include:

- Processed over 11 million returns and issued refunds of $11.6 billion using the Customer Account Date Engine (CADE). CADE processed filing season changes, as well as the capability to handle the TETR and Form 1040 schedules.
- Added new functionality to the Modernized e-File (MeF) system, which enhanced electronic filing capabilities for Forms 1065, *U .S. Return of Partnership Income*, and 1065-B, *U.S. Return of Income for Electing Large Partnerships*, returns and made all the required extender legislation changes. This resulted in the processing of over two million corporate, non-profit, and partnership forms.
- Developed the Accounts Management Services (AMS) system, designed to deliver improved customer support and functionality by leveraging existing IRS applications. AMS exited the detailed design phase for Release 1.1, which provides address update capabilities, and Release 1.2, which provides inventory management capabilities.

In FY 2007, the IRS implemented a new governance structure for all information technology (IT) investment projects. The new structure facilitates the ability to identify and address project-related issues and risks, ensuring IT investment projects deliver required results. As a result, in FY 2007, 92 percent of system releases were delivered within +/-10 percent of cost estimates, and 77 percent were delivered within +/-10 percent of schedule estimates.

In addition, the IRS developed a five-year IT Modernization Vision and Strategy (MV&S) that addresses priorities for modernizing front-line tax administration functions. The strategy guides IT investment decision-making for 2007. Important aspects include: establishing partnerships among IT and business leadership; leveraging existing systems; emphasizing the delivery of smaller, incremental releases; and unifying the portfolio-level view of investments.

Security of infrastructure and IT systems remains a top priority for the IRS. In FY 2007, the IRS continued to update its systems, processes, and training efforts to ensure taxpayer information is properly safeguarded. The IRS also established new offices and governing bodies to provide direction and oversight regarding the security and protection of sensitive information. Highlights of security measures executed include:

- Implemented enterprise disk encryption, which secured 100 percent of IRS laptops with automatic hard drive encryption to protect data in the event of computer loss or theft;
- Worked with business partners to deploy secure data transmission, an automated solution that eliminated the physical mailing of tape shipments to federal, state, and municipal tax agencies;
- Upgraded firewall and intrusion detection devices, which strengthened the security posture of the network infrastructure and reduced the cost of operations and maintenance; and
- Deployed mandatory information protection training for all IRS employees and contractors having access to sensitive information.

FY 2009 Challenges

The IRS continues to seek efficiencies in delivering taxpayer service and bolstering its enforcement efforts to improve compliance with the tax laws and, ultimately, increase tax revenue. Using the internet as a means of providing taxpayers access to tax information and services is one approach to achieving greater efficiencies. The IRS continues to seek alternative, cost-effective ways of improving taxpayer service and enforcement. The following discussion identifies some of the most significant internal and external challenges for the IRS.

Improving Voluntary Compliance and Reducing the Tax Gap

Continuing progress in restoring enforcement presence remains a high priority for the IRS in addressing key elements of the tax gap. The FY 2009 President's Budget request will enhance coverage of high-risk compliance areas. Funding will be used to target key areas such as critical reporting, filing, and payment within the small business and self-employed taxpayer community, high-income taxpayers, flow-through entities (e.g., partnerships), and large multinational corporations. Additional resources will also address offshore activities of domestic taxpayers. The IRS will continue to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage.

Measuring and understanding taxpayer non-compliance are keys to ensuring optimal allocation of IRS resources and allow the IRS to better understand the size and causes of the tax gap. The FY 2009 President's Budget request provides for resources to support ongoing research studies of filing, payment, and reporting compliance to provide a comprehensive picture of the overall level of taxpayer compliance. Research enables the IRS to develop strategies to combat specific areas of non-compliance, improve voluntary compliance, and allocate resources more effectively to reduce the tax gap.

The IRS also focuses on compliance by addressing the issues identified in the TAB and in *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance.* The IRS maintains its commitment to high-quality taxpayer services through improvements to IT and targeted efficiencies. The IRS will also continue to identify opportunities for providing quality taxpayer service at a lower cost by providing and marketing expanded services to increase use of the IRS.gov website and maintaining growth in e-filing, which improves efficiency and accuracy and ultimately reduces tax administration costs. While the IRS continues to address compliance problems by improving customer service and using traditional methods of enforcement, the FY 2009 President's Budget request also includes funding to implement legislative proposals aimed at improving compliance. These legislative proposals would serve as enforcement tools with minimal impact on taxpayer burden and generate an estimated $36 billion over 10 years.

Modernizing the IRS

The IRS must ensure its employees possess the tools necessary to increase program efficiency and effectiveness. The FY 2009 President's Budget request includes funding to continue the modernization of IT systems and align them with the overall business strategy, as well as to provide IRS employees with the tools they need to administer and improve taxpayer service and enforcement programs. Modernizing the technology environment allows the IRS to address extremely high volumes, widely varying inputs from taxpayers, seasonal processing with significant variations in processing load, transaction rates on the order of billions per year, and storage capacity needs measured in trillions of bytes.

The Complexity of the Tax Code

The Internal Revenue Code contains over a million words, creating complexity for taxpayers. Provisions such as the alternative minimum tax create additional computational work for taxpayers and can be hard to interpret. The IRS must explain the Code in a way that taxpayers can understand if they are to comply with their tax obligations. In addition, the IRS must continue to find ways to effectively administer tax law changes in a manner that minimizes complexity, the burden on taxpayers, and the cost of administering the tax code.

Achieving 80 Percent E-Filing

The IRS continues to work toward the goal of increasing the e-file rates to 80 percent. For the third consecutive year, more than half (over 80 million) of all individual returns were filed electronically, representing an 11 percent increase over FY 2006. More than 16,900 large corporations, subject to the electronic filing mandate, successfully e-filed their returns in 2007. The IRS processed this volume of very complex returns and accepted and acknowledged receipt well within its 24-hour turnaround standard. The IRS also continues to work on finding ways to encourage more taxpayers to use electronic filing options.

Section 2 – Budget Adjustments – Internal Revenue Service

The IRS Budget request for FY 2009 is $11,361,509,000 in direct appropriations and 92,922 FTE. This is an increase of $469,125,000 or 4.3 percent, and 1,799 FTE, over the FY 2008 enacted level of $10,892,384,000 and 91,123 FTE.

Program Summary by Appropriations Account and Budget Activity
Dollars in Thousands

Appropriation	FY 2007 Enacted [1]	FY 2008 Enacted	FY 2009 Request	FY 2009 $ Change	FY 2009 % Change
Taxpayer Services	$2,138,238	$2,150,000	$2,150,000	$0	0.00%
Pre-filing Taxpayer Assistance and Education	576,537	645,375	617,326	(28,049)	-4.35%
Filing and Account Services	1,561,701	1,504,625	1,532,674	28,049	1.86%
Enforcement	4,686,477	4,780,000	5,117,267	337,267	7.06%
Investigations	576,785	593,794	603,466	9,672	1.63%
Exam and Collections	3,959,741	4,038,309	4,363,826	325,517	8.06%
Regulatory	149,951	147,897	149,975	2,078	1.41%
Operations Support	3,544,835	3,680,059	3,856,172	176,113	4.79%
Infrastructure	845,203	843,720	883,325	39,605	4.69%
Shared Services and Support	1,179,216	1,170,686	1,243,703	73,017	6.24%
Information Services	1,520,416	1,665,653	1,729,144	63,491	3.81%
Business Systems Modernization	212,659	267,090	222,664	(44,426)	-16.63%
Health Insurance Tax Credit Administration	14,856	15,235	15,406	171	1.12%
Total Appropriated Resources	$10,597,065	$10,892,384	$11,361,509	$469,125	4.31%

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

2.1 – Budget Adjustments Tables

Dollars in Thousands

Internal Revenue Service

	FTE	$000
FY 2008 Enacted	91,123	$10,892,384
Changes to Base:		
Maintaining Current Levels		$264,985
Pay Annualization		57,854
Pay Inflation Adjustment		152,303
Non-Pay Inflation Adjustment		54,828
Transfers		($2,370)
Transfer to TIGTA		(1,370)
Transfer to FinCEN		(1,000)
Efficiencies/Savings	(976)	($94,249)
Efficiency Savings	(769)	(71,356)
Increase e-File Savings	(207)	(10,300)
Non-Recur Savings		(12,593)
Base Reinvestments	30	$32,604
Increase Efficiency through Submission Processing Consolidations		2,006
Address Correspondence Inventory	30	2,457
Fully Fund Postage Base		28,141
Subtotal Changes to Base	(946)	$200,970
Total FY 2009 Base - Current Services	90,177	$11,093,354
Program Changes:		
Program Decreases:	(312)	($92,691)
Taxpayer Assistance Centers and Outreach	(262)	(31,200)
Taxpayer Advocate Service	(25)	(7,711)
Volunteer Income Tax Assistance Grants Program		(8,000)
Business System Modernization	(25)	(45,780)
Program Increases - Enforcement Initiatives	3,057	$360,846
Reduce the Tax Gap for Small Business / Self-Employed	1,608	168,498
Reduce the Tax Gap for Large Businesses	519	69,488
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	393	51,058
Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity	124	13,697
Expand Document Matching	413	35,060
Implement Legislative Proposals to Improve Compliance		23,045
Subtotal FY 2009 Program Changes	2,745	$268,155
Total FY 2009 Request	92,922	$11,361,509

Taxpayer Service Program Summary Budget Adjustment Table
(Includes Both Direct Costs in the Taxpayer Services Appropriation and Indirect Costs in the Operations Support Appropriation)

Dollars in Thousands

	FTE	$000
FY 2008 Enacted	36,066	$3,612,833
Changes to Base:		
Maintaining Current Levels		$86,261
Pay Annualization		18,332
Pay Inflation Adjustment		48,838
Non-Pay Inflation Adjustment		19,091
Transfers		($523)
Transfer to TIGTA		(523)
Efficiencies/Savings	(298)	($37,415)
Efficiency Savings	(91)	(14,522)
Increase e-File Savings	(207)	(10,300)
Non-Recur Savings		(12,593)
Base Reinvestments	30	$19,294
Increase Efficiency through Submission Processing Consolidations		2,006
Address Correspondence Inventory	30	2,457
Fully Fund Postage Base		14,831
Subtotal Changes to Base	(268)	$67,617
Total FY 2009 Base - Current Services	35,798	$3,680,450
Program Changes:		
Program Decreases	(287)	($46,911)
Taxpayer Assistance Centers and Outreach	(262)	(31,200)
Taxpayer Advocate Service	(25)	(7,711)
Volunteer Income Tax Assistance Grants Program		(8,000)
Program Increases - Enforcement Initiatives	38	$2,691
Reduce the Tax Gap for Small Business / Self-Employed	38	2,691
Subtotal FY 2009 Program Changes	(249)	($44,220)
Total FY 2009 Request[1]	35,549	$3,636,230

[1] The Operations Support funds allocated to the Taxpayer Service and Enforcement programs in FY 2009 use the FY 2008 President's Budget allocation methodology. In order to execute FY 2009 spending, the Administration is proposing language to adjust Operations Support allocations by up to 1 percent with prior notification to the Appropriations Committees.

Enforcement Program Summary Budget Adjustment Table (Includes Both Direct Costs in the Enforcement Appropriation and Indirect Costs in the Operations Support Appropriation)

Dollars in Thousands

	FTE	$000
FY 2008 Enacted	54,682	$6,997,226
Changes to Base:		
Maintaining Current Levels		$177,048
Pay Annualization		39,170
Pay Inflation Adjustment		102,390
Non-Pay Inflation Adjustment		35,488
Transfers		($1,847)
Transfer to TIGTA		(847)
Transfer to FinCEN		(1,000)
Efficiencies/Savings	(677)	($56,683)
Efficiency Savings	(677)	(56,683)
Base Reinvestments		$13,310
Fully Fund Postage Base		13,310
Subtotal Changes to Base	(677)	$131,828
Total FY 2009 Base - Current Services	54,005	$7,129,054
Program Changes:		
Program Increases - Enforcement Initiatives	3,019	$358,155
Reduce the Tax Gap for Small Business / Self-Employed	1,570	165,807
Reduce the Tax Gap for Large Businesses	519	69,488
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	393	51,058
Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity	124	13,697
Expand Document Matching	413	35,060
Implement Legislative Proposals to Improve Compliance		23,045
Subtotal FY 2009 Program Changes	3,019	$358,155
Total FY 2009 Request[1]	57,024	$7,487,209

[1] The Operations Support funds allocated to the Taxpayer Service and Enforcement programs in FY 2009 use the FY 2008 President's Budget allocation methodology. In order to execute FY 2009 spending, the Administration is proposing language to adjust Operations Support allocations by up to 1 percent with prior notification to the Appropriations Committees.

2A – Budget Increases and Decreases Description

Treasury Strategic Goals and Outcome

All of the IRS FY 2009 initiatives support the Treasury Strategic Goal of "Effectively Managed U.S. Government's Finances" and the Treasury Strategic Outcome of "Revenue collected when due through a fair and uniform application of the law." The table below shows the IRS Budget by strategic outcome.

This table lists all FY 2009 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 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/2007-2012/home.html

Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Goal *Treasury Strategic Objective* Treasury Strategic Outcome	FY 2008 Enacted	FY 2009 Request	Percent Change
Effectively Managed U.S. Government Finances	$10,626,721	$11,091,461	4.4%
Cash resources are available to operate the government	*10,626,721*	*11,091,461*	*4.4%*
Revenue collected when due through a fair and uniform application of the law	10,626,721	11,091,461	4.4%
Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems	$265,663	$270,048	1.7%
Pre-empted and neutralized threats to the international financial systems and enhanced U.S. national security	*265,663*	*270,048*	*1.7%*
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	265,663	270,048	1.7%
Total	$10,892,384	$11,361,509	4.3%

Treasury Strategy for Reducing the Tax Gap

The IRS FY 2009 Budget request directly supports its Strategic Plan and includes the initiatives directly aimed at increasing voluntary compliance and reducing the tax gap. The IRS FY 2009 initiatives support the IRS report, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance*, which builds upon the Department of the Treasury's "Comprehensive Strategy for Reducing the Tax Gap".

The Treasury Tax Gap Strategy consists of seven components that form the basis for the detailed compliance improvement efforts that were set forth in the IRS Report. The seven Treasury Tax Gap Strategy components are:

1. **Reduce Opportunities for Evasion**
   The focus of this component is to identify legislative proposals that would reduce evasion opportunities and improve the efficiency of the IRS. It also includes the development of regulations and other published guidance to clarify ambiguous areas of the law, target specific areas of non-compliance, and prevent abusive behavior.

2. **Make a Multi-Year Commitment to Research**
   Research is an essential component to identify sources of non-compliance and to understand the relationship between taxpayer burden, compliance, and customer service on voluntary compliance.

3. **Continue Improvements in Information Technology (IT)**
   Improvements in IT are critical to providing the IRS with better tools to increase compliance through early detection, better case selection, and better case management.

4. **Improve Compliance Activities**
   The focus of this component is to increase and enhance activities in examination, collection, and document matching, which will allow the IRS to better prevent, detect, and remedy non-compliance. These activities will increase compliance not only among those directly contacted by the IRS, but also among those who will be deterred from non-compliant behavior as a consequence of a more visible IRS enforcement presence.

5. **Enhance Taxpayer Service**
   The importance of this component is to help taxpayers avoid making unintentional errors. Through new and existing tools, such as the IRS website, the IRS provides taxpayers with assistance and clear and accurate information before they file their tax returns, thus reducing unnecessary post-filing contacts.

6. **Reform and Simplify the Tax Law**
   The focus of this component is to simplify the tax law, forms, and procedures so that unintentional errors could be reduced. The complexity of the current tax code causes unintentional errors due to lack of understanding. Simplifying the tax code also would reduce the opportunities for intentional evasion and make it easier to administer the tax laws. The Department of the Treasury and the IRS will continue to recommend additional legislative changes to Congress that will reduce taxpayer burden.

7. **Coordinate with Partners and Stakeholders**
   The purpose of this component is to share information and compliance strategies by enhancing coordination between the IRS and state and foreign governments, as well as practitioner organizations, including bar and accounting associations.

Initiative Costing Methodology

The IRS applies a variety of methodologies to cost its initiatives based on the type of initiative. 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 fully costs the salary, benefits, and support costs needed for each FTE.

Total Changes to Base +$200,970,000 / -946 FTE

Maintaining Current Levels (MCLs)
+$264,985,000 / 0 FTE

This request funds the estimated cost of pay and benefits increases and non-pay inflation. This amount includes:

- $57,854,000 to fund annualization of the January 2008 federal pay raise in FY 2009;
- $152,303,000 to fund the proposed January 2009 federal pay raise; and
- $54,828,000 to fund the FY 2009 non-pay inflation adjustment for items such as rent, utilities, communications, contracts, travel, supplies, and equipment.

Transfer to Treasury Inspector General for Tax Administration (TIGTA)
-$1,370,000 / 0 FTE

The IRS Restructuring and Reform Act of 1998 (RRA 98), P.L. 105-206, eliminated the IRS Office of the Chief Inspector and transferred its responsibilities to a new TIGTA Office. Once TIGTA was established in FY 1999, the IRS and TIGTA signed a Memorandum of Understanding whereby the IRS would continue providing services until the costs could be determined and budgetary transfers made.

In FY 2009, the IRS budget proposes to permanently transfer $1.4 million from the IRS to TIGTA to provide base funding for its costs associated with building operations and support services such as public transportation subsidy, security, management training, and telecommunications.

Transfer to Financial Crimes Enforcement Network (FinCEN)
-$1,000,000 / 0 FTE

The IRS annually reimburses FinCEN for the costs associated with the operations and maintenance contract supporting the Bank Secrecy Act (BSA) e-filing system, which is administered and controlled by FinCEN. This transfer permanently moves funds from IRS to FinCEN to provide the base funding it needs to continue supporting its BSA e-filing system.

Efficiencies/Savings
-$94,249,000 / -976 FTE

Efficiency Savings
-$71,356,000 / -769 FTE

The IRS has identified organizational changes designed to increase operating efficiencies and reduce costs for FY 2009.

In the enforcement and operations support programs, savings will be achieved through enhancement of technology and support structure improvements such as the Integrated Collections Systems (ICS) Windows, Integrated Data Retrieval System (IDRS) Decision Assisting program, and Compliance Data Environment (CDE). These enhancements will improve system performance and workload distribution, increase the ability to interface with other modernized systems, and reduce cycle time while improving customer service. Additional productivity will be gained by continued efforts to streamline and centralize work processes, enhance workload selection techniques, and improve case selection tools. In the Operations Support programs, the IRS will realize savings by implementing re-engineered business processing efforts. For example, the IRS expects to gain efficiencies and engage stakeholders and business customers in decisions by implementing the seat management concept of managing workstations, i.e., the coordination of all workstations in an enterprise network by overseeing the installation, operation, and maintenance of hardware and software at each workstation. Through innovative concepts, evolving techniques, and streamlined efforts, the IRS will ensure efficiencies within the operations support programs. The IRS also plans to save by deferring lower priority space and housing projects and focusing on higher priority projects.

This budget request proposes to reinvest these savings to *Fully Fund Postage Base.*

Increase e-File Savings
-$10,300,000 / -207 FTE

As the result of increased electronic filing, the IRS projects a decrease of paper return filings in FY 2009. An estimated 4.2 million fewer paper returns (3.5 million individual and 0.7 million business) will be received in FY 2009 due to increases in electronically-filed returns. As a result, 207 fewer FTE will be required to perform submissions processing activities, generating a savings of $10.3 million. This savings will be reinvested to cover the costs of *Increase Efficiency through Submission Processing Consolidations* and *Address Correspondence Inventory*.

The IRS continues to strive to meet the legislatively-established goal of electronically receiving 80 percent of all tax and information returns. While technological advances, such as modernization of the 1040 e-File system, facilitate the IRS efforts, the 80 percent e-File goal was not met in FY 2007. The IRS expects progress toward this goal by continuing to enhance taxpayer service efforts, including expanding options for filing, payments, and communications, a key component of the strategy to reduce the tax gap.

The table below shows the actual and projected percent of returns processed electronically for FY 2006 through FY 2011 for individual and business returns.

Performance Level	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target	FY 2010 Target	FY 2011 Target
Percent of Individual Returns Processed Electronically	54.10%	57.10%	61.80%	64.70%	67.00%	69.00%
Percent of Business Returns Processed Electronically	16.60%	19.10%	20.80%	22.80%	25.20%	26.60%

Non-Recur Savings
-$12,593,000 / 0 FTE

This reduction reflects non-recurring, one-time costs associated with the IRS FY 2008 initiatives, such as new hire training, background investigations, and acquisition of telecommunications equipment, computers, and printers.

Reinvestments
+$32,604,000 / +30 FTE

Increase Efficiency through Submission Processing Consolidations
+$2,006,000 / 0 FTE

Initiative Summary

Increased use of e-Filing options has driven continued efforts to consolidate the processing of individual returns into fewer sites. Resources from *Increased e-File Savings* will be reinvested to fund one-time severance pay costs for the ramp-down of the Andover submissions processing site. As the Andover consolidation approaches, the IRS will continue to assist employees in finding employment either in or outside the IRS.

Implementation Plan and Benefits

This reinvestment supports the IRS efforts to implement planned submissions processing strategies, including the downsizing of paper operations to meet increases in electronic submissions and cost efficient opportunities in processing the paper returns. Return processing efficiency and effectiveness will improve as electronic filing increases. The ramp-down and consolidation of the Andover submissions processing site will also improve compliance by providing taxpayer services more efficiently and effectively, a key component of the tax gap strategy.

Address Correspondence Inventory
+$2,457,000 / +30 FTE

Initiative Summary

This reinvestment provides $2.5 million and 30 FTE in the IRS Accounts Management program. This initiative provides $1.8 million for Customer Service Representatives (CSRs) to address increased volumes in correspondence inventory and assist individual taxpayers with their questions to reach accounts resolution. As a result, addressing the correspondence inventory will improve overall taxpayer compliance. Recently, this program has experienced increased volumes, and cases have become more complex. This initiative also provides $0.7 million in training funds to provide CSRs with additional technical training on the processing of the Form 1040X, *Amended U.S. Individual Income Tax Return,* and to address taxpayer questions. Training funds will also be used for managerial training as the Wage & Investment operating division continues to decrease its span of control.

Implementation Plan and Benefits

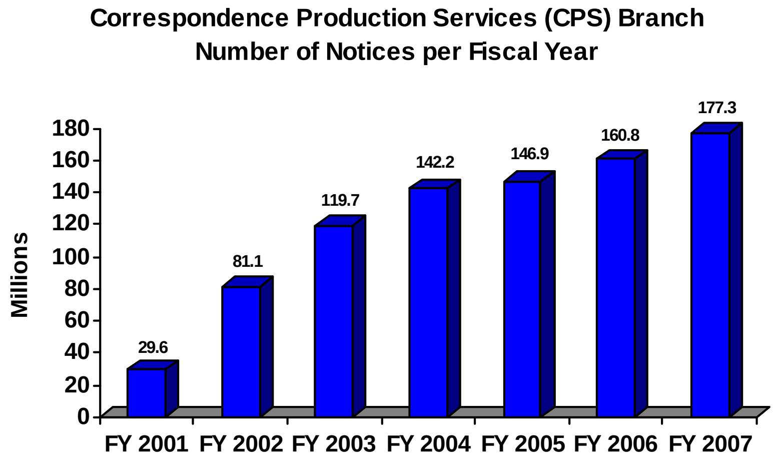
Through additional hires and training for CSRs, the IRS will more effectively address the needs of taxpayers and process the continuously increasing number of Form 1040X returns. This reinvestment supports the IRS efforts to improve compliance by providing taxpayer services more efficiently and effectively, a key component of the tax gap strategy.

Fully Fund Postage Base
+$28,141,000 / 0 FTE

Initiative Summary

This reinvestment will fully fund the IRS postage costs. Increases in both IRS enforcement and service-related correspondence activities have resulted in an increase in postage costs to contact taxpayers and issue notices via mail. Increased costs are not only due to an increase in volume, length, and weight of the mailings, but also due to a larger proportion of the mailings being sent via certified mail to ensure taxpayer privacy. Similarly, IRS emphasis on providing quality service to American taxpayers necessitates effective communication of important information about tax laws and available services, such as e-filing. Fully funding IRS postage costs is critical to supporting enforcement efforts to improve compliance and enhancements to taxpayer service programs, two key components of the IRS strategy to narrow the tax gap. To fund the postage program, the IRS redirected $8.5 million in FY 2006 and reprogrammed $31 million in FY 2007 from prior year and user fee balances.

As illustrated by the table below, the number of notices sent to taxpayers increased from 146.9 million in FY 2005 to 160.8 million (9.5 percent) in FY 2006 and another 16.5 million (10 percent) in FY 2007.



Total FY 2009 Program Changes +$200,970,000 / -946 FTE

Program Decreases
-92,691,000 / -312 FTE

Taxpayer Assistance Centers and Outreach
- $31,200,000 / -262 FTE

Additional resources were provided in FY 2008 for increasing outreach and education activities, for individuals, businesses, and tax-exempt entities; and increasing the number of tax returns prepared at the Taxpayer Assistance Centers (TACs). In FY 2009, the IRS will continue to work to implement the taxpayer assistance improvements detailed in the Taxpayer Assistance Blueprint (TAB).

Taxpayer Advocate Service
-$7,711,000 / -25 FTE

Additional Taxpayer Advocate Service (TAS) funds were provided in FY 2008 to expand TAS case processing activities. In FY 2009, these activities will be restored to levels in line with resources for other taxpayer service programs. However, the IRS does requests additional TAS program resources where appropriate in support of enforcement staffing initiatives (e.g., the FY 2009 *Reduce the Tax Gap for Small Business/Self Employed* initiative).

VITA Grants Program
-$8,000,000 / 0 FTE

Funds provided in FY 2008 included $8,000,000 for a new Volunteer Income Tax Assistance (VITA) matching grant demonstration program for tax return preparation assistance. This funding is available until September 30, 2009. Given the ramp-up time to establish the grant application and approval process, these grants are expected to be issued for the 2009 filing season.

Business Systems Modernization
-$45,780,000 / -25 FTE

The FY 2009 proposed level of $222,664,000 will allow continued progress on key modernization projects including the Customer Account Data Engine (CADE), Accounts Management Services (AMS), and Modernized e-File (MeF).

Program Increases
+360,846,000 / +3,057 FTE

Reduce the Tax Gap for Small Business / Self-Employed
+$168,498,000 / +1,608 FTE

Initiative Summary

This initiative provides for an increase of $168.5 million and 1,608 FTE to address and improve compliance among Small Business and Self-Employed (SB/SE) and Wage & Investments taxpayers in the tax gap elements of reporting, filing, and payment compliance. Over $980.8 million in additional annual enforcement revenue will be produced once new hires reach full potential in FY 2011 by increasing examinations of business and high-income returns, increasing audits involving flow-through entities, implementing voluntary tip agreements, increasing document matching audits, and collecting unpaid taxes from filed and unfiled tax returns.

This initiative will increase staff resources by 687 to address Underreporting Compliance, 721 to address Nonfiling and Underpayment Compliance, 33 to address Fraud/BSA and 167 for other direct support.

Implementation Plan and Expected Benefits by Program

Underreporting Compliance (+$74.6 million/ +687 FTE)

The Underreporting Compliance tax gap, estimated at $285 billion, reflects the underreporting of income and the overstating of deductions on returns filed timely. This portion of the tax gap is comprised of four major components: individual income tax, employment tax, corporate income tax, and estate and excise taxes. Underreporting of individual income tax and employment tax constitutes over 70 percent of the gross tax gap. Individual income tax underreporting totals $197 billion, of which over half, or $109 billion, is attributed to understated net business income. Another 28 percent, or $56 billion, represents underreported non-business income such as wages, tips, interest, dividends, and capital gains. Employment tax accounts for another $54 billion of the underreporting tax gap, of which 72 percent or $39 billion represents self-employment tax.

In FY 2009, this investment will increase staff resources by 530 Revenue Agents (RAs), 74 Tax Compliance Officers (TCOs), 53 Specialty Field Examination RAs, and 30 Correspondence Examination Customer Service Representatives.

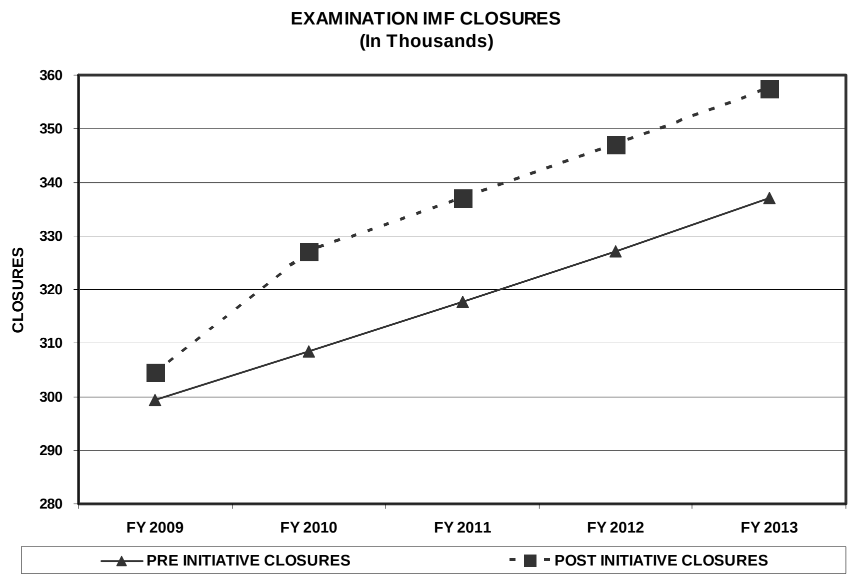
Field Examination

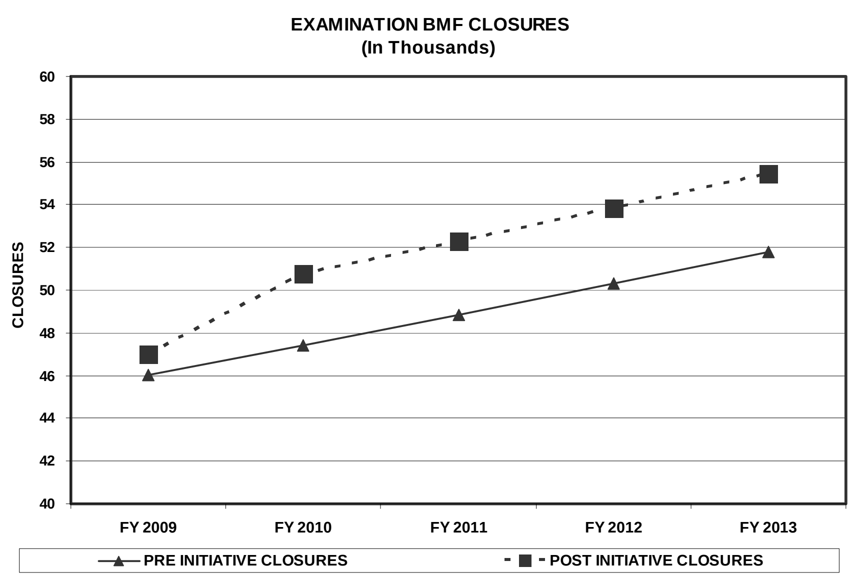
The RAs will continue to focus on Abusive Tax Avoidance Transactions (ATAT), structured transactions, and corporate and high-income examinations involving flow-through entities (e.g., trusts, partnerships, S corporations). The Employment Tax (ET)

RAs will be dedicated to securing and implementing voluntary agreements within the gaming industry tip compliance program to increase the accuracy of tip reporting for both the employer and employee.

The RAs and TCOs will examine an additional 5,100 individual income tax returns (IMF closures) and 1,000 business income tax returns (BMF closures). Once new hires reach full potential in FY 2011, this investment is projected to produce an additional 19,000 individual return audits and 3,000 business return audits, potentially generating $377.6 million in increased revenue.

Despite 5 percent growth in individual return filings from FY 2008 through FY 2011, the IRS estimates that with the addition of Field Examination resources, the IRS will be able to maintain the current audit coverage rate for individual returns of approximately 1 percent.

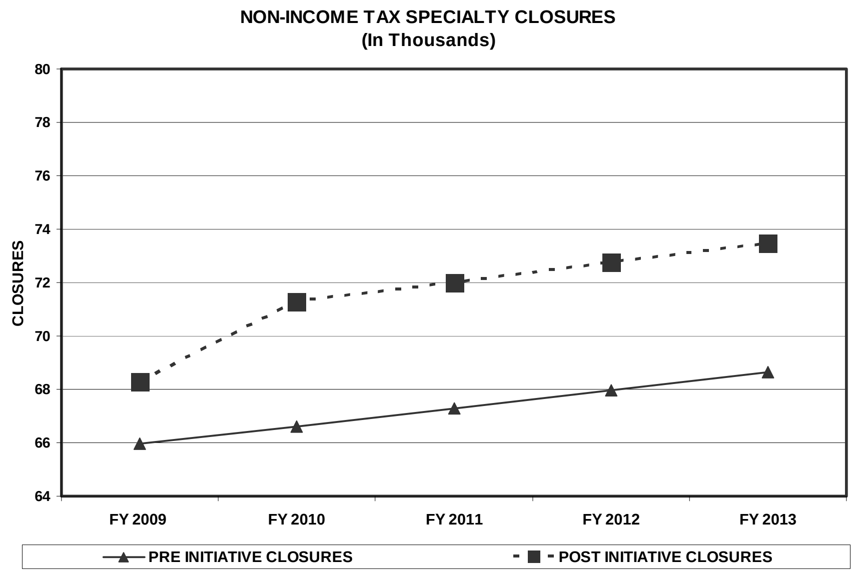




Specialty Tax Program

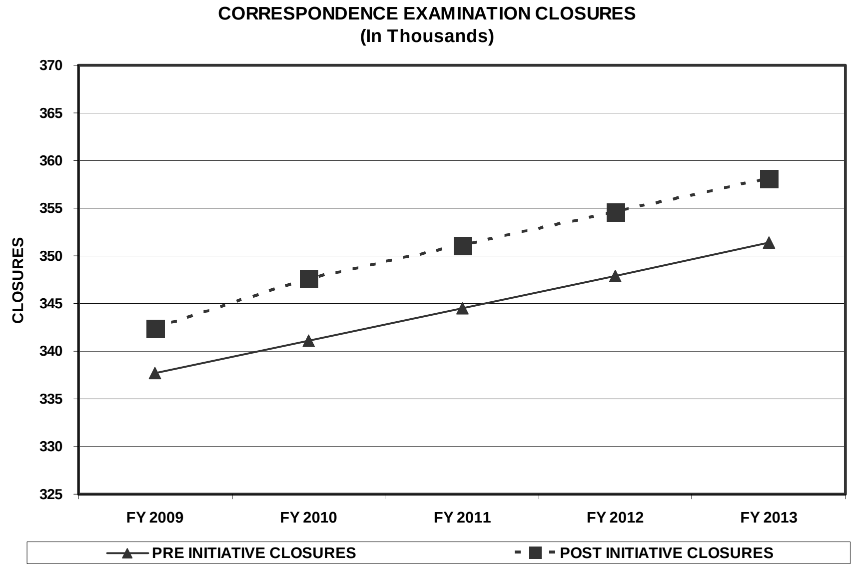
The Specialty Tax Program addresses the tax gap by handling cases in the employment, excise, and estate and gift tax program areas. In the employment tax area, the IRS continues to target efforts toward egregious non-compliance, such as the lower compliance levels of tipped employees compared to straight-wage earners. In the excise tax area, the IRS is focusing on claims for long-distance telephone tax as well as compliance with fuel tax. In the estate and gift tax area, the IRS is focusing on areas of non-compliance involving timing and valuation.

Specialty Tax staff (53 FTE) will conduct approximately 2,300 more tax audits in FY 2009, with an emphasis on employment tax cases. Once new hires reach full potential in FY 2011, this investment will result in an additional 4,000 tax audits with potential revenue of $12.1 million.



Correspondence Examination

The Correspondence Examination program addresses the tax gap through increased enforcement presence and coverage. The additional 30 FTE will allow the Correspondence Examination program to examine approximately 4,700 more cases in FY 2009. Once new hires reach full potential in FY 2011, the additional FTE will complete approximately 6,000 more audits with a projected revenue increase of $44.4 million.

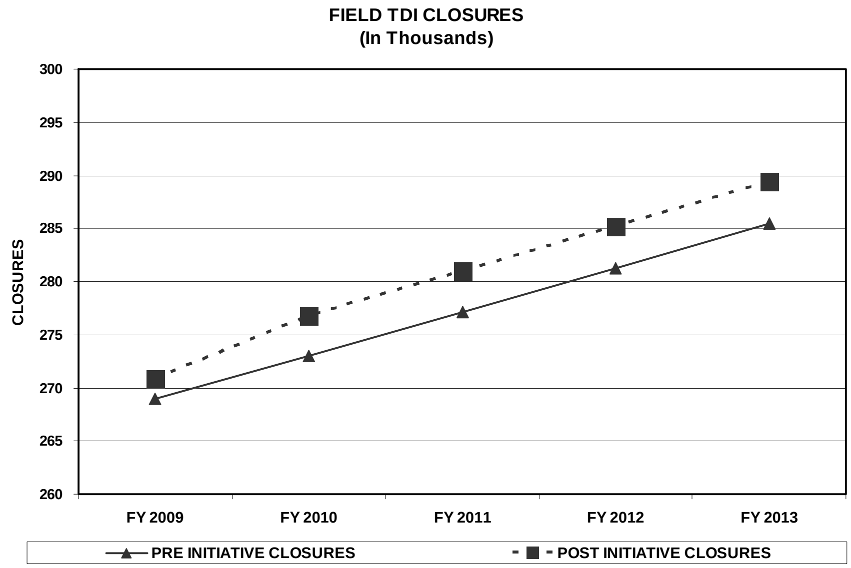


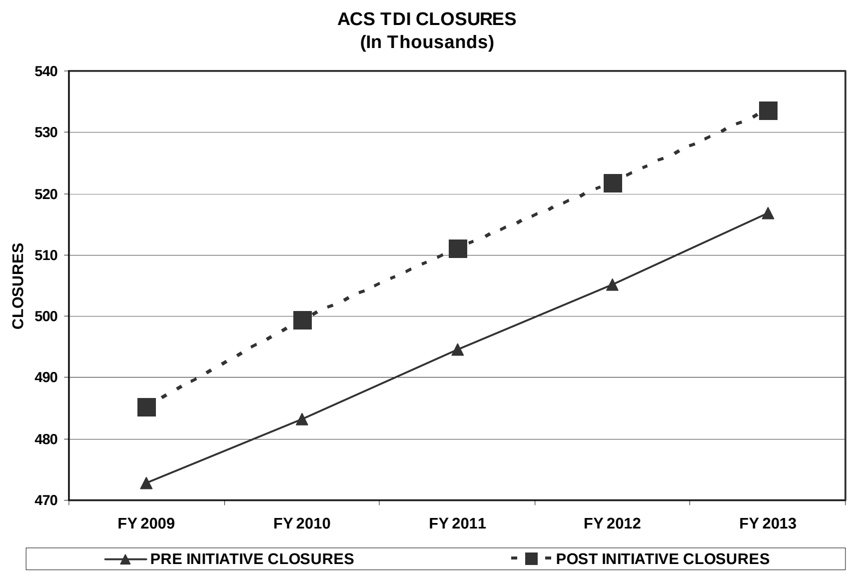
Nonfiling and Underpayment Compliance (+$69.4 million / +721 FTE)

Nonfiling comprises 8 percent or $27 billion of the tax gap. In recent years, nonfilers with high-incomes and higher amounts of net tax due have dominated the SB/SE nonfiler population. In 2002, SB/SE individual nonfilers accounted for 66 percent of the individual high-income nonfiler population, representing a 20 percent increase since FY 2000. Revenue Officers and Campus Compliance employees use an array of techniques to address nonfiling, including the determination of compliance assessments based upon available internal and third-party information.

Nonfiler

This initiative requests funding to increase the collection efforts on key compliance assessments focused on improving voluntary compliance and decreasing nonfiling. Additional Field Collection staff (96 FTE) will resolve approximately 1,900 additional nonfiler Tax Delinquency Investigations (TDI) in FY 2009, and once new hires reach full potential in FY 2011 an additional 3,000 nonfiler investigations. Additional Campus Collection/Automated Collection System (ACS) staff (19 FTE) will resolve approximately 12,000 additional nonfiler TDI in FY 2009, and once new hires reach full potential in FY 2011, an additional 16,000 nonfiler investigations.

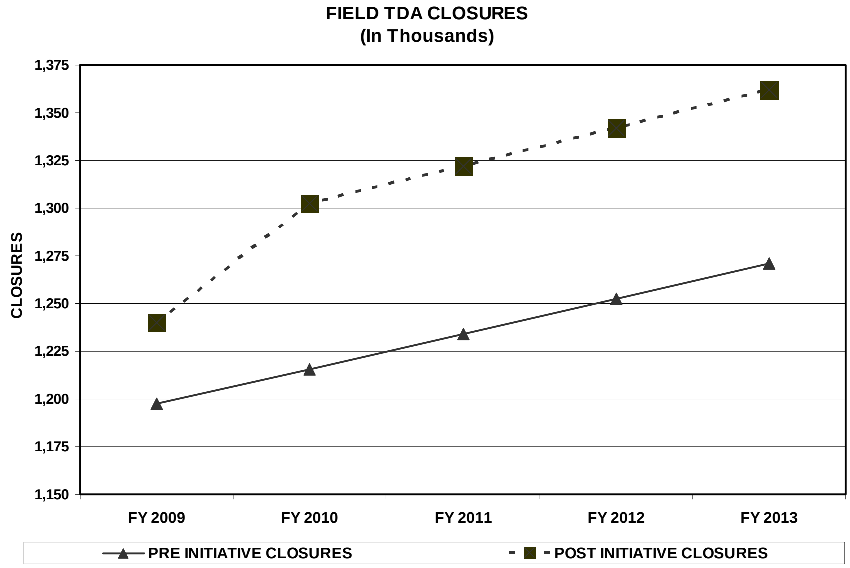




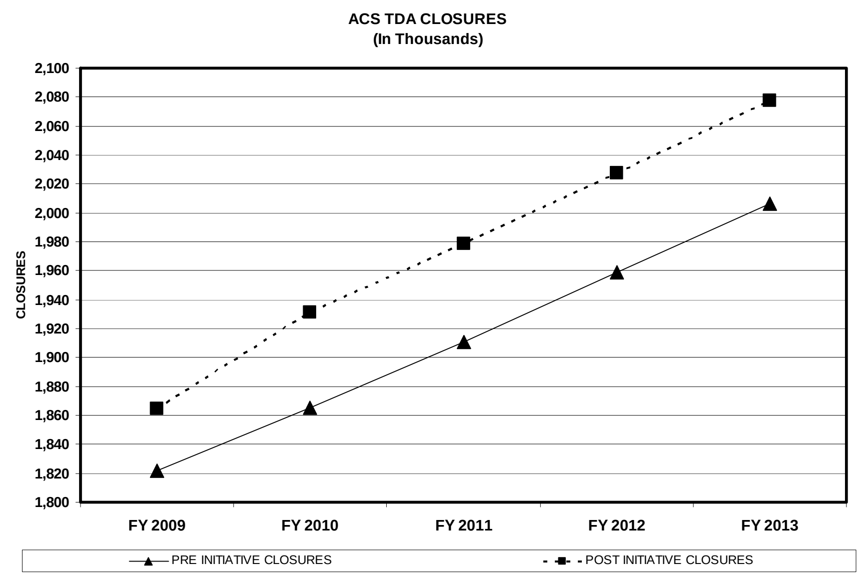
Underpayment

Payment Compliance represents 10 percent, or $33 billion, of the tax gap. Additional staffing will increase coverage of potentially collectible inventory (PCI) and focus on addressing the PCI growth. PCI is the amount of the total unpaid assessments that is available for active collection actions. Total PCI increased from $81 billion in 2004 to $105 billion in 2007. In 2004, compliance assessments accounted for $14 billion of PCI, increasing to $23 billion in 2005, $27 billion in 2006, and $36 billion in 2007.

Additional Field Collection staff of 486 FTE will resolve approximately 42,000 additional Tax Delinquency Accounts (TDA) in FY 2009. Once new hires reach full potential in FY 2011, the additional staff will resolve an additional 88,000 delinquent tax accounts, generating approximately $333.6 million in revenue.

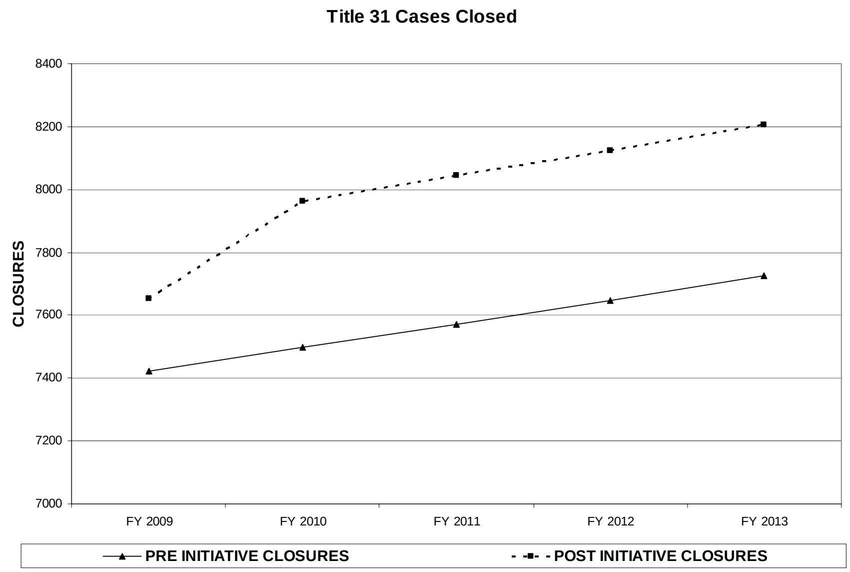


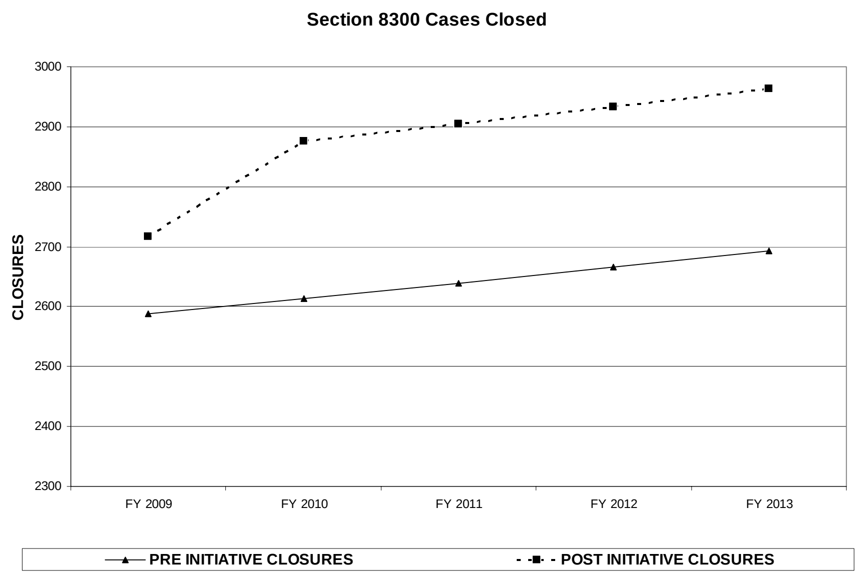
Additional Campus Collection/ACS staff of 120 FTE (92 TDA/28 TDI) will resolve approximately 43,000 additional TDA in FY 2009. Once new hires reach full potential in FY 2011, the new ACS staff will resolve approximately 67,000 additional delinquent tax accounts, with a potential generation of $213.1 million collected.



Fraud/BSA (+$3.4 million / +33 FTE)

The 33 RA FTE will be dedicated to the BSA program and will close an additional 229 Title 31 cases, and in FY 2011, an additional 400 such cases. In FY 2009, 129 additional Form 8300 cases will be examined, and once new hires reach full potential in FY 2011, 200 additional cases will be examined.





Follow-On Support (+$21.1 million / +167 FTE)

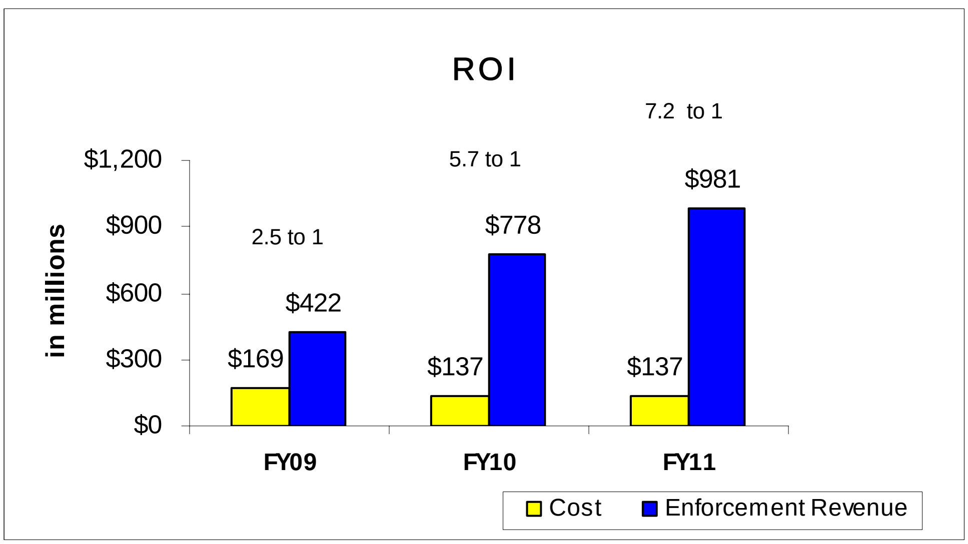
The IRS Appeals division ($9.3 million and 67 FTE) will process additional cases generated from increased examination and collection program staffing.

The IRS Office of Chief Counsel ($8.5 million and 62 FTE) will provide legal advice and assistance in litigating the increased number of cases and support for additional tax shelter litigation and published guidance; as well as and conduct tax reform-related work pertaining to SB/SE cases. A legislative change in FY 2006 transferring Collection Due Process (CDP) cases involving employment taxes from the United States District Courts to the United States Tax Court will have a direct impact on the number of increased CDP cases litigated by SB/SE Counsel Attorneys.

Funding for the Taxpayer Advocate Service ($3.3 million and 38 FTE) will be applied to both examination and collection programs to ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayer rights.

Expected Benefits

This request will produce $980.8 million in additional annual enforcement revenue once new hires reach full potential in FY 2011.



Reduce the Tax Gap for Large Business
+$69,488,000 / +519 FTE

Initiative Summary

This initiative requests an increase of $69.5 million and 519 FTE to address the tax gap derived primarily from the underreporting of income tax by large, usually multi-national businesses; foreign residents; and smaller corporations with significant international activity. To narrow this gap, the IRS will continue to improve identification of risk, implement more effective approaches to address non-compliance, and allocate resources to the highest risk areas. This initiative funds additional RAs with international, financial products, and valuation expertise; operational support to enable the IRS to further use existing systems to capture other electronic data through scanning and imaging; and increases for Counsel attorney and Appeals support.

In addition to traditional audits, the IRS will expand the use of pre-filing methods, such as the Compliance Assurance Process (CAP), which benefit from the post-Sarbanes-Oxley environment of transparency in financial disclosures including required disclosures of uncertain tax positions.

Funding of this initiative will allow the IRS to:

- Increase and maintain appropriate examination coverage of corporations among various stratifications based on compliance risk. For example, in Calendar Year (CY) 2005, corporations with assets of more than $250 million reported $172 billion in tax and have the largest book-to-tax differences. Efforts to identify risk and deal with them effectively through a balance of service and enforcement would be a priority.

- Allocate additional resources to complex enterprises with significant compliance risks, often including flow-through entities or offshore special purpose entities. (Flow-through entities are the fastest growing population in the Large and Mid-Size Business (LMSB) return population, comprising over 64 percent of filings.)

- Increase and maintain examination coverage of smaller corporate returns and individuals with international activity.

- Leverage technology through the increased development and deployment of workforce tools, issue management systems and management information systems to increase organizations capabilities to address compliance risk.

- Provide operational support to enable IRS to further use existing systems to capture other electronic data through scanning and imaging. This will provide early and efficient delivery of modernized e-file and residual paper return data to field compliance employees for identification and resolution of compliance issues.

- Strengthen the technical expertise and specialization of the LMSB workforce, aligned with complex issues of compliance risk.

- Provide for on-going renewal of the LMSB workforce to avoid future skill and experience gaps.

Implementation Plan and Benefits

Increase Coverage of Large and Mid-Size Corporations

This initiative funds an additional 333 FTE comprised of RAs and specialized personnel such as international and financial products specialists, engineers, and economists to primarily support increased coverage of large and mid-size corporations, including returns with significant international activity as well as a small increase in individual returns of foreign residents. These additional RAs and specialized personnel will improve examination coverage of large businesses, with specific focus on key areas of non-compliance involving not only the largest taxpayers, but the most complex financial transactions and difficult issues of accounting and tax law. An additional 32 FTE will be designated for tax technicians to conduct examinations of individual foreign resident returns, and 3 FTE will be designated for international technical training to meet the demand for increased technical skills of employees dealing with international tax issues and non-compliance.

The resources provided by this initiative will increase the ability of the IRS to ensure that the complicated transactions arising from the factors identified in the next paragraph are properly reported for tax purposes. This initiative will fund the hiring of a workforce needed to implement new data-driven processes using an issue-focused approach to compliance through specialization of resources.

IRS historical enforcement results show that non-compliance by large corporations represents a significant portion of the $345 billion gross tax gap. As filings continue to increase, the IRS assumes the tax gap associated with these filings also increases. While it is difficult to identify the exact source for the large corporate tax gap, a large portion may be attributed to:

- Unreconciled or undisclosed book-to-tax differences between financial reporting and income tax reporting. Corporate taxpayers are encouraged to show high profitability for financial reporting purposes and low profitability for tax reporting purposes. In FY 2003, book-to-tax differences increased by at least $266 billion compared to FY 2000 through FY 2002. As book-to-tax differences continue to increase, it is likely that underreporting attributable to these differences will also increase. The lack of adequate information regarding relevant business transactions and book-to-tax reconciliations increases the risk of undetected non-compliance with tax laws.

- Increased opportunities to engage in improper tax planning due to rapid global business expansion across differing tax jurisdictions, including tax haven countries. Between December 31, 2004 and June 30, 2005, 31,298 taxpayers filed Schedule M-3 for corporate tax returns. Aggregated data estimates that $227 billion of net income from controlled foreign corporation was excluded from tax return filings, and $89 billion of net income from non-includible U.S. entities was excluded from U.S. tax returns.

- Use of abusive tax avoidance transactions and illegal shelters.

- Increased risks from the evolution of complex business structures as businesses respond to pressure for increased shareholder return. These structures include offshore and multilateral arrangements reflected in special purpose entities, joint ventures, and other specialized arrangements, which often include tiered flow-through entities. For the largest corporations for which a "team approach" is used for examinations, 69 percent were involved in tiered partnerships directly or through subsidiaries.

- Increased complexity within the tax code.

IRS compliance efforts are facilitated by the implementation of mandatory electronic filing for large businesses and implementation of the Schedule M-3, which provides information on potentially non-compliant transactions that have differing treatment for book and tax purposes. The improved data from electronic filings allows the IRS to quickly assess risks in these returns and deliver the returns to the field for compliance action where warranted. The data from Schedule M-3 provides direction for the IRS to address critical compliance issues early and provides a more level playing field for determining which returns require audit or other compliance action. The improved information will enhance the IRS ability to determine where resources should be applied and better assess the necessary scope and depth of the audits or other compliance action.

Faced with growing business risks, the IRS has implemented and improved processes to maintain audit coverage in the large corporate sector - those corporations with $10 million or greater in assets. The currency and cycle time initiative improves the timeliness of examinations. The IRS also implemented new, non-traditional approaches to compliance. These approaches include pre-filing and real-time compliance solutions in contrast to post-filing solutions, which do not occur until years after the actual transactions. Specific examples of these new approaches include the CAP, use of issue management teams, pre-filing agreements, currency and cycle time initiatives, and issue specialization among the IRS workforce. At the international level, the IRS supports the Joint International Tax Shelter Information Centre (JITSIC) and exchanges of information with treaty partners.

Return filings for the volatile large business taxpayer population continue to increase. Projected filings for CY 2008 are 205,800, a 36 percent increase over the CY 2002 total of 151,353. As indicated by the chart below, filings are projected to grow an additional 3 percent to 212,700 in CY 2009.

Filings by type of return by assets	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009
Corporations $10M <$250M	48,694	47,786	43,064	44,744	44,773	43,700	43,000	42,400
Corporations >$250M	10,908	11,188	11,027	12,133	12,584	12,500	12,500	12,500
Sub Chapter S >$10M	25,271	26,954	30,017	32,753	36,325	38,000	40,100	42,300
Partnerships	66,480	71,000	81,000	86,322	99,482	104,800	110,200	115,500
Total	151,353	156,928	165,108	175,952	193,164	199,000	205,800	212,700

Technological and Process Improvements

This initiative includes an additional 77 FTE for support of certain critical compliance information systems. The additional FTE will enable IRS to further use existing systems to capture other electronic data through scanning and imaging. These data come from residual paper returns, which include international information returns, paper-filed Schedule M-3s, and certain flow-through filings, as well as returns not mandated to be filed electronically. These data will facilitate the better and quicker identification of abusive transactions and issues from book-tax differences that are a major contributor to the tax gap.

The 77 FTE requested to support each system under this initiative are:

- 30 FTE for Data Capture,
- 7 FTE for LMSB Imaging Network (LIN),
- 15 FTE for Promoter Imaging Network (PIN), and
- 25 FTE for Chapter 3 Withholding (CTW).

Other Direct Costs

The IRS Office of Chief Counsel ($6.8 million and 54 FTE) will provide support to this initiative and increased case closures. Counsel attorneys will advise RAs on complicated issues of tax law and accounting principles in the context of large corporate and flow-through enterprises. The attorneys will assist in all phases, including: developing facts by assisting in gathering documents; issuing summonses and conducting interviews; identifying issues; developing legal positions; assessing the merits of taxpayer positions; developing responses to taxpayer submissions; accompanying agents to taxpayer meetings; commenting on taxpayer protests; drafting closing agreements; reviewing statutory notices; attending pre-conferences with Appeals; and litigation, as necessary.

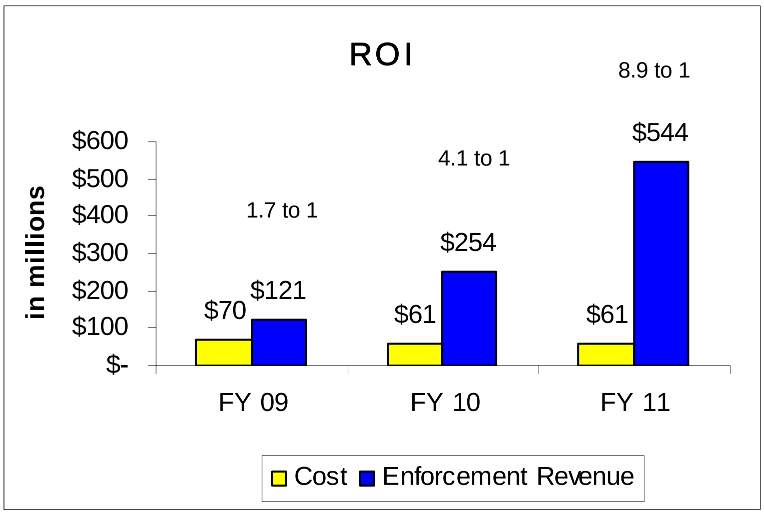
The IRS Appeals division ($2.6 million and 20 FTE) will provide support to this initiative by increasing coverage through non-traditional approaches, leveraging technology to enhance the quality and timeliness of risk identification, and employing a strategic approach to issue management.

Expected Benefits

With technological and process improvements and new approaches to compliance, the IRS is positioned to quickly identify the issues most warranting compliance action and to apply compliance treatments that are appropriate for the type of risk and taxpayer behavior. IRS performance reflects the improvement in processes derived from an issue-driven approach to compliance motivated by improved data delivery tools.

Return on Investment (ROI)

The ROI for this initiative will generate $543.9 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011 (see chart below.)



Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance
+$51,058,000 / +393 FTE

Initiative Summary

This initiative provides $51.1 million and 393 FTE to support and expand ongoing research studies of filing, payment, and reporting compliance to provide a comprehensive picture of the overall taxpayer compliance level. Research enables the IRS to develop strategies to combat specific areas of non-compliance, improve voluntary compliance, and allocate resources more effectively to reduce the tax gap. The goal of the measures is to provide benchmarks against which the IRS can evaluate the effectiveness of programs designed to improve compliance with the tax code and reduce the tax gap.

Implementation Plan and Benefits

This initiative supports ongoing Reporting Compliance Studies through the National Research Program (NRP). The request funds research studies of reporting compliance for new segments of taxpayers, such as corporations, partnerships, and other business entities, and updates existing estimates of reporting compliance (e.g., individual taxpayers). The initiative will also enhance an existing base of operating division examiners with varying expertise to perform reporting compliance studies to limit the diversion of resources from operational priorities. Accordingly, this initiative requests FTE in the following divisions; 68 in LMSB, 208 in SB/SE, 87 in Tax-Exempt/Government Entities (TEGE) and an additional 30 in support divisions.

Expected Benefits

Improved quality of research data will allow the IRS to spend a smaller proportion of its resources auditing taxpayers who are already compliant with the law. This initiative improves the fairness of the tax system and voluntary taxpayer compliance, reduces the burden on compliant taxpayers, and increases revenue to reduce the tax gap. The audits associated with these studies will generate $16 million in additional annual enforcement revenue once new hires reach full potential in FY 2011.

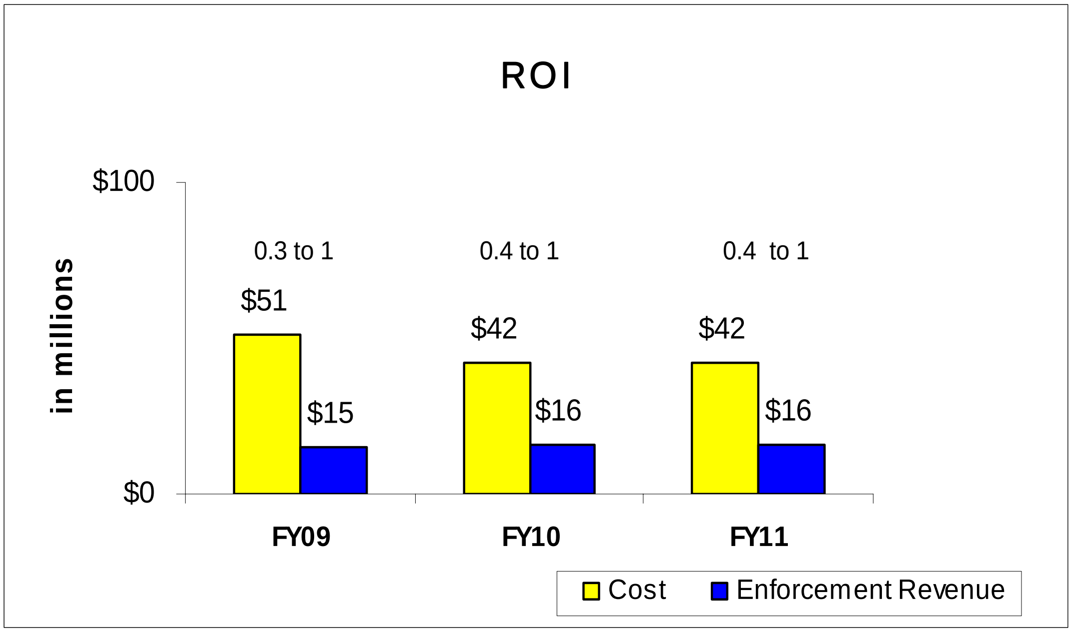
The initiative focuses on three measures (filing, payment, and reporting compliance) to provide a comprehensive picture of the overall level of compliance. The measures will provide benchmarks against which the IRS can evaluate the effectiveness of programs designed to improve taxpayer compliance with the tax code.

The data captured during the studies will enable the IRS to develop strategies to combat specific areas of non-compliance, improve voluntary compliance, allocate resources more effectively, respond to new sources of non-compliance as they emerge, and reduce the tax gap. The IRS needs estimates of non-compliance for all of the major taxes and groups of taxpayers in order to effectively deploy resources.

Moreover, since patterns of non-compliance in the population change over time, the IRS requires updated estimates of taxpayer compliance. With up-to-date studies, the IRS will be able to respond rapidly to trends and emerging vulnerabilities in the tax system. The initiative also benefits compliant taxpayers by using reporting compliance studies to improve workload selection formulas.

Return on Investment (ROI)

The ROI for this initiative will generate $15.9 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011 (see chart below).



Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity
+$13,697,000 / +124 FTE

Initiative Summary

This initiative provides for an increase of $13.7 million and 124 FTE to address domestic taxpayer offshore activities. Abusive tax schemes, reporting of flow-through income, and high-income individuals are prime channels or candidates of opportunity for tax avoidance. Abusive offshore tax schemes involve the use of foreign jurisdictions that enacted financial secrecy laws in an effort to attract investments from outside their borders. Domestic promotions lure taxpayers with the promise of illegitimate tax benefits that do not conform to current law and are marketed as devices that reduce, eliminate, or help evade income, self-employment, employment, estate, gift, and/or excise taxes.

One of the most difficult tasks the IRS encounters in addressing offshore compliance is identifying individual taxpayers who are involved in offshore arrangements. Offshore arrangements may be designed to conceal the identity of the taxpayers and to shield their ownership of assets and income from detection. The process used by IRS to identify taxpayers involved in offshore arrangements is known as "following the money". Below are four basic components to an offshore abusive arrangement:

- Devise an overall offshore plan (the Promoter/Promotion);
- Covertly transfer funds and assets offshore (Expatriation);
- Control the funds and assets transferred offshore (Control/Ownership); and
- Access the offshore funds (Repatriation).

Implementation Plan

Financial privacy laws in certain foreign jurisdictions pose a significant hurdle in IRS efforts to battle offshore abusive tax shelters. These jurisdictions deliberately attract foreign business with government policies including enacting incentives that minimize or mitigate tax, "business friendly" regulatory/supervisory regimes such as exchange controls, disclosure requirements, and secrecy enforced by law.

The legal framework of these jurisdictions makes them unique. In addition, these jurisdictions enable banks, trust companies, company incorporators, other financial intermediaries, and financial advisors resident in that jurisdiction to provide products and services to non-residents in their home countries. The IRS is particularly concerned about offshore secrecy jurisdictions that:

- Offer the instant formation and management of foreign trusts, international business companies (IBCs), and other special purpose entities;
- Lack transparency in that they offer banking and financial secrecy by law and custom (enforced by civil and criminal penalties including incarceration);
- Make the beneficial owner of an entity, transaction, or asset unknown; and
- Do not exchange tax information with the United States.

A few offshore secrecy jurisdictions have Tax Information Exchange Agreements (TIEAs) in place as a means for the U.S. to receive information. However, the IRS cannot take full advantage of a TIEA in situations where the U.S. person's identity is unknown. In addition, even where the United States is able to secure information about a taxpayer, the TIEAs do not provide for assistance with the collection of U.S. taxes from foreign-based assets.

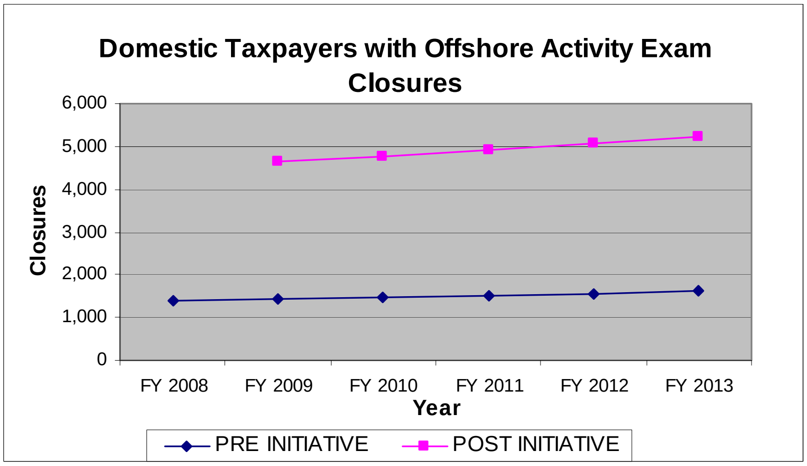
To take advantage of TIEA while addressing offshore activities, the IRS plans to establish five new domestic taxpayer offshore activity groups to fill gaps in geographic areas. The additional specially-trained RAs will uncover use of offshore credit cards, disguised corporate ownership, and brokering activities.

Other Direct Costs

Of the 124 FTE, this initiative has 10 FTE for support cost. The IRS Appeals division ($0.5 million and 4 FTE) will process the additional anticipated exam cases that will be referred and accommodate the increased time that will be required to resolve these cases. The IRS Office of Chief Counsel ($0.8 million and 6 FTE) will provide legal advice and assistance in the area of investigating taxpayers with financial dealings in offshore secrecy jurisdictions.

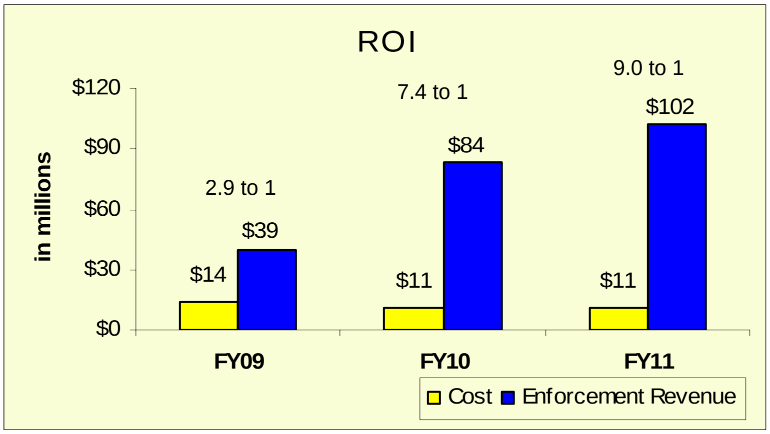
Expected Benefits

The additional FTE will generate in the first year an estimated 3,200 additional examinations of taxpayers who use offshore activities to hide, conceal, defer, or obscure assets and taxable income.



Return on Investment (ROI)

This request will generate approximately $39 million in additional resources in the first year and $101.9 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011 (see chart below).



Expand Document Matching
+$35,060,000 / +413 FTE

Initiative Summary

This initiative requests $35.1 million to increase the coverage of the IRS Automated Underreporter (AUR) program in order to reduce the number of non-compliant taxpayers who misreport their income. Increased document matching of small business/self-employed and individual taxpayer account information identifies taxpayers who underreport their income and minimizes revenue loss. This initiative will generate $359 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011.

Implementation Plan

The objective of the AUR program is to minimize revenue loss through document matching of taxpayer account information. The IRS commitment to maintaining a robust AUR program is demonstrated by a commitment to increasing enforcement results and is reflected in targets for the long-term goals and corresponding performance targets.

About 6.9 million small business taxpayers may currently misreport their income based on third party information returns. Of those, the small business AUR program processes approximately 2.2 million taxpayer cases, leaving an unaddressed gap of 4.7 million taxpayers.

The number of individual taxpayers who may annually misreport their income is about 5.1 million based on third party information returns. The AUR program currently processes about 2.3 million taxpayer cases, leaving an unaddressed gap of 2.8 million taxpayers.

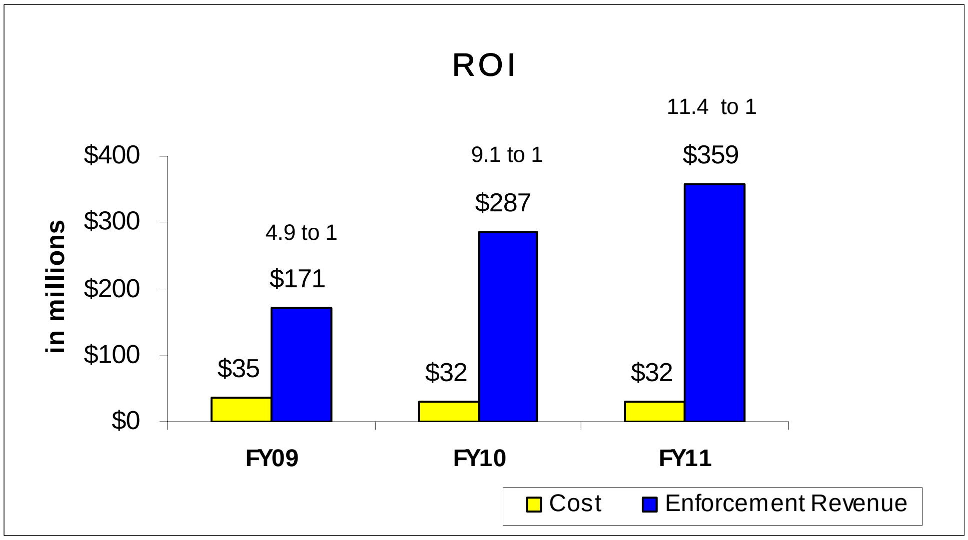
The additional resources will increase the number of SB/SE AUR closures from 1.7 million in FY 2009 to 1.8 million in FY 2011 and individual AUR closures from 2.1 million in FY 2009 to 2.4 million in FY 2011.

Other Direct Costs

The IRS Appeals division ($2.1 million and 14 FTE) will process additional cases that will be referred by the AUR document matching program.

Expected Benefits

The AUR program has one of the highest returns on investment ratios of all compliance programs. By 2011, the return on investment is expected to reach 11.4 to 1. This initiative will generate $358.6 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011.



This initiative also links IRS compliance resources to clearly defined, measurable, and results-oriented annual performance outcomes. It addresses the erosion of the IRS enforcement presence and the continued growth in non-compliance expressed by TIGTA, GAO, Congress, and the media. The initiative will also help decrease the tax gap, increase voluntary compliance, and reduce the number of taxpayers who underreport income in future tax years.

Implement Legislative Proposals to Improve Compliance
+$23,045,000 / 0 FTE

Initiative Summary

This initiative provides an increase of $23 million to implement several legislative proposals that are intended to provide the IRS with additional enforcement tools to improve compliance with minimum taxpayer burden. These tools would supplement the IRS ongoing efforts to address compliance problems by improving customer service and using traditional methods of enforcement. These proposals would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties. This enforcement initiative includes funding for purchasing software and making modifications to the IRS IT systems necessary to implement these legislative proposals.

Implementation Plan

Although the Budget includes sixteen proposals, additional information is provided below only for those proposals that will require funding to implement in FY 2009.

Information Reporting on Merchant Payment Card Reimbursements:
Underreported business income among members of the SB/SE community accounts for a significant portion of the individual income tax gap. Businesses often receive payments for goods or services via a consumer's payment card, but subsequently fail to report the

income from these transactions on the business' federal income tax return. These underreported transactions add up to be significant contributors to the tax gap.

This proposal will address this portion of the tax gap by providing the IRS with an additional means of cross-referencing the income reported by businesses with their payment card receipts. Under this proposal, the IRS would require payment card processors to report annually total reimbursements paid to businesses for goods and services. The reported amount would then be compared to gross receipts reported by businesses on their federal returns. A significant difference in the dollar values of the reimbursements by payment card companies and the gross receipts reported by businesses would be a red flag that income was possibly being underreported.

The IRS anticipates that this proposal will help reduce the tax gap in three ways. First, businesses would benefit from having an annual summary of credit card payments, which they could compare with their own records (much as individuals benefit from receiving a confirmation from their bank as to how much interest they earned during the year). Second, businesses that might otherwise be inclined to underreport their income might reconsider, knowing the IRS has a means to validate the gross income reported on their federal tax returns. Third, businesses that continue to abrogate their responsibilities as taxpayers (e.g., by not filing returns, or understating their income) would be more easily identified, so that appropriate enforcement action could be taken.

The IRS anticipates receiving approximately 125 million information return documents from credit and debit card processors per year, associated with approximately five million SB/SE taxpayers. Revenue Agents in the field could then follow up with delinquent taxpayers in the course of standard enforcement operations.

Information Reporting on Certain Government Payments:
One of the most high-profile components of the tax gap relates to the failure of some government vendors and contractors to meet their tax filing and payment obligations. Under present law, the federal government has broad authority to levy federal payments made to vendors of goods and services. The proposal would authorize the implementation of regulations requiring information reporting and backup withholding on all non-wage payments by federal, state, and local governments to procure property and services.

As part of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), enacted on May 17, 2006, Congress enacted a provision requiring 3 percent withholding on certain government vendor payments. This provision is broader than the Administration's proposal in that it requires information reporting and immediate withholding on government payments, rather than information reporting and backup withholding. The TIPRA provision applies only to payments made after December 31, 2010, whereas the Administration's proposal would be effective for payments made on or after January 1, 2009.

The IRS anticipates receiving an additional 89 to 177 million information returns as a result of the new reporting requirements. The costs associated with implementation of this program are for reprogramming affected information technology systems. Once these initial costs have been incurred, subsequent costs will decrease as processing, transcription, and matching activities will occur largely within existing workgroups.

Information Reporting on Payments to Corporations:
The National Research Program and earlier compliance studies have consistently shown that misreporting of individual income and offsets to income is significantly reduced where there is substantial third-party information reporting. This is likely to be true for corporations, as well. Under current law, businesses are not required to issue Forms 1099 for services provided by corporations.

Implementation of this proposal will increase the number of Forms 1099 filed. Voluntary compliance is expected to increase for corporate reporting of amounts subject to this information reporting. The IRS would require additional resources to implement matching programs to address the increased volume of Forms 1099.

Basis Reporting on Security Sales:
GAO estimates that 36 percent of individual taxpayers misreported their securities capital gains or losses in 2001. The estimated capital gains tax gap for Tax Year 2001 is $11 billion dollars. This amount will be significantly reduced by requiring financial institutions to:

- report the adjusted cost basis of securities sold and the nature of the sale (short-term or long-term) to the IRS, and
- exchange information to enable other financial institutions to meet adjusted cost basis reporting requirements for clients who transfer securities to a successor financial institution.

In those instances where a broker does not have sufficient information to compute the adjusted cost basis, the taxpayer will be responsible for reporting the sale.

Increase Information Return Penalties:
The IRS currently asserts a penalty for failure to file a correct information return. The current penalty amount of $50 (or $100 for intentional disregard), with a calendar year cap of $250,000 for each filer, provides little incentive to increase compliance. This proposal will enhance compliance in this area by increasing the penalty amount and the cap to increase the cost of doing business for perpetual offenders. The penalty will be increased to $100 (or $250 for intentional disregard) for each unfiled return. The cap will be increased to $1,500,000 unless the failure is due to intentional disregard of a filing requirement, in which case there will continue to be no calendar year limit. For certain small filers whose average annual gross receipts do not exceed $5,000,000, the cap will be increased from $100,000 to $500,000.

During the 2005 Tax Year, 53,821 payers received a Proposed Penalty Notice for failure to timely and accurately provide Forms 1099. While penalties are not considered a revenue source since they are inversely related to compliance, placing a monetary price on non-compliance is expected to result in significant revenue, enhanced voluntary compliance and a diminishing penalty rate over time.

Expand IRS Access to Information in the NDNH Database:
The Department of Health and Human Services maintains the National Directory of New Hires (NDNH), which contains newly hired employee data, quarterly wage data from state and federal employment security agencies, and unemployment benefit data. Currently, the IRS may obtain NDNH data *only* for administering the Earned Income Tax Credit and for verifying employment reported on a return.

Employment data, used by the IRS to administer a wide range of tax provisions, is currently obtained on a state-by-state basis, which is both time-consuming and costly. This legislative proposal would amend the Social Security Act to allow the IRS access to the NDNH for general tax administration, including data matching, verification of taxpayer claims, preparation of substitute returns for noncompliant taxpayers, and identification of levy sources. Expanded IRS access to NDNH data will increase productivity and enhance compliance.

Expected Benefits

This initiative supports the tax gap strategy outlined in the IRS report, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance*, that was published August 2007. Implementation of these legislative proposals will improve compliance without imposing undue burdens on honest taxpayers and supports the first component of this strategy: Reduce Opportunities for Evasion. Collectively, the Department of the Treasury estimates that these 16 legislative proposals will generate about $36 billion over the next ten years.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2007 Enacted[1]	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	93,088	93,486	(2,363)	91,123	92,923
Object Classification:					
11.1 Full-Time Permanent Positions	$5,304,177	$5,614,374	($128,957)	$5,485,417	$5,711,664
11.3 Other than Full-Time Permanent Positions	417,819	428,545	(44)	428,501	433,088
11.5 Other Personnel Compensation	248,846	327,366	(66,813)	260,553	272,744
11.8 Special Personal Services Payments	17,494	17,499	(231)	17,268	17,726
11.9 Personnel Compensation (Total)	$5,988,336	$6,387,784	($196,045)	$6,191,739	$6,435,222
12.0 Personnel Benefits	1,612,921	1,581,334	(42,560)	1,538,774	1,624,404
13.0 Benefits to Former Personnel	56,090	55,096	1,695	56,791	53,839
21.0 Travel	203,612	209,176	1,412	210,588	250,003
22.0 Transportation of Things	86,873	30,060	3,473	33,533	34,702
23.1 Rental Payments to GSA	629,076	649,631	(20,674)	628,957	653,829
23.2 Rent Payments to Others	4,371	388	112	500	510
23.3 Communications, Utilities, & Misc.	359,054	373,331	(543)	372,788	414,628
24.0 Printing and Reproduction	70,745	67,279	1,024	68,303	69,333
25.1 Advisory & Assistance Services	91,069	69,895	77,077	146,972	150,077
25.2 Other Services	696,411	771,946	(45,767)	726,179	720,388
25.3 Purchase of Goods/Serv. from Govt. Accts	163,583	98,909	2,554	101,463	104,981
25.4 Operation & Maintenance of Facilities	159,992	170,953	(2,124)	168,829	181,503
25.5 Research & Development Contracts	5,863	8,177	(699)	7,478	7,620
25.6 Medical Care	10,025	10,245	0	10,245	10,764
25.7 Operation & Maintenance of Equipment	70,993	82,712	(5,374)	77,338	79,745
25.8 Subsistence & Support of Persons	4,486	5,022	1,837	6,859	6,910
26.0 Supplies and Materials	55,414	62,658	7,920	70,578	73,384
31.0 Equipment	251,195	388,237	7,005	395,242	423,039
32.0 Lands and Structures	54,259	55,132	(3,306)	51,826	48,139
33.0 Investments & Loans	0	0	0	0	0
41.0 Grants, Subsidies	12,108	12,569	9,000	21,569	12,502
42.0 Insurance Claims & Indemn.	5,294	1,033	12	1,045	1,114
43.0 Interest and Dividends	0	0	0	0	0
44.0 Refunds	0	0	0	0	0
91.0 Unvouchered	5,295	3,932	856	4,788	4,873
Total Budget Authority	$10,597,065	$11,095,499	($203,115)	$10,892,384	$11,361,509
Appropriations:					
Taxpayer Services	$2,138,238	$2,103,089	$46,911	$2,150,000	$2,150,000
Enforcement	4,686,477	4,925,498	(145,498)	4,780,000	5,117,267
Operations Support	3,544,835	3,769,587	(89,528)	3,680,059	3,856,172
Business Systems Modernization	212,659	282,090	(15,000)	267,090	222,664
Health Insurance Tax Credit Administration	14,856	15,235	0	15,235	15,406
Total Budget Authority	$10,597,065	$11,095,499	($203,115)	$10,892,384	$11,361,509

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Internal Revenue Service Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted [1]		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Taxpayer Services	31,908	2,133,464	31,557	$2,138,238	31,218	$2,150,000	30,792	$2,150,000	-1.36%	0.00%
Enforcement	47,842	4,652,556	48,307	4,686,477	47,349	4,780,000	49,792	5,117,267	5.16%	7.06%
Operations Support	11,904	3,514,581	12,890	3,544,835	12,181	3,680,059	11,989	3,856,172	-1.58%	4.79%
Business Systems Modernization	353	158,758	317	212,659	358	267,090	333	222,664	-6.98%	-16.63%
Health Insurance Tax Credit Administration	10	14,850	17	14,856	17	15,235	16	15,406	-5.88%	1.12%
Subtotal New Appropriated Resources	92,017	$10,474,209	93,088	$10,597,065	91,123	$10,892,384	92,922	$11,361,509	1.97%	4.31%
Other Resources:										
Recoveries	0	4,082	0	4,082	0	0	0	0	0.00%	0.00%
Offsetting Collections - Reimbursable	698	90,160	598	90,160	623	104,898	650	107,904	4.33%	2.87%
Available multi-year/no-year funds	0	148,686	0	148,686	0	158,893	0	151,110	0.00%	-4.90%
50% Carryover	0	43,358	0	43,358	0	0	0	0	0.00%	0.00%
Transfers In/Out	0	4,552	0	4,552	0	0	0	0	0.00%	0.00%
Mandatory Appropriations - User Fees	0	136,789	0	136,789	0	258,372	0	177,655	0.00%	-31.24%
Subtotal Other Resources	698	$427,627	598	$427,627	623	$522,163	650	$436,669	4.33%	-16.37%
Total Resources Available for Obligation	92,715	$10,901,836	93,686	$11,024,692	91,746	$11,414,547	93,572	$11,798,178	1.99%	3.36%

2B – Appropriation Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE **TAXPAYER SERVICES:** 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, $2,150,000,000, of which [not less than $3,000,000]*up to $4,100,000* shall be for the Tax Counseling for the Elderly Program, of which [not less than $9,000,000]*$8,000,000* shall be available for low-income taxpayer clinic grants[, of which not less than $8,000,000, to remain available until September 30, 2009, shall be available to establish and administer a Community Volunteer Income Tax Assistance matching grants demonstration program for tax return preparation assistance, and of which not less than $177,000,000 shall be available for operating expenses of the Taxpayer Advocate Service]. *(Department of the Treasury Appropriations Act, 2008.)*	Deleted language for VITA and the Taxpayer Advocate Service consistent with the IRS 2009 Budget request.
ENFORCEMENT: (including transfer of funds) For necessary expenses of the Internal Revenue Service to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes, [to]*for the* purchase (for police-type use, not to exceed 850) and hire of 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, [$4,780,000,000]*$5,117,267,000*, of which not less than $57,252,000 shall be for the Interagency Crime and Drug Enforcement program: *Provided*, That up to $10,000,000 may be transferred as necessary from this account to the Internal Revenue Service, "Operations	

Support" [appropriations] solely for the purposes of the Interagency Crime and Drug Enforcement program: *Provided further*, That this transfer authority shall be in addition to any other transfer authority provided in this Act. *(Department of the Treasury Appropriations Act, 2008.)* **OPERATIONS SUPPORT:** For necessary expenses of the Internal Revenue Service to[operate and] 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; [$3,680,059,000]*$3,856,172,000*, of which *up to* $75,000,000 shall remain available until September 30, [2009]*2010*, for information technology support; of which not to exceed $1,000,000 shall remain available until September 30, [2010]*2011*, for research; of which not [less than $2,000,000] *to exceed $1,600,000* shall be for the Internal Revenue Service Oversight Board; and of which not to exceed $25,000 shall be for official reception and representation. *(Department of the Treasury Appropriations Act, 2008.)* **BUSINESS SYSTEMS MODERNIZATION:** For necessary expenses of the Internal Revenue Service's business systems modernization program, [$267,090,000]*$222,664,000*, to remain available until September 30, [2010]*2011*, 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	Adding the "up to" language allows additional flexibility to determine late in the year which projects may require a second year for obligation.

Appropriations[, and such Committees approve,] a plan for expenditure that: (1) meets the capital planning and investment control review requirements established by the Office of Management and Budget, including Circular A-11; (2) complies with the Internal Revenue Service's enterprise architecture, including the modernization blueprint; (3) conforms with the Internal Revenue Service's enterprise life cycle methodology; (4) is approved by the Internal Revenue Service, the Department of the Treasury, and the Office of Management and Budget; (5) has been reviewed by the Government Accountability Office; and (6) complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the Federal Government. *(Department of the Treasury Appropriations Act, 2008.)* **HEALTH INSURANCE TAX CREDIT ADMINISTRATION:** For expenses necessary to implement the health insurance tax credit included in the Trade Act of 2002 (Public Law 107-210), [$15,235,000]*$15,406,000*. *(Department of the Treasury Appropriations Act, 2008.)* **ADMINISTRATIVE PROVISIONS:** (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 [approval]*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	Sec. 104 The IRS has sustained a level of service of 82 percent for the last three years and believes this provision is no

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.]	longer necessary.
[Sec. 105. Section 9503(a) of title 5, United States Code, is amended by striking "for a period of 10 years after the date of enactment of this section" and inserting "before July 23, 2013".] [Sec. 106. Sections 9504(a) and (b), and 9505(a) of title 5, United States Code, are amended by striking "For a period of 10 years after the date of enactment of this section" each place it occurs and inserting "Before July 23, 2013".] [Sec. 107. Section 9502(a) of title 5, United States Code, is amended by striking "Office of Management and Budget" and inserting "Office of Personnel Management".]	Sec. 105 through Sec. 107 extended IRS critical pay authority through 2013 and are not needed in the 2009 appropriation bill.
[Sec. 108. Of the funds made available by this Act for the Internal Revenue Service, not less than $7,350,000 shall be available for increasing above fiscal year 2007 levels the number of full-time equivalent positions and related support activities performing Automated Collection System functions.]	Sec. 108 The funding for the Automated Collection System functions is included in the base of the IRS 2009 Budget request.
Sec. 104. Of the funds made available by this Act to the Internal Revenue Service, not less than $6,997,226,000 shall be available only for tax enforcement and related support activities funded in Internal Revenue Service, "Enforcement" and "Operations Support" accounts. In addition, of the funds made available by this Act to the Internal Revenue Service, and subject to the same terms and conditions, an additional $489,983,000 shall be available for enhanced tax enforcement and related support activities: Provided, that not to exceed 1 percent of the funds made available by this Act to the Internal Revenue Service "Operations Support" account, for tax enforcement related support activities, may be transferred to taxpayer service related support activities upon advance notification of the Committees on Appropriations. (Department of the Treasury Appropriations Act, 2008.)	As in the past three budget requests, the Administration proposes to include these enforcement increases as a Budget Enforcement Act program integrity cap adjustment. The IRS allocates Operations Support funding (e.g., rent, telecommunications, information technology) to the Taxpayer Service and Enforcement programs based on a cost allocation methodology. In many cases the IRS must move money between support activities during budget execution (e.g., from facilities to postage). This language will provide the IRS with flexibility to transfer up to one percent of

	enforcement related operations support funds to taxpayer service related support activities. This will allow greater flexibility in execution without reducing front line enforcement effort.

2C – Legislative Proposals

The FY 2009 President's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will generate about $36 billion over the next ten years. 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:

  1) require information reporting on payments to corporations;
  2) require basis reporting on security sales;
  3) require information reporting on merchant payment card reimbursements;
  4) require a certified Taxpayer Identification Number (TIN) from contractors;
  5) require increased information reporting on certain government payments;
  6) increase information return penalties; and
  7) improve the foreign trust reporting penalty.

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

  1) require electronic filing by certain large organizations; and
  2) implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.

- *Strengthen tax administration* – The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would:

  1) expand IRS access to information in the National Directory of New Hires for tax administration purposes;
  2) permit disclosure of prison tax scams;
  3) make repeated willful failure to file a tax return a felony;
  4) facilitate tax compliance with local jurisdictions;
  5) extend statutes of limitations where state tax adjustments affect federal tax liability; and
  6) improve the investigative disclosure statute.

- *Expand penalties* – Penalties play an important role in discouraging intentional non-compliance. A specific proposal to expand penalties would:

  1) impose a penalty on failure to comply with electronic filing requirements.

Improve Tax Administration and Other Miscellaneous Proposals

The Administration has put forward additional proposals relating to IRS administrative reforms. Five of these proposals are highlighted below:

The first proposal modifies employee infractions subject to mandatory termination and permits a broader range of available penalties. It strengthens taxpayer privacy while reducing employee anxiety resulting from unduly harsh discipline or unfounded allegations.

The second proposal allows the IRS to terminate installment agreements when taxpayers fail to make timely tax deposits and file tax returns on current liabilities.

The third proposal eliminates the requirement that the IRS Chief Counsel provide an opinion for any accepted offer-in-compromise of unpaid tax (including interest and penalties) equal to or exceeding $50,000. This proposal requires that the Secretary of Treasury establish standards to determine when an opinion is appropriate.

The fourth proposal extends the IRS authority to use the proceeds received from undercover operations through December 31, 2012. The IRS was authorized to use proceeds received from undercover operations to offset necessary and reasonable expenses incurred in such operations. The IRS authority to use proceeds from undercover operations expired on December 31, 2007.

The fifth proposal equalizes penalty standards between tax return preparers and taxpayers, reducing unnecessary conflicts of interest between them. The standard applicable to tax return preparers for disclosed positions would be reasonable basis, but for certain reportable transactions with a significant purpose of tax avoidance, the existing standard would persist, i.e., the preparer should have a reasonable belief that the position, more likely than not, would be sustained on the merits.

Section 3 – Budget and Performance Plan

Taxpayer Services

Appropriation Description

The Taxpayer Services appropriation provides funding for taxpayer service activities and programs including: forms and publications; processing tax returns and related documents; filing and account services; taxpayer advocacy services; and taxpayer assistance.

The Taxpayer Services Budget request for FY 2009 is $2,150,000,000 in direct appropriations and 30,792 FTE. The FY 2009 funding for the direct appropriation maintains the FY 2008 enacted level and is an increase of 426 FTE over the FY 2008 level of 31,218 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE	$000
FY 2008 Enacted	31,218	$2,150,000
Changes to Base:		
Maintaining Current Levels		$54,726
Pay Annualization		14,435
Pay Inflation Adjustment		38,823
Non-Pay Inflation Adjustment		1,468
Efficiencies/Savings	(207)	($14,969)
Increase e-File Savings	(207)	(8,996)
Non-Recur Savings		(5,973)
Base Reinvestments	30	$4,463
Increase Efficiency through Submission Processing Consolidations		2,006
Address Correspondence Inventory	30	2,457
Subtotal Changes to Base	(177)	$44,220
Total FY 2009 Base - Current Services	31,041	$2,194,220
Program Changes:		
Program Decreases:	(287)	($46,911)
Taxpayer Assistance Centers and Outreach	(262)	(31,200)
Taxpayer Advocate Service	(25)	(7,711)
Volunteer Income Tax Assistance Grants Program		(8,000)
Program Increases - Enforcement Initiatives	38	$2,691
Reduce the Tax Gap for Small Business / Self-Employed	38	2,691
Subtotal FY 2009 Program Changes	(249)	($44,220)
Total FY 2009 Request	30,792	$2,150,000

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2007 Enacted [1]	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	31,557	31,120	98	31,218	30,792
Object Classification:					
11.1 Full-Time Permanent Positions	$1,134,191	$1,176,433	$30,700	$1,207,133	$1,206,453
11.3 Other than Full-Time Permanent Positions	320,431	319,641	(502)	319,139	320,840
11.5 Other Personnel Compensation	76,769	86,714	(4,347)	82,367	84,003
11.8 Special Personal Services Payments	0	0	$0	$0	$0
11.9 Personnel Compensation (Total)	$1,531,391	$1,582,788	$25,851	$1,608,639	$1,611,296
12.0 Personnel Benefits	391,036	328,643	(22,077)	306,566	318,294
13.0 Benefits to Former Personnel	3,441	3,243	5,968	9,211	5,307
21.0 Travel	29,847	28,724	2,690	31,414	28,866
22.0 Transportation of Things	4,548	4,405	2,056	6,461	6,501
23.1 Rental Payments to GSA	0	0	0	0	0
23.2 Rent Payments to Others	46	0	44	44	45
23.3 Communications, Utilities, & Misc.	4,073	4,982	(398)	4,584	4,612
24.0 Printing and Reproduction	9,827	8,124	1,017	9,141	8,948
25.1 Advisory & Assistance Services	18,862	4,374	19,952	24,326	24,477
25.2 Other Services	43,869	99,774	(225)	99,549	100,428
25.3 Purchase of Goods/Serv. from Govt. Accts	65,927	11,459	2,863	14,322	14,409
25.4 Operation & Maintenance of Facilities	71	94	0	94	94
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	8,121	667	0	667	671
25.8 Subsistence & Support of Persons	1,456	1,455	120	1,575	1,485
26.0 Supplies and Materials	12,662	11,527	50	11,577	11,601
31.0 Equipment	827	567	0	567	570
32.0 Lands and Structures	13	0	0	0	0
33.0 Investments & Loans	0	0	0	0	0
41.0 Grants, Subsidies	11,950	12,232	9,000	21,232	12,315
42.0 Insurance Claims & Indemn	271	31	0	31	81
43.0 Interest and Dividends	0	0	0	0	0
44.0 Refunds	0	0	0	0	0
91.0 Unvouchered	0	0	0	0	0
Total Budget Authority	$2,138,238	$2,103,089	$46,911	$2,150,000	$2,150,000
Budget Activities:					
Pre-filing Taxpayer Assistance & Education	$576,537	$589,882	$55,493	$645,375	$617,326
Filing & Account Services	1,561,701	1,513,207	(8,582)	1,504,625	1,532,674
Total Budget Authority	$2,138,238	$2,103,089	$46,911	$2,150,000	$2,150,000

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Taxpayer Services Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted [1]		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Pre-Filing Taxpayer Assistance and Education	5,626	$573,685	6,091	$576,537	6,313	$645,375	6,063	$617,326	-3.96%	-4.35%
Filing and Account Services	26,282	1,559,779	25,466	1,561,701	24,905	1,504,625	24,729	1,532,674	-0.71%	1.86%
Subtotal New Appropriated Resources	31,908	$2,133,464	31,557	$2,138,238	31,218	$2,150,000	30,792	$2,150,000	-1.36%	0.00%
Other Resources:										
Recoveries		275		275						
Offsetting Collections - Reimbursable	310	20,924	314	20,924	327	21,715	341	22,454	4.28%	3.40%
Available multi-year/no-year funds		15,866		15,866		6,286		6,286	0.00%	0.00%
50% Carryover		27,924		27,924						
Transfers In/Out										
Mandatory Appropriations - User Fees		64,659		64,659		95,750		126,950	0.00%	32.58%
Subtotal Other Resources	310	$129,648	314	$129,648	327	$123,751	341	$155,690	4.28%	25.81%
Total Resources Available for Obligation	32,218	$2,263,112	31,871	$2,267,886	31,545	$2,273,751	31,133	$2,305,690	-1.31%	1.40%

3A – Pre-Filing Taxpayer Assistance and Education *($617,326,000 in direct appropriation, and $905,000 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* administers pre-filing, taxpayer assistance, and education programs.
- *Taxpayer Communication and Education* researches customer needs, prepares tax forms and publications; develops and manages educational programs, establishes partnerships with stakeholder groups, and disseminates tax information to taxpayers and the general public through a variety of media, including publications and mailings, web sites, broadcasting, and advertising.
- *Media and Publications* develops 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 taxpayers' disputes on tax returns through prompt identification, referral, and settlement.
- *National Distribution Center* processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

3.2.1 – Budget and Performance Plan
Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted[1]	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$559,249	$573,685	$576,537	$645,375	$617,326
Reimbursable Resources	1,038	843	843	877	905
Mandatory Appropriations - User Fees		1,201	1,201	0	0
Total Resources	$560,287	$574,528	$578,581	$646,252	$618,231

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Pre-Filing Taxpayer Assistance & Education Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	91.4%	83.0%	83.5%	85.2%	86.0%	86.0%
Timeliness of Critical Other Tax Products to the Public (Ot)	80.0%	61.2%	84.0%	79.6%	86.0%	86.0%
Taxpayer Self Assistance Rate (E) (L)	42.5%	46.8%	49.5%	48.6%	51.5%	52.5%
Percent of Eligible Taxpayers Who File for EITC (Oe)	80.0%	*	*	75%-85%	75%-80%	75%-80%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal
*The methodology for estimating the eligibility rate is being revised. Data not available.

Description of Performance

Improved service options for taxpayers and simplifying the tax process are key objectives under the IRS strategic goal to improve taxpayer service. Helping taxpayers understand their tax reporting and payment obligations remains a vital part of maintaining public confidence in administering the tax laws. The IRS continued to expand its outreach by relying on partner organizations such as state taxing authorities and volunteer groups, such as Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly, to help serve taxpayer needs. The IRS also provided assistance to millions of taxpayers through toll-free call sites, the IRS.gov website and Taxpayer Assistance Centers (TACs).

In addition, developing and maintaining relationships with IRS stakeholders and partners in tax administration has become a key strategy in developing and distributing tax information to our customers. By augmenting and opening these avenues of communication, the IRS is able to quickly identify and respond to emerging issues in tax compliance and to more efficiently provide education and outreach to a wider population of taxpayers to improve compliance.

To further address taxpayer needs, the IRS delivered two phases of the TAB to Congress and established a Taxpayer Services Program Management Office and IRS Services Committee to formalize integrated service investment decision-making. The TAB Phase 2 Report outlines a five-year plan for taxpayer service that will help the IRS enhance the services delivered to taxpayers and partners. The report contains performance metrics, service improvement initiatives, and an implementation strategy for improving service investment decisions. It also outlines the future direction of IRS service delivery and identifies strategic challenges facing taxpayers and the IRS.

The report *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance* identifies current tax gap activities and presents the steps being taken to reduce opportunities for tax evasion, leverage technology, and support legislative proposals to improve compliance. It provides an outreach approach to ensure all taxpayers understand their tax obligations and highlights the importance of having a multi-year research program to help the IRS understand both the scope of and reasons for non-compliance while reaffirming the need to minimize burden for compliant taxpayers.

These reports, combined with legislative changes and tax simplification, will provide the roadmap necessary to deliver on the important priorities of service and enforcement, and lead to improved compliance.

Despite late enactment of tax law changes in December 2006, over 83.5 percent (137 of 164) of the critical filing season tax products and 84 percent of critical other (business) tax products were delivered to the public on time in FY 2007. Over 1,000 tax product revisions were required. The Tax Relief and Health Care Act of 2006 (TRHCA) included the extension of several significant tax benefits. However, because TRHCA was enacted after the forms and publications for Tax Year 2006 were printed and distributed, the IRS was required to notify taxpayers how to modify their claims for the allowable benefits. In addition, all 401 TACs remained open and serviced over 7 million taxpayers.

The FY 2007 taxpayer self-assistance rate was 49.5 percent, higher than the FY 2007 target of 48.6 percent. This success is primarily attributed to the increased use of the "Where's My Refund?" self-service internet application, which is up 30 percent (totaling 32.1 million taxpayers). The implementation of improvements to the IRS website, including the addition of a sales tax deduction calculator, also contributed to the increase in usage. The IRS also continues efforts to simplify its tax forms and publications to make them more user-friendly, with the ultimate goal of providing all of its published products in electronic format.

Over 83,000 taxpayer returns requested the split refund option. The capability to split refunds in the 2007 filing season provided individual taxpayers with a new option of choosing direct deposit for depositing their tax refunds to different accounts. All taxpayers who filed using any of the 1040 series forms had the option to divide their refunds in up to three financial accounts including individual retirement accounts, over 500 college savings plans, savings bonds, or a variety of other accounts.

In FY 2007, the IRS also improved services for Earned Income Tax Credit (EITC) participants through the following actions:

- Developed a three-point plan expanding outreach initiatives and identified ways to simplify and improve forms and make IRS.gov more user friendly;
- Held an EITC Awareness Day, a nationwide media campaign to increase awareness of the EITC among eligible taxpayers, especially those with limited English proficiency;
- Developed outreach strategies and products to reach and increase participation among the underserved EITC populations, such as Hispanic and rural communities; and
- Increased partnerships with community-based organizations dedicated to assisting taxpayers with financial literacy, return preparation, and tax return filing, which increased IRS outreach by 15 percent and return preparation by 18 percent from FY 2006.

The IRS partners with organizations such as state taxing authorities and volunteer groups to serve taxpayer needs. Through its 11,922 VITA and Tax Counseling for the Elderly (TCE) sites, the IRS provided free tax assistance to the elderly, disabled, and limited English proficient individuals and families. In FY 2006, 69,000 volunteers filed approximately 2.3 million returns, a 7 percent increase over FY 2005. This trend continued in FY 2007, with 76,619 volunteers located at the sites preparing approximately 2.63 million returns, a 14 percent increase over FY 2006.

The IRS established 16 new Low Income Taxpayer Clinics (LITC) in rural areas to help taxpayers who cannot afford representation obtain competent assistance in meeting their obligations. LITCs reduce taxpayer uncertainty and errors by clarifying taxpayer rights and responsibilities, and through their outreach efforts, offer effective information and education. Existing procedures were also enhanced to secure translators for any taxpayer seeking assistance in a language other than English or Spanish.

In FY 2008, the IRS will continue improvements to better serve taxpayers. Efforts to increase electronic filing will continue, including adding new forms and schedules to the business electronic portfolio, leveraging partner organizations such as state taxing authorities, and increasing use of volunteers to better serve taxpayer needs.

3A – Filing and Account Services *($1,532,674,000 in direct appropriation, $21,549,000 from reimbursable programs, and $126,950,000 from user fees)*: This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically submitted tax returns, issue refunds, and maintain taxpayer accounts. This includes the following program activities:

- *Filing and Account Services Management* administers filing and account services programs.

- *Submission Processing* processes paper and electronically-submitted tax returns and supplemental documents, accounts for tax revenues, and issues refunds and tax notices.
- *Account Management and Assistance* – Electronic Correspondence Assistance provides education and assistance to taxpayers through telephone, paper, and internet correspondence to resolve account and notice inquiries.
- *Electronic Tax Administration* markets and administers electronic tax administration products and services.
- *Files Most Efficient Organization* stores the administrative files and the most recent tax returns in-process that are most likely to be requested for research by various IRS organizations until they are forwarded to the federal records centers.

3.2.2 – Budget and Performance Plan

Dollars in Thousands

Filing and Account Services Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted[1]	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$1,568,209	$1,559,779	$1,561,701	$1,504,625	$1,532,674
Reimbursable Resources	24,242	20,081	20,081	20,838	21,549
Mandatory Appropriations - User Fees		63,458	63,458	95,750	126,950
Total Resources	$1,592,451	$1,643,318	$1,645,240	$1,621,213	$1,681,173

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Filing and Account Services Measures	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
Percent Individual Returns Processed Electronically (Oe) (L)	51.1%	54.1%	57.1%	57.0%	61.8%	64.7%
Percent of Business Returns Processed Electronically (Oe) (L)	17.8%	16.6%	19.1%	19.5%	20.8%	22.8%
Customer Accuracy - Tax Law Phones (Ot)	89.0%	90.9%	91.2%	91.0%	91.0%	91.0%
Customer Accuracy - Customer Accounts (Phones) (Ot)	91.5%	93.2%	93.4%	93.3%	93.5%	93.7%
Customer Contacts Resolved per Staff year (E)	7,585	7,414	7,648	7,702	8,000	8,100
Customer Service Representative (CSR) Level of Service (Oe) (L)	82.6%	82.0%	82.1%	82.0%	82.0%	82.0%
Refund Timeliness - Individual (paper) (Ot)	99.2%	99.3%	98.9%	99.2%	98.4%	98.4%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal

Description of Performance

The IRS delivered a successful 2007 filing season notwithstanding new challenges that included implementing the Telephone Excise Tax Refund (TETR, a one-time payment designed to refund long distance telephone taxes); introducing split refund capability, which provided taxpayers with more control over their refunds by allowing direct deposit of a refund to up to three financial accounts; and making the necessary changes to forms and systems to accommodate late passage of provisions of the Tax Relief and Health Care Act of 2006. During the 2007 filing season, the IRS:

- Processed more than 139.7 million individual returns and issued more than 105.5 million refunds totaling $261 billion;
- Maintained a telephone level of service of 82.1 percent while answering 33.2 million calls;
- Correctly responded to 91.2 percent of tax law questions and 93.4 percent of account questions received via the telephone;
- Served over 7 million taxpayers at 401 Taxpayer Assistance Centers; and
- Increased electronic filing:
    - Individual returns electronically filed reached 57.1 percent, up from 54.1 percent in 2006;
    - Business returns electronically filed reached 19.1 percent, up from 16.6 percent in 2006;
    - Home computer filing increased to 22.5 million returns, an 11 percent improvement over 2006; and
    - Tax professional use of e-file increased to 57.2 million returns or 10 percent over 2006.

In FY 2007, 3.9 million taxpayers used the Free File Alliance, the partnership between the IRS and a consortium of tax preparation software companies. In the same year, the IRS negotiated an amendment to the agreement with the Free File Alliance that removed ancillary products from the free-filing process. Qualified taxpayers were able to prepare and e-file their returns without the distraction of advertisements for various products. In addition, the IRS launched a Spanish Free File page with two companies providing tax preparation software in Spanish.

In FY 2007, the IRS also successfully delivered the TETR, a one-time credit available on federal income tax returns designed to refund previously collected long distance telephone taxes. The IRS integrated approach to educate and assist taxpayers included:

- Using regular IRS income tax processing channels and existing income tax forms by adding a line for TETR on every form;
- Developing a methodology for claiming the credit using a standard amount for individuals and an estimation formula for businesses;
- Reprogramming major filing systems to process the TETR credit with the filing of individual tax returns;
- Creating a new form for individuals without an income tax filing requirement to claim the credit; and
- Implementing an extensive communication strategy that focused on education, maximizing media reach, and publicizing compliance issues.

For the 2007 filing season, the IRS issued 22 news releases, eight "Tax Tips," and messages included in over 4,000 articles related to taxes and tax filing. To further assist taxpayers and the practitioner community, the IRS launched a TETR web page on IRS.gov that was viewed by more than 4.5 million people.

Successful delivery of the integrated TETR approach enabled the filing of over 94 million 2006 federal income tax returns including TETR refund claims, which are more than $4.81 billion in telephone excise tax refunds. In addition, the IRS prevented more than $291 million in potential erroneous refunds with the aid of a return selection tool created specifically to catch questionable TETR requests. The comprehensive approach to administering this refund allowed the IRS to successfully meet taxpayer and stakeholder expectations.

In FY 2008, the IRS will continue to research and evaluate information regarding taxpayer service needs, priorities, and preferences to improve delivery of services that support taxpayer-preferred approaches for obtaining information or services. The IRS will seek opportunities to invest in technology, process improvement, and training to achieve consistent repeatable quality service with reduced costs.

The FY 2009 Budget request provides additional resources to increase efficiencies in submissions processing by continuing site consolidations and by increasing individual and business electronic filing.

Enforcement

Appropriation Description

The Enforcement appropriation funds the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; examination of tax returns of exempt organizations; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of underreporting of tax obligations; and the securing of unfiled tax returns and collecting unpaid accounts.

The Enforcement Budget request for FY 2009 is $5,117,267,000 in direct appropriations and 49,792 FTE. This is an increase of $337,267,000 or 7.1 percent and 2,443 FTE over the FY 2008 enacted level of $4,780,000,000 and 47,349 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE	$000
FY 2008 Enacted	47,349	$4,780,000
Changes to Base:		
Maintaining Current Levels		$126,003
Pay Annualization		33,184
Pay Inflation Adjustment		87,006
Non-Pay Inflation Adjustment		5,813
Transfers		($1,000)
Transfer to FinCEN		(1,000)
Efficiencies/Savings	(538)	($48,762)
Efficiency Savings	(538)	(48,762)
Subtotal Changes to Base	(538)	$76,241
Total FY 2009 Base - Current Services	46,811	$4,856,241
Program Changes:		
Program Increases - Enforcement Initiatives	2,981	$261,026
Reduce the Tax Gap for Small Business / Self-Employed	1,570	132,093
Reduce the Tax Gap for Large Businesses	515	57,009
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	359	35,473
Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity	124	11,075
Expand Document Matching	413	25,376
Subtotal FY 2009 Program Changes	2,981	$261,026
Total FY 2009 Request	49,792	$5,117,267

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Enforcement	FY 2007 Enacted [1]	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	48,307	49,140	(1,791)	47,349	49,792
Object Classification:					
11.1 Full-Time Permanent Positions	$3,193,531	$3,394,207	($114,263)	$3,279,944	$3,490,824
11.3 Other than Full-Time Permanent Positions	85,058	97,309	(10,492)	86,817	89,150
11.5 Other Personnel Compensation	138,672	171,714	(25,360)	146,354	156,069
11.8 Special Personal Services Payments	17,494	17,499	(231)	17,268	17,726
11.9 Personnel Compensation (Total)	$3,434,755	$3,680,729	($150,346)	$3,530,383	$3,753,769
12.0 Personnel Benefits	915,516	926,653	(6,448)	920,205	987,447
13.0 Benefits to Former Personnel	2,306	0	0	0	0
21.0 Travel	135,827	145,802	(2,013)	143,789	184,360
22.0 Transportation of Things	11,786	5,685	883	6,568	6,731
23.1 Rental Payments to GSA	55	0	0	0	0
23.2 Rent Payments to Others	410	383	68	451	459
23.3 Communications, Utilities, & Misc	29,261	6,642	(1,960)	4,682	4,808
24.0 Printing and Reproduction	8,440	5,443	(8)	5,435	5,589
25.1 Advisory & Assistance Services	17,562	21,209	9,831	31,040	32,486
25.2 Other Services	50,516	59,830	1,674	61,504	64,849
25.3 Purchase of Goods/Serv. from Govt. Accts	37,505	25,642	1,993	27,635	26,734
25.4 Operation & Maintenance of Facilities	182	163	(86)	77	78
25.5 Research & Development Contracts	2,925	2,908	1	2,909	2,960
25.6 Medical Care	20	0	0	0	0
25.7 Operation & Maintenance of Equipment	2,196	6,747	(5,038)	1,709	1,745
25.8 Subsistence & Support of Persons	2,637	3,289	717	4,006	4,121
26.0 Supplies and Materials	23,739	24,342	4,923	29,265	30,761
31.0 Equipment	3,102	5,361	(449)	4,912	4,999
32.0 Lands and Structures	0	0	0	0	0
33.0 Investments & Loans	0	0	0	0	0
41.0 Grants, Subsidies	158	337	0	337	187
42.0 Insurance Claims & Indemn	2,284	401	(96)	305	311
43.0 Interest and Dividends	0	0	0	0	0
44.0 Refunds	0	0	0	0	0
91.0 Unvouchered	5,295	3,932	856	4,788	4,873
Total Budget Authority	$4,686,477	$4,925,498	($145,498)	$4,780,000	$5,117,267
Budget Activities:					
Investigations	$576,785	$602,385	(8,591)	$593,794	$603,466
Exam and Collections	3,959,741	4,164,361	(126,052)	4,038,309	4,363,826
Regulatory	149,951	158,752	(10,855)	147,897	149,975
Total Budget Authority	$4,686,477	$4,925,498	($145,498)	$4,780,000	$5,117,267

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Enforcement Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted [1]		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Investigations	4,283	$573,469	4,315	$576,785	4,278	$593,794	4,239	$603,466	-0.91%	1.63%
Exam and Collections	42,334	3,932,874	42,751	3,959,741	41,842	4,038,309	44,389	4,363,826	6.09%	8.06%
Regulatory	1,225	146,213	1,241	149,951	1,229	147,897	1,164	149,975	-5.29%	1.41%
Subtotal New Appropriated Resources	47,842	$4,652,556	48,307	$4,686,477	47,349	$4,780,000	49,792	$5,117,267	5.16%	7.06%
Other Resources:										
Recoveries		98		98						
Offsetting Collections - Reimbursable	116	41,460	115	41,460	120	42,522	125	43,700	4.17%	2.77%
Available multi-year/no-year funds		2,286		2,286		5,746		5,746		
50% Carryover		4,325		4,325						
Transfers In/Out		(18,948)		(18,948)						
Mandatory Appropriations - User Fees		5,452		5,452		59,254				
Subtotal Other Resources	116	$34,673	115	$34,673	120	$107,522	125	$49,446	4.17%	-54.01%
Total Resources Available for Obligation	47,958	$4,687,229	48,422	$4,721,150	47,469	$4,887,522	49,917	$5,166,713	5.16%	5.71%

3A – Investigations (*$603,466,000 in direct appropriation and $33,678,000 from reimbursable programs):* This budget activity funds the IRS Criminal Investigations (CI) programs that explore potential criminal violations of the internal revenue tax laws, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. This includes the following program activities:

- *CI* 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 involving both legal and illegal sources of income and recommends prosecution as warranted. This activity also includes the investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.
- *General Management and Administration* supports the headquarters management activities of strategic planning, communications, finance, and human resources for CI activities.
- *Criminal Tax Legal Support* provides staffing, training, and direct support to Counsel and CI.

3.2.3 – Budget and Performance Plan

Dollars in Thousands

Investigations Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted[1]	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$599,878	$573,469	$576,785	$593,794	$603,466
Reimbursable Resources	33,306	32,441	32,441	32,817	33,678
Mandatory Appropriations - User Fees	0	0	0	0	0
Total Resources	$633,184	$605,910	$609,226	$626,611	$637,144

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Investigations Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
Criminal Investigations Completed (Ot) (L)	4,104	4,157	4,269	4,000	4,000	4,025
Number of Convictions (Oe) (L)	2,151	2,019	2,155	2,069	2,135	2,135
Conviction Rate (Oe) (L)	91.2%	91.5%	90.2%	92.0%	92.0%	92.0%
Conviction Efficiency Rate ($) (E) (L)	$295,316	$328,750	$301,788	$314,008	$317,625	$317,625

Key: E - Efficiency Measure, Ot - Output/Workload Measure, L - Long Term Goal

Description of Performance

Enforcement of criminal statutes is an integral component of IRS efforts to enhance voluntary compliance and enforce the tax laws. In FY 2006, criminal investigations completed exceeded the target of 3,945 by 5 percent. Both the referral acceptance rate (71.8 percent) and total number of referrals accepted (445) were higher than last year. Abusive tax schemes and shelters were a concern in FY 2006 and remained a high investigative priority in FY 2007 due to egregious activities in areas of corporate fraud and tax avoidance of high-income individuals.

In FY 2007, the IRS continued its focus on legal source tax investigations, partnering with other law enforcement agencies to develop significant tax, money laundering, and other financial investigations that adversely affect tax administration. The IRS also took steps to combat fraudulent and financial crime schemes identified through improved case development efforts and Bank Secrecy Act (BSA) investigations. Performance levels remained high in FY 2007:

- Completed 4,269 criminal investigations, exceeding the target of 4,000.
- Maintained a conviction rate of over 90 percent.
- Increased acceptance rate by the Department of Justice to 94.6 percent, higher than the FY 2006 rate of 92.2 percent; and the acceptance rate by the U.S. Attorney increased to 90.2 percent, 2 percent higher than the 88.3 percent achieved in FY 2006.
- Obtained 2,155 convictions, exceeding the target of 2,069.
- Stopped fraudulent claims in excess of $1 billion through IRS Fraud Detection Centers.

In FY 2009, CI will aggressively attack tax evasion and reduce the tax gap. CI will focus on abusive tax schemes, corporate fraud, nonfilers, employment tax fraud, general fraud, narcotics, tax and other financial crimes identified through Bank Secrecy Act (BSA) related examinations, and case development efforts.

3A – Exam and Collections *($4,363,826,000 in direct appropriation and $9,905,000 from reimbursable programs):* This budget activity funds programs that enforce the tax laws through examination and collection programs that ensure proper payment and tax reporting. The budget activity also supports appeals and litigation activities associated with exam and collection. This includes the following program activities:

- *Compliance Services Management* supports management associated with compliance program activities.
- *Payment Compliance – Correspondence Collection* supports the IRS collection activities by initiating contact and collecting delinquent taxpayer liabilities through written notices and other means.
- *Automated Collections and Support* supports the IRS centralized Automated Collection System 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 government's interest 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 regarding unpaid tax liabilities identified from tax returns.
- *Tax Reporting Compliance – Field Exam* compares taxpayer correct income levels and corresponding tax liabilities to ensure accuracy of taxpayer returns. This activity also provides determination letters, advance pricing agreements, and other determinations.
- *Fraud/Bank Secrecy Act* enforces the anti-money laundering provisions of the Bank Secrecy Act (BSA) of 1970, and the USA PATRIOT Act of 2001. It examines non-bank financial institutions for compliance with these laws, 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 RAs 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. This specialty program also oversees IRS international exam and collection programs involving U.S. citizens residing abroad, non-resident aliens, expatriates, and examinations involving other international issues (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion).
- *Specialty Programs – Collection* supports international field collection efforts associated with delinquent taxpayer and business entity liabilities from U.S. citizens residing abroad, non-resident aliens, expatriates, and those involving other international issues (e.g., Foreign Tax Credit 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, and business system planning and embedded training.
- *Whistleblowers* provides staffing, training, and direct support to process, assess, and analyze incoming tips from individuals who identify tax problems wherever they may be encountered, including in their workplace, while conducting day-to-day personal business.
- *Communications and Liaison* coordinates local government and liaison relationships; manages congressional, state, and national stakeholder relationships and issues; coordinates crosscutting issues including managing audits and legislative implementation; manages national media contacts and local media relationships; and ensures IRS-wide compliance with Disclosure and Privacy laws.

3.2.4 – Budget and Performance Plan

Dollars in Thousands

Exam and Collections Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted[1]	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$3,925,839	$3,932,874	$3,959,741	$4,038,309	$4,363,826
Reimbursable Resources	9,851	8,764	8,764	9,592	9,905
Mandatory Appropriations - User Fees		5,452	5,452	59,254	
Total Resources	$3,935,690	$3,941,638	$3,973,957	$4,107,155	$4,373,731

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Exam and Collections Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
Examination Coverage - Individual (Oe) (L)	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
Field Exam Embedded Quality (Oe) (L)	N/A	85.9%	85.9%	87.0%	87.0%	87.0%
Office Exam Embedded Quality (Oe) (L)	N/A	88.2%	89.4%	89.0%	90.0%	90.0%
Examination Quality (LMSB) - Industry (Oe) (L)	77.0%	85.0%	87.0%	88.0%	88.0%	89.0%
Examination Quality (LMSB) - Coordinated Industry (Oe) (L)	89.0%	96.0%	96.0%	97.0%	96.0%	96.0%
Examination Coverage - Business (Oe) (L)	7.8%	7.3%	6.8%	8.2%	6.6%	6.8%
AUR Efficiency (E) (L)	1,701	1,832	1,956	1,932	1,961	1,823
AUR Coverage (E) (L)	2.2%	2.4%	2.5%	2.5%	2.5%	2.5%
Examination Efficiency - Individual (E) (L)	121	128	137	136	133	134
Collection Coverage - Units (Ot) (L)	53.0%	54.0%	54.0%	54.0%	53.0%	53.0%
Collection Efficiency - Units (E) (L)	1,514	1,677	1,828	1,723	1,835	1,835
Field Collection Embedded Quality (Ot) (L)	N/A	84.2%	84.0%	86.0%	86.0%	86.0%
Automated Collection System (ACS) Accuracy (Oe)	88.5%	91.0%	92.9%	91.0%	92.0%	92.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, L - Long Term Goal

Description of Performance

Targeting the tax gap remained a top IRS priority for FY 2007. Total enforcement revenue was $59.2 billion, a 75 percent increase over 2001. The steady increase in enforcement revenue is primarily a result of concerted efforts by the IRS to detect and deter non-compliance with the tax code. In FY 2007, total individual audits increased 8 percent, collection cases closed increased 12 percent, dollars collected increased 13 percent, high-income audits increased 29 percent, small business audits increased 17 percent, and corporate audits increased 3 percent from FY 2006.

In FY 2007, the IRS continued to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. The IRS is building on its enforcement efforts with emphasis on increased audits and collection activities. Emphasizing early identification of tax liabilities through increased audits and more focused collection activities, the IRS undertook the following actions:

- Piloted new Automated Substitute for Return screening and batching procedures, with the increased efficiencies resulting in a productivity improvement of over 156 percent, from 7.5 cases per hour to 19.2 cases per hour;
- Increased detection of fraudulent activities and increased the number of recommendations for civil fraud penalties by 49 percent over the prior year level; and
- Developed an Employment Tax Strategy that includes eliminating/reducing overlaps and gaps in processes to enhance organizational effectiveness; expanding work relationships with federal and state authorities; conducting studies to better understand the tax gap; and assessing new ways to impact taxpayer behavior.

The IRS substantially enhanced its productivity by implementing technological and process improvements in the Automated Underreporter (AUR), Examination, and Compliance Services Collection Operations. Significant improvements made in FY 2007 included:

- Implemented a new AUR case selection and scoring methodology for individuals, resulting in a 20.5 percent increase in AUR assessments;
- Controlled and directed incoming Examination toll-free calls through an Intelligent Call Management system resulting in a 6.1 percent increase in the service level; and
- Automated the processing of over 43 percent of installment agreement problem cases, which freed resources to process additional installment agreement compliance work.

The IRS, through its Compliance Assurance Process (CAP) Pilot Program, continued to expand and work with large businesses to identify and resolve issues prior to return filing. The objective of the program is to reduce taxpayer burden and uncertainty while assuring tax returns are accurate prior to filing, thereby reducing or eliminating the need for post-filing examinations. CAP benefits both the IRS and the taxpayer by fostering compliance, reducing the time it takes to process a return, and improving both customer and employee satisfaction while maintaining a high level of quality.

The IRS continued to deter tax shelter abuse and tax scheme promoters through targeted audits and aggressive litigation and publicity in FY 2007. The IRS made significant progress in resolving civil matters with promoters of abusive and listed tax shelter transactions. In addition to sizeable penalty assessments and public admissions of regrettable behavior by businesses and some of their former employees, the IRS obtained future compliance agreements from all promoters. For FY 2007, penalties assessed and collected from the program totaled over $69 million. In addition, the IRS focused its efforts to combat abusive tax avoidance transactions (ATAT) by providing early guidance, addressing shelters at the promoter level, and increasing the strength of ATAT response. The IRS will continue to aggressively address abusive transactions through enhanced identification techniques, published guidance, traditional examination processes, alternative dispute resolutions, communication, and resource allocation.

In FY 2007, the IRS reorganized its international organization to better address the increasing scope of international tax administration where non-compliance is a significant and growing problem. In addition, the IRS developed a comprehensive strategy to identify and highlight activities that will improve customer service, enhance international tax compliance, and modernize the IRS to more effectively keep pace with globalization.

The exchange of information between a foreign revenue agency and the IRS led to the recent unraveling of an abusive cross-border tax scheme involving hundreds of tax-payers and tens of millions of dollars in improper deductions and unreported income. In late 2007, the Joint International Tax Shelter Information Centre (JITSIC) will open a second office in London and the Japanese National Tax Agency will join. JITSIC shares information and expertise in identifying and curbing tax avoidance and shelters. As collaboration between member countries continues to grow, more cross-border schemes will be uncovered, shared, and addressed.

In FY 2008, the IRS will continue to reengineer its examination and collection procedures to reduce processing time, increase yield, and expand coverage. The IRS plans to build on its enforcement efforts to further enhance early identification of tax liabilities through increased audits and focused collection activities.

Increasing IRS enforcement presence remains a priority for FY 2009. The FY 2009 Budget provides additional resources to expand enforcement efforts in key areas of the tax gap such as reporting, nonfiling, and payment. The FY 2009 request will also focus efforts on targeted enforcement in the small business and self-employed taxpayer community, improve capabilities to examine large multinational corporations, and improve tax gap research.

3A – Regulatory *($149,975,000 in direct appropriation and $117,000 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 supporting 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.
- *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.

3.2.5 – Budget and Performance Plan

Dollars in Thousands

Regulatory Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted[1]	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$150,115	$146,213	$149,951	$147,897	$149,975
Reimbursable Resources	151	255	255	113	117
Mandatory Appropriations - User Fees					
Total Resources	$150,266	$146,468	$150,206	$148,010	$150,092

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Regulatory Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target[1]	FY 2008 Target[1]	FY 2009 Target[1]
TE/GE Determination Case Closures (Ot)	126,481	108,462	109,408	118,200	100,600	98,000

Key: Ot - Output/Workload Measure

[1] Additional resources were committed in FY 2007 to TEGE determination closures to reduce the backlog of applications and bring the inventory down to a sustainable level consistent with projected annual receipts.

Description of Performance

Maintaining a strong enforcement presence in the tax-exempt and government entities sector is particularly important given the role that a small number of these entities play in accommodating abusive transactions entered into by taxable parties. In FY 2007, the IRS expanded its enforcement presence by conducting reviews of executive compensation practices among tax-exempt organizations. New outreach tools were developed and deployed including www.stayexempt.org, a popular tax compliance website for exempt entities; web-based tools to help tax exempt entities understand their federal tax requirements; and workshops to assist remote tribal villages in understanding federal and state employment tax and other reporting requirements.

In FY 2007, the IRS focused on improving the timeliness of the determination process for exempt organizations by eliminating the backlog of cases in this area. Over the course of FY 2007, the unassigned inventory was reduced by 35 percent, cutting 34 days from the average time in inventory.

For FY 2007, the IRS achieved 93 percent of the target of 118,200 determination case closures. This was caused by several factors. First, workload in this area is driven by external demand; for various reasons, the IRS received 12,000 fewer applications than expected. Responding to customer requests, the IRS extended certain filing deadlines. In addition, following a major revision to the user fee schedule for determination, a large number of submissions were returned to applicants due to incorrect user fees. Finally, legislative changes in the Pension Protection Act shifted workload priorities toward a number of time-consuming cases, resulting in fewer closures overall.

The IRS faces a wide variety of non-tax legal issues. In September 2007, final regulations under Treasury Circular 230 (Regulations Governing Practice Before the Internal Revenue Service) were published. These regulations address weaknesses in the current regulatory scheme to ensure that tax professionals are adhering to standards and following the law, a key objective to success in enforcing the tax laws.

In FY 2007, IRS General Legal Services (GLS) litigated cases involving practitioner who advised on questionable tax transactions, successfully defended an award protest for private debt collection services, negotiated a Memorandum of Understanding offering online tax return preparation and filing services, worked on promulgation of guidance in connection with the recently enacted whistleblower statute, and drafted informant agreements concerning the recovery of taxes due.

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 also funds headquarters policy and management activities such as corporate support for strategic planning, communications and liaison, finance, human resources, Equal Employment Opportunity (EEO) and diversity; research and statistics of income; and necessary expenses for information systems and telecommunication support, including development, security, and maintenance of the IRS information systems.

The Operations Support Budget request for FY 2009 is $3,856,172,000 in direct appropriations and 11,989 FTE. This is an increase of $176,113,000 or 4.8 percent and a decrease of 192 FTE over the FY 2008 enacted level of $3,680,059,000 and 12,181 FTE.

Taxpayer Service and Enforcement Allocation

The IRS allocates funding in this appropriation to either the taxpayer service or enforcement program.

The IRS allocates the Operations Support account funding and FTE into activities supporting taxpayer service and enforcement to identify the full cost of operating these programs. The IRS developed a methodology to assign the appropriation funding to the core program that these resources support, which is updated and improved on an ongoing basis. Operations Support uses several allocation methodologies:

- Costs specifically related to either a taxpayer service or enforcement activity, such as an Information Technology (IT) system used only for enforcement purposes, are allocated directly to the program supported;
- Service-wide costs, such as printing and postage, that pertain to both taxpayer service and enforcement are allocated based on historical usage; and
- Other support costs, such as physical security services and rent payments, are primarily allocated by FTE.

The Operations Support funds allocated to the taxpayer services and enforcement programs in FY 2009 use the FY 2008 President's Budget allocation methodology. In order to execute FY 2009 spending, the Administration is proposing language to adjust Operations Support allocations by up to 1 percent with prior notification to the Appropriations Committees.

Support of Information Technology to the Taxpayer Services and Enforcement Programs

The IRS information technology infrastructure as well as staffing, equipment, and related costs necessary to maintain and manage current information systems are critical to the support of the taxpayer services and enforcement programs. Technology is the critical link that allows the IRS to do its job quickly and efficiently. The core purpose of the IRS Modernization & Information Technology Services (MITS) organization is to provide and maintain the best technology available in serving the taxpaying public and to manage and upgrade this technology to support the IRS administration of the tax laws as carefully and proficiently as possible. Improvement to the IT infrastructure includes procuring and replacing desktop computers, automated call distributor hardware, mission critical servers, and wide area and local area network routers and switches.

The MITS organization provides information technology and telecommunications services to support the operation, maintenance, and enhancement of current IT systems and develops new information technology systems and products through the business systems modernization process. The IRS is in the midst of a multi-year, multi-billion effort to move its technology systems and operations from antiquated legacy systems to modernized IT systems equal to those of their counterparts in both the public and private sectors. The MITS organization supports every facet and phase of tax administration and provides the tools necessary to taxpayers to communicate and conduct transactions with the IRS. MITS core activities include the following programs, procedures, and actions:

- Maintaining and updating the IT systems essential to delivering the filing season
- Managing existing information technology and developing new IT systems
- Developing an IT service management model
- Defining and meeting systems availability service levels
- Implementing seat management (desktop) business process reengineering
- Consolidating and standardizing work request processes
- Sustaining a viable infrastructure program
- Administering a comprehensive approach to customer relationship management

IRS business programs rely heavily on IT systems to process tax and information returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunications services for all business activities and business units as well as operations support functions, including the toll-free access to tax information.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE	$000
FY 2008 Enacted	12,181	$3,680,059
Changes to Base:		
Maintaining Current Levels		$82,580
Pay Annualization		9,883
Pay Inflation Adjustment		25,399
Non-Pay Inflation Adjustment		47,298
Transfers		($1,370)
Transfer to TIGTA		(1,370)
Efficiencies/Savings	(230)	($30,367)
Efficiency Savings	(230)	(22,443)
Increase e-File Savings		(1,304)
Non-Recur Savings		(6,620)
Base Reinvestments		$28,141
Fully Fund Postage Base		28,141
Subtotal Changes to Base	(230)	$78,984
Total FY 2009 Base - Current Services	11,951	$3,759,043
Program Changes:		
Program Increases - Enforcement Initiatives	38	$97,129
Reduce the Tax Gap for Small Business / Self-Employed		33,714
Reduce the Tax Gap for Large Businesses	4	12,479
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	34	15,585
Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity		2,622
Expand Document Matching		9,684
Implement Legislative Proposals to Improve Compliance		23,045
Subtotal FY 2009 Program Changes	38	$97,129
Total FY 2009 Request	11,989	$3,856,172

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Operations Support	FY 2007 Enacted [1]	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	12,890	12,892	(711)	12,181	11,989
Object Classification:					
11.1 Full-Time Permanent Positions	$939,639	$1,006,173	($46,018)	$960,155	$978,431
11.3 Other than Full-Time Permanent Positions	11,883	11,120	10,680	21,800	22,332
11.5 Other Personnel Compensation	32,757	68,257	(37,007)	31,250	32,073
11.8 Special Personal Services Payments	0	0	0	0	0
11.9 Personnel Compensation (Total)	$984,279	$1,085,550	($72,345)	$1,013,205	$1,032,836
12.0 Personnel Benefits	296,239	315,559	(12,078)	303,481	309,867
13.0 Benefits to Former Personnel	50,343	51,853	(4,273)	47,580	48,532
21.0 Travel	37,794	34,315	922	35,237	36,627
22.0 Transportation of Things	70,539	19,970	534	20,504	21,470
23.1 Rental Payments to GSA	628,829	649,433	(20,674)	628,759	653,627
23.2 Rent Payments to Others	3,915	5	0	5	6
23.3 Communications, Utilities, & Misc	325,716	361,707	1,815	363,522	405,208
24.0 Printing and Reproduction	52,473	53,712	15	53,727	54,796
25.1 Advisory & Assistance Services	54,645	44,312	47,294	91,606	93,114
25.2 Other Services	424,290	428,496	(33,377)	395,119	427,449
25.3 Purchase of Goods/Serv. from Govt. Accts	60,151	61,808	(2,302)	59,506	63,838
25.4 Operation & Maintenance of Facilities	159,739	170,696	(2,038)	168,658	181,331
25.5 Research & Development Contracts	2,938	5,269	(700)	4,569	4,660
25.6 Medical Care	10,005	10,245	0	10,245	10,764
25.7 Operation & Maintenance of Equipment	60,105	68,203	(522)	67,681	70,048
25.8 Subsistence & Support of Persons	393	278	1,000	1,278	1,304
26.0 Supplies and Materials	19,006	26,782	2,947	29,729	31,014
31.0 Equipment	246,451	325,661	7,452	333,113	360,820
32.0 Lands and Structures	54,246	55,132	(3,306)	51,826	48,139
33.0 Investments & Loans	0	0	0	0	0
41.0 Grants, Subsidies	0	0	0	0	0
42.0 Insurance Claims & Indemn	2,739	601	108	709	722
43.0 Interest and Dividends	0	0	0	0	0
44.0 Refunds	0	0	0	0	0
91.0 Unvouchered	0	0	0	0	0
Total Budget Authority	$3,544,835	$3,769,587	($89,528)	$3,680,059	$3,856,172
Budget Activities:					
Infrastructure	$845,203	$879,672	(35,952)	$843,720	$883,325
Shared Services & Support	1,179,216	1,229,231	(58,545)	1,170,686	1,243,703
Information Services	1,520,416	1,660,684	4,969	1,665,653	1,729,144
Total Budget Authority	$3,544,835	$3,769,587	($89,528)	$3,680,059	$3,856,172

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Operations Support Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted [1]		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Infrastructure		$808,254		$845,203		$843,720		$883,325	0.00%	4.69%
Shared Services and Support	5,790	1,154,724	6,622	1,179,216	5,802	1,170,686	5,699	1,243,703	-1.78%	6.24%
Information Services	6,114	1,551,603	6,268	1,520,416	6,379	1,665,653	6,290	1,729,144	-1.40%	3.81%
Subtotal New Appropriated Resources	11,904	$3,514,581	12,890	$3,544,835	12,181	$3,680,059	11,989	$3,856,172	-1.58%	4.79%
Other Resources:										
Recoveries		1,186		1,186						
Offsetting Collections - Reimbursable	272	27,776	169	27,776	176	40,661	184	41,750	4.55%	2.68%
Available multi-year/no-year funds		28,018		28,018		43,039		43,039	0.00%	0.00%
50% Carryover		11,109		11,109						
Transfers In/Out		23,500		23,500						
Mandatory Appropriations - User Fees		66,678		66,678		103,368		50,705	0.00%	-50.95%
Subtotal Other Resources	272	$158,267	169	$158,267	176	$187,068	184	$135,494	4.55%	-27.57%
Total Resources Available for Obligation	12,176	$3,672,848	13,059	$3,703,102	12,357	$3,867,127	12,173	$3,991,666	-1.49%	3.22%

3A – Infrastructure *($883,325,000 in direct appropriation and $16,100,000 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-Automated Data Processing (ADP) equipment. This includes the following program activities:

- *Building Delegation* oversees and manages the IRS GSA-delegated buildings, including cleaning, maintenance, utilities, protections, administrative, and recurring and one-time repair costs.
- *Rent* provides resources for all IRS rent needs.
- *Space and Housing / Non-ADP Equipment* provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and Non-ADP equipment.

3.2.6 – Budget and Performance Plan

Dollars in Thousands

Infrastructure					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted[1]	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$837,320	$808,254	$845,203	$843,720	$883,325
Reimbursable Resources	103	121	121	0	0
Mandatory Appropriations - User Fees	0	0	0	16,100	16,100
Total Resources	$837,423	$808,375	$845,324	$859,820	$899,425

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Description of Performance

In FY 2007, the IRS continued to achieve cost savings associated with an aggressive rent management strategy. These savings, coupled with savings from previous years, have helped offset the increased infrastructure costs associated with infrastructure improvement initiatives such as the new Kansas City consolidated campus.

Rent costs, including the costs of facility security, increased from $651.4 million in FY 2006 to $666.6 million in FY 2007. To partially fund this increase, the IRS achieved rent savings by identifying and completing 59 space reduction projects, releasing a cumulative total of 412,000 square feet. These projects have annualized savings estimated at $8.4 million. Through September 2007, the total rent cost increased by 2.3 percent, far below the year-end target of 5.3 percent.

In addition to the rent reduction projects mentioned above, the IRS and GSA embarked on a delegated leasing initiative designed to save commission fees and achieve negotiated lease savings. Leases already in effect or proposed to commence in FY 2008 will result in projected savings of $380,000 annually or $1.9 million over five years for 10 projects (subject to GSA approval).

In FY 2008 and beyond, Real Estate and Facilities Management will develop a comprehensive real estate strategy, balancing mission critical planning assumptions with the condition, utility, and opportunity for project execution. The savings associated with this strategy are critical for addressing major campus construction projects as well as unfunded costs such as new mandates, rescissions, and other inflationary costs.

3A – Shared Services and Support *($1,243,703,000 in direct appropriation and $14,002,000 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 (e.g., Congress, GAO, Office of Management and Budget [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 the human resources. It also includes official reception and representation expenses.
- *Facilities Services* provides services and supplies required to manage IRS facilities.
- *Procurement* supports the procurement function of the IRS.
- *EEO Field Operations* plans and manages the IRS EEO and Diversity Program.
- *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.
- *Customer Support* plans and manages financial services including relocation, travel, imprest fund, purchase cards, corporate express, and employee clearances.
- *Treasury Complaint Centers* plans and manages the Treasury Complaint Centers.
- *Shared Support not provided by Agency-Wide Shared Services (AWSS)* provides resources for shared cross-functional support such as copiers, postage meters, shredders, courier services, and post office boxes.
- *Printing and Postage residing in the Media and Publication Organization* provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials.
- *Statistics of Income* provides resources for market-based research to identify compliance issues; for conducting tests of treatments to address non-compliance; and for the implementation of successful treatments of taxpayer non-compliant behavior.
- *Research* provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations.
- *Security* protects employees, facilities and assets, and the confidentiality of taxpayer information.
- *Security Services* ensures that the IRS has effective security policies and programs in place to safeguard taxpayer records, employees, facilities, business processes, systems, and other resources. It includes operation of the Computer Systems Incident Response Center (CSIRC) and Situation Awareness and Management Centers (SAMC), coordination of service-wide disaster recovery and business continuity planning, security training and awareness, and sensitive system certification and

accreditation coordination with Treasury on the Federal Critical Infrastructure Protection Program.

- *Benefit Payments* provides resources to fund Workers' Compensation benefits and Unemployment Compensation for Federal Employees payments.
- *Shared Services* provide additional services such as Public Transit Subsidy and Career Counselor Contract.

3.2.7 – Budget and Performance Plan

Dollars in Thousands

Shared Services and Support Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted[1]	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$1,154,616	$1,154,724	$1,179,216	$1,170,686	$1,243,703
Reimbursable Resources	17,836	13,649	13,649	13,575	14,002
Mandatory Appropriations - User Fees	0	0	0	14,814	0
Total Resources	$1,172,452	$1,168,373	$1,192,865	$1,199,075	$1,257,705

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Description of Performance

Through support activities including management and administration of human resources, security, and research, the IRS continues to provide shared services to all IRS programs.

Workforce planning is a significant challenge. With a diverse population of more than 100,000 employees and more than 700 locations across the country and overseas, the IRS works continuously to ensure that recruiting and training activities support a workforce that has the skills and competencies needed to accomplish the IRS mission.

To meet changing business and technological demands, the IRS initiated a program to identify targeted occupations, skill sets, and hard-to-fill positions. The program features integration of all recruitment, hiring, and compensation efforts, along with the development of new and improved methods of predicting future attrition through retirements. Developing activities specifically targeted toward mitigating the impact of retirements and attracting and retaining new hires with advanced skills continues to be critical to the successful delivery of IRS business goals.

The IRS continued to enhance and implement its human capital strategy in FY 2007. The strategy includes bringing critical personnel on board and objectives for employee training, leadership development, and workforce retention. Actions taken in FY 2007 included:

- Established a Center of Excellence Office to determine the skills and competencies for each area of expertise; and
- Developed training requirements and a new recruitment strategy.

Future efforts are aimed at synchronizing the hiring of new staff with the retirement of older staff such that adequate knowledge transfer occurs.

Security of infrastructure and IT systems remains a top priority for the IRS. In FY 2007, the IRS continued to update its systems, processes, and training efforts to ensure taxpayer information is properly safeguarded. The IRS completed all required Federal Information Security Management Act activities; contingency plan testing on the 260 applications and systems on the master inventory; and live disaster recovery testing for all major applications. The IRS also established new offices, including a new Cybersecurity organization, and governing bodies to provide direction and oversight regarding the security and protection of sensitive information. As part of its security effort to protect sensitive information, the IRS:

- Installed automatic full disk encryption on the total deployed inventory of over 52,000 IRS laptops;
- Implemented a secure electronic online solution for data exchanged with federal, state and other partners;
- Deployed mandatory information protection training for all IRS employees and contractors with access to sensitive information;
- Issued updated data protection policies, processes, and education training tools to improve employee awareness and skill levels; and
- Deployed upgraded firewalls and intrusion detection devices.

In FY 2007, the IRS began the process of validating the enterprise-wide Business Impact Analysis (BIA) to identify the effect computer application disruptions would have on the ability of the IRS to perform critical business processes. The BIA will be completed in FY 2008 and will provide the IRS with needed information to build a strong foundation for making effective risk management decisions.

Research efforts also enable the IRS to develop strategies to combat specific areas of non-compliance, improve voluntary compliance, allocate resources more effectively, and reduce the tax gap. To support these efforts, the IRS undertook significant efforts to estimate voluntary taxpayer compliance in FY 2007. A reporting compliance study for Subchapter S corporations was initiated in FY 2007. A Tax Year (TY) 2006 individual income reporting compliance study began in October 2007. In addition, the IRS updated its workload selection models for TY 2006 using data from prior reporting compliance studies, enabling the IRS to better leverage limited enforcement resources and reduce the burden on compliant taxpayers.

IRS success in improving its research capabilities was recognized in 2007 when the Compliance Data Warehouse (CDW) was named a 2007 Computerworld Honors Laureate. The CDW was nominated in the category of Government and Non-Profit Organizations for the extraordinary use of IT. The CDW offers a range of databases used by the IRS research community to support projects related to tax administration, enforcement, and customer service.

The FY 2009 Budget request will allow the IRS to increase research efforts in understanding the reasons for taxpayer non-compliance. Efforts will focus on three components affecting taxpayer filing: taxpayer burden, tax law complexity, and contributors to taxpayer error. Understanding these factors will improve voluntary compliance by targeting resources to the areas of greatest need.

3A – Information Services *($1,729,144,000 in direct appropriation, $27,748,000 from reimbursable programs and $34,605,000 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. Under this budget activity staff develops and maintains the millions of lines of programming code that support all aspects and phases of tax-processing. They are also responsible for operating and administering the hardware infrastructure of mainframes, servers, personal computers, networks, and a variety of management information systems.

MITS is composed of discrete but intertwined organizations responsible for everything dealing with information systems and technology, ranging from cyber security and networks to applications development and end user equipment and services. They are described below.

- *Cyber security* ensures effective security policies and programs to safeguard taxpayer records, business processes, and IT systems. The program establishes a governance process to perform vulnerability assessments and provide service-wide mission assurance as well as security support to IRS systems modernization. Security management provides executive direction for enterprise-wide IT security policy development and implementation, operations, and services.
- *Tier B* provides support to single-owner, small-to medium-sized investment projects using core data to support specialized functions.
- *Modernization & IT Services (MITS) Strategic Sourcing* funds the operations of the MITS Office of Strategic Sourcing with oversight of all A-76 efforts in the MITS organization.
- *National Headquarters (NHQ) ADP Management* provides for the management and oversight of investments in IT for the Chief of Staff and RAS. The program enables NHQ to manage and leverage IT solutions that are responsive to IRS-wide management, tax compliance, enforcement strategic, and tactical research projects.
- *MITS Executive Oversight* provides support to the immediate office of the Chief Information Officer, as well as the direct reports for EEO and Diversity, and the Director, Stakeholder Management (including Communications Services and Program Oversight). The program provides executive direction for the MITS organization, enabling MITS to be a customer-focused supplier of 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 and management support systems for the IRS. This program activity also supports external trading partner data exchanges with federal government agencies, state and local governments, and other third party entities. The program controls application source code and deploys applications to the production environment.

- *Enterprise Operations* designs, develops, and maintains IT that supports critical tax processing, management information reporting, and financial and management support systems for the IRS. The program supports data exchanges with external organizations such as other federal government agencies, state and local governments, and external entities (e.g., employers and banks) and includes a comprehensive disaster recovery capability to ensure continued operations in the agency in the event of a major interruption of service.
- *Enterprise Network* provides telecommunications service delivery to all customer segments, including management of day-to-day operations and execution of routine modifications to the telecommunications infrastructure and applications. It addresses all phases of engineering, acquisition, implementation, and operation of telecommunications systems and services, including voice, video, and data communications.
- *Enterprise Services* plans and manages service and delivery methods used across the MITS organization, including demand analysis, enterprise architecture, configuration management, project reporting, enterprise life cycle management, release management, systems engineering, dashboard reporting, and internal management.
- *End User Equipment and Services* maintains the IRS automated business processes at headquarters and field sites by providing technical systems support and applications software support to end users, legacy operations maintenance, local and corporate systems administration activities, email and domain user account maintenance, network and systems monitoring administration, asset management activities, and support and maintenance of the voice and data infrastructure at the territory offices.
- *MITS Management* provides the management and oversight of investments in IT, human capital investment, and other MITS operational priorities.
- *IT Security Certification and Accreditation* provides design and operations of security controls and the technical mechanism used by the IRS systems/applications as part of the system security plan, system risk assessment, and IT contingency plan. It also supports security testing/evaluation as part of the certification process including time preparing system documentation, interviewing with contractors, and responding to information requests.
- *IT Operational Security* oversees Federal Information Security Management Act (FISMA) reporting, including preparing for, conducting, and reporting National Institute of Standards and Technology (NIST) 800-26 self-assessments and annual testing of controls.
- *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* corporately 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 replacement of the Service’s aging infrastructure is addressed corporately.
- *Treasury Working Capital Fund* separates the telecommunications program budget required for paying Treasury billings for IRS corporate telecommunications services.

- *Integrated Document Solutions Enterprise (IDSE) Campus Operations Most Efficient Organization (MEO)* captures savings resulting from IDSE MEO activities.

3.2.8 – Budget and Performance Plan

Dollars in Thousands

Information Services Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted[1]	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$1,510,449	$1,551,603	$1,520,416	$1,665,653	$1,729,144
Reimbursable Resources	3,330	14,006	14,006	27,086	27,748
Mandatory Appropriations - User Fees	0	66,678	66,678	72,454	34,605
Total Resources	$1,513,779	$1,632,287	$1,601,100	$1,765,193	$1,791,497

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Description of Performance

IT solutions are the most effective and efficient means of increasing the number of IRS contacts with taxpayers while also offering a greater variety of faster alternatives to file and pay their tax obligations. IT solutions also enhance the IRS ability to identify non-compliance and combat tax avoidance schemes that contribute to the tax gap.

The technology environment at the IRS is extraordinarily complex because of high volumes, widely varying inputs from taxpayers (from simple records with just a few fields to complex documents of many megabytes), seasonal processing with extreme variations in processing load, transaction rates on the order of billions per year, and storage measured in trillions of bytes. Nevertheless, the IRS infrastructure modernization efforts have sustained records of achievement in implementing systems that yield tangible benefits for American taxpayers.

In FY 2007, the IRS produced the timely delivery of quality software into production in preparation for the filing season and in the midst of numerous challenges. New legislative mandates required the IRS to implement initiatives such as the Telephone Excise Tax Refund (TETR). The rollout of additional IT modernized functions such as split refunds, the late passage of "extender" legislation, and processing changes to support business needs all required coordinated development, testing, and execution of many systems.

Notable highlights of the FY 2007 filing season include:

- Delivered "Split Refunds" capability. Taxpayers filing the 1040 tax forms were given the option to split their tax refunds in up to three financial accounts. The split refunds process gives taxpayers the choice of depositing their tax refunds directly into individual retirement accounts, over 500 college savings plans, savings bonds, or a variety of other accounts. Over 83,000 taxpayer returns used the split refunds option.
- Supported E-Services application with over 236,000 registered users. The application allows tax practitioners to request Preparer Tax Identification

Numbers (PTINS), e-file applications, and transcripts; submit Powers of Attorney; and discuss tax matters electronically with the IRS. Additionally, it allows payers the ability to verify Tax Identification Numbers (TIN) and name controls prior to filing. The application received over:

- 3.9 million of TIN match requests;
- 385,000 on-line requests of PTINS;
- 219 million bulk TIN match requests; and
- One million applications for an Employee Identification Number (EIN).

For FY 2007, the IRS has made progress on FISMA compliance security metrics. The IRS has successfully completed security certification and accreditation for 98 percent of its IT systems, and is moving towards the goal of 100 percent certified and accredited.

In FY 2008, the IRS will continue to develop and test the automated Correspondence Imaging System in addition to improving FISMA compliance. Maintaining the infrastructure, modernizing IRS information systems, and developing better tools will allow the IRS to operate more efficiently and with improved productivity.

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 2009 is $222,664,000 in direct appropriations and 333 FTE. This is a decrease of $44,426,000 or 16.6 percent, and 25 FTE, over the FY 2008 enacted level of $267,090,000 and 358 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE	$000
FY 2008 Enacted	358	$267,090
Changes to Base:		
Maintaining Current Levels		$1,354
Pay Annualization		332
Pay Inflation Adjustment		1,022
Subtotal Changes to Base		$1,354
Total FY 2009 Base - Current Services	358	$268,444
Program Changes:		
Program Decreases:	(25)	($45,780)
Business System Modernization	(25)	(45,780)
Subtotal FY 2009 Program Changes	(25)	($45,780)
Total FY 2009 Request	333	$222,664

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Business Systems Modernization	FY 2007 Enacted [1]	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	317	317	41	358	333
Object Classification:					
11.1 Full-Time Permanent Positions..........................	$34,504	$35,166	$624	$35,790	$33,621
11.3 Other than Full-Time Permanent Positions........	447	475	270	745	766
11.5 Other Personnel Compensation........................	626	658	(99)	559	575
11.8 Special Personal Services Payments................	0	0	0	0	0
11.9 Personnel Compensation (Total)..................	$35,577	$36,299	$795	$37,094	$34,962
12.0 Personnel Benefits..	9,772	10,108	(1,957)	8,151	8,444
13.0 Benefits to Former Personnel............................	0	0	0	0	0
21.0 Travel..	0	187	(187)	0	0
22.0 Transportation of Things......................................	0	0	0	0	0
23.1 Rental Payments to GSA.....................................	0	0	0	0	0
23.2 Rent Payments to Others.....................................	0	0	0	0	0
23.3 Communications, Utilities, & Misc.......................	0	0	0	0	0
24.0 Printing and Reproduction..................................	0	0	0	0	0
25.1 Advisory & Assistance Services..........................	0	0	0	0	0
25.2 Other Services..	165,924	171,753	(13,839)	157,914	115,327
25.3 Purchase of Goods/Serv. from Govt. Accts…….....	0	0	0	0	0
25.4 Operation & Maintenance of Facilities................	0	0	0	0	0
25.5 Research & Development Contracts..................	0	0	0	0	0
25.6 Medical Care...	0	0	0	0	0
25.7 Operation & Maintenance of Equipment............	571	7,095	186	7,281	7,281
25.8 Subsistence & Support of Persons.....................	0	0	0	0	0
26.0 Supplies and Materials.......................................	0	0	0	0	0
31.0 Equipment..	815	56,648	2	56,650	56,650
32.0 Lands and Structures...	0	0	0	0	0
33.0 Investments & Loans...	0	0	0	0	0
41.0 Grants, Subsidies..	0	0	0	0	0
42.0 Insurance Claims & Indemn................................	0	0	0	0	0
43.0 Interest and Dividends…………………………	0	0	0	0	0
44.0 Refunds..	0	0	0	0	0
91.0 Unvouchered………...……….…………………	0	0	0	0	0
Total Budget Authority……………………………….	$212,659	$282,090	($15,000)	$267,090	$222,664
Budget Activities:					
IT Investments…………………………………………	$212,659	$282,090	(15,000)	$267,090	$222,664
Total Budget Authority……………………………….	$212,659	$282,090	($15,000)	$267,090	$222,664

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted [1]		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Business Systems Modernization	353	$158,758	317	$212,659	358	$267,090	333	$222,664	-6.98%	-16.63%
Subtotal New Appropriated Resources	353	$158,758	317	$212,659	358	$267,090	333	$222,664	-6.98%	-16.63%
Other Resources:										
Recoveries		2,523		2,523						
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds		102,516		102,516		103,822		96,039	0.00%	-7.50%
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
Subtotal Other Resources	0	$105,039	0	$105,039	0	$103,822	0	$96,039	0.00%	-7.50%
Total Resources Available for Obligation	353	$263,797	317	$317,698	358	$370,912	333	$318,703	-6.98%	-14.08%

3A – Business Systems Modernization *($222,664,000 in direct appropriation):* This budget activity funds the planning and capital asset acquisition of IT to modernize the IRS business systems, including labor and related contractual costs. The IRS BSM program is required to submit an annual expenditure plan that justifies the projects for which resources are requested.

BSM management provides executive direction over the program. The BSM program develops the vision and strategy, manages the release of projects, and provides enterprise architecture support. The program ensures that all the integrated components of both technical and business modernization will provide a total business solution. This program will meet the needs of both taxpayers and internal users by providing business processes, enabled by IT, that permit timely and accurate delivery of tax account and other tax-related information while ensuring security and privacy.

BSM projects are developed and funded on a useable-segment basis. Each request for project funding covers an identifiable portion of the project’s development. As completed BSM projects demonstrate successful operation, their costs are then funded from the Operations Support appropriation.

Business Systems Modernization +$222,664,000 / +333 FTE

Recognizing the long-term commitment in IT needed to meet the IRS mission, Congress and the IRS designed the BSM program to develop and implement systems equal to those achieved through private and public sector best practices, while managing the risks inherent in one of the largest, most visible, and sensitive modernization programs underway. The IRS technology environment is extremely challenging and is characterized by exceptionally high processing volumes, widely varying inputs from taxpayers (from simple records with just a few fields to complex documents of many megabytes), seasonal processing with great variations in processing load, and transaction rates of billions per year with storage measured in trillions of bytes.

The benefits accruing from delivery and implementation of BSM projects provide value to taxpayers, the business community, and government. Many of these benefits contribute to operational improvements and efficiencies within the IRS. The BSM program has made sustained progress in realizing substantial segments of the modernization vision - a key component in the strategy to reduce the tax gap. The program will continue in this direction as the projects are incrementally developed and deployed.

BSM funding by project is shown in the chart below.

FY 2009 BSM Project Activities
Dollars in Thousands

Project	Activities	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Budget
Customer Account Data Engine	Release content master plan, including a mid-year release to add new functionality and January release adding tax law changes.	$58,500	$58,500	$58,800
Accounts Management Services	Provides a Common User Interface for access and update of taxpayer accounts managed by CADE Systems and IMF/CFOL/IDRS.	0	28,983	26,158
Modernized e-File	Continue development of Forms 1040 Phase II by delivering 90 forms and schedules associated with Form 1040.	20,000	55,802	25,000
Filing & Payment Compliance	The Filing & Payment Compliance project plans no further releases.	3,500	0	0
	Core Infrastructure	43,500	39,150	32,000
	Architecture, Integration, and Management	39,500	35,100	35,000
	Management Reserve	2,310	4,310	2,300
	Subtotal Capital Investments	$167,310	$221,845	$179,258
	BSM Labor	45,000	44,000	42,052
	Subtotal Program Request	$212,310	$265,845	$221,310
	Maintaining Current Levels	349	1,245	1,354
	Total BSM Budget Request	$212,659	$267,090	$222,664

Customer Account Data Engine (CADE) - $58.8 million

CADE is the lynchpin IRS modernization project to replace the antiquated master file. These master files are based on flat files with weekly updates achieved by batch processing of a sequential file repository, taking two weeks to update taxpayer tax accounts. This batch process compares poorly to the real-time updates provided by all other financial institutions. The delay in updating data allows data inconsistencies to develop among the various applications in use across the IRS. These inconsistencies prevent IRS employees from being able to resolve many taxpayer issues on the first attempt, which increases taxpayer burden. By providing daily or real-time updates to taxpayer accounts, CADE will enable the Accounts Management Services (AMS) project to provide real-time access to taxpayer account information containing current data.

CADE processed more than 11 million returns for Filing Season 2007 on a modernized and secure platform, including numerous schedules and forms such as Form 1040, *U.S. Individual Income Tax Return*, Form 1040-EZ, *Income Tax Return for Single Filers and Joint Filers with No Dependent*, and Form 1040-A, *U.S. Individual Income Tax Return*;. In addition, CADE issued over $11 billion in refunds. As CADE moves the IRS towards its long-term IT modernization vision, it plays a significant role in providing the technology to facilitate quick access to compliance data. Access to this data is a critical component in the effort to close the tax gap. The IRS intends to continue providing better tools to improve compliance though early detection, better case selection, and better case management. In this regard, CADE serves as the foundation of IRS modernization.

In 2009, the IRS plans to continue the development of CADE in stages. CADE will continue development by improving the infrastructure to allow continuous processing and transaction based recovery, and by adding an interface to the Integrated Data Retrieval System to provide new opportunities for business functionality. When fully operational, the CADE database will house tax returns information for more than 200 million individual and business taxpayers.

Accounts Management Services (AMS) - $26.2 million

The IRS will continue the development and deployment of the AMS project. The ability to provide immediate access to integrated account data, enable real-time transaction processing, and settle accounts on a daily basis is critical to improving customer service and business results. Realizing these capabilities requires implementing tools that allow retention of taxpayer accounts in the modernized CADE database through on-line access, monitoring, and adjustment.

In FY 2009, IRS plans to add AMS release functionality to convert the Desktop Integration inventories to the Document Management Framework and increase the number of cross-functional capabilities with CADE. It will also create a modernized user interface for inputting agreements on CADE and/or Current Processing Environment accounts with decision support capability. AMS will develop the functionality to increase the business value by improving accuracy and efficiency with penalty abatement, balance due processing, and notice review capabilities to retain more accounts in CADE.

When completed, AMS will provide the data presentation services to display and validate changes to update taxpayer accounts. AMS will store and manage IRS activities such as work assignments, transfers, case closures, and the generation of letters to taxpayers. AMS will provide the front-end applications for adjustments, penalties, interest, abatements, credit and debit transfers, name and address changes, bankruptcies, installment agreements, changes to the automated treatment streams, and many other taxpayer account-related functions required for customer service and compliance. AMS will provide applications that monitor taxpayer accounts for follow-up activity or deferred actions.

Modernized e-File (MeF) - $25 million

The MeF project provides a standard filing structure for all IRS return types, a robust platform that can meet performance and capacity needs with enhanced and up-to-date technologies, and a greater appeal to external customers and stakeholders. With MeF, the IRS will store all tax return data in XML format in a modernized Tax Return Database (MTRDB) allowing authorized viewers of the data to see the entire tax return online over the Internet. Once fully implemented, all tax returns and transmission files will adhere to the formal IRS rules (schemas). MeF initially covered 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*. In January 2007, the IRS also brought Form 1065, *U.S. Return of Partnership Income,* onto the modernized platform. Plans call for implementing Form 1040; Form 1041, *U.S. Income Tax Return for Estates and Trusts*; and the family of Forms 94X, *Employment/Unemployment Tax*, to the MeF environment. In January 2008, MeF Release 5 added the Foreign Tax Return (1120F) and the Non-Profit e-Postcard (990N). The 990N was a late addition to Release 5 and was the result of an e-file mandate contained in the Pension Protection Act passed in August 2006. A capacity and performance model and a series of engineering enhancement recommendations were also developed during Release 5.

In FY 2007, the IRS started development of Release 6 (1040 Phase I). Release 6 will include Form 1040 and 10 other schedules and supporting forms, including Schedule A, *Itemized Deductions*; Schedule B, *Interest and Ordinary Dividends*; and Schedule D, *Capital Gains and Losses*, as well as deliver the base infrastructure and all 1040 interfaces. Release 6 will go into production in 2009 and reach 61 percent of the individual e-File population, or approximately 55.1 million filers.

In FY 2009, the IRS will continue development of Release 7 (1040 Phase II) which initiated development in FY 2008. Release 7 will roll out an additional 90 supporting schedules and forms that will expand the reach of MeF to 99 percent of the e-File population, or approximately 93.7 million filers.

Core Infrastructure - $32.0 million

Core infrastructure provides critical services in architecture, engineering, and deployment of a standardized, consolidated, virtualized, and secure modernized production environment for use by major and non-major projects. The continued development and management of this infrastructure aligns with the IRS Modernization Vision & Strategy (MV&S) by incorporating the identification and development of common infrastructure, security, and application integration services for use and re-use by major and non-major projects. By leveraging this shared infrastructure, projects can speed time to delivery and reduce application development and maintenance costs.

A significant portion of the IRS technology infrastructure supporting the core tax processing systems is composed of incompatible mainframe computers, mid-range systems, multiple workstation configurations, and insufficient security controls. Most of these systems are incompatible due to dissimilar operating systems, hardware configurations, software configurations, and business applications. Stand-alone networks further complicate access to these systems, especially by IRS employees who need to use several systems to perform their jobs – including resolving taxpayers' problems. The nature of the IRS legacy infrastructure requires significant time and money to manage, maintain, and update these systems and networks. While the IRS has done much to improve and modernize this infrastructure, more work is needed. Once modernized, the environment needs to be continually refreshed as new technologies become available to support the business needs of the IRS and improve compliance to reduce the tax gap.

Infrastructure Shared Services

Resources will deliver fully-integrated shared IT development and production infrastructure, which includes hardware, software, shared applications, data, telecommunications, security, and an enterprise approach to systems and operations management. These funds support the identification and management of project-related infrastructure requirements and the engineering and acquisition of all components, hardware, and software, needed for the development, test, and production environments. Technical guidance and direction is provided to all projects, along with a level of support services, which enables all projects to use the common integrated and shared infrastructure. This approach results in overall reductions in time and dollars to develop, deploy, and maintain the infrastructure and business applications that use the infrastructure.

Core infrastructure activities include the continued management of, and enhancements to, the development, integration, and test environment for the applications using the modernized environment. This approach allows the IRS to develop infrastructure and common service solutions usable across multiple projects, extending into the legacy environments. By leveraging this shared infrastructure, projects can speed time to delivery and reduce application development and maintenance costs, as well as eliminate unnecessary duplicative capabilities.

IRS will further develop and enhance the shared enterprise infrastructure services in support of the increased number of major and non-major projects requiring use of the modernized infrastructure in support of business requirements. Integral to the success of these projects is the need to provide core infrastructure engineering services in capacity planning and performance engineering, as well as in implementing performance monitoring tools and processes to ensure availability and reliability of IRS systems and applications, to include use of IRS portals and access to needed services and data. This increase is necessary to support the identification, engineering, and development of additional infrastructure, security, and application services for planned re-use by Modernization Vision & Strategy (MV&S) projects in support of a Service Oriented Architecture (SOA).

Development, Integration, Testing (DITE)

Funding will support a number of projects that utilize the DITE to help address development, integration and testing needs; maintain Federal Information Security Management Act compliance using updated security monitoring tools; and provide a virtualized environment for remote application developers. DITE is a standardized development and test environment comprised of all of the modernized infrastructure components and applications that are needed by projects planning to use and integrate into the modernized production environment. DITE uses streamlined processes and standard tools that enable thorough development and testing in a controlled environment ensuring that projects work effectively and seamlessly within the modernized production environment. Its primary components are a Virtual Development Environment (VDE) and an Enterprise Integration and Test Environment (EITE). The VDE provides a software development environment, enabling geographically distributed developers access to standardized tools, information, and services in support of the modernization projects. The EITE provides a more structured, production-like, comprehensive environment to support integration and testing of projects before deployment into production.

Architecture, Integration & Management (AI&M) - $35.0 million

AI&M provides management operations essential to delivering a program of the magnitude, nature, and complexity of BSM. To date, overall financial performance continues to demonstrate successful, sound, and sustainable BSM financial management discipline. Each primary AI&M component performs a different and critical role. Major AI&M components are:

- **Architecture & Integration (A&I):** Ensures system solutions meet business needs and provides a single authoritative source of guidance for effectively integrating each project as it moves from the development environment to the business environment. A recurring theme for activities in this area is to develop management processes in a manner that facilitates their extension and adoption into non-major projects.

- **Business Integration (BI):** Ensures BSM services are aligned with each IRS operating unit's vision and enable projects to deliver desired business results. BI activities include the following areas: Modernization Vision and Strategy, Demand Management, Cost Estimation, Transition Management, Business Rules and Requirements Management, and Budget Management. BI delivers enterprise-wide processes and standards that enable the IRS to define, manage, and successfully deliver its IT portfolio.

- **Management Processes (MP):** 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 and compliance with program oversight requirements. The dynamic nature of modernization drives BSM to continually assess its operation and implement improvements.

- **Program Management (PM):** Provides a single point of accountability for contractor activities. BSM PM operations will continue to focus on sustaining improvements to program performance, improving management process disciplines, and ensuring delivery of taxpayer benefit. In terms of program performance, the emphasis is on delivery of projects on time, on budget, and at or above quality targets. BSM PM will also continue to work to eliminate barriers to effective competition of business solutions. PM activities include four main areas: Program Executive Management, Business Services, Contracts and Procurement, and Document Management.

- **Federally Funded Research & Development Center (FFRDC):** Provides national experts in systems engineering, architectural design and development, IT, security, and other technical disciplines that are critical to modernization success. FFRDC's broad visibility, deep domain knowledge, and objectivity allow it to provide an independent voice to executive management staff and is widely viewed as a source of management guidance on difficult issues.

BSM Labor - $43.4 million

Of the $43.4 million, $42 million is for BSM labor and $1.4 million is for labor inflation adjustments. These funds provide for government labor costs associated with the development of the BSM projects.

Management Reserve - $2.3 million

Funds will be used to cover unanticipated cost adjustments for the BSM projects.

3.2.9 – Budget and Performance Plan

Dollars in Thousands

Business Systems Modernization Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted [1]	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$113,702	$158,758	$212,659	$267,090	$222,664
Reimbursable Resources	0	0	0	0	0
Mandatory Appropriations - User Fees	0	0	0	0	0
Total Resources	$113,702	$158,758	$212,659	$267,090	$222,664

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Business Systems Modernization Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
BSM Project Cost Variance by Release/Subrelease E	N/A	*	*	10.0%	10.0%	10.0%
BSM Project Schedule Variance by Release/Subrelease E	N/A	*	*	10.0%	10.0%	10.0%

* Cost and Schedule variance is based on +/- 10% and is reported on major project segments.

Description of Performance

Increased reliance on technology and its impact on business processes and the ability to maintain a talented workforce are positively changing how IRS employees conduct business and deliver services. For FY 2007, 92 percent of the major project segments were within the target of +/- 10 percent cost variance, and 77 percent of the major project segments were within the +/- 10 percent schedule variance.

The IRS has made progress in meeting project deliverables and has continued to build foundational processes, controls and governance that are essential to continued success in managing the complex system development efforts. In FY 2007, the IRS implemented a tiered, enterprise-wide governance model for its IT investment projects. The new governance structure incorporates variance and risk thresholds and effectively promotes portfolio management, control, and accountability.

The IRS also expanded the scope of its five-year IT Modernization Vision & Strategy that addresses priorities for modernizing front-line tax administration functions to include domains for security and internal management portfolios in order to put in place the capability for future enhancements. The strategy guides IT investment decision-making for FY 2007. Important aspects include: establishing partnerships among IT and business leadership; leveraging existing systems; emphasizing the delivery of smaller, incremental releases; and unifying the portfolio-level view of investments.

Significant modernization accomplishments for FY 2007 include:

- Processed over 11 million returns and issue refunds of $11.6 billion in the Customer Account Date Engine (CADE), including filing season changes and capabilities to handle the Telephone Excise Tax Refund and the 1040 schedules.

- Delivered Modernized e-File (MeF) Release 4.0, which enhanced electronic filing capabilities for Partnership Returns (Forms 1065, *U.S. Return of Partnership Income*, and 1065-B, *U.S. Return of Income for Electing Large Partnership*) and made all required extender legislation changes, meeting the mandate for taxpayers with 100 or more partners to file electronically. MeF received over two million corporate, non-profit, and partnership forms.

- Delivered Filing & Payment Compliance Release 1.2, which transferred over 51,000 cases to Private Debt Collectors, resulting in the collection of more than $31 million.

- Deployed the first two releases of the Accounts Management Services (AMS) system which is designed to enable authorized users to resolve taxpayer issues by accessing integrated account data. AMS builds the applications and databases that enable IRS employees to use the data in CADE to facilitate faster, more accurate issue resolution and results in quick and accurate access to authoritative account information in response to customer inquiries. AMS delivered functionality to provide daily rather than weekly updates to the authoritative account and began the Domain Architecture to describe the business vision and supporting conceptual technical architecture that will drive AMS releases for the next five years.

In addition to the key modernization projects, several initiatives and improvements were undertaken in 2007 to effectively integrate the systems with the legacy production environment and improve the technology infrastructure. New and improved processes were also put in place to better integrate business and technology strategies and allow the IRS to operate more efficiently with improved productivity. The IRS:

- Institutionalized the use of Enterprise Architecture into the Modernization Vision & Strategy process (and received the prestigious E-Gov award as the Best Civilian Agency to use Enterprise Architecture for Government Business Transformation).
- Completed the Enterprise Service Oriented Architecture strategy and established the process to identify Enterprise Common Services in order to achieve operation excellence and cost savings.
- Delivered high-priority portal platform improvements and stabilized operations to meet near term needs for the 2007/2008 filing seasons for tax practitioners and internal IRS users.
- Integrated the Enterprise Application Integration Broker into the core infrastructure to enable the use of common services to leverage data and applications between legacy and modernized environments.

- Expanded the Infrastructure Center of Excellence to include configuration management, measurement and analysis, capacity planning and performance engineering, and project monitoring and control.

Tax administration in the 21st century requires improved IT solutions for the IRS. For FY 2008 and FY 2009, the IRS is committed to continuing to make improvements in technology by:

- Replacing antiquated core account management systems and technology;
- Expanding and enhancing compliance activities through early detection, better case selection, and better case management;
- Delivering effective customer service, including expanded e-file systems and web services at reduced cost; and
- Investing in infrastructure necessary to perform operations more efficiently, thus freeing up resources for enforcement and taxpayer service programs.

As the IRS continues to upgrade and modernize its IT infrastructure and systems in FY 2009, it will reduce taxpayer burden by increasing and improving services offered to taxpayers and delivering the taxpayer service and enforcement programs more effectively and efficiently.

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 insurance tax credit included in P.L. 107-210, the Trade Adjustment Assistance Act (Trade Act of 2002).

Currently, the IRS administers specific components of this credit: enrollment, payment, and compliance. The Department of Labor, state workforce agencies, and the Pension Benefit Guaranty Corporation (PBGC) are responsible for determining potentially eligible HCTC taxpayers.

The HITCA Budget request for FY 2009 is $15,406,000 in direct appropriation and 16 FTE. This is an increase of $171,000 or 1.1 percent, and a decrease of 1 FTE, over the FY 2008 enacted level of $15,235,000 and 17 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE	$000
FY 2008 Enacted	17	$15,235
Changes to Base:		
Maintaining Current Levels		$322
Pay Annualization		20
Pay Inflation Adjustment		53
Non-Pay Inflation Adjustment		249
Efficiencies/Savings	(1)	($151)
Efficiency Savings	(1)	(151)
Subtotal Changes to Base	(1)	$171
Total FY 2009 Base - Current Services	16	$15,406
Program Changes:		
Subtotal FY 2009 Program Changes		
Total FY 2009 Request	16	$15,406

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Health Insurance Tax Credit Administration	FY 2007 Enacted [1]	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
FTE	17	17	0	17	17
Object Classification:					
11.1 Full-Time Permanent Positions	$2,312	$2,395	$0	$2,395	$2,335
11.3 Other than Full-Time Permanent Positions	0	0	0	0	0
11.5 Other Personnel Compensation	22	23	0	23	24
11.8 Special Personal Services Payments	0	0	0	0	0
11.9 Personnel Compensation (Total)	$2,334	$2,418	$0	$2,418	$2,359
12.0 Personnel Benefits	358	371	0	371	352
13.0 Benefits to Former Personnel	0	0	0	0	0
21.0 Travel	144	148	0	148	150
22.0 Transportation of Things	0	0	0	0	0
23.1 Rental Payments to GSA	192	198	0	198	202
23.2 Rent Payments to Others	0	0	0	0	0
23.3 Communications, Utilities, & Misc	4	0	0	0	0
24.0 Printing and Reproduction	5	0	0	0	0
25.1 Advisory & Assistance Services	0	0	0	0	0
25.2 Other Services	11,812	12,093	0	12,093	12,335
25.3 Purchase of Goods/Serv. from Govt. Accts	0	0	0	0	0
25.4 Operation & Maintenance of Facilities	0	0	0	0	0
25.5 Research & Development Contracts	0	0	0	0	0
25.6 Medical Care	0	0	0	0	0
25.7 Operation & Maintenance of Equipment	0	0	0	0	0
25.8 Subsistence & Support of Persons	0	0	0	0	0
26.0 Supplies and Materials	7	7	0	7	8
31.0 Equipment	0	0	0	0	0
32.0 Lands and Structures	0	0	0	0	0
33.0 Investments & Loans	0	0	0	0	0
41.0 Grants, Subsidies	0	0	0	0	0
42.0 Insurance Claims & Indemn	0	0	0	0	0
43.0 Interest and Dividends	0	0	0	0	0
44.0 Refunds	0	0	0	0	0
91.0 Unvouchered	0	0	0	0	0
Total Budget Authority	$14,856	$15,235	$0	$15,235	$15,406
Budget Activities:					
Health Insurance Tax Credit Administration	$14,856	$15,235		$15,235	$15,406
Total Budget Authority	$14,856	$15,235	$0	$15,235	$15,406

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Health Insurance Tax Credit Administration Resources Available for Obligation	FY 2007 Obligations FTE	FY 2007 Obligations AMOUNT	FY 2007 Enacted [1] FTE	FY 2007 Enacted [1] AMOUNT	FY 2008 Enacted FTE	FY 2008 Enacted AMOUNT	FY 2009 Request FTE	FY 2009 Request AMOUNT	% Change FY 2008 to FY 2009 FTE	% Change FY 2008 to FY 2009 AMOUNT
New Appropriated Resources:										
Health Insurance Tax Credit Administration	10	$14,850	17	$14,856	17	$15,235	16	$15,406	-5.88%	1.12%
Subtotal New Appropriated Resources	10	$14,850	17	$14,856	17	$15,235	16	$15,406	-5.88%	1.12%
Other Resources:										
Recoveries										
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds										
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
Subtotal Other Resources	0	$0	0	$0	0	$0	0	$0	0.00%	0.00%
Total Resources Available for Obligation	10	$14,850	17	$14,856	17	$15,235	16	$15,406	-5.88%	1.12%

3A – Health Insurance Tax Credit Administration *($15,406,000 in direct appropriation):* The HITCA budget activity funds costs to administer a refundable tax credit for health insurance to qualified individuals.

The Trade Act of 2002 created a tax credit for the purchase of certain types of health insurance coverage for eligible taxpayers. The credit was created to help displaced workers and retirees who have lost their jobs due to trade with countries who participate in the North American Free Trade Agreement. The credit pays for 65 percent of the health insurance premiums for eligible workers. The IRS responsibility relating to the health care tax credit (HCTC) is to ensure participating eligible taxpayers receive the credit to which they are entitled.

The Trade Act of 2002 required the IRS to develop and operate a system to provide an advance, refundable tax credit for certain individuals who receive a trade readjustment allowance or benefit from the Pension Benefit Guaranty Corporation (PBGC). This activity maintains the administrative and direct support for the HITCA program office and the staff charged with administering the program for the IRS.

3.2.10 – Budget and Performance Plan

Dollars in Thousands

Health Insurance Tax Credit Administration Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted [1]	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	$19,993	$14,850	$14,856	$15,235	$15,406
Reimbursable Resources	0	0	0	0	0
Mandatory Appropriations - User Fees	0	0	0	0	0
Total Resources	$19,993	$14,850	$14,856	$15,235	$15,406

[1] FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Health Insurance Tax Credit Administration Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
Cost per Taxpayer Served ($)	N/A	$13.71	$14.90	$14.25	$14.25	$14.25
Sign-up Time (days) - Customer Engagement	98.1	98.7	93.3	97.0	97.0	97.0

Description of Performance

The Department of Labor, state workforce agencies, and the PBGC are responsible for determining potentially eligible HCTC taxpayers. The IRS administers the HCTC by working with health plan administrators to arrange direct payment of health plan premiums.

In FY 2007, the IRS processed approximately 8.6 million HCTC eligibility records, made nearly 175,000 HCTC payments on behalf of taxpayers, handled almost 100,000 inbound HCTC telephone calls, and mailed over 400,000 pieces of outbound correspondence. In addition, the IRS maintained a HCTC program customer satisfaction level of 90 percent.

The FY 2007 cost per participant served was $14.90, which was higher than the year-end target of $14.25 due to a recent large print order. In addition, the sign-up time was 93.3 days, which was 4 percent below the year-end target of 97 days (sign-up time is measured as the median number of days between the first program kit mailing and the first payment received from the participant).

The IRS also implemented new business processes to generate efficiencies, improve call handle time, and automate manual processes. In addition, the IRS completed a comprehensive study of enrollment time, a critical factor in determining access to the credit by potential enrollees, and continues to work with the Department of Labor to improve access to the credit. The IRS continues to look at ways to reduce the cost of program administration beyond the 50 percent already achieved since the program was introduced in 2003.

In future years, the IRS will maintain a balanced approach to administering the HITCA program by communicating program changes, encouraging eligible taxpayers to comply, and working closely with other Departments to ensure eligible individuals receive the HCTC. Current enrollment in the HCTC program has been stable at 15,000 to 16,000 participants claiming the advance credit each month.

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Introduction

With over 94,000 employees located nationwide, the IRS is the largest bureau in the Department of the Treasury. Over 70 percent of the IRS budget funds human capital costs. The large seasonal workforce accounts for over 24 percent of the IRS employee population during peak workload seasons.

The IRS is focusing on workforce retention and replenishment, leadership succession planning, and competency gap assessment and resolution. To ensure strategic direction of human capital management, the IRS established four human capital strategic goals:

Goal 1: Continually assess and shape the workforce to efficiently accomplish the IRS mission
Goal 2: Increase employee proficiency and engagement to enhance tax law compliance
Goal 3: Leverage human capital technology to reduce burden
Goal 4: Enable quick and agile management action to achieve business goals

The FY 2008 human capital priorities supporting these goals include:

- Continued emphasis on customer service and satisfaction;
- Timely communication and guidance;
- Streamlining of processes;
- Continual employee engagement to improve business results; and
- Expanding the IRS look at technology.

Recruitment

The IRS continues to place significant focus on recruitment and hiring of mission-critical talent from both internal and external sources. The IRS planning and review process ensures evaluation of short- and long-term hiring goals and objectives to determine resource allocation and operational activities of the strategic recruitment and hiring office are on target. The IRS also has developed and implemented a multi-year recruitment and marketing plan to target a diverse applicant pool, coupled with a comprehensive assessment strategy to identify applicants with the knowledge, skills, and abilities necessary to meet the current and future needs of the business. In addition, the IRS continues to refine and implement corporate hiring goals and strategies.

The IRS consistently emphasizes the need to review and improve its manager-to-employee span of control and to continue to redirect needed resources to front-line operations. The IRS also increased its use of workforce planning tools to develop a more robust link between business plans (e.g., examination plans) and workforce replenishment. The IRS workforce plan and the resulting framework document outline the mechanism to incorporate the workforce strategy into the planning and budgeting processes.

Retention

The IRS is addressing the human capital impact of increasing employee retirements, workforce migrations within and outside the IRS, and other broad-based workforce issues. The number of IRS retirement eligible employees has grown over the past five years and is expected to continue to grow. Approximately 3 percent of IRS employees migrate to a new position each year and create competency gaps. This is particularly evident in the enforcement and compliance programs.

Currently, 39 percent of IRS executives and 20 percent of other IRS managers are eligible for retirement and they are retiring at a higher rate than the non-management workforce. The IRS is identifying retention tools and working to establish consistent and objective standards for utility. Consistent monitoring and evaluating will ensure relevance to existing needs and objectives and ensure close linkage to IRS competency based workforce initiatives.

Full-Time Permanent IRS Employees "On Board" and Eligible to Retire as of December 8, 2007

	Executive		Manager		Other		Total	
Fiscal Year	Number of Employees	Percent	Number of Employees	Percent	Number of Employees	Percent	Number of Employees	Percent
2008	99	39.1%	1,845	23.0%	11,709	16.3%	13,653	17.1%
2009	27	10.7%	456	5.7%	3,139	4.4%	3,622	4.5%
2010	23	9.1%	450	5.6%	3,055	4.3%	3,528	4.4%
2011	8	3.2%	401	5.0%	3,104	4.3%	3,513	4.4%
2012	14	5.5%	404	5.0%	2,907	4.1%	3,325	4.2%
2013 and Beyond	82	32.4%	4,474	55.7%	47,716	66.6%	52,272	65.4%
Not Eligible *			1	0.0%	3	0.0%	4	0.0%
Total	**253**	**100.0%**	**8,031**	**100.0%**	**71,633**	**100.0%**	**79,917**	**100.0%**

* includes employees such as reemployed CSRS annuitants and "no code applies"employees.

The IRS-wide strategic approach to employee retention is a priority and will encompass on-going identification of skill sets and positions in need of retention effort and utilization of appropriate retention tools to ensure that the IRS is thought of as an employer of choice.

The Office of Personnel Management's Strategic Management of Human Capital Areas

1. **Strategic Alignment**: To strategically and tactically meet human capital challenges, the IRS developed Human Capital Strategic and Implementation Plans to align human capital management with the agency's mission. These plans set forth a clear line of sight between the achievement of the Treasury Human Capital Strategic Goals, the IRS Strategic Goals and its Human Capital Strategic Goals, the President's Management Agenda, and the Human Capital Assessment and Accountability Framework. Specifically, the Human Capital Strategic Implementation Plan establishes measures for monitoring the IRS performance in achieving specific objectives, processes, and projects.

   The four Human Capital Strategic Goals are the foundation of the IRS Human Capital Strategy. This corporate approach for strategically managing human capital ensures that the IRS builds and maintains the workforce needed to carry out its mission in an efficient and effective manner therefore "Linking Human Achievement with Business Results."

   The IRS workforce plan describes the effective management of all key IRS positions. Focusing on mission critical occupations, the plan will be used in the planning and budgeting cycle to align hiring levels with the IRS Human Capital Strategic and Implementation Plans. The IRS is well underway in the development of a Workforce Planning Framework for IRS-wide implementation. This framework will ensure the consistency in how the IRS acquires and manages needed talent.

2. **Leadership and Knowledge Management**: The comprehensive corporate Leadership Succession Program of the IRS will promote the replenishment of talented leaders as the IRS mitigates the anticipated impact of retirements, including training of current and potential leaders to ensure they possess the needed competencies. The cornerstone for this training is the establishment of an IRS Leadership Competency Model describing the behaviors required for leadership success in the IRS. The competencies are linked to IRS Managers' Performance Plan Core Responsibilities and drive all aspects of IRS leadership selection, development, evaluation, and compensation.

   In the summer of 2007, the IRS launched an automated Leadership Succession Review (LSR) Process and Training Program that will enable the IRS to identify talent for leadership positions IRS-wide. LSR will detect gaps in leadership bench strengths for critical positions and target management training and development.

   The IRS is establishing best practices and using innovative approaches within its succession management program for the Senior Executive Service (SES) to identify, recruit, and develop talented leaders. These efforts are critical as the IRS faces an upcoming shortage of leaders due to the baby boomer retirement wave and increased competition for senior leadership talent from both the private and public sectors. As a result, the IRS is transitioning to a new streamlined method of identifying, selecting, and developing individuals for the SES.

3. **Results-Oriented Performance Culture**: One of the methods the IRS uses to link performance with compensation is paybanding. The IRS implemented pay-for-performance payband systems for its front-line managers, department managers, senior managers, and senior executives. Under the new payband systems, compensation is linked to performance. These performance-based increases replace the annual adjustments paid under the Federal General Schedule pay system. Program evaluations are underway to ensure a solid foundation in performance management and its critical linkage to pay.

4. **Talent Management**: The IRS made significant strides in the identification of the competencies needed, both by its leadership and mission critical occupations, throughout the IRS. The identified competencies are used for recruitment, selection, and development purposes. Career path information is available online to employees to provide identification of the competencies needed to successfully qualify for, and perform in, the career of their choice. To further the IRS evaluation of its workforce's competencies, the Competency Assessment Center (CAC) is provided as an online portal for employee assessments on various competencies. To date, IRS launched two assessments on Individual Taxpayer Advisory Specialists (formerly Taxpayer Resolution Representative) and Special Investigators through this portal.

5. **Accountability**: The IRS Human Capital Strategic Accountability Framework encompasses the IRS Human Capital Strategic Plan, tactical Implementation Plan, Program Assessments, Delegated Examining Unit Reviews and Performance Indicators and Targets to monitor and ensure the accomplishment of long-range goals and objectives. It also aligns with Treasury and the Office of Personnel Management's Presidential Management Agenda requirements.

4B – Information Technology (IT) Strategy

Modernization Vision and Strategy (MV&S)

The IRS implemented an information technology (IT) investment strategy, known as the Modernization Vision & Strategy (MV&S), which identifies potential IRS IT investments in business domains directly related to front-line tax administration functions such as submission processing, managing taxpayer accounts, customer service, reporting compliance, filing and payment compliance, and criminal investigation. In addition, there are five crosscutting service domains – enterprise data, IT service management, security and privacy, IT human capital management, and common business services - that may be leveraged across both the technical and business domains to identify opportunities for projects across the business to use common solutions, platforms, data sources, and system components.

The IRS regularly updates the MV&S to address both the full scope of tax administration functions and changing business priorities, including planning for the consolidation, retirement, and potential reuse of many legacy systems. The IRS has recently completed the third phase of the MV&S approach.

During the first year of implementing the MV&S, the IRS focused on the business priorities needed to enhance and improve service and enforcement capabilities. IT also introduced new investment decision support programs that included solution concept and project estimation services. By applying a more uniform, disciplined, and rigorous approach to the development of solutions concepts and project estimates, future investment decisions can be based on data that are more reliable and consistent.

In the second year, the MV&S focused on expanding the business scope to include internal management and security and privacy domains. In addition, the service domains were further defined to address crosscutting technical opportunities, expand the common business services which identify opportunities, leverage services that support multiple domains and data, and focus on all aspects of data management. Technical domains also were introduced and high-level strategies were formulated. The technical domains are Applications Development; Enterprise Networks; Enterprise Services; End User Equipment and Services; and Enterprise Operations. These domains focus on the delivery of base products and services such as end-user support, networks, and storage.

The IRS is entering the third year of the MV&S and the strategy will expand to represent and include all technology services and products delivered by the IRS. The technical and service domains will propose potential projects and initiatives using the solution concept and project estimation services in order to ensure discipline, consistency, and uniformity across all IT investments. New business domains, including functions that support tax administration such as the Taxpayer Advocate and Chief Counsel, will be added and will build upon the fundamental principle of domain strategies driving investments. The IRS will begin developing domain architectures for each of the major business areas in tax administration, thus providing a framework for diagnosing, analyzing, and solving specific business issues that result from common architecture misalignments.

In the long term, the MV&S will build out the domain architectures, improve the IT services and products, refine roles and responsibilities, and ultimately define a comprehensive IT investment portfolio that integrates budget formulation and execution.

<u>Information Technology Major IT Investment Portfolio</u>

The IRS is submitting 33 IT investments for inclusion in the FY 2009 IT portfolio. All support the mission and strategic goals of the IRS. These investments will include routine system maintenance to sustain "steady state" capacities as well as larger-scale efforts to develop, modernize, or enhance IT system capabilities. Below are brief descriptions of some of the major investments (excluding the business modernization projects, which are described separately in the Business Systems Modernization section).

- **Automated Collection System (ACS) –** ACS is a centralized production system located at the Martinsburg Computing Center. ACS controls the Integrated Data Retrieval System (IDRS) balance due and nonfiler cases requiring telephone contact with the taxpayer for resolution. ACS uses case management abilities to contact taxpayers, review their case histories, and issue notices, liens, or levies to resolve the cases. Taxpayer contact is accomplished through telephone calls via Predictive Dialer and through correspondence to taxpayers and third parties.

- **Business Master File (BMF) and Employee Master File (EPMF) –** These are the authoritative data stores for taxpayers' accounts other than Individual Filers. The BMF contains the tax records of businesses, tax exempt organizations, estates, and gift tax filers. Accounts are updated, taxes are assessed, and refunds are generated as required each tax filing period.

- **Correspondence Examination Automated System (CEAS) –** CEAS provides phases of unattended case processing for discretionary inventories, workload resolution, issue, document, and inventory management. The CEAS system will incrementally replace the Reports Generation Software applications for campus reporting compliance as the inventory management/report writing system for all campus examination work.

- **Correspondence Imaging System (CIS) –** CIS improves the quality of customer service by providing on-line access to images of taxpayer correspondence. This will aid in the efficient resolution of subsequent telephone and written inquiries. CIS provides customer service representatives with an online ability to view, read, forward, save, retrieve, print, and manage incoming taxpayer inquiries.

- **Electronic Management System (EMS) –** This is a "front-end" processing system that receives, validates, stores, and forwards taxpayer filings to the mainframe Electronic Filing (ELF) systems and acknowledges electronic files containing tax documents. EMS is the IRS main processing system for electronic information exchanges between the IRS and external trading partners.

EMS receives sensitive but unclassified tax information, performs validation for each form type/format, provides a unique acknowledgement receipt, and rejects transmissions not meeting validation requirements. Valid transmission files are made available for subsequent retrieval and processing by the mainframe ELF systems. These subsequent systems return acknowledgement files to EMS. The acknowledgements are sent to taxpayers in the same format as originally transmitted.

- **Enterprise Data Access Strategy (EDAS)** - Formally referred to as the Enterprise Data Warehouse, the EDAS provides tax exempt and government entities customers with electronically filed business returns in a relational format while also giving the IRS a consolidated database of tax return and account data. By analyzing the data on EDAS, the IRS can implement initiatives to improve tax compliance in one area that does not lead to a decrease in compliance in another area, thereby affecting the IRS ability to reduce the tax gap.

- **Integrated Customer Communications Environment (ICCE) –** ICCE provides interactive services (applications) in support of taxpayers, practitioners, and employees through multiple contact channels, including telephones and the web. ICCE interactive services include Automated Self Service Applications that help resolve tax law, compliance, collections, and refund issues as well as other inquiries. Where automated assistance is insufficient or not desirable, ICCE interactive services gather information from taxpayers/practitioners to help route the contact to the best possible non-automated assistance. ICCE focuses on interactive services that require access to taxpayer account information.

- **Integrated Collection System (ICS) –** ICS provides workload management, case assignment/tracking, inventory control, electronic mail, case analysis tools, and capabilities to support the Collection fieldwork. ICS is part of the IRS plan for overall automation of its activities. The objective of ICS is to deliver a computer system to automate many labor-intensive collection tasks.

- **Integrated Data Retrieval System (IDRS) –** IDRS is an IRS mission-critical system consisting of databases and programs supporting IRS employees working active tax cases. IDRS manages data retrieved from the Tax Master Files allowing IRS employees to take specific actions on taxpayer account issues, track status, and post updates back to the Master Files. IDRS provides for systemic review of case status.

- **Interim Revenue Accounting Control System (IRACS) –** IRACS records tax revenue owed to the federal government and maintains records of assessments, collections, accounts receivables, refunds, over-assessments, and other elements of revenue accounting. All data entry funds contain validity and consistency checks to help ensure that the integrity of the database is protected from invalid, unbalanced, and duplicate data. IRACS provides ongoing maintenance of data to support the daily operations including maintenance of the existing application, annual updates, and answering queries from IRS customers.

- **Individual Master File (IMF) –** This is the authoritative data store for taxpayers' accounts of individuals and sole proprietorships. The IMF project maintains the IMF data. IMF accounts are updated, taxes are assessed, and refunds are generated as required each tax filing period.

- **Information Returns Processing (IRP) –** IRP consist of a group of compliance projects providing data and support for the IRS to administer the U.S. tax system efficiently and effectively. IRP processes more than one billion information documents each year and maintains a data store of more than eight billion information documents. IRP performs compliance analyses with these documents and Master File account data. IRP also provides data and analyses to business functions throughout the IRS, as well as external federal and state trading partners.

- **Integrated Submission and Remittance Processing (ISRP) –** ISRP is a mission-critical mixed life cycle project that provides both individual and business taxpayers a method to file paper tax returns. ISRP provides a method to process remittances and provides for the processing of various forms at eight submissions processing sites throughout the country. As ISRP data entry operators enter the information from the various paper documents, it is converted into electronic data that are used by downstream operations such as financial information systems. The processing capacity and performance of ISRP supports the mandatory processing timeliness requirements imposed by Congress and other agencies for the processing of tax returns, providing the taxpayers their refunds and notices, as well as depositing the revenue.

  Additionally, ISRP provides remittance data, including check images, to the Remittance Transaction Research system for customer service representatives to search through electronically archived remittances. The performance gap in services offered by ISRP is reflected in the ability to process paper. Modernization partially replaces ISRP through electronic filing. The strategies resulting from Tax Administration Vision and Strategy eGOV are expected to replace ISRP fully by year 2012. Until that time, ISRP is needed to fill the gap.

- **Service Center Recognition/Image Processing System (SCRIPS) –** SCRIPS is a data capture, management, and storage system that uses high speed scanning and digital imaging technology to process tax documents. The system does character recognition from the imaged documents and stores images of the returns for access from internal IRS organizations. The perfected data are sent downstream for processing on the IRS Mainframe systems and Master File storage.

- **Tax Return Database (TRDB) –** The TRDB is a centralized corporate database containing the data submitted by taxpayers on their federal tax returns. The TRDB receives the return data from a variety of electronic submission systems, including those filed using an authorized e-file provider, through an online filing company or via a federal/state program.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Enacted	FY 2007 Enacted	FY 2008 Enacted	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
Account Management Services (AMS) - Major	Information Technology Investments	11.800	1.570	44.270	2719.7%	47.949	8.3%
IRS BSM 20-0921-0-1-803	Information Technology Investments	11.800	0.000	37.520	100.0%	37.660	0.4%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.000	0.000	0.0%	3.360	100.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	1.570	6.750	329.9%	6.929	2.7%
Appeals Automation Environment (AAE)	Information Services	25.531	13.243	13.741	3.8%	14.089	2.5%
Automated Collection System (ACS) - Major	Information Services	8.674	4.843	4.613	-4.7%	4.723	2.4%
Business Master File	Information Services	51.887	12.284	13.121	6.8%	13.464	2.6%
Common Services (Portal)	Information Services	0.000	0.000	30.772	100.0%	34.132	10.9%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.000	0.000	0.0%	3.360	100.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	0.000	30.772	100.0%	30.772	0.0%
Computer Security Audit Trails - (CSAT)	Information Services	0.000	0.000	0.000	0.0%	0.000	0.0%
Correspondence Examination Auto Support - Major Wintel (CEASMW)	Information Services	0.000	7.473	5.530	-26.0%	6.418	16.1%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	5.343	4.932	-7.7%	5.804	17.7%
IRS Operations Support (EITC) 20-09E9		0.000	2.130	0.598	-71.9%	0.614	2.7%
Correspondence Imaging System (CIS) - Release 2 - Major	Information Services	10.626	10.297	6.937	-32.6%	7.090	2.2%
Counsel Automated Systems Environment (CASE)	Information Services	27.036	28.498	27.501	-3.5%	28.150	2.4%
Criminal Investigation Management Information System (CIMIS) - Major	Information Services	0.000	3.086	1.361	-55.9%	0.561	-58.8%
IRS Enforcement 20-0913-0-1-999		0.000	0.800	0.815	1.9%	0.561	-31.2%
IRS Operations Support 20-0919-0-1-803		0.000	2.286	0.546	-76.1%	0.000	-100.0%
Customer Account Data Engine (CADE)	Information Technology Investments	448.979	122.380	80.158	-34.5%	80.722	0.7%
IRS BSM 20-0921-0-1-803	Information Technology Investments	396.179	112.877	68.000	-39.8%	68.300	0.4%
IRS Taxpayer Services 20-0912-0-1-803		8.665	2.230	2.320	4.0%	2.340	0.9%
IRS Operations Support 20-0919-0-1-803	Information Services	44.135	7.273	9.838	35.3%	10.082	2.5%
e-Services	Information Services	71.750	14.063	15.090	7.3%	15.407	2.1%
Electronic Fraud Detection System (EFDS)	Information Services	197.026	11.325	12.374	9.3%	12.640	2.1%
IRS Operations Support 20-0919-0-1-803	Information Services	134.096	7.825	8.874	13.4%	9.070	2.2%
IRS Operations Support (EITC) 20-09E9		62.930	3.500	3.500	0.0%	3.570	2.0%
Electronic Management System (EMS)	Information Services	183.310	8.898	6.848	-23.0%	6.993	2.1%
End to End Publishing - Major	Information Services	11.127	4.854	1.955	-59.7%	1.825	-6.6%
IRS Operations Support 20-0919-0-1-803	Information Services	11.127	4.854	0.439	-91.0%	1.159	164.0%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.000	1.516	100.0%	0.666	-56.1%
Enterprise Data Access Strategy (EDAS) (Formerly: Enterprise Data Warehouse)	Information Services	6.953	7.035	5.421	-22.9%	5.559	2.5%
IRS BSM 20-0921-0-1-803		0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803		6.953	7.035	5.421	-22.9%	5.559	2.5%

Continuation – 4.1 – Summary of IT Resources Table

Dollars in Thousands

Examination Desktop Support System (EDSS) - Release 2	Information Services	13.060	4.834	8.129	68.2%	8.078	-0.6%
IRS Enforcement 20-0913-0-1-999		0.000	0.000	2.664	100.0%	3.504	31.5%
IRS Operations Support 20-0919-0-1-803	Information Services	13.060	4.834	5.465	13.1%	4.574	-16.3%
Excise Files Information Retrieval System (ExFIRS) - Major	Information Services	0.000	0.471	0.000	-100.0%	0.000	0.0%
Exise Tax e-File & Compliance (ETEC) - Major	All External Funding	7.927	0.000	0.000	0.0%	0.000	0.0%
Filing and Payment Compliance (F&PC) (Blended)	Information Technology Investments	93.267	19.342	5.709	-70.5%	5.834	2.2%
IRS BSM 20-0921-0-1-803	Information Technology Investments	80.536	19.342	0.000	-100.0%	0.000	0.0%
IRS Taxpayer Services 20-0912-0-1-803		0.662	0.000	0.240	100.0%	0.240	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	12.069	0.000	5.469	100.0%	5.594	2.3%
Financial Management Information System (FMIS)	Information Services	2.468	5.863	5.619	-4.2%	5.748	2.3%
Individual Master File (IMF)	Information Services	37.637	12.603	11.869	-5.8%	12.172	2.6%
Information Returns Processing (IRP)	Information Services	25.290	7.590	7.115	-6.3%	7.306	2.7%
Integrated Collection System (ICS)	Information Services	16.588	8.872	7.745	-12.7%	7.945	2.6%
Integrated Customer Communications Environment (ICCE)	Information Services	338.681	16.981	14.653	-13.7%	14.977	2.2%
Integrated Data Retrieval Systems (IDRS)	Information Services	78.955	17.645	15.741	-10.8%	16.151	2.6%
Integrated Financial System/CORE Financial System (IFS)	IRS Business Systems Modernization	269.308	16.552	15.123	-8.6%	15.435	2.1%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Taxpayer Services 20-0912-0-1-803		43.628	3.689	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	225.680	12.863	15.123	17.6%	15.435	2.1%
Integrated Submission and Remittance Processing System (ISRP)	Information Services	30.325	16.555	16.774	1.3%	17.123	2.1%
Interim Revenue Accounting Control System (IRACS) - BAC 99	Information Services	0.672	0.812	0.935	15.1%	3.774	303.6%
Modernized e-File (MeF)	Information Technology Investments	259.086	58.650	86.049	46.7%	56.023	-34.9%
IRS BSM 20-0921-0-1-803	Information Technology Investments	212.788	45.420	61.300	35.0%	30.500	-50.2%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.460	7.360	1500.0%	7.534	2.4%
IRS Enforcement 20-0913-0-1-999		3.057	0.776	0.928	19.6%	0.677	-27.0%
IRS Operations Support 20-0919-0-1-803	Information Services	43.241	11.994	16.461	37.2%	17.312	5.2%
Service Center Recognition/Image Processing System (SCRIPS)	Information Services	42.365	16.951	15.539	-8.3%	15.862	2.1%
Tax Return Database (TRDB) - BAC 99	Information Services	22.367	4.836	4.039	-16.5%	4.141	2.5%
Travel Reimbursement and Accounting System (TRAS) - BAC 99	Information Services	1.521	1.428	1.350	-5.5%	0.000	-100.0%
Subtotal, Major IT Investments		2,294.216	459.834	486.081	5.7%	470.291[1]	-3.2%
Non-Major IT Investments		464.189	486.662	547.301	12.5%	564.893	3.2%
Infrastructure Investments		827.632	796.235	924.599	16.1%	948.875	2.6%
IRS/Data Center Systems and Services (Consol)	Information Services	247.191	323.021	431.237	33.5%	438.570	1.7%
IRS/Telecommunications Systems Services	Information Services	231.262	213.293	254.205	19.2%	265.059	4.3%
IRS/End User Systems and Services	Information Services	349.179	259.921	239.157	-8.0%	245.246	2.5%
Enterprise Architecture		4.242	4.391	4.654	6.0%	4.793	3.0%
Total IT Investments		3,590.279	1,747.122	1962.635	12.3%	1,988.852	1.3%

[1] The prior year resources for Electronic Federal Tax Payments (EFTPS) major project merged with Enrolled Practitioners Program System (EPPS) non major.

4.2 – PART Evaluation Tables

PART Name:	Tax Collection
Year PARTed:	FY 2002
Rating	Results Not Demonstrated

This program collects tax debts from citizens and businesses. Agents contact taxpayers through notices, phone calls, and personal visits to secure payments. If necessary, collection agents can use liens, levies, or seizures, or refer delinquent taxpayers for criminal prosecution.

OMB Major Findings/Recommendations

1. IRS collection of unpaid taxes yields substantial revenue ($18 billion in 2001). However, IRS does not work enough collection cases with its current resources, work processes, and technology to ensure fair tax enforcement. Each year billions of dollars of unpaid taxes goes uncollected.

2. IRS has been working to make management improvements in the last several years, including implementing good output measures. However, its financial management systems do not provide the information needed to make effective day-to-day management decisions.

3. IRS has a strong planning process closely linked to its budget process. IRS is currently developing improved collection outcome measures and goals.

Bureau Actions Planned or Underway

1. Introduce risk-based approaches using reengineering and technology modernization efforts to target specific taxpayers with the most effective collection procedure (i.e., notice, phone call, or field visit).

IRS is developing enhancements to the Inventory Delivery System that will provide better case routing to improve case selection, delivery, and treatment. Also, IRS is developing a plan to deploy a rules engine to simplify routing changes and flexibility in order to provide enhancements that ensure the right cases at the right time to the right treatment stream that is effective and increases collections and improves compliance.

2. Legislation has been approved that allows IRS to hire private collection agency contractors (PCAs) to secure payment in some cases. The legislation includes strong taxpayer rights protections. The contractors will be paid from receipts based on actual collections. PCAs cannot accept direct payment or use enforcement tools available to IRS (e.g. liens, levies and seizures). PCA employees are subject to the same taxpayer protection and privacy as the IRS.

3. Improve Collection selection criteria and filters for balance due and nonfiler cases, including identifying and addressing potential high income nonfilers.

New techniques were tested to route cases by source of assessment with results available beginning in November 2008. If analysis of results is favorable, the Collection Inventory Delivery System will be updated with the routing routines. To address nonfilers, the IRS approved a Service-wide Nonfiler Strategy in July 2007 and established a Nonfiler Governance Council that will stand up in February 2008. The Council will build nonfiler workplans by August 2008.

4. Improve program performance by implementing new tools in 2007 to segment collection workload according to risk to ensure IRS takes the right action to secure delinquent taxes.

In May 2007, the Collection Governance Council agreed to the Collection Inventory (CACI) recommendations. New case routing rules are being tested to determine best routing for specific types of cases. In August 2007, IRS increased the threshold for cases assigned to the Automated Collection System (ACS) to $5,000 for cases with two or fewer modules. A new case coding routine was implemented to prioritize assignment to the field when real estate equity is greater than $50,000. In 2008, the IRS will continue to test new treatments streams between ACS and field.

PART Name:	Earned Income Tax Credit
Year PARTed:	FY 2002
Rating	Ineffective

This program administers the earned income tax credit (EITC), which rewards work and lifts families out of poverty. The program seeks to maximize participation of eligible taxpayers and reduce payments to ineligible taxpayers.

OMB Major Findings/Recommendations

1. The program has failed to reduce erroneous EITC payments to acceptable levels. While IRS prevents roughly $1 billion in erroneous EITC payments per year, 27 to 32 percent of all EITC payments were still made in error for 1999. The magnitude of this error rate is the reason for the rating of "ineffective."

2. IRS has a strong planning process closely linked to its budget process, but it has not yet used outcome information for this program to set performance targets that allow it to demonstrate results.

3. IRS has made numerous management improvements in recent years. However, its financial management systems do not provide the information needed to make effective day-to-day management decisions.

Bureau Actions Planned or Underway

1. IRS will require high-risk EITC applicants to pre-certify that the children claimed on their return are really qualifying children under EITC. Incorrectly claimed qualifying children have been a major source of EITC error. High-risk applicants will be identified through databases such as the Federal Case Registry (information on child custody) and by focusing on taxpayers with characteristics linked to high error rates in compliance studies (e.g., relatives other than parents who claim a child for EITC purposes).

EITC overclaim estimates are currently measured through National Research Program (NRP) study, which looks at prior year return information and economic modeling to account for tax law changes. Starting in 2009, the IRS new multi-year NRP studies with EITC-specific components will yield annual estimates of EITC error starting with TY 2006 and provide detailed information on areas of error. This new data point will allow for more directed compliance treatments than in the past.

2. Improve program performance by conducting 500,000 examinations of EITC returns per year based on enhanced case selection systems.

IRS will deliver its annual base EITC compliance programs including processing approximately 400,000 math errors, conducting 500,000 examinations, and reviewing 350,000 underreporter cases to protect over $2.6 billion annually, while also improving case scoring.

3. Improve program performance by identifying paid tax return preparers with high EITC error rates and using education and enforcement procedures to improve their performance.

IRS will continue implementing its updated Concept of Operations (CONOPS), which outlines a holistic approach to address the various influences affecting EITC error rates by return preparers. With the CONOPS' main focus on paid preparers, IRS will continue identification, testing, analysis and implementation of preparer compliance treatments and outreach that affect behavior.

PART Name:	Submission Processing
Year PARTed:	FY 2003
Rating	Moderately Effective

This program processes 224 million tax returns and 1.5 billion information returns (such as bank reports on taxpayer's interest income) each year and issues 109 million refunds. In 2005, more than half of individual tax returns were submitted electronically.

OMB Major Findings/Recommendations

1. More Americans are electronically filing their taxes. Electronic filing is growing more than 10 percent per year. However, this growth is not sufficient for IRS to meet the legislative goal of 80 percent electronic filing by 2007. Congress has not yet acted on the Administration's proposals to accelerate the increase in electronic filing.

2. Every return converted from paper to electronic filing saves the IRS $2.15 in processing costs. More importantly, electronically filed returns have a less than 1 percent error rate compared to 5 percent for paper filed returns, saving taxpayers time and money. Finally, according to the annual American Customer Satisfaction Results report, electronic filers have high satisfaction rates.

3. Based on the recently completed IRS tax gap study, approximately 13 percent of refund dollars (excluding earned income tax credit refunds) are paid in error. With current third party reporting and technology, IRS is unable to identify and prevent these errors during processing.

Bureau Actions Planned or Underway

1. Improve program performance by seeking legislative changes to promote electronic filing, including greater authority to require electronically filed returns.

Although the Administration has continued its proposals to accelerate the increase in electronic filing, Congress has not yet acted on those proposals. At the current growth rate, the IRS projects the 80 percent electronic filing rate will be achieved in 2012.

2. Improve performance by setting goals by 2007 for reduced taxpayer filing burden resulting from the time and expense of preparing and filing their returns.

IRS and its contractor continue to work on a model of compliance burden among small business taxpayers. The small business study focuses on the burden that occurs in the pre-filing and filing periods and extends to burdens associated with not only the individual's tax return but also to employment and excise tax requirements. Preliminary estimates were released in FY 2007 and IRS intends to have the model in full production by the summer of 2008 and to publish burden estimates using the model late in 2008. An upcoming S-Corp burden reduction project in January 2008 will provide alternative methods of relief for those taxpayers who file late Forms 1120S (small business elections). The IRS also plans an Employment Tax Return project that involves the design of new forms by 2009 that will be used to correct employment tax reporting errors or to claim refunds. The new forms are designed to reduce burden for taxpayers who need to correct their returns or claim refunds for overpayment.

3. Improve program performance by using a single cost based efficiency measure by 2008 (cost per return processed).

The IRS has established an office responsible for developing a managerial cost accounting program and issued a service-wide cost policy in August 2007. At this time, managerial cost accounting is in its initial stages and actions are focused on identifying the systems and methodology to appropriately match cost and performance information. Until the objectives of the service-wide cost program have been clearly defined and determinations made on how costs will be accumulated at the bureau level, there are no pending activities associated with developing cost-based measures for specific programs. Specific improvement actions will be more clearly defined in the future and this improvement action will be re-activated.

4. Employ technology and operational improvements to process returns and refunds more accurately and efficiently by providing a single electronic pipeline for capturing and processing data.

IRS will finalize plans and costing estimates to modernize the submission processing function. The vision of the future system, Modernized Submission Processing (MsP), will process Form 1040 tax returns, information returns, and miscellaneous documents (processed via the Service Center Recognition/Image Processing System-SCRIPS) submitted via paper, utilizing a state-of-the-art, efficient image and data extraction system using Optical Character Recognition technology to extract data electronically. With a phased approach, MsP will replace current paper processing to achieve the Submission Processing domain vision strategy.

PART Name:	Taxpayer Service
Year PARTed:	FY 2004
Rating	Adequate

This program reduces taxpayer burden by providing assistance on tax law and account issues in a professional and courteous manner. In 2005, the IRS answered 59 million calls, served 6.6 million taxpayers in walk-in offices, and had almost 116 million downloads from its forms, instructions and publications web site.

OMB Major Findings/Recommendations

1. IRS has significantly improved taxpayer service and maintained high levels of customer satisfaction in recent years. In 2001, IRS was able to answer only 62 percent of taxpayer calls. In 2005, IRS had improved this to 83 percent with a 94 percent customer satisfaction rate.

2. IRS continues to have trouble with the accuracy of answers. In 2004, IRS estimates only 80 percent of tax law calls were answered accurately (improved to 89 percent in 2005). Accuracy is a significant challenge given the complexity of the tax code.

3. IRS has developed a strong set of balanced measures (quality, customer satisfaction, and results) to understand its taxpayer service performance. During the assessment, IRS added an efficiency measure (customer contacts per staff year) for this program.

Bureau Actions Planned or Underway

1. Improve program performance by converting to cost based efficiency measures for the 2008 budget (e.g., cost per call answered) and adding efficiency measures for service processes for management.

The IRS has established an office responsible for developing a managerial cost accounting program and has issued a service-wide cost policy in August 2007. At this time, managerial cost accounting is in its initial stages and actions are focused on identifying the systems and methodology to appropriately match cost and performance information. Until the objectives of the service-wide cost program have been clearly defined and determinations made on how costs will be accumulated at the bureau level, there are no pending activities associated with developing cost based measures for specific programs. Specific improvement actions will be more clearly defined in the future and this improvement action will be re-activated.

2. Explore the mix of service options (phones, walk-in, internet, volunteer services) to ensure that the most efficient and effective means is used to deliver service.

During 2006 - 2007, the IRS delivered Phases 1 and 2 of the Taxpayer Assistance Blueprint (TAB) Report to Congress. The report provides results, actions, and recommendations on the appropriate mix of service options (phones, walk-in, internet, and volunteer services) to ensure that the most efficient and effective means are used to deliver services. The report includes the TAB Strategic Plan, which provides a portfolio of over 50 recommended service investments that balance taxpayer needs and preferences with government value. Integration of the TAB Strategic Plan into the IRS Strategic Planning process will begin in January 2008. The significant recommended service investments scheduled for implementation in FY 2008 include providing toll-free callers with an Estimated Wait Time (EWT) while on hold for toll-free applications. IRS plans to collect and analyze the data on accuracy of EWT and the impact on taxpayer behavior and use the results to design an optimum strategy and goals for EWT. In addition, implementation of Contact Analytics (CA) will increase the ability to effectively identify and respond to customer service problems. CA will expand functionality with additional software that captures data for all calls on all Toll-free product lines. Capabilities of CA include recording of all contacts and the ability to store the recording for analysis and tracking across the network resulting in improved taxpayer service. The web-based application "Where's My Refund?" continues to provide an efficient method for taxpayers to check the status of their refunds, initiate an on-line refund trace, and provide an updated address if their refund was not deliverable as originally addressed. During the 2007 filing season (January through June 2007), the application provided information to 30 million taxpayers, which is approximately a 28 percent increase from the same period for 2006. In FY 2008, IRS will further expand online refund inquiry capabilities by introducing a version of "Where's My Refund?" for Spanish-speaking taxpayers. Beginning in FY 2008, the IRS deployed the Facilitated Self Assistance Research Project (FSRP) at 15 Taxpayer Assistance Centers (TAC). FSRP provides taxpayers with the ability to help themselves to IRS services from internet-connected computers located in the Taxpayer Assistance Centers (TAC) via IRS.gov. Analysis of results from the first 15 sites will be used to determine further deployment.

3. Improve program performance by researching the impact of taxpayer service programs on voluntary compliance and reporting findings by 2008.

IRS plans to research the impact of taxpayer service programs on voluntary compliance and reporting findings in FY 2008. The effect of service on taxpayer compliance will be examined by focusing on the following four areas: meeting taxpayer needs by providing the right channel of communication, better understanding taxpayer burden, understanding taxpayer needs through the errors they make, and the impact of service on overall levels of voluntary compliance. The research will attempt to quantify the relationship between services provided and overall compliance.

4. Improve the accuracy and consistency of tax law information provided to taxpayers by developing and implementing a single tool for use by walk-in and telephone assistors.

The IRS is developing an on-line interactive tool that combines the content of the Probe & Response Guide (P&R Guide) used by toll-free telephone assistors and the Publication Method Guide (PMG) used by Taxpayer Assistance Center (TAC) assistors into one tool for use when answering tax law questions. The tool supports the TAB initiative to provide consistent, quality service to taxpayers across different service delivery channels.

PART Name:	Taxpayer Advocate Service
Year PARTed:	FY 2004
Rating	Moderately Effective

This program helps taxpayers solve tax problems when normal IRS systems have failed to treat them fairly. It serves as an independent advocate within the IRS for individuals and proposes solutions to systemic problems.

OMB Major Findings/Recommendations

1. The quality of the Advocate's case work on behalf of taxpayers has improved from 71 percent with quality standards in 2001 to 90.5 percent in 2004.

2. Taxpayer hardship cases caused by flaws in IRS business processes have declined from 217,081 in 2001 to 129,382 in 2004 as the Advocate has worked with IRS program managers to improve processes.

3. During the assessment, the program set goals and developed an efficiency measure. These include achieving a 100 percent closure-to-receipts ratio through 2010, 95 percent case quality score by 2009, and 4.53 (out of 5) customer satisfaction score by 2009. Efficiency is measured by counting the reduction in the quantity of taxpayer problems resulting from flaws in IRS' business processes.

Bureau Actions Planned or Underway

1. Improve program performance by developing a unit cost measure for its casework by 2008.

Phase I of a new time reporting system was implemented that gives TAS the ability to automatically capture the amount of time spent on cases, from receipt through closure, when a case is accessed through TAMIS. The system provides for reporting time by case characteristics such as criteria code (the reason a case is accepted), core issue (the problem type), and type of system user (e.g., case advocate, manager, analyst, etc.). The work request for Phase II is complete and, when implemented, will provide a graphical front-end screen that allows users to capture time spent on cases when TAMIS is not used (e.g., research, telephone calls, etc.). The Phase II WR was submitted with an expected implementation date of December 2008. TAS must have time data along with fiscal data and case complexity results before a costing system can be developed. In the interim, two case advocacy cost indicators have been developed: Closed Cases per Case Advocacy Full Time Equivalent (FTE) and Closed Cases per Direct FTE. In FY 2009, TAS will track reliability and utility of Phase II time data results and results from case advocacy cost indicators and explore opportunities for integrating the data with performance metrics.

2. Improve program performance by exploring other means to measure effectiveness in solving systemic problems leading to taxpayer hardship. IRS will report its findings in 2006 for possible inclusion in its FY 2008 Budget (findings delayed until 2007).

During FY 2007, TAS implemented a formal quality review process and established baseline measures for quality and timeliness of closed Advocacy Projects and Immediate Interventions.[1] FY 2008 targets for TAS's quality measures have been developed and have been shared with the IRS Oversight Board. TAS also developed and administered its first internal customer satisfaction survey and will analyze results during FY 2008. TAS is baselining data for efficiency and effectiveness and plans to establish FY 2009-2011 performance targets by the end of FY 2008.

TAS is also working to develop a set of outcome measures to track progress on improving case referrals from IRS Operating Divisions and is conducting a study with Wage & Investment on the referral of amended returns due to processing delays. Throughout FY 2008, TAS will continue to identify similar efforts with other Divisions.

3. Improve financial information as part of the IRS-wide financial management improvements.

The IRS has established an office responsible for developing a managerial cost accounting program and issued a service-wide cost policy in August 2007. At this time, managerial cost accounting is in its initial stages and actions are focused on identifying the systems and methodology to appropriately match cost and performance information. Until the objectives of the service-wide cost program have been clearly defined and determinations made on how costs will be accumulated at the bureau level, there are no pending activities associated with developing cost-based measures for specific programs. Specific improvement actions will be more clearly defined in the future and this improvement action will be re-activated.

4. Improve program performance by improving case quality to 91.5 percent by 2006, 93 percent by 2009, and 95 percent by 2014.

TAS fell just short of the goal in FY 2007 with a cumulative quality rate of 90.5 percent due to rising case receipts, complexity of case issues, and reduced staffing. From 2004 to 2007, case receipts increased 47 percent while the number of advocates to work cases decreased by 18 percent. TAS's case quality index goal for FY 2009 has been changed to 91.7 percent.

[1]Advocacy Projects are issues submitted by taxpayers, practitioners, and IRS personnel that suggest that a law, regulation, or IRS procedure is creating a systemic problem for taxpayers. An Immediate Intervention is an administrative issue, identified internally or externally, that causes immediate, significant harm to multiple taxpayers and demands an urgent response.

PART Name:	Criminal Investigations
Year PARTed:	FY 2005
Rating	Moderately Effective

This program ensures taxpayers comply with their tax obligations by investigating possible criminal violations of the tax code. Conviction of tax cheaters deters tax evasion among the general public and helps reassure taxpayers that the system is fair.

OMB Major Findings/Recommendations

1. The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be $345billion.[2] Criminal Investigation is one of the major IRS programs intended to minimize this revenue loss.

2. Research suggests that higher levels of criminal sentences lead to higher tax compliance. IRS has succeeded in raising convictions in recent years. They rose from 1,926 in 2002 to 2,215 in 2005. However, they remain low by historical standards (in 1996 convictions totaled 2,915).

3. IRS has set long-term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions.

Bureau Actions Planned or Underway

1. Implement Criminal Investigation Management Information System (CIMIS) enhancements to address the consolidation of areas, offices, and the movement of workgroups.

Currently, CIMIS supports closing organizations, but not moving, merging, and splitting organizations. CIMIS release 2.2 will provide the capability to define moves, merges and splits and have the new organization structure reflected in user interfaces, reports and scoping logic. This CIMIS enhancement will allow CI the flexibility to adjust the organizational structure to more effectively and efficiently track performance and strategic goals. The enhancement is scheduled to be implemented by Q4 FY 2008.

2. Implement the Investigative Scanning and Document Management System (ISDM). The ISDM will increase efficiency and effectiveness of CI employees by enabling them to image, view, search, and manage all types of documentation generated and received during the course of criminal investigations. ISDM will allow employees to scan paper documents, converting them to an electronic format and linking them to on-going investigations. With the enhancement, employees can apply key word identifiers to enhance search and indexing capabilities allowing CI Special Agents to more efficiently

[2] This figure has been updated to the most current data and differs from what is published on the OMB ExpectMore.gov website. The tax gap as measured does not include the criminal sector, but tax fraud prosecutions have a large indirect effect on compliance.

gather, organize and summarize evidence. Design of the enhancement and prototype will be developed in FY 2008 and the initial roll-out to selected field office will occur during FY 2009. Final roll-out and training will continue through FY 2010, with all field offices completed as funding is applied. The ISDM is part of the Enterprise Content Management (ECM) effort sponsored by the Treasury Department under the Terrorism and Financial Intelligence (TFI) Domain for Law Enforcement.

3. Implement a pilot program to improve the effectiveness of the Suspicious Activity Report (SAR) Review Teams.

SAR Review Teams review reports from financial institutions detailing suspicious monetary transactions. Review of the reports often leads to significant tax, money laundering, and narcotic investigations. The pilot program will maximize resources through co-location, use of deputized state and local officers, and strong U.S. Attorney Office support to increase the efficiency and effectiveness of the SAR Review Teams. The pilot will be implemented in seven CI offices by the end of FY 2008, with additional offices to be included in FY 2009. If the pilot is successful, it will result in the increased identification and prosecution of administrative criminal tax, money laundering, and currency crime investigations. It will also enhance the notification of law to individuals on currency transaction legislations and benefit compliance with regulations and strengthen future criminal investigations by documenting knowledge.

PART Name:	Examinations
Year PARTed:	FY 2005
Rating	Moderately Effective

This program ensures that citizens pay the correct tax by auditing returns at a high risk for non-compliance. Audits help ensure individuals comply with their tax obligations, deter tax evasion among the general public, and help reassure taxpayers that the system is fair.

OMB Major Findings/Recommendations

1. The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be $345 billion.[3] Examination is one of the major IRS programs intended to minimize this revenue loss.

2. After dropping substantially in the late 1990s, IRS audit rates have begun to rise and will continue to increase, largely through productivity growth. IRS audit rates have grown from a low of 1.49 percent (i.e., less than two returns in one hundred audited) in 2001 to 3.09 percent in 2005.

3. IRS has set long-term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions. It also needs cost based efficiency measures.

Bureau Actions Planned or Underway

1. Research tax compliance of S-corporations (a popular business form where profits are passed through to the owners and taxed only once) based on a statistically valid sample of the filing population.

By June 2008, the S-corp compliance study will be completed. Design of sampling and exam procedures have been completed to generate the data for the study and the sample has been identified. The IRS is on target for completion of data collection in FY 2008. Results will be analyzed and tax gap estimates will be updated to help in the understanding of compliance issues.

2. Improve tools for selecting the most productive audit cases by 2007 using the detailed compliance information gathered in the recent individual tax gap study.

On October 2007, selection, classification and auditing of individual returns based on updated selection scores (DIF) began with results available to begin evaluating effectiveness of new scoring by October 2008. By September 2009, the IRS will use information from the Subchapter S-corps National Research Project to enhance return selection and examination. Returns selected for examination in late FY 2007 will begin

[3] This figure has been updated to the most current data and differs from what is published on the OMB ExpectMore.gov website.

to show results in late FY 2008. IRS anticipates improved selection and possible reductions in "no change" rates.

3. Improve program performance by introducing cost based efficiency measures by 2008 (e.g., enforcement revenue/program budget).

The IRS has established an office responsible for developing a managerial cost accounting program and issued a service-wide cost policy in August 2007. At this time, managerial cost accounting is in its initial stages and actions are focused on identifying the systems and methodology to appropriately match cost and performance information. Until the objectives of the service-wide cost program have been clearly defined and determinations made on how costs will be accumulated at the bureau level, there are no pending activities associated with developing cost-based measures for specific programs. Specific improvement actions will be more clearly defined in the future and this improvement action will be re-activated.

4. Undertake compliance study on individual income tax returns.

In October 2007, IRS began reporting for the Tax Year (TY) 2006 individual income tax returns, and by October 2008 will begin reporting for the TY 2007 individual income tax returns. IRS has completed the design of procedures for sampling on the TY 2006 returns, has already identified 95.5 percent of the sample, and has completed classification of 81 percent of the sample.

5. Explore methods for measuring the impact of Examination on compliance. New efforts could include studies of the impact of audits on future compliance of audited taxpayers and attitude surveys.

By September 2008, IRS will increase the number of Schedule C audits by 7 percent to address the individual business income underreporting gap. By September 2009, IRS will add another 5 percent to the increase. IRS also plans to update current tax gap estimates using new and existing data. By June 2008, the S-corp compliance study results will be released and used to update payment compliance estimates, and by June 2009, both payment and filing estimates will be updated.

PART Name:	Retirement Savings Regulatory Program
Year PARTed:	FY 2006
Rating	Adequate

This program ensures that tax breaks provided to encourage retirement savings are only allowed for retirement plans that follow minimum standards. The law requires that plans follow participation, funding and vesting standards and provide some protection for the surviving spouse of the plan participants.

OMB Major Findings/Recommendations

1. The IRS cooperates with the Department of Labor and the Pension Benefit Guarantee Corporation to protect retirement investors and to ensure that retirement-related tax breaks are used for their intended purposes. Tax breaks to retirement plans to encourage savings total more than $100 billion per year.

2. Preliminary data from the program's compliance study shows that retirement plans are in compliance with legal standards 80 percent of the time.[4] The IRS is working to improve this level by increasing enforcement efforts and improving targeting. This compliance study is a critical element in this effort because it gives the IRS better information on the sources of non-compliance.

3. IRS has had trouble processing requests for regulatory approval from retirement plans in a timely manner (less than 120 days). It is working to improve its performance in this area by implementing a new staggered schedule for retirement plan renewal requests and improving productivity.

Bureau Actions Planned or Underway

1. Introducing cost based efficiency measures by 2008.

The IRS has established an office responsible for developing a managerial cost accounting program and issued a service-wide cost policy in August 2007. At this time, managerial cost accounting is in its initial stages and actions are focused on identifying the systems and methodology to appropriately match cost and performance information. Until the objectives of the service-wide cost program have been clearly defined and determinations made on how costs will be accumulated at the bureau level, there are no pending activities associated with developing cost based measures for specific programs. Specific improvement actions will be more clearly defined in the future and this improvement action will be re-activated.

2. Implement electronic case file development system to improve timeliness and efficiency of the examination process.

Milestones:

[4] Further study shows the baseline for compliance with legal standards has been reduced to 73 percent.

January 2008 - Implement release to address technical and performance issues with application
March 2008 - Complete training and roll-out of system to all groups.

3. Implement staggered amendment process and review initial experience to further enhance determination processing efficiency.

Milestones:
March 2008 - Complete review of first set of pre-approved plan applications for defined contribution plans.
April 2008 - Initiate technical review for defined benefit pre-approved plan applications.
December 2008 - Develop recommendations to refine staggered amendment process.

4. Streamline voluntary compliance program and expand access for small businesses.

Milestones:
June 2008 - Issue new procedures to make it easier for small employers to self-correct plan defects.
September 2008 - Expand marketing and outreach to promote voluntary compliance options to small business owners.

PART Name:	Health Care Tax Credit Administration
Year PARTed:	FY 2006
Rating	Results Not Demonstrated

This program administers the Health Insurance Tax Credit, which helps displaced workers and retirees afford health insurance. It is intended to benefit workers who have lost their jobs due to trade with countries that participate in free trade agreements (e.g., the North America Free Trade Agreement).

OMB Major Findings/Recommendations

1. The program's measures do not adequately capture the program's success in providing access to the credit to potential beneficiaries.

2. This credit has low participation. This can be attributed to the time it takes for other agencies to identify potentially eligible workers and for the IRS to enroll them. Another likely cause is the affordability of coverage to potential recipients. It is also possible that many of those identified as potentially eligible may ultimately not quality.

3. The IRS successfully implemented this unique tax credit in 2003. This required the creation of a new process outside of the normal tax filing system in a short timeframe. Since that time, in response to the low take-up, the IRS has successfully reduced the cost of administering the credit by 50 percent.

Bureau Actions Planned or Underway

1. Work with other participating federal agencies to develop long term goals by 2011 that capture the program's success in providing access to the tax credit to potential beneficiaries.

In FY 2007, IRS completed a study of the time it takes individuals to enroll in the program once they receive the program kit. Results indicate participants can be enrolled and receive their first payment within 26 days (on average). IRS continues to work with DOL, state agencies, and the Pension Benefit Guaranty Corporation to understand the timelines and the steps necessary to encourage participation and improve access to the credits in an effort to identify the objectives to measure.

2. Work with partner federal agencies to find ways to improve access to the tax credit for eligible workers.

3. Continue to focus on administrative changes to lower program cost and improve taxpayer service.

HCTC will implement cost efficient processes such as systemic performance testing and automation of manual processes. Improvements will include automation of critical repeatable processes necessary as participation increases. For this aged program, technical and process improvements have been identified to promote economies of scale to drive down costs and new efficiency-focused processes and technology is planned to allow for systemic processing of annual premium changes, reducing costs associated with participants for whom a payment has not been made to a health plan administrator for three consecutive processing cycles. Also, IRS plans to streamline processing of payments by automating manual processes and accounting entries to eliminate manual work. IRS will also continue to identify data retrieval enhancements that allow the customer service representatives to provide consistent and timely customer service. As participation increases, technology costs will drop through continuous data management, archiving, and virtualization efforts. In FY 2008, HCTC will continue to look for opportunities to automate business processes and improve operations. HCTC will examine opportunities to improve the infrastructure and business system processes, including a payment processing solution, an automated premium increase solution, automation of the refund process, simplification of re-registration processes, and expansion of fax channels. New self-service channels are planned that provide taxpayers with more efficient assistance through web applications.

4.3 – IRS Performance Measure Table and Data Dictionary Link

The following table shows IRS performance measures achieved and projected from FY 2006 through FY 2009.

IRS Performance Measures

Performance Measures	Type of Measure	FY 2006 Actual	FY 2007 Actual	FY 2007 Planned	FY 2008 Planned	FY 2009 Planned
Customer Service Representative Level of Service	Oe, L	82.0%	82.1%	82.0%	82.0%	82.0%
Customer Contacts Resolved per Staff Year	E	7,414	7,648	7,702	8,000	8,100
Percent of Eligible Taxpayers Who File for EITC	Oe	*	*	75% - 85%	75% - 80%	75% - 80%
Customer Accuracy - Tax Law (Phones)	Ot	90.9%	91.2%	91.0%	91.0%	91.0%
Customer Accuracy - Accounts (Phones)	Ot	93.2%	93.4%	93.3%	93.5%	93.7%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	83.0%	83.5%	85.2%	86.0%	86.0%
Timeliness of Critical Other Tax Products to the Public	Ot	61.2%	84.0%	79.6%	86.0%	86.0%
Percent Individual Returns Processed Electronically	Oe, L	54.1%	57.1%	57.0%	61.8%	64.7%
Cost per Taxpayer Served ($) (HCTC)	E	$13.71	$14.90	$14.25	$14.25	$14.25
Sign-Up Time (Days) - Customer Engagement (HCTC)	Ot	98.7	93.3	97.0	97.0	97.0
Percent of Business Returns Processed Electronically	Oe, L	16.6%	19.1%	19.5%	20.8%	22.8%
Refund Timeliness - Individual (Paper)	Ot	99.3%	98.9%	99.2%	98.4%	98.4%
Taxpayer Self-Assistance Rate	E, L	46.8%	49.5%	48.6%	51.5%	52.5%
Examination Coverage - Individual	Oe, L	1.0%	1.0%	1.0%	1.0%	1.0%
Field Exam Embedded Quality	Oe, L	85.9%	85.9%	87.0%	87.0%	87.0%
Office Exam Embedded Quality	Oe, L	88.2%	89.4%	89.0%	90.0%	90.0%
Examination Quality - Industry	Oe, L	85.0%	87.0%	88.0%	88.0%	89.0%
Examination Quality - Coordinated Industry	Oe, L	96.0%	96.0%	97.0%	96.0%	96.0%
Examination Coverage - Business	Oe, L	7.3%	6.8%	8.2%	6.6%	6.8%
Examination Efficiency - Individual	E, L	128	137	136	133	134
Automated Underreporter Efficiency	E, L	1,832	1,956	1,932	1,961	1,823
Automated Underreporter Coverage	E, L	2.4%	2.5%	2.5%	2.5%	2.5%
Collection Coverage (Units)	Ot, L	54.0%	54.0%	54.0%	53.0%	53.0%
Collection Efficiency (Units)	E, L	1,677	1,828	1,723	1,835	1,835
Field Collection Embedded Quality	Ot, L	84.2%	84.0%	86.0%	86.0%	86.0%
Automated Collection System Accuracy	Oe	91.0%	92.9%	91.0%	92.0%	92.0%
Criminal Investigations Completed	Ot, L	4,157	4,269	4,000	4,000	4,025
Number of Convictions	Oe, L	2,019	2,155	2,069	2,135	2,135
Conviction Rate	Oe, L	91.5%	90.2%	92.0%	92.0%	92.0%
Conviction Efficiency Rate ($)	E, L	$328,750	$301,788	$314,008	$317,625	$317,625
TE/GE Determination Case Closures	Ot	108,462	109,408	118,200	100,600	98,000
BSM Project Cost Variance by Release/Subrelease	E	**	**	10.0%	10.0%	10.0%
BSM Project Schedule Variance by Release/Subrelease	E	**	**	10.0%	10.0%	10.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long-Term Goal
* The IRS is revising the methodology for estimating the eligibility rate. Data is not available.
** The Cost and Schedule Variance is based on +/- 10 percent and reported on several project releases/subreleases.

Data Dictionary Link for Performance Measures

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.irs.gov/pub/irs-utl/2008_data_dictionary.pdf

4.4 – Summary of IRS FY 2009 Budget Request

Bureau: Internal Revenue Service Summary of IRS 2009 Budget Request	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		TAXPAYER SERVICE		ENFORCEMENT		BSM		HITCA		TOTAL	
	$000	FTE	$000	FTE	$000	FTE	$000	FTE	$000	FTE	$000	FTE	$000	FTE	$000	FTE
FY 2008 Enacted	$2,150,000	31,218	$4,780,000	47,349	$3,680,059	12,181	$3,612,833	36,066	$6,997,226	54,682	$267,090	358	$15,235	17	$10,892,384	91,123
Changes to Base:																
Maintaining Current Levels	$54,726		$126,003		$82,580		$86,261		$177,048		$1,354		$322		$264,985	
Pay Annualization	14,435		33,184		9,883		18,332		39,170		332		20		57,854	
Pay Inflation Adjustment	38,823		87,006		25,399		48,838		102,390		1,022		53		152,303	
Non-Pay Inflation Adjustment	1,468		5,813		47,298		19,091		35,488				249		54,828	
Transfers			($1,000)		($1,370)		($523)		($1,847)						($2,370)	
Transfer to TIGTA					(1,370)		(523)		(847)						(1,370)	
Transfer to FinCEN			(1,000)						(1,000)						(1,000)	
Efficiencies/Savings	($14,969)	(207)	($48,762)	(538)	($30,367)	(230)	($37,415)	(298)	($56,683)	(677)			($151)	(1)	($94,249)	(976)
Efficiency Savings			(48,762)	(538)	(22,443)	(230)	(14,522)	(91)	(56,683)	(677)			(151)	(1)	(71,356)	(769)
Increase e-File Savings	(8,996)	(207)			(1,304)		(10,300)	(207)							(10,300)	(207)
Non-Recur Savings	(5,973)				(6,620)		(12,593)								(12,593)	
Reinvestments	$4,463	30			$28,141		$19,294	30	$13,310						$32,604	30
Increase Efficiency through Submission Processing Consolidations	2,006						2,006								2,006	
Address Correspondence Inventory	2,457	30					2,457	30							2,457	30
Fully Fund Postage Base					28,141		14,831		13,310						28,141	
Subtotal Changes to Base	$44,220	(177)	$76,241	(538)	$78,984	(230)	$67,617	(268)	$131,828	(677)	$1,354		$171	(1)	$200,970	(946)
Total FY 2009 Base - Current Services	$2,194,220	31,041	$4,856,241	46,811	$3,759,043	11,951	$3,680,450	35,798	$7,129,054	54,005	$268,444	358	$15,406	16	$11,093,354	90,177
Program Changes																
Program Decreases:																
Taxpayer Assistance Centers and Outreach	(31,200)	(262)					(31,200)	(262)							(31,200)	(262)
Taxpayer Advocate Service	(7,711)	(25)					(7,711)	(25)							(7,711)	(25)
Volunteer Income Tax Assistance Grants Program	(8,000)						(8,000)								(8,000)	
Business Systems Modernization											(45,780)	(25)			(45,780)	(25)
Subtotal, Program Decreases	($46,911)	(287)					($46,911)	(287)			($45,780)	(25)			($92,691)	(312)
Program Increases:																
Enforcement Initiatives																
Reduce the Tax Gap for Small Business / Self-Employed	2,691	38	132,093	1,570	33,714		2,691	38	165,807	1,570					168,498	1,608
Reduce the Tax Gap for Large Businesses			57,009	515	12,479	4			69,488	519					69,488	519
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance			35,473	359	15,585	34			51,058	393					51,058	393
Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity			11,075	124	2,622				13,697	124					13,697	124
Expand Document Matching			25,376	413	9,684				35,060	413					35,060	413
Implement Legislative Proposals to Improve Compliance					23,045				23,045						23,045	
Subtotal, Program Increases	$2,691	38	$261,026	2,981	$97,129	38	$2,691	38	$358,155	3,019					$360,846	3,057
Subtotal FY 2009 Program Changes	($44,220)	(249)	$261,026	2,981	$97,129	38	($44,220)	(249)	$358,155	3,019	($45,780)	(25)			$268,155	2,745
Total FY 2009 Request	$2,150,000	30,792	$5,117,267	49,792	$3,856,172	11,989	$3,636,230	35,549	$7,487,209	57,024	$222,664	333	$15,406	16	$11,361,509	92,922

Treasury Forfeiture Fund

Mission Statement

To affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus participating in the Fund to disrupt and dismantle criminal enterprises.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2007	FY 2008	FY 2009		
Treasury Forfeiture Fund	**Obligated**	**Estimated**	**Estimated**	**$ Change**	**% Change**
Asset Forfeiture Fund	$391,512	$438,000	$356,000	($82,000)	-18.72%
Total Resources	**$391,512**	**$438,000**	**$356,000**	**($82,000)**	**-18.72%**

The FY2008 estimate includes obligations from a carryover of $160.117 million. The Fund incurs expenses immediately upon the start of the new fiscal year; therefore, the carryover is required for each year.

FY 2009 Priorities

Use of high-impact forfeiture to dismantle criminal enterprise:

- Continue to cultivate and strengthen relationships at the Federal and state and local levels to use high-impact asset forfeiture to disrupt and dismantle criminal enterprise.
- Educate and focus stakeholders and others on the vision and mission of Treasury's multi-Departmental asset forfeiture program.
- Focus resources in a high-impact manner that enhances enforcement against: terrorist financing, illegal immigration, bulk cash smuggling, and money laundering, providing support to the National Money Laundering Strategy.
- Foster and support the investment of forfeiture resources in the needs of 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, and
- Reinforce relationships with member bureaus that extend across Departmental boundaries and with state, local and foreign law enforcement agencies that "extend the reach" of federal law enforcement.
- Develop and modify forfeiture training and awareness programs that are responsive to today's needs and continually re-evaluate such training initiatives for best practices.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Forfeiture Fund (the Fund) is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by bureaus participating in the Treasury Forfeiture Fund. The member bureaus include the Internal Revenue Service's Criminal Investigation (IRS-CI), Customs and Border Protection (CBP), Immigration and Customs Enforcement (ICE), and the U.S. Secret Service (Secret Service.) The latter three bureaus are part of the Department of Homeland Security, transferred as part of the Homeland Security Act of 2002. These member bureaus are joined by the U.S. Coast Guard, Department of Homeland Security, as the result of a long-standing close law enforcement relationship with legacy Customs.

Vision: The focus of Fund management is on strategic cases and investigations that result in high-impact forfeitures. Management believes this approach will have the greatest impact on criminal organizations and thus will accomplish the ultimate mission of the Fund to disrupt and dismantle criminal enterprises. The enhancement of forfeiture activity requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fund large case initiatives including the purchase of evidence and information, joint operations expenses, investigative expenses leading to seizure, and asset identification and removal teams. In addition, it is also a priority to fund revenue-enhancing projects such as major case funding, database development and computer forensics through the use of the Secretary's Enforcement Fund or Super Surplus funds when available.

Priorities: Asset seizure and forfeiture is a priority for the Fund's participating law enforcement organizations, as well as the Department of the Treasury, and is linked directly to the National Money Laundering Strategies. In this regard, management has identified the following priorities for mission success:

- Continue to educate and focus stakeholders, and others, on the vision and mission of Treasury's multi-Departmental asset forfeiture program (i.e., affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus participating in the Treasury Forfeiture Fund to disrupt and dismantle criminal enterprises),
- Focus resources in a manner that enhances support of law enforcement's national money laundering strategy and anti-terrorism financing efforts, and
- Foster and support the investment of forfeiture resources in the needs of 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 2007, 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 2007 continued a pattern of robust revenue years with income from forfeitures and recoveries totaling $468.7 million.

Program Outlook: Management forecasts a continued vigorous program for FY 2008 and FY 2009 with forfeiture revenue and recoveries estimated at $356 million for each year.

1C – Industry Outlook

FY 2008: 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 re-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.

FY 2009: The Treasury Forfeiture Fund is a vital, continuing, business enterprise that is important to our member law enforcement bureaus. Given the priorities of the National Money Laundering Strategy and the law enforcement priorities of our member bureaus, the outlook for FY 2009 is similar to FY 2008; management intends to maintain a dynamic and evolving asset forfeiture program that is responsive to the needs of our member law enforcement bureaus.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Treasury Forfeiture Fund	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
FTE	20	20	20
Object Classification:			
25.2 - Other services	106,385	145,000	145,000
25.3 - Other purchases of goods and services from Govt. accounts	140,587	183,000	101,000
41 - Grants, subsidies, and contributions	144,540	110,000	110,000
Total Budget Authority	$391,512	$438,000	$356,000
Budget Activities:			
Asset Forfeiture Fund	391,512	438,000	356,000
Total Budget Authority	$391,512	$438,000	$356,000

2.3 – Resource Detail Table

Table 2.3 Resource Detail Table

Dollars in thousands

The Fund has no direct FTE.	FY 2007 Actual	FY 2008 Estimated	FY 2009 Estimated	% Change FY 2008 to FY 2009
Revenue:				
Sources:				
Carryover from prior year	$82,935	$160,117	$78,117	-51.21%
Current year forfeiture revenue	468,694	356,000	356,000	0.00%
Total Revenue	551,629	516,117	434,117	-15.89%
Uses:				
Permanent Authority (Obligations)	391,512	438,000	356,000	-18.72%
Total Obligations	391,512	438,000	356,000	-18.72%
Carryover to next year [1]/	160,117	78,117	78,117	0.00%

2B – Appropriations Language and Explanation of Changes

The Treasury Forfeiture Fund does not receive any discretionary appropriation authority from the Congress and, therefore, does not have appropriations language.

2C – Legislative Proposals

The Treasury Forfeiture Fund is currently reviewing the enacting legislation, 31 U.S.C. § 9703, and plans to make some technical changes before the end of the calendar year. The Office of Management and Budget (OMB) will be notified once the appropriate staff within TEOAF has completed the review and draft.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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 2008 Estimated** AMOUNT	**FY 2009 Estimated** AMOUNT	**Percent Change** AMOUNT
National security	438,000	356,000	**-18.7%**
Total	**$438,000**	**$356,000**	**-18.7%**

The FY2008 estimate includes obligations from a carryover of $160.117 million. See table 2.3 for this reference. The Fund incurs expenses immediately upon the start of the new fiscal year; therefore, the carryover is required for each year.

3A – Asset Forfeiture Fund *($356,000,000 from reimbursable programs):* The function of the Treasury Forfeiture Fund is to ensure resources are managed to cover the costs of an effective asset seizure and forfeiture program, including the costs of seizing, evaluating, inventorying, maintaining, protecting, advertising, forfeiting and disposing of property. Asset forfeiture is used by federal law enforcement to disrupt and dismantle criminal enterprises.

Summary of Treasury Forfeiture Fund Authorities***:*** The Treasury Forfeiture Fund is a *special fund* with permanent, indefinite authority. *Special funds* are federal fund collections that are earmarked by law for a specific purpose, and which consist of separate receipt and expenditure accounts. The enabling legislation for the Treasury Forfeiture Fund (31 U.S.C. § 9703) defines those purposes for which Treasury forfeiture revenue may be used. The funds can be allocated and used without the enactment of an annual appropriation by Congress.

A forfeiture process begins once property or cash is seized. Upon forfeiture, seized currency, initially deposited into suspense, or holding account, is transferred to the Fund as forfeited revenue. Once forfeited, physical properties are sold and the proceeds are deposited into the Fund as forfeited revenue. It is forfeiture revenue that composes the budget authority for meeting expenses of running the Treasury Forfeiture Fund program.

Expenses of the Fund are set in a relative priority so that unavoidable or "mandatory" costs are met first. Expenses may not exceed revenue in the Fund.

Types of spending authority of the Fund*:*

The **mandatory authority** items are generally used to meet "business expenses" of the Fund, including expenses of storing and maintaining seized and forfeited assets; valid liens and mortgages; investigative expenses incurred in pursuing a seizure; information and inventory systems; and certain costs of local police agencies incurred in joint law enforcement operations. Following seizure, equitable shares are paid to state and local law enforcement agencies that contributed to the seizure activity at a level proportionate to their involvement.

Secretary's Enforcement Fund (SEF*)* is derived from equitable shares received from the Department of Justice or U.S. Postal Service (USPS) forfeitures. These shares represent Treasury's portion in the overall investigative effort that lead to a Justice or USPS forfeiture. SEF revenue is available for Federal law enforcement purposes of any law enforcement organization participating in the Treasury Forfeiture Fund.

Super Surplus represents the remaining un-obligated 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					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Resource Level	**Obligated**	**Obligated**	**Obligated**	**Estimated**	**Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$0	$0	$391,512	$438,000	$356,000
Total Resources	**$0**	**$0**	**$391,512**	**$438,000**	**$356,000**
Budget Activity Total	**$0**	**$0**	**$391,512**	**$438,000**	**$356,000**

Asset Forfeiture Fund Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**
Percent of forfeited cash proceeds resulting from high-impact cases (%) (Oe)	81.00%	72.93%	84.18%	75.00%	75.00%

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

Description of Performance

For FY 2009, Fund management will measure the strategic performance of our participating law enforcement bureaus through the use of the performance measure: percent of forfeited cash proceeds resulting from high-impact cases. This measures the percentage of forfeited cash proceeds resulting from high-impact cases; those with currency seizures in excess of $100,000. Fund management believes that focusing on strategic cases and investigations that result in high-impact seizures will do the greatest damage to criminal organizations while accomplishing the ultimate objective which is to disrupt and dismantle criminal activity.

Target: A target of 75 percent high-impact cases has been set for this performance measure. The target allows for those cases which may not be high-impact in nature but that are important to the exercise of law enforcement. The measure is calculated by dividing the total amount of forfeited cash proceeds from cases equal to or greater than $100,000 by the total amount of forfeited cash proceeds for all cases. 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: Law enforcement bureaus participating in the Treasury Forfeiture Fund have exceeded the performance target in three of the last four fiscal years, only narrowly missing the target in FY 2006 as the result of forfeiture deposit timing. This achievement remains excellent given the extra demands placed on law enforcement personnel for anti-terrorism initiatives.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The Treasury Forfeiture Fund is managed by the Executive Office for Asset Forfeiture (EOAF), a policy office that reports to the Assistant Secretary for Terrorist Financing. EOAF reimburses Departmental Offices for a total of about 20 FTE annually.

4.1 – Summary of IT Resources Table

Dollars in Thousands

None

4B – Information Technology Strategy

The Treasury Forfeiture Fund uses Departmental Offices systems, and is part of DO's information technology strategy.

4.2 – PART Evaluation Table

The Treasury Forfeiture Fund is not subject to the PART process.

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

Working Capital Fund

Introduction

The Department of the Treasury Working Capital Fund (WCF) was established by the Excise, Estate, and Gift Tax Adjustment Act of 1970 (P.L. 91-614 § 401). As codified in 31 USC §322, "Amounts in the fund are available for expenses of operating and maintaining common administrative services of the Department that the Secretary of the Treasury, with the approval of the Director of the Office of Management and Budget, decides may be carried out more advantageously and more economically as central services."

Program Summary by Bureau Type

Dollars in Thousands

Funding Source	FY 2007 Enacted	FY 2008 Estimate	FY 2009 Estimate	$ Change FY 2008 To FY 2009	% Change FY 2008 To FY 2009
Treasury Appropriated Bureaus	$232,302	$241,791	$241,584	($207)	-0.09%
Treasury non-Appropriated Bureaus	$15,109	$16,184	$18,081	$1,897	11.72%
Non-Treasury	$10,520	$7,158	$6,117	($1,041)	-14.54%
Grand Total Financial Plan Requirements	$257,931	$265,133	$265,783	$650	0.25%

Operation of the Working Capital Fund

The Treasury Department has standard criteria to determine what functions are financed through the WCF:

1) Promotes economies of scale,
2) Reduces overhead costs,
3) Promotes central management,
4) Avoids duplication among those who might provide the service,
5) Improves service quality,
6) Makes available goods and services to those users who could not afford them except on a centralized basis,
7) Provides flexibility in the timing of purchases, and
8) Allows for replacement of equipment and other assets on a long-term basis through the use of depreciation charges to users, as a means of recovering those costs.

Table of Contents

Section 1 – Purpose

1.1 – Description of Service Providers

The majority of the service providers under the WCF program are organizational components of the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) in the Departmental Offices. The 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, for which the Internal Revenue Service serves as the Executive Agent. The programs in the WCF for FY 2009 are as follows:

A – Intelligence and Security

1. Security Programs

Resource Level: $797,962 and 3 FTE

Program Description: Security programs under the Assistant Secretary of Intelligence and Analysis, develops guidance and provides operational assistance and direction to the Treasury Department for:

- Information security for classified and sensitive information (not to include IT systems life cycle costs);
- Industrial security (access to and use of Treasury/U.S. Government classified and sensitive information by the private sector);
- Physical security (operational direction for the protection of personnel and property related to National Security Information);
- Personnel security (background investigations for sensitive and national security positions);
- Security education, training for persons authorized access to classified information;
- General guidance to un-cleared employees;
- Physical protection of critical infrastructure; and
- Counter-intelligence awareness (including precautions during official foreign travel).

Billing Methodology: The charge assessed to each customer is based on the number of FTE in the current year enacted budget as a percent of the total. Bureau-specific orders are billed based on the cost of the service requested.

B – Deputy Assistant Secretary, Human Resources/Chief Human Capital Officer

1. Human Capital Strategic Management

Resource Level: $786,654 and 4 FTEs

Program Description: The Office of Human Capital Strategic Management (HCSM) provides critical, crosscutting human resource management services to the bureaus. The staff provides a consolidated approach to programs and delivers Department-wide program implementation and consultation to Treasury bureaus on a broad range of complex human resources issues, including performance management, workforce development, executive resources, recruitment and staffing, compensation policy, and workers compensation services. This includes providing leadership and direction on new programs and initiative and working closely with Treasury bureaus to develop creative and innovative solutions to emerging human resources issues. This office also works closely with the Office of Personnel Management (OPM) and the Office of Management and Budget to ensure Treasury human resources policies and programs support government-wide, results based human capital initiatives. Services provided include:

Human Resources (HR) Program Efficiencies:

- Develop efficiencies for the management of human resources programs that have Department-wide impact and enhance the bureaus ability to meet their missions (e.g., provide coordinated agency-wide hiring process improvement; facilitates bureau efforts on meeting the 45 day hiring model; work with HR Connect on improving the effective use of automated hiring tools; coordinates joint-bureau participation in career fairs; establish contacts with a large number of higher-education institutions; and represent bureau interests in pursuing hiring flexibilities);
- Identify areas where bureaus need technical training or specialized guidance on a variety of complex HR issues and disseminate information through agency-wide workgroup meetings, written products, or arrange for it through OPM or outside vendors (e.g., training on Fair Labor Standards Act, Career Transition Assistance Program/Reemployment Priority List, and new HR flexibilities such as Category Rating).

Federal Health Benefit Programs Management:

- Manage the Federal Health Benefits Open Season contract which consolidates the handling of all materials for participating bureaus;
- Provide support on employee benefits programs including the centralized distribution of benefit materials (e.g., Federal Employee Health Benefits, Federal Employee Group Life Insurance, Thrift Savings Plan forms/brochures);
- Disseminate guidance and materials for bureau benefits specialists.

Crosscutting HR Products and Services:

- Lead the development and implementation of new programs; hold bureau work groups and meetings to resolve issues; assist bureaus by making suggestions to improve bureaus processes and heads-off potential problems; and provide training and technical guidance to bureau staffing contacts;
- Assist bureaus with creating, developing, and implementing new pay systems and schedules under special pay authorities (e.g., police pay systems and pay bands);
- Work with bureaus on staffing issues - Example: Prepare a 30-page report for OPM consolidating bureau concerns regarding specific barriers to effective/efficient recruitment, and recommended solutions;
- Develop and publish tools that assist bureaus in carrying out HR program responsibilities.

Department-wide External Influence:

- Represent Treasury bureaus' interests on OPM/interagency task forces (e.g., the development of the Federal Career Intern Program and regulations that allowed for Treasury bureaus' preference on how to handle poor performers);
- Represent the interests of the bureaus in proposing, developing, or requesting changes in legislation, regulations, and other proposals
- Serve as the bureaus' advocate in getting Departmental, OPM, or other approvals pertaining to certain personnel authorities (e.g., request for authority to establish an extended probationary period for certain positions; changes in qualifications standards and approval of new competencies standards, and waivers of dual compensation);
- Assist bureaus with downsizing and restructuring by providing consultation and assistance on complex restructuring initiatives and gaining OPM approval of buyout and early-out (VERA/VSIP) authority.

Billing Methodology: The charge assessed to each customer is based on the number of FTEs in the current year enacted budget as a percent of the total.

2. Civil Rights and Diversity

Resource Level: $1,340,256 and 9 FTEs

Program Description: The Office of Civil Rights and Diversity (OCRD) program ensures that Treasury employees, former employees, and applicants are protected from discrimination on the basis of race, color, religion, national origin, sex, age, disability, reprisal for engaging in protected activity, sexual orientation, parental status, and protected genetic information. OCRD manages the statutory Equal Employment Opportunity complaint process for all of the bureaus, including management of the Treasury-wide complaint management data system and oversight of the Treasury Complaint Center.

The OCRD program supports the department-wide goals of ensuring diversity and equal opportunity for all employees; that people with disabilities have equal access to the Department's programs and facilities; and that Treasury's federal financial assistance beneficiaries are not excluded from participation in, denied the benefits of, or otherwise subjected to discrimination under any program or activity funded by the Department. OCRD represents the Department's interests in the areas of EEO, diversity and civil rights before the Equal Employment Opportunity Commission, the Office of Personnel Management, and the Department of Justice (pertaining to external civil rights activities).

Billing Methodology: The charge assessed to each customer is based on the number of actual complaints filed in the previous 12 month period as a percent of the total. Customers with no complaints are assessed one complaint charge for maintenance.

C – Deputy Assistant Secretary, Information Systems/Chief Information Officer

1. Associate Chief Information Officer HR Connect and National Finance Center/Employee Express

a. HR Connect

Resource Level: $24,645,902 and 33 FTEs

Program 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.

Billing Methodology: The HR Connect costs are distributed based on the number of active accounts as a percent of the total.

b. NFC/Employee Express

Resource Level: $22,822,816 and 18 FTEs

Program Description: The Treasury HR Line of Business Shared Service Center (SSC) involves a partnership with the National Finance Center (NFC). HR Connect is Treasury's enterprise human resources solution, and the HR Connect system interacts/syncs with NFC in order to provide NFC payroll services to customers.

Employee Express is an OPM service that feeds into the NFC database to allow employees to perform various self-service activities. Specifically, it allows employees to update their payroll information (taxes, allotments, health insurance, savings bonds, and thrift savings contribution).

Billing Methodology: The NFC/Payroll and Employee Express costs are distributed based on the number of W-2's issued for the prior tax year in the current calendar year as a percent of the total.

2. Chief Information Officer Executive Office / Resource Management Services

Resource Level: $2,995,821 and 4 FTEs

Program Description: This program provides the administrative management and comprehensive strategic development activities that support the Office of the Chief Information Officer's (OCIO) mission. These activities include strategic planning, program/project implementation, financial and budget guidance, briefing development, business case analysis, comprehensive research, performance assessment, project management, IT governance facilitation, and alternatives analyses.

This program also develops and implements efficient and effective controls over the resources within the OCIO and facilitates achievement of operational objectives through policy guidance, advice, and management of budget formulation and execution activities across OCIO programs that support Treasury-wide missions.

Billing Methodology: The allocation percentage is derived by taking each customer's contribution to various CIO programs then dividing it by the total contributions from all customers who contributed to more than one program.

3. ACIO Telecommunications (Treasury-wide)

ACIO Telecommunications – Front Office:

Resource Level: $3,475,052 and 2 FTEs

Program Description: The program is responsible for telecommunications developing standards and guidelines; managing enterprise voice, video, and data services; supporting IT applications and infrastructure for Treasury Departmental Offices; and ensuring the resiliency, and redundancy of Treasury telecommunications infrastructure. Telecommunications Management develops short and long-range plans and guidelines for the efficient management of telecommunications operations and resources. Telecommunications Operations provides comprehensive administration, service delivery, and customer service for common voice, data, and video requirements across Treasury. TFO oversees bureau programs such as DTS, TCS, TNet, and Wireless.

Billing Methodology: The allocation percentage is derived by taking each customer's contribution to various CIO Telecommunication programs and dividing it by the total contribution of all customers who contributed to more than one program.

a. Digital Telecommunications System

Resource Level: $24,069,367 and 14 FTEs

Program Description: The Digital Telecommunications System (DTS) Wide Area Voice Services are comprised of several programs which, together, provide telecommunications capabilities to the Department of the Treasury. The three core programs include the General Services Administration's Washington Interagency Telecommunications System, Treasury Local Access Transport Area, and Synchronous Optical Network.

Billing Methodology: There are two costs associated with this program: customer-specific and shared. Shared costs are based on each customer's seat count and number of mailboxes, divided by the total seats and mailboxes for all customers combined. Customer-specific costs are based on each customer's anticipated requirements for that fiscal year.

b. Treasury Communications System

Resource Level: $45,000,000 and 10 FTEs

Program Description: The Treasury Communications System (TCS) serves as the Department of the Treasury's enterprise program for integrated information technology and telecommunications services. TCS offers Treasury a complete range of services including enterprise Internet access which gives users access to public domains across the Internet, other Treasury bureaus, and to Treasury's government and non-government business partners. The program also offers solutions for business application development and systems integration, web and application infrastructure platform hosting, telecommuting network access, and other managed services.

TCS performs a wide range of activities including requirements analysis, procurements, engineering and design, site surveys, configuration, installation and operations and maintenance for various applications and infrastructure.

The program further supports the Department by operating a 24x7x365 security operations center that executes event monitoring, problem identification, fault isolation, problem eradication, service restoration, maintenance, and traffic and usage analysis. TCS also maintains firewalls for network access, provides intrusion detection systems and performs certifications and accreditations for systems Department-wide.

Billing Methodology: There are two costs associated with this program: customer-specific and shared. Shared costs are based on capacity, usage, and sites. Customer-specific costs are based on each customer's anticipated requirements for that fiscal year.

c. Treasury Network

Resource Level: $45,000,000 and 0 FTEs

Program Description: The Treasury Network (TNet) is in transition to replace TCS, the current wide area network (WAN) support program for Treasury. The TNet program was initiated to provide secure, seamless WAN voice and data telecommunications services to the Department of the Treasury WCF customers. TNet services guaranteed delivery of application, email, internet, and voice traffic over a robust optical wide area network. As such, it is critical to the ability of Treasury employees to fulfill the mission of the Department.

Billing Methodology: The allocation of costs is derived by taking the estimated FY 2009 TCS commercial circuit and maintenance charges per customer and dividing it by the total estimate for all customers. Customer-specific costs are based on each customer's anticipated requirements for that fiscal year.

d. Wireless Program

Resource Level: $1,260,338 and 0 FTEs

Program Description: The Wireless program office is organized into three segments: program management, tactical activities, and non-tactical activities. The program management focuses on ensuring that the program meets its responsibilities to the Department and its stakeholders through prudent financial and resource management, plus the maintaining of critical relationships in the federal wireless marketplace.

The tactical activities include the services necessary to keep Treasury mission-critical wireless assets and associated functions represented and protected. The services include managing and coordinating spectrum resources, participating and representing Treasury at the Interdepartmental Radio Advisory Committee, participating and representing Treasury in the Integrated Wireless Network, serving as a liaison to the Office of Emergency Preparedness for the high frequency network, and providing technical support, representation, or coordination as requested by the bureaus.

The non-tactical portion of the Office functions primarily as the central office for wireless policy and responds to the executive, regulatory, budgetary, and legislative requests that the Department receives concerning their wireless assets and activities. These services include responding to Office of Management and Budget requests (e.g., Exhibit 300s), responding to requests related to the Presidential Determination on Improving Spectrum Management in the 21st Century, providing information to the National Communications Systems Annual Report, and fostering refinement of Treasury-wide wireless guidelines to increase guideline consistency throughout the Department.

Billing Methodology: The Wireless methodology consists of two allocations: tactical and non-tactical. The tactical allocation is derived from the number of frequencies per customer as a percent of total frequencies. The non-tactical allocation is derived from the number of FTEs per customer as a percent of total FTEs.

e. Web Hosting

Resource Level: $2,276,917 and 2 FTEs

Program Description: Web Hosting provides hosting support for Treas.Gov, the Treasury public website, and TreasNet, the Treasury-wide intranet site. Services include website creation; content updating and management; Treasury-wide team collaboration sites oversight; e-learning hosting and registration by bureau; survey creation, hosting, and analysis; support for bureau/office webmasters and content managers; and a search capability for bureau public web sites.

Billing Methodology: The Web Hosting methodology uses the TCS percentage distributed across customers participating in Web Hosting services.

f. Secure Communications Center

Resource Level: $5,267,294 and 17 FTEs

Program Description: The Secure Communications Center (SCC) provides secure handling of highly-classified, sensitive data for the Departmental Offices and Treasury bureaus and their senior management staffs. The SCC provides Communications Security (COMSEC) support for the Treasury Department, including site surveys and distribution of encrypted keys.

Billing Methodology: The Center's costs are billed to customers based upon the number of messages as a percentage of the total number of messages processed.

g. Alpha-VAX Computer Usage

Resource Level: $303,202 and 1 FTEs

Program Description: Previously, The Departmental Offices (DO) Information Technology office managed several VAX computers which ran mainframe applications and were replaced with Alpha systems in FY 2005. The only WCF customer for this program is the Federal Financing Bank (FFB). The program receives funding from FFB to support staff and part of the computer maintenance. The Alpha computer systems are also used for several critical applications for non-reimbursable DO customers, including the tax models and the SMART application for Domestic Finance.

Billing Methodology: The methodology is based on the total cost of operating the Alpha computer and is distributed based upon the actual usage of the services the Computer Data Center provides on the system.

4. ACIO Cyber Security

Resource Level: $1,353,465 and 6 FTEs

Critical Infrastructure Protection and Information Security (CIRC):

Program Description: The Cyber Security Program supports protection of Treasury-wide information technology systems (unclassified and national security [collateral and intelligence]) and the information they process from risks to confidentiality, availability and integrity whether arising from insiders, malicious hackers, or other threats posed against the Department. The program accomplishes this through the issuance of guidance and leadership of the Treasury CIRC and the Critical Infrastructure Program (cyber systems and applications) to identify and protect key resources. This year, the program's key priorities include focusing on the implementation of new security configuration management requirements from OMB, FISMA compliance, and responding to serious Internet threats.

Billing Methodology: The charge assessed to each customer is based on their contribution to various CIO programs then dividing it by the total contributions from all customers who contributed to more than one program.

5. ACIO E-Government

a. Enterprise Architecture

Resource Level: $2,857,669 and 4 FTEs

Program Description: The Treasury Enterprise Architecture (EA) program will establish a roadmap for the modernization and optimization of the Department's business processes and information technology (IT) environment. EA will provide a framework to guide IT investment planning, streamline systems, and ensure that IT programs align with business requirements and strategic goals. EA allows Treasury to conduct enterprise-wide analysis and management of results, focus on lines of businesses to facilitate better alignment and cross-bureau collaboration in investments, and develop more robust business cases. EA fulfills the need to recognize and capitalize on opportunities for the development of enterprise wide solutions and E-Government (E-Gov) participation and leadership.

Billing Methodology: The charge assessed to each customer is based on their number of FTEs in the current year enacted budget as a percent of the total.

b. Enterprise Solutions

Resource Level: $7,249,780 and 7 FTEs

Program Description: The Enterprise Solutions (ES) business model is to optimize cost-effective delivery of enterprise services through a small professional staff of senior project managers and contractor teams. The ES team works closely with EA and Information Security to identify and implement common (multi-bureau) and enterprise (Treasury-wide) solutions in support of an efficient technology architecture that is aligned with the rest of the Federal Government. The ES team also works closely with their customers to help them understand and take advantage of these solutions. ES consists of two core business units: Authentication and Identity Management Systems; and Enterprise Business Application Services and Solutions.

Billing Methodology: The charge assessed to each customer is based on their number of FTEs in the current year enacted budget as a percent of the total.

c. Planning

Resource Level: $829,160 and 1 FTEs

Program Description: The E-Gov Planning Office provides the critical leadership and direction needed to achieve the Department's Presidential Management Agenda, E-Gov, Clinger-Cohen goals. E-Gov Planning sets goals, objectives, and strategies to guide enterprise-wide solutions.

Billing Methodology: The charge assessed to each customer is based on their number of FTEs in the current year enacted budget as a percent of the total.

d. Management

Resource Level: $940,786 and 2 FTEs

Program Description: Treasury continues to identify and develop targeted Treasury E-Gov initiatives to improve service delivery to citizens and businesses. Treasury is a managing partner in two of the Presidential E-Gov initiatives, Federal Asset Sales and GeoSpatial Line of Business, and participates in several other Presidential E-Gov initiatives. E-Gov is also responsible for managing, coordinating and reporting on the President's Management Agenda E-Gov Initiatives and Lines of Business.

Billing Methodology: The charge assessed to each customer is based on their number of FTEs in the current year enacted budget as a percent of the total.

6. Homeland Security Presidential Directive -12

Resource Level: $45,850,000* and 0 FTE

***** Currently, the Department of the Treasury Homeland Security Presidential Directive – 12 (HSPD-12) program has been authorized through FY 2008 for release 1, card issuance only. Discussions with the Department of the Treasury's senior leadership regarding increased program scope and funding requirements for FY 2008 are on-going. No approvals have been granted at this time. Note: Department of the Treasury HSPD-12 program execution and WCF collection is subject to the Executive Steering Committee approval.

Resource levels are based on the below assumptions:

Assumptions, re: card issuance, FY 2008 carryover:

- 75% of cards will by issued in FY 2008 with the remaining to be issued in FY 2009.
- Card issuance will be completed by 12/31/08 (1st quarter, FY 2009).
- All hardware, software, and infrastructure costs will remain at 100% for FY 2008.
- 25% of FY 2008 card issuance costs (includes card issuance, maintenance, and sleeves) will be incurred in FY 2009.
- Treasury Program Management Office FTE and contractor staff will extend at FY 2008 levels through 1st quarter, FY 2009 (12/31/2008).

Assumptions, re: release 2, proposed WCF eligible costs:

- Treasury HSDP-12 Program Management Office costs.
- Card issuance operation and maintenance cost.
- Logical Access Controls acquisition costs.
- Physical Access Controls acquisition costs.

Program Description: HSPD-12 was signed on August 27, 2004, mandating a common identification standard for federal employees and contractors. HSPD-12 requires a standardized Personal Identity Verification process for the issuance and use of a common federal government identification card. The directive mandates that any identification card issued by a federal agency must be:

- Secure and reliable;
- Issued based upon sound criteria for verifying an individual’s identity;
- Resistant to identity fraud, tampering, counterfeiting, and terrorist exploitation;
- Interoperable across federal agencies; and
- Used to allow both physical access and logical access to federally-controlled facilities and information systems.

This initiative is being led by the Internal Revenue Service (IRS) in an Executive Agent arrangement with Departmental Offices. The program is under the auspices of the Associate Chief Information Officer of E-Government.

Billing Methodology: The charge assessed to each customer is based on their number of Federal government and contractor personnel as a percentage of total Treasury government and contractor personnel.

7. ACIO Capital Planning and Information Management

a. Capital Planning and Investment Control

Resource Level: $4,044,000 and 6 FTEs

Program Description: Funds will provide the portfolio management tool services that all bureaus use for Capital Planning and Investment Control (CPIC) compliance. Services include necessary software maintenance costs, licenses, hosting, development, and help desk support required to keep the Treasury CPIC portfolio management system operational in an effective and efficient manner.

Treasury's capital planning process is a dynamic process in which information technology (IT) investments are selected and then continually monitored and evaluated to ensure each chosen investment is well managed, cost effective, and supports the mission and strategic goals of the organization.

Billing Methodology: The charge assessed to each customer is based on their contribution to various CIO programs then dividing it by the total contributions from all customers who contributed to more than one program.

b. Information Management

Resource Level: $1,486,377 and 4 FTEs

Program Description: The Information Management (IM) organization is responsible for implementing OCIO statutory and regulatory programs to include clearing bureau information collection requests for OMB approval as well as monitoring and reporting to OMB in accordance with the Paperwork Reduction Act. Collections are reported in the Business Gateway electronic government initiative. The IM organization provides leadership and direction for Treasury-wide records management program and develops records management strategy to produce the policies, procedures, and guidance necessary to implement the programs; cooperates with bureaus and offices to develop and apply technology to records management; coordinates programs within the bureaus and offices and with oversight organizations; conducts and/or facilitates Treasury-wide employee and bureau records training; and assists records management programs across the Department with advice and technical expertise.

Billing Methodology: The charge assessed to each customer is based on their contribution to various CIO programs then dividing it by the total contributions from all customers who contributed to more than one program.

D – Treasury-wide Management Programs

1. Financial Systems Integration

Resource Level: $2,520,493 and 2 FTEs

Program Description: The Office of the Deputy Chief Financial Officer, Financial Systems Integration (FSI) program provides systems and program support to produce the Treasury Department's financial statements and management reports. Monthly and quarterly reports are distributed to the Office of Management and Budget, Financial Management Service, and bureau program and financial offices. Programs covered by FSI include financial analysis and reporting, audit follow-up and performance management. Bureaus submit data to the Financial Analysis and Reporting System to meet program, legislative, and OMB requirements.

Billing Methodology: Treasury Information Executive Repository (TIER) and CFO Vision charges are based 80 percent on funding and 20 percent on the average number of records submitted to TIER as a percentage of the total. The Joint Audit Management Enterprise System is based on the number of audit recommendations and planned corrective actions as a percent of the total. Performance reporting is based 80 percent on the current year enacted budget and 20 percent on the number of performance measures as a percent of the total.

2. Emergency Programs

Resource Level: $1,988,260 and 4 FTEs

Program Description: The Office of Emergency Programs (OEP) ensures continuity of the Treasury Department’s essential functions during disasters. The focus of the WCF funded component is to maintain facilities and communications between the Department of the Treasury’s bureaus and senior officials in a state of emergency.

The program provides operational activities associated with implementing National Security Emergency Preparedness (NSEP) goals and objectives that are identified in:

- The National Strategy for Pandemic Influenza
- The Implementation Plan for the National Strategy for Pandemic Influenza
- Executive Order 12656
- Homeland Security Presidential Directive 20 & National Security Presidential Directive 51
- Homeland Security Presidential Directives 5, 8, 9, 10, and 12
- The National Response Plan
- Federal Preparedness Circulars 65-67 (FPC 65)

OEP administers and maintains the Treasury Emergency Management program, codified in the Treasury Security Manual - TDP-71-10. The program ensures that the Department of the Treasury is fully prepared for natural and man-made disasters by executing major operational items contained in FPC 60 and 65 during White House or Department of Homeland Security sponsored Continuity of Operations activation and training scenarios.

Billing Methodology: The charge assessed to each customer is based on their number of FTEs in the current year enacted budget as a percentage of the total.

3. Small and Disadvantaged Business Utilization

Resource Level: $915,134 and 4 FTEs

Program Description: The Small and Disadvantaged Business Utilization program facilitates acquisitions from the business community of veteran-owned, service-disabled veteran-owned, 8(a), Historically Underutilized Business Zone, small disadvantaged, and women-owned small businesses for all of the Department of the Treasury. The program:

- Disseminates information through the maintenance of a robust small business procurement assistance website - www.treas.gov/sba;
- Generates “Small Business Marketing Publications” such as “Forecast of Contract Opportunities” and “Subcontracting Opportunities Directory.” This material is available electronically, in hard copy, or mini marketing disks and contains information on each individual bureau;
- Provides outreach to small businesses through monthly Vendor Outreach Sessions, Annual Office of Small and Disadvantaged Business Utilization Directors’ Conference, and other external outreach events;
- Provides small business program training to bureaus. The staff presents on a variety of small business topics such as new developments, refresher training, and training for new employees;
- Develops and manages Mentor-Protégé Program where experienced firms are teamed with less experienced firms to compete more effectively for Treasury Department contracts. The staff reviews business applications for participation in the program and provide follow-up reviews on an annual basis;
- Updates the “Small Business Handbook” to provide guidance, tips, and best practices to the Treasury Department’s bureaus through Acquisition Bulletins;
- Establishes department-wide “Annual Small Business Goals” in compliance with the Small Business Act, Executive Orders, and the Office of Federal Procurement Policy guidelines; and
- Assists the bureaus in identifying qualified small businesses for match-making to increase procurement opportunities whereby the staff works with individual bureaus to develop acquisition strategies, and small business friendly contract vehicles.

Billing Methodology: The charge assessed to each customer is based on their procurement dollars as a percent of total Treasury Department procurement dollars.

4. Procurement Programs

Resource Level: $868,640 and 2 FTEs

Program Description: The Procurement Program provides services to the Treasury Department's bureaus for the following:

- Purchase Card Program: The program provides coordination and best practices for the Department of the Treasury's purchase card program, including support for the re-compete and transition to SmartPay2. The goals are to ensure proper usage, maximize rebates and to develop and maintain a quality Treasury-wide purchase card program.
- Integrated Acquisition Environment (IAE) Implementation and Liaison: This office acts as the Treasury Department's liaison for the various IAE service providers. Procurement disseminates implementation information, and tracks Treasury-wide use of IAE systems and manages data verification and validation audits of Treasury's federal procurement data, serves as the IAE System Administrator for the bureaus, and operates as the focal point for any Treasury Department issues to be raised with service providers. IAE systems streamline service delivery to customers, reduce paperwork, and apply best commercial practices to improve and facilitate purchasing office interaction with customers and businesses while saving resources and streamlining the acquisition process. This results in improved efficiency and effectiveness of the Treasury Department's acquisition systems.
- Acquisition Career Management Program: The procurement office provides input to the Treasury Human Capital Strategic Plan for procurement staff, managing a formal process for GS-1102 employees to equate their past education, experience, and acquisition training to the Federal Acquisition Certification in Contracting Program requirements for civilian agency employees. The Treasury Acquisition Career Manager reviews and recommends certification of acceptable contracting certification requests submitted by employees. The Senior Procurement Executive makes decisions on requests and signs a certificate for each successful applicant. Finally, the organization supports implementation of two additional Federal Acquisition Certification programs, for Program and Project Managers, and for Contracting Officer's Technical Representatives.
- E-Government –IAE System Payment: IAE is one of the 24 E-Government initiatives which support the President's Management Agenda. The IAE provides a common, secure business environment, which facilitates and supports cost effective acquisition of goods and services and will interoperate with multiple E-Government initiatives. Federal agencies receive the benefit of shared use of the IAE in the conduct of their acquisition functions. The General Services Administration (GSA), the Managing Partner of the IAE project, is reimbursed for the cost of managing, operating and maintaining the IAE architecture by the federal agencies that use the IAE and share the expense. To reimburse GSA, the Department of the Treasury collects funds from participating bureaus and

transfers the aggregated funds to GSA in accordance with the Memorandum of Agreement between GSA and the Department of the Treasury. The IAE provides the Treasury Department's bureaus with access to the following systems:

Operational

- Acquisition.gov
- Central Contract Registration
- Excluded Parties List
- Electronic sub-Contractor Reporting
- Federal Registration
- Federal Technical Data Solution
- Federal Procurement Data System – Next Generation
- On-Line Representations and Certifications Application
- Wage Determination On-Line

Planned

- Performance Data

Billing Methodology: The charge assessed to each customer is based on their procurement dollars as a percent of total Treasury Department procurement dollars.

5. Government-wide Council Payments

Resource Level: $351,709 and 0 FTE

Program Description: The Government-wide Council Payments support Treasury's participation in Government-wide Councils. These councils are: Chief Financial Officer's Council, Chief Information Officer's Council, Chief Acquisitions Officer's Council, Chief Human Capital Officer's Council and President's Management Council.

Billing Methodology: The charge assessed to each customer is based on their FY 2007 enacted funding levels as a percent of the total.

<u>E – DAS, Headquarters Operations</u>

1. Environment, Safety, and Health

Resource Level: $1,157,636 and 2 FTE

Program Description: The Environment, Safety, and Health Division, as part of the Office of Facilities and Support Services, provides support for environmental and safety issues that affect most bureaus. This program also maintains the Safety and Health Information Management System (SHIMS).

SHIMS is a department-wide "web" enabled electronic system that records and tracks occupational injuries and illnesses. The system allows data manipulation by individual organizations and data consolidation providing department-wide mandatory reporting to the Department of Labor's Office of Workers' Compensation system. SHIMS identifies trends in accident experiences and causes which can provide assistance in injury reduction and the reduction in lost work days. The system can generate monthly and quarterly statistics, as well as the annual incidents summary as required by the "Annual Safety and Health Program" and in performance reporting.

Billing Methodology: The charge assessed to each customer is based on the number of Safety and Health Information Management System claims filed by each customer as a percent of the total.

2. Printing and Graphics Services

Resource Level: $4,471,861 and 27 FTEs

Program Description: The mission of the Printing and Graphics Division is to provide quality graphics, design, printing (both offset and digital printing), duplicating, and electronic services and to be the provider of choice for the effective, economical, and quality presentation of information for the Department of the Treasury. The Printing and Graphics Division uses a variety of methods and alternative strategies that draw upon their collective expertise.

The Printing and Graphics Division is organizationally divided into three branches: the Printing Procurement Branch; the Departmental Printing Branch; and the Graphics Branch.

Products are numerous and range from internal routing slips, posters, brochures, and full color presentations, to the commercial procurement of large quantities of complicated and expensive printed pieces and presentation materials used by the Secretary and/or the President for press and Congressional briefings. Services include:

- A full range of visual services with design consultation and production;
- High-resolution scans and low-resolution scans for web application;
- Prepress requirements and preparing the electronic files for printing and/or web position to ensure our customer files are prepared correctly, i.e., checking for printability with correct fonts, formats, setups for color separations;
- Security printing to protect against fraud;
- Electronic publishing on-demand digital printing and duplicating;
- On-site high speed digital black and white and color printing;
- High-quality process/multi-color printing;
- Variable data printing;
- Coordination with the Government Printing Office (GPO) and contractors;
- Ensure adherence to Treasury Department policy and government statutes and regulations governing printing and binding;
- A full line of specialized binding;
- Printing procurement acquisition services outside GPO;

- Quality assurance follow up and problem resolution between the customers and the printers;
- Internet job submission;
- Government Printing Office printing costs for publications, forms and various documents that benefits all the Treasury Department's bureaus; and
- Blank paper and other supplies procured through the Government Printing Office for the printing of publications, forms, and various documents.

Billing Methodology: The charge assessed to each customer is based on their previous year usage of the various programs as a percent of the total prior year usage from all customers.

3. Communications, Information, and Locator Center

Resource Level: $776,904 and 8 FTEs

Program Description: The Communications Information and Locator Center:

- Answers, screens, and provides numbers to and/or transfer people who call Treasury's listed numbers during work hours;
- Provides general public information or organizational assistance to internal and external inquiries;
- Maintains the Treasury employee locator information system;
- Provides Deputy Assistant Secretaries (DAS) and above with calling service to employees during non-work hours;
- Screens incoming collect and 1-800 calls and transfers these calls to the Treasury official when appropriate;
- Schedules, coordinates, and places conference calls on Treasury's conference bridge;
- Provides local, long distance, and overseas telephone services for Senior Executives;
- Provides dialing instructions or assistance to Treasury personnel upon request;
- Provides continuous communication service in an emergency or crisis event;
- Provides "after hours" office phone coverage for DAS and above upon request;
- Answers, screens, and transfers calls to bureau heads and DAS and above, while on travel – this service is provided upon request and with the submission of the executive's travel itinerary and contact numbers; and
- Provides services Monday through Friday from 6 a.m. to 7:30 p.m.

Billing Methodology: The charge assessed to each customer is based on their number of calls received and services provided as a percent of the total.

F – Centralized Support Services

Resource Level: $8,079,130 and 27 FTEs

Program Description: The WCF Support Services cost center captures centralized administrative support costs for all WCF funded personnel that is not reflected in each WCF program's budget. It also captures the costs of the administrative personnel who directly serve the WCF programs.

Centralized Administrative Support Costs are paid by the Treasury Department through centralized bills. Examples include security programs, trash removal, mail, moving, copiers, industrial hygienist, Equal Employment Opportunity complaint center, child care, worker's compensation, health exams, nursing services, electricity, steam, gas, water and sewer, parking, accounting system, Digital Telecommunications System, Treasury Communications System, and transit subsidy.

Administrative personnel costs are for services used by all WCF programs. They are:

- Legal Services: Legal services, such as legal advice and guidance
- Information Technology Support Services: Information technology support services include infrastructure support, applications development and planning activities
- Human Resources Services: Human resources personnel services such as position classification, hiring, performance management, and pay/benefits
- WCF Corporate Office - Fund Management, Communication, and Customer Advocates Service: Policy, guidance, and overall management of the WCF is provided through the Fund Manager
- Accounting, Budgeting, and Procurement Services: Accounting, budget formulation, budget execution, day-to-day financial operations of requisition fund certification, Memorandum of Understanding creation, operation of the integrated financial system for WCF invoice payments, and procurement services are provided to the WCF
- Facilities and Support Services: Facilities and support services such as space and mail and messenger services

Billing Methodology: The charge assessed to each customer is based on their total dollar value of WCF services received as a percent of the total.

Section 2 – Budget and Performance Plan

2.1 – Funding Detail by Program

Dollars in Thousands

Resources Available for Obligation	FY 2007 Initial Plan	FY 2008 Initial Plan Estimate	FY 2009 Budget Estimate
INTELLIGENCE & SECURITY			
Security Programs	$718	$779	$798
Intelligence & Security (Total)	$718	$779	$798
DAS, HUMAN RESOURCES/CHCO			
Human Capital Strategic Management	$643	$768	$787
Civil Rights & Diversity	$1,141	$1,309	$1,340
Human Resources (Total)	$1,784	$2,077	$2,127
DAS, INFORMATION SYSTEMS & CIO			
ACIO HRConnect Operations & Maintenance	$26,695	$23,819	$24,646
ACIO NFC Payroll/Employee Express	$22,187	$22,288	$22,823
HR Connect (Subtotal)	$48,882	$46,107	$47,469
CIO Executive Office 1/	$1,129	$0	$0
CIO Resource Management 1/	$1,932	$2,926	$2,996
ACIO Telecommunications			
Telecommunications Front Office	$3,233	$3,394	$3,475
Digital Telecommunications System	$23,171	$22,553	$24,069
Treasury Communications System	$93,904	$90,029	$45,000
Treasury Network	$4,786	$19,102	$45,000
Wireless Program	$1,145	$1,231	$1,260
Web Hosting	$0	$2,224	$2,277
Secure Communications Center	$5,951	$5,760	$5,267
Alpha-VAX Computer Usage	$282	$296	$303
ACIO Cyber Security	$976	$1,322	$1,353
ACIO E-Government			
Enterprise Architecture	$1,860	$2,791	$2,858
Enterprise Solutions	$11,294	$7,080	$7,250
Planning	$788	$810	$829
Management	$1,109	$919	$941
HSPD-12 2/	$31,436	$29,395	$45,850
ACIO Capital Planning & Information Management			
Capital Planning and Investment Control	$2,565	$3,949	$4,044
Information Management	$1,434	$1,452	$1,486
Information Systems (Subtotal)	$186,994	$195,231	$194,259
DAS, Information Systems (Total)	$235,876	$241,338	$241,728
TREASURY-WIDE MANAGEMENT			
Financial Systems Integration	$2,681	$2,794	$2,520
Emergency Programs 1/	N/A	$1,942	$1,988
Small & Disadvantaged Business Utilization	$670	$894	$915
Procurement Program	$744	$820	$869
Government-wide Council Payments	$286	$343	$352
Treasury-wide Management (Total)	$5,970	$6,793	$6,644
DAS, HEADQUARTERS OPERATIONS (DASHO)			
Facilities & Support Services:			
Environment, Safety, & Health	$1,077	$1,131	$1,158
Printing Procurement, Reproduction & Graphics Services	$4,464	$4,367	$4,472
Communications, Information, & Locator Center	$676	$759	$777
Headquarters Operations (Total)	$6,216	$6,256	$6,406
Centralized Support Services	$7,366	$7,890	$8,079
Grand Total	$257,931	$265,133	$265,783

1/ Offices combined in FY 2008 for administrative efficiencies.

2/ The WCF Executive Steering Committee will determine the scope of FY 2009 efforts during FY 2008.

2.2 – Full-Time Equivalents by Program
Dollars in Thousands

Federal & Contractor Staff	FY 2007 Initial Plan Fed.	FY 2007 Initial Plan Cont.	FY 2008 Initial Plan Estimate Fed.	FY 2008 Initial Plan Estimate Cont.	FY 2009 Budget Estimate Fed.	FY 2009 Budget Estimate Cont.
Intelligency & Security						
Security Programs	3	-	3	-	3	-
Intelligence & Security (Total)	3	-	3	-	3	-
DAS, HUMAN RESOURCES/CHCO						
Human Capital Strategic Management	4	-	4	-	4	-
Civil Rights & Diversity	9	-	9	-	9	-
Human Resources (Total)	13	-	13	-	13	-
DAS, INFORMATION SYSTEMS & CIO						
ACIO HRConnect Operations & Maintenance	30	34	33	14	33	14
ACIO NFC Payroll/Employee Express	18	2	18	2	18	2
HR Connect (Subtotal)	48	36	51	16	51	16
CIO Executive Office 1/	-	2	-	-	-	-
CIO Resource Management 1/	8	4	4	12	4	12
ACIO Telecommunications						
Telecommunications Front Office	2	12	2	12	2	12
Digital Telecommunications System	14	58	14	58	14	58
Treasury Communications System	11	221	10	221	10	221
Treasury Network	5	14	-	21	-	21
Wireless Program	-	3	-	3	-	3
Web Hosting	-	-	2	-	2	-
Secure Communications Center	18	6	17	6	17	6
Alpha-VAX Computer Usage	1	-	1	-	1	-
ACIO Cyber Security	6	-	6	-	6	-
ACIO E-Government						
Enterprise Architecture	4	7	4	7	4	7
Enterprise Solutions	8	14	7	12	7	12
Planning	1	-	1	-	1	-
Management	2	3	2	3	2	3
HSPD-12	-	-	-	-	-	-
ACIO Capital Planning & Information Management						
Capital Planning and Investment Control	6	5	6	5	6	5
Information Management	4	-	4	-	4	-
Information Systems (Subtotal)	90	349	80	360	80	360
CIO/Information Systems (Total)	138	385	131	376	131	376
TREASURY-WIDE MANAGEMENT						
Financial Systems Integration	2	8	2	8	2	8
Emergency Programs	4	-	4	-	4	-
Small & Disadvantaged Business Utilization	4	-	4	-	4	-
Procurement Program	2	-	2	-	2	-
Government-wide Council Payments	-	-	-	-	-	-
Treasury-wide Management (Total)	12	8	12	8	12	8
DAS, Headquarters Operations (DASHO)						
Facilities & Support Services:						
Environment, Safety, & Health	1	2	2	1	2	1
Printing Procurement, Reproduction, & Graphics	27	1	27	1	27	1
Communications, Information, & Locator Center	8	-	8	-	8	-
Headquarters Operations (Total)	36	3	37	2	37	2
Centralized Support Services	27	-	27	-	27	-
Grand Total	229	396	223	386	223	386

1/ Offices combined in FY 2008 for administrative efficiencies.

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 2007 Initial Plan	FY 2008 Initial Plan Estimate	FY 2009 Budget Estimate
ALCOHOL & TOBACCO TAX & TRADE BUREAU	$2,692	$4,025	$4,149
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND	$338	$345	$363
DEPARTMENTAL OFFICES (OTA)	$82	$85	$87
DEPARTMENTAL OFFICES (S&E)	$16,268	$18,055	$18,731
DEPARTMENTAL OFFICES (DSCIP)	$849	$389	$399
FINANCIAL CRIMES ENFORCEMENT NETWORK	$2,572	$3,222	$1,968
FINANCIAL MANAGEMENT SERVICE	$6,877	$7,350	$8,122
INTERNAL REVENUE SERVICE	$198,869	$204,265	$203,062
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION	$1,294	$1,553	$1,817
OFFICE OF INSPECTOR GENERAL	$409	$480	$526
PUBLIC DEBT	$2,052	$2,025	$2,360
Subtotal (Treasury Appropriated Bureaus)	$232,302	$241,791	$241,584
COMPTROLLER OF THE CURRENCY	$4,123	$4,549	$5,169
DC PENSION	$82	$190	$204
DEPARTMENTAL OFFICES (WCF)	$227	$261	$270
ENGRAVING & PRINTING	$5,143	$5,401	$6,066
EXECUTIVE OFFICE FOR ASSET FORFEITURE	$500	$157	$148
FEDERAL FINANCING BANK	$329	$355	$368
OFFICE OF THRIFT SUPERVISION	$632	$1,096	$1,428
FF - FMS TREASURY AGENCY SERVICES (TAS)	$19	$15	$0
FF - BPD ADMINISTRATIVE RESOURCE CENTER (ARC)	$854	$993	$1,049
FF - DO FEDERAL CONSULTING GROUP	$12	$22	$23
FF - DO FED SOURCE	$369	$129	$0
U.S. MINT	$2,818	$3,016	$3,356
Subtotal (Treasury non-Appropriated Bureaus)	$15,109	$16,184	$18,081
ALCOHOL, TOBACCO, FIREARMS, & EXPLOSIVES	$4,219	$2,001	$1,668
ALCOHOL, TOBACCO, FIREARMS, & EXPLOSIVES (NIBIN)	$169	$0	$0
DHS - FLETC	$2	$2	$2
DHS - HEADQUARTERS	$641	$528	$477
DHS - OFFICE OF INSPECTOR GENERAL	$1,301	$1,284	$689
DHS - U.S. SECRET SERVICE	$1,624	$1,556	$1,450
HOUSING AND URBAN DEVELOPMENT	$2,563	$1,786	$1,830
Subtotal (Non-Treasury)	$10,520	$7,158	$6,117
Grand Total Financial Plan Requirements	$257,931	$265,133	$265,783

Note: Non-Treasury customers purchase services from: HR Connect, Telecommunications, E-Government, Financial Systems Integration, and Environment, Safety, & Health.

2.4 – Funding Detail by Operating Levels
Dollars in Thousands

Resources Available for Obligation	FY 2007 Initial Plan	FY 2008 Initial Plan Estimate	FY 2009 Budget Estimate
Object Classification:			
11.1 Full-Time Permanent Positions	$20,528	$22,265	$22,637
11.1 Other than Full-Time Permanent Positions	0	0	0
11.5 Other Personnel Compensation	333	182	348
11.8 Special Personal Services Payments	0	0	0
11.9 Personnel Compensation (Total)	$20,860	$22,447	$22,985
12.0 Personnel Benefits	4,601	5,010	5,130
13.0 Benefits to Former Personnel	0	0	0
21.0 Travel	494	488	451
22.0 Transportation of Things	5	5	5
23.1 Rental Payments to GSA	0	0	0
23.2 Rent Payments to Others	0	0	0
23.3 Communications, Utilities, & Misc	6,327	6,165	6,075
24.0 Printing and Reproduction	114	198	203
25.1 Advisory & Assistance Services	0	0	0
25.2 Other Services	201,827	204,661	203,922
25.3 Purchase of Goods/Serv. from Govt. Accts	19,131	18,959	19,641
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	551	502	512
31.0 Equipment	4,021	6,697	6,858
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	$257,931	$265,133	$265,783

Treasury Franchise Fund

Mission Statement

To offer world-class administrative solutions that provides value to Treasury and other federal customers while allowing them to concentrate on their core missions.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2007	FY 2008	FY 2009		
Treasury Franchise Fund	**Obligated**	**Estimated**	**Estimated**	**$ Change**	**% Change**
Consolidated/Integrated Administrative Management	$419,041	$189,763	$0	($189,763)	-100.00%
Financial Management Administrative Support Services	109,615	113,819	122,284	8,465	7.44%
Financial Systems, Consulting and Training	13,671	12,923	13,727	804	6.22%
Total Resources	**$542,327**	**$316,505**	**$136,011**	**($180,494)**	**-57.03%**

FY 2009 Priorities

- Reduce the cost of administrative services for Treasury through sharing costs with other agencies.
- Develop quantitative performance measures that demonstrate cost savings to Treasury and other agencies.
- Increase the efficiency and effectiveness of Treasury’s administrative business processes.
- Enhance the system environment of Treasury’s administrative operations by eliminating duplication and reducing information technology support costs.
- Create a stronger shared services organization structure for Treasury.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The vision of the Treasury Franchise Fund (the Fund) is to transform the administrative support arena in the Department of the Treasury (Treasury) and help other federal agencies by creating a shared services business model that can offer marketplace success through competition. The Franchise Fund provides value to its customers by reducing costs while increasing the efficiency of administrative services.

The Franchise Fund businesses have been leaders in redefining the methods for delivering administrative products and services that combine streamlined processes, simplified rules, full accountability, competitive costing, timely completion, and one-stop shopping for customers. Franchise Fund efforts have resulted in significant dollar savings within Treasury and throughout the federal government primarily through the following franchising objectives:

- Promote efficiencies in the delivery of administrative products and services
- Eliminate redundant systems and reducing duplication of effort
- Foster competition
- Enhance customer satisfaction

During FY 2007, Treasury transferred management and operations of the FedSource franchise business activity from its host, Departmental Offices, to the Bureau of the Public Debt. In FY 2008 the Treasury Franchise Fund is comprised of three Franchise Business Activities.

- Bureau of the Public Debt (BPD) Franchising (FedSource and the Administrative Resource Center)
- Federal Consulting Group (FCG)
- Financial Management Service Treasury Agency Services (TAS)

The Fund reports the activity of the three Businesses in three Budget Activities that represent the various service offerings.

<u>Consolidated/Integrated Administrative Management – Includes BPD Franchising-FedSource</u>

Treasury decided to transition out of the interagency acquisition business operated by FedSource by the end of FY 2008 because it was determined the work was outside the scope of Treasury's core mission. Efforts to relocate the business to another government agency were unsuccessful which led to steps being taken to shut down FedSource. To close out the business line, management and operational responsibility of FedSource was transferred from its previous host, Departmental Offices, to the Bureau of the Public Debt in FY 2007. In addition, the Fund is discontinuing the Consolidated/Integrated Administrative Management budget activity in FY 2009. Estimates of any residual business are included in the Financial Management Administrative Support Services budget activity for the host organization (BPD Franchising - ARC)

During FY 2008, the BPD Franchising-FedSource's priorities are to:
- Ensure a smooth transition for customers and vendors
- Provide employees with job placement and separation assistance
- Keep the cost of the closeout to a minimum

<u>Financial Management Administrative Support Services – Includes BPD Franchising-Administrative Resources Center (ARC)</u>

For the past 11 years, ARC has provided federal agencies with common administrative support in the areas of accounting, procurement, travel, human resources, and information technology. With a focus on excellence and superior service, ARC's mission is to advocate "good government" by improving overall effectiveness through the delivery of responsive and cost effective administrative support to its customers. In addition to high quality administrative support, benefits are also realized by improving customers' ability to effectively discharge their mission.

ARC's priorities over the next two years are to:
- Work with the Financial Management Line of Business (FMLoB) and Financial Systems Integration Office (FSIO) to define the role of Federal Shared Service Providers
- Upgrade infrastructure to meet Federal Shared Service Provider demands
- Review and streamline processes to strengthen controls and ensure high quality, value added services at the lowest possible cost

<u>Financial Systems, Consulting and Training – Includes the Federal Consulting Group (FCG) and Treasury Agency Services (TAS)</u>

The mission of the Federal Consulting Group (FCG) is to provide services to federal agencies to support their efforts to become more efficient, effective, citizen-centric, results-oriented, and market based. FCG's mission directly supports the President's vision for government reform and is guided by these principles. FCG works with federal agencies to improve the services and performance they deliver to or on behalf of the American people so that these organizations can contribute to conditions of prosperity and stability.

The FCG's three business lines--Consulting, Executive Coaching, and Performance Measurement and Customer Satisfaction--provide federal agencies with innovative solutions using the latest management and information technology tools, techniques, and best practices. FCG provides guidance to meet the requirements of the President's Management Agenda, the Government Performance and Results Act, and the Program Assessment Rating Tool. FCG assists federal agencies in meeting performance improvement mandates while simultaneously accomplishing their core mission.

The Performance Measurement and Customer Satisfaction (PMCS) Business Line focuses on aiding federal agencies in understanding what internal and external customers think of their efforts and improving overall customer satisfaction. This is accomplished through the use of the American Customer Satisfaction Index (ACSI), which is the world's leading metric for assessing and improving customer satisfaction. Working with the University of Michigan, which provides access to the patented ASCI methodology, this business line compiles an annual benchmark of customer satisfaction for the federal government. Due to the emphasis on assessing and improving customer satisfaction with government agencies, this benchmark continues to rise and is nearly as high as customer satisfaction in the private sector. The PMCS area is also playing a key role in the evolution of electronic Government, a key element of the President's Management Agenda. The use of the ACSI to continuously assess and improve the satisfaction of website visitors is increasing trust and confidence in government, expanding the use of federal websites, and reducing operational costs by encouraging citizens to use the internet to access federal information, services, and programs.

FCG's priorities over the next two years are to:

- Continue to reduce administrative overhead costs
- Continue to strengthen internal controls
- Expand service offerings within business lines
- Achieve Balanced Scorecard Performance Goals
- Continue to achieve high customer service score through the use of the American Customer Satisfaction Index (ACSI)

Treasury Agency Services (TAS) shares one common mission with the Financial Management Service (FMS) – to help agencies improve the quality of government financial management. TAS' vision is to be the partner of choice for federal managers seeking financial management improvements and success. TAS' strength is found in FMS' expertise combined with an entrepreneurial perspective. TAS is a reimbursable source for information, advice, assistance, and training that reflect today's environment and are customized to meet client agency requirements. These services provide the venue for linking program objectives with the best financial management practices.

TAS has two major business lines.

- The **Consulting service line** provides cash reconciliation services as well as the preparation of monthly and year-end reports. In addition, the Consulting service line provides financial management assistance, such as, operational reviews, internal control reviews, financial reporting compliance reviews, standard general ledger conversions, strategic planning, and cost management.
- The **Financial Education service** line offers open enrollment and agency specific financial courses, seminars, conferences and workshops. The focus of this education and training is to provide background, orientation, and skills in existing and new financial legislation, regulations, and practices.

TAS' priorities over the next two years are to:

- Gain internal support for future business in the Fund
- Expand service offerings within FMS' government-wide accounting initiative to help educate financial personnel across the government

1B – Program History and Future Outlook

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 12 operating principles for business-like organizations:

- Competition Between Providers
- Customers Exit Voluntarily
- Full Cost Recovery
- Ability to Handle Surges in Business
- FTE Accountability
- Initial Capitalization
- Dynamic Adjustments
- Cessation of Activities
- Clear Organizational Structure
- Service Oriented
- Measured Performance
- Benchmarked Performance

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 Treasury Franchise Fund began operations in 1997 with the following six Franchise Business Activities (FBA):

- Center for Applied Financial Management
- Federal Quality Consulting Group
- Go-To.Gov
- FBA-Central
- FBA Seattle
- FBA-West

Over the past decade, many new Franchise Business Activities have joined the Fund. Business entities, such as the Rocky Mountain Regional CASU and the Administrative Resource Center, sought out the Treasury Franchise Fund because of the financial flexibilities that were offered. At the same time, businesses have left the Fund. Businesses such as the Inspector General Auditors Training Institute left the Fund because they could not meet the Fund's business benchmarks. Also during this time, several businesses consolidated to form new Franchise Business Activities within the Fund. For example, FedSource was created by consolidating several Franchise Business Activities that provided similar service lines.

As businesses have come and gone, the size of the Fund changed over the years. The Fund evolved in terms of the number of businesses, amount of revenue earned, and the number of FTEs supported. The Fund's original six businesses had less than 80 FTE and earned $38 million of revenue in the first year of operation. In FY 2007, the Fund had only 3 businesses, 769 FTE, and earned $519 million of revenue. With the closeout of FedSource in FY 2008, the largest revenue producer, the Fund is projecting FY 2009 FTE of 793 and revenues of $137 million.

<u>Demonstrated Success – Eliminating Duplication</u>

Shared Platform and Services

As a shared service provider the Administrative Resource Center (ARC) performs full-service transaction processing and reporting for many customers. The establishment of the ARC reduced the number of federal administrative systems. By providing access to an integrated system platform for accounting, travel, procurement, human resources, and information technology services, ARC, a Center of Excellence for Financial Management, now provides:

- 31 organizations with administrative accounting services
- 39 organizations with travel services
- 30 organizations with procurement services
- 28 organizations with personnel services
- 11 organizations with information technology services

The consolidation of these federal customers onto a shared systems platform provided substantial savings to the federal government. These organizations now get better system license costs and share the costs associated with operations and maintenance. In addition to the cost savings, these organizations are upgraded to the latest version of the software and reach compliance with the E-Government initiatives simultaneously as opposed to each organization managing these projects independently. For example, ARC's standard solution currently supports the following E-Government initiatives.

- E-Travel – Integration exists between Northrup Gruman's GovTrip system and core accounting system.
- E-Payroll – Integration exists between all four payroll providers and core accounting and labor distribution systems.
- Grants.gov – Integration exists between Department of Health and Human Services Payment Management System and core accounting system.

In the past, the Department of the Treasury had a decentralized administrative service environment. There were 15 different Bureaus and organizations within Treasury running their own accounting, procurement, and travel systems on various platforms. Each organization trained separate staffs to manage their systems and process their transactions. With the evolution of the Administrative Resource Center (ARC), Treasury moved to a shared services environment where 12 of the 15 entities share systems on a single integrated platform. In addition, many of the Bureaus take advantage of ARC's experienced staff to process their transactions and provide their reporting.

Demonstrated success –Timeliness and Accuracy

Timely Financial Information

The Administrative Resource Center (ARC) has always been among Treasury's best in quality and timeliness of financial reporting. ARC strives to set the example for efficiency and quality in the area of financial reporting. With Oracle's reporting tool (Discoverer), federal managers have real-time data at their fingertips any day of the month. By closing their customer's books by the third business day following each month, timely financial data (such as unobligated balances) is quickly in the hands of federal mangers for decision-making. By closing the books five business days after year-end, federal managers have the data necessary to provide year-end reporting well ahead of their counterparts in other agencies.

There is no better test for the accuracy and quality of financial data than an annual financial statement audit. The Treasury Franchise Fund has received 10 straight "clean" audit opinions. Externally, ARC has assisted customers in achieving clean audit opinions and also maintains an exceptional internal control structure. Each year ARC undergoes a SAS-70 audit that verifies the entire control structure from disbursement processing to financial reporting. The SAS-70 enhances customer confidence in ARC's systems and services and reduces the agencies' annual financial statement audit costs as auditors rely on the SAS-70 audit work.

Demonstrated Success – Efficiency

Efficiency is the ability to perform well or achieve a result without wasting energy, resources, effort, time or money. Competition, a cornerstone of the franchising concept, has been the impetus behind improving government efficiency. Competition has increased the focus of service providers on the needs of the customer, introduced the need for market solutions (instead of administrative bureaucracy), decentralized authority, and improved efficiency by delivering better services at lower costs in the most effective manner.

Future Outlook

Through FY 2009 the Fund will maintain its commitment to excellence and will continue to meet or exceed all strategic goals and benchmarks. With the elimination of the FedSource business line at the end of FY 2008, the Fund will look to grow existing business lines and add other value added, marketable administrative services. In addition, the Business Activities will continue to provide value to Treasury and non-Treasury agencies by providing cost sharing opportunities and eliminating duplicate systems.

Quantifying Cost Savings

The Treasury Franchise Fund plans to expand its performance measurement with an emphasis on cost savings. In the past, the Franchise Business Activities have been challenged to demonstrate specific quantitative cost savings. Many times the effort necessary to capture and track specific quantitative cost savings is prohibitive. In other cases, baseline costs necessary for comparisons are known only to our customers. Customers are reluctant to share these costs with the businesses that provide them services. The Franchise Fund and its businesses must provide incentives to its customers to share this cost data. It is imperative to demonstrate cost savings to Treasury and non-Treasury customers, as well as OMB, who manages the Line of Business initiatives.

The Fund also plans to expand its performance measurement on internal cost data. Cost data including transaction and process costs can be tracked to demonstrate cost savings. While it is difficult to compare this data to relevant industry standards because of the significant differences in cost accumulation, the data could be compared internally and tracked year-to-year to show progress.

1C – Industry Outlook

There is a positive outlook for the shared services sector in the federal government. The Fund anticipates further growth in this sector due to OMB's Line of Business (LOB) initiatives.

There is tremendous synergy between the business model established by the Treasury Franchise Fund over 11 years ago and the recent initiatives being rolled out by OMB. 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 the concept of 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

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Treasury Franchise Fund	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
FTE	**769**	**830**	**793**
Object Classification:			
11.1 - Full-time permanent	46,940	52,037	50,514
11.3 - Other than full-time permanent	434	503	498
11.5 - Other personnel compensation	2,607	2,436	2,378
11.8 - Special personal services payments	0	0	0
12 - Personnel benefits	13,908	15,928	15,765
13 - Benefits for former personnel	86	866	0
21 - Travel and transportation of persons	1,317	1,621	1,437
22 - Transportation of things	531	126	83
23.1 - Rental payments to GSA	1,728	1,103	16
23.2 - Rental payments to others	499	151	39
23.3 - Comm, utilities, and misc charges	1,886	1,442	1,301
24 - Printing and reproduction	94	109	86
25 - Other contractual Services	0	0	0
25.1 - Advisory and assistance services	15,084	10,108	9,207
25.2 - Other services	417,001	193,932	25,778
25.3 - Other purchases of goods and services from Govt. accounts	26,098	25,366	23,313
25.4 - Operation and maintenance of facilities	128	89	92
25.5 - Research and development contracts	0	0	0
25.6 - Medical care	0	0	0
25.7 - Operation and maintenance of equip	4,390	1,828	1,187
25.8 - Subsistence and support of persons	0	0	0
26 - Supplies and materials	941	489	426
31 - Equipment	8,288	8,361	3,889
32 - Land and structures	342	8	0
33 - Investments and loans	0	0	0
41 - Grants, subsidies, and contributions	0	0	0
42 - Insurance claims and indemnities	0	1	1
43 - Interest and dividends	25	1	1
44 - Refunds	0	0	0
Total Budget Authority	$542,327	$316,505	$136,011
Budget Activities:			
Consolidated/Integrated Administrative Management	419,041	189,763	0
Financial Management Administrative Support Services	109,615	113,819	122,284
Financial Systems, Consulting and Training	13,671	12,923	13,727
Total Budget Authority	$542,327	$316,505	$136,011

2.3 – Resource Detail Table 1/

(Dollars in Thousands)

	FY 2007 Actual		FY 2008 Estimated		FY 2009 Estimated		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Revenue / Offsetting Collections								
Financial Mgt. Admin. Support Services		$107,615		$115,950		$123,000		6.08%
Consolidated/Integrated Admin. Mgt.		411,047		182,321		Discontinued		N/A
Financial Systems, Consulting & Training		12,577		13,326		14,281		7.17%
Total Revenue / Offsetting Collections		$531,239		$311,597		$137,281		-55.94%
Expenses								
Financial Mgt. Admin. Support Services	642	$109,615	729	$113,819	754	$122,284	3.43%	7.44%
Consolidated/Integrated Admin. Mgt.	105	419,041	65	189,763		Discontinued	N/A	N/A
Financial Systems, Consulting & Training	22	13,671	36	12,923	39	13,727	8.33%	6.22%
Total Expenses	769	$542,327	830	$316,505	793	$136,011	-4.46%	-57.03%
Net Results								
Financial Mgt. Admin. Support Services		-$2,000		$2,131		$716		-66.40%
Consolidated/Integrated Admin. Mgt.		-7,994		-7,442		Discontinued		N/A
Financial Systems, Consulting & Training		-1,094		403		554		37.47%
Net Results		-$11,088		-$4,908		$1,270		-125.88%

1/ To ensure consistency with the President's Budget, fiscal year 2007 actual amounts in Table 2.3 represent the budgetary resources and new obligations for the Fund. Other references to fiscal year 2007 actual amounts contained within the narrative are based on the Fund's actual results of operations (revenue, expenses and net operating results).

2B – Appropriations Language and Explanation of Changes

The Treasury Franchise Fund receives no appropriated funds from Congress.

2C – Legislative Proposals

The Treasury Franchise Fund has no legislative proposals for FY 2009.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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 2008 Estimated AMOUNT	FY 2009 Estimated AMOUNT	Percent Change AMOUNT
Aligned organization	316,505	136,011	**-57.0%**
Total	**$316,505**	**$136,011**	**-57.0%**

3A – Consolidated/Integrated Administrative Management *(No funding):* This Budget Activity consists of only one Franchise Business Activity, BPD Franchising-FedSource.

The mission of FedSource was to provide entrepreneurial business solutions for the acquisition and financial management of common administrative services and products in support of agency missions and objectives. FedSource focused on support services and copier/printer management.

Treasury decided to transition out of the interagency acquisition business operated by FedSource by the end of FY 2008 because it was determined this work was outside the scope of Treasury's core mission and independent audits identified several internal control weaknesses. Efforts to relocate the business to another government agency were unsuccessful which led to steps being taken to shut down FedSource. The Treasury Franchise Fund's FY 2009 budget submission reflects the discontinuance of the Consolidated/Integrated Administrative Management budget activity. Estimates of any residual business are included in the host's organization's budget activity, Financial Management Administrative Support Services.

3.2.1 – Consolidated/Integrated Administrative Management Budget and Performance Plan

Consolidated/Integrated Administrative Management Budget Activity Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$701,150	$540,586	$419,041	$189,763	$0
Total Resources	**$701,150**	**$540,586**	**$419,041**	**$189,763**	**$0**
Budget Activity Total	**$701,150**	**$540,586**	**$419,041**	**$189,763**	**$0**

Consolidated/Integrated Administrative Management Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Customer Satisfaction Index - Consolidated/Integrated Administrative Mngmnt (%)(Oe)	71%	51%	0%	74%	n/a
Operating expenses as a percentage of revenue--Consolidated/Integrated Administrative Management (%)(E)	4%	4%	4%	12%	n/a

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

Description of Performance:

Since making the decision to close-out the FedSource business line, all efforts have been focused on ensuring a smooth transition for customers and vendors, providing employees with job placement and separation assistance and minimizing close-out costs. Therefore, the Fund’s performance targets will not be applied to the BPD Franchising – FedSource business line.

In FY 2007, FedSource accounted for over 75% of the Fund’s gross revenue. Accordingly, closing the business line significantly reduces the Franchise Fund’s budget estimates for FY 2008 and FY 2009. In addition, it is estimated that FedSource’s administrative costs will be significantly higher in FY 2008 as customer accounts and offices are closed. FedSource ended FY 2007 with a $2.5 million loss and it is estimated that they will lose an additional $7.4 million in FY 2008 as the closeout is completed. These losses and any unforeseen claims and disputes, will be covered using FedSource’s operating reserves. For FY 2009, the Fund has discontinued the Consolidated/Integrated Administrative Management budget activity. Estimates of any residual business are included in the host organization’s budget activity, Financial Management Administrative Support Services.

3B – Financial Management Administrative Support Services *($122,284,000 from reimbursable programs):* This Budget Activity consists of only one Franchise Business Activity, BPD Franchising-ARC.

The Financial Management Administrative Support Activity supports the President’s Management Agenda and furthers “good government” by standardizing administrative financial systems and processes required to operate federal organizations. Value is provided through economies of scale in systems and operating costs and other high quality, value added services. ARC provides traditional administrative support functions with a focus on accounting, procurement, travel, human resources, and information technology services. This program has been very successful in meeting its mission goals as evidenced by the increasing demands for its services and the level of satisfaction expressed by its customers.

As a Center of Excellence for Financial Management, ARC has delivered improvements in several areas. Overall, the number of federal administrative systems has been reduced. ARC's integrated platform for accounting, travel, procurement, and personnel functions ensure that shared expectations are met and consistent accounting practices are used.

In addition to improved service, consolidation of federal customers onto a shared systems platform offers the opportunity for overall savings for the federal government. Volume discounts for items such as license and service agreements, together with a consolidated voice for changes and software improvements, mean better service for customers. Attention to software upgrades and information technology security initiatives also add to the benefits.

3.2.2 – Financial Management Administrative Support Services Budget and Performance Plan

Financial Management Administrative Support Services Budget Activity					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Resource Level	**Obligated**	**Obligated**	**Obligated**	**Estimated**	**Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$74,850	$88,735	$109,615	$113,819	$122,284
Total Resources	**$74,850**	**$88,735**	**$109,615**	**$113,819**	**$122,284**
Budget Activity Total	**$74,850**	**$88,735**	**$109,615**	**$113,819**	**$122,284**

Financial Management Administrative Support Services Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**
Customer Satisfaction Index - Financial Mgmt Admin Support Services (%) (Oe)	71%	75%	0%	74%	74%
Operating expenses as a percentage of revenue--Financial Management Administrative Support (%) (E)	9%	17%	15%	12%	12%

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

Description of Performance:

ARC continued to demonstrate operations of a profitable franchise business in FY 2007. However, for FY 2008 and FY 2009, ARC estimates lower customer and revenue growth as they position themselves to support their role as a Federal Shared Service Provider and oversee the closeout of FedSource.

To measure customer satisfaction, the Fund uses the American Customer Satisfaction Index (ACSI). This advanced customer satisfaction measurement tool is exhaustive and provides actionable results. Due to the costs, ACSI measurements are not taken annually for each business. The Franchise Business Activities have the option of using internal customer satisfaction survey tools during years the ACSI is not used. Internal customer satisfaction survey scores are not officially tracked and reported because they use a different rating scale. Although ARC is reporting actual FY 2007 ACSI score of not applicable, an internal customer satisfaction survey was conducted, resulting in an overall customer satisfaction rate of 91 percent.

3C – Financial Systems, Consulting and Training *($13,727,000 from reimbursable programs):* This Budget Activity consists of two Franchise Business Activities, Federal Consulting Group and Treasury Agency Services.

The mission of the Federal Consulting Group (FCG) is to work with other federal agencies to support their transformation efforts to become more efficient, effective, citizen-centric, and results-oriented. FCG's three business lines - Measuring Performance and Customer Satisfaction, Consulting, and Executive Coaching - provide federal agencies with innovative solutions using the latest management and information technology tools, techniques, and best practices.

- The Performance Measurement and Customer Satisfaction business line focuses on aiding federal agencies in understanding what internal and external customers think of their efforts and improving overall customer satisfaction. This is accomplished through the use of the American Customer Satisfaction Index (ACSI), which is the world's leading metric for assessing and improving customer satisfaction and other measures of customer and employee satisfaction.
- The Consulting business line focuses on assisting federal agencies in achieving organizational effectiveness through strategic planning, organizational development, process improvement, and workforce planning. FCG provides guidance to meet the requirements of the President's Management Agenda and the Program Assessment Rating Tool. Other services include conducting Baldridge and various types of program assessments.
- The Executive Coaching business line focuses on leadership development, team building, appreciative inquiry, executive coaching/mentoring, personal leadership skills and feedback coaching.

The mission of Treasury Agency Services (TAS) is to help agencies improve the quality of government financial management. TAS, hosted by the Financial Management Service, is a provider of information, advice, assistance, and training that is customized to meet today's environment and client agencies' requirements.

3.2.3 – Financial Systems, Consulting and Training Budget and Performance Plan

Financial Systems, Consulting and Training Budget Activity Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$12,250	$13,133	$13,671	$12,923	$13,727
Total Resources	**$12,250**	**$13,133**	**$13,671**	**$12,923**	**$13,727**
Budget Activity Total	**$12,250**	**$13,133**	**$13,671**	**$12,923**	**$13,727**

Financial Systems, Consulting and Training Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
"Customer Satisfaction Index - Financial System, Consulting & Training"	71%	81%	0%	74%	74%
"Operating expenses as a percentage of revenue--Financial Systems, Consulting and Training (%) (E)"	11%	10%	7%	12%	12%

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

Description of Performance:

<u>Federal Consulting Group (FCG)</u>

FCG has been consistently earning a profit since its inception. FCG anticipates controlled revenue growth from FY 2007 to FY 2009. The expansion of “Performance Measurement and Customer Satisfaction” as FCG’s top business line has helped generate consistent revenue.

FCG worked hard to keep operating costs to a minimum. As a result, they have consistently met the Fund’s operating percentage benchmark by keeping their operating costs less than 12 percent of their total revenue. This shows that FCG is running a lean organization and is placing emphasis on costs that directly impact the customer rather than overhead.

FCG offers the American Customer Satisfaction Index (ACSI) as a tool for the federal government to measure customer satisfaction. It is only fitting that FCG maintains one of the highest indexed scores in the federal government. FCG received considerable feedback and actionable data from last year’s rating. As a result FCG chose not to undergo a new rating in FY 2007 until they could make changes and implement the action items from last year’s process.

<u>Treasury Agency Services (TAS)</u>

TAS ended FY 2007 with a $75 thousand loss. TAS has struggled the last several years to break-even. It made significant strides in FY 2007 by reducing overhead costs. TAS reduced its rent costs in FY 2007 by $212,000. This helped TAS meet the Fund’s performance target of keeping its operating expenses below 12 percent of its total revenue. In FY 2007, TAS also reduced salaries and benefits by approximately $800,000 and experienced a drop in revenue of almost 27 percent. The loss in FY 2007 was fully covered by TAS' equity (almost $1 million) generated while in the Fund. TAS estimates positive net results in FY 2008 and FY 2009.

TAS plans to increase revenue by offering more financial training classes, expanding marketing efforts, and developing new product lines such as providing agencies with training and assistance on Government-wide Accounting projects.

TAS also decided not to perform an American Customer Satisfaction Index (ACSI) survey in FY 2007. They monitored customer satisfaction based on feedback from class participation and customer responses. TAS will participate with the other businesses next year to use the ACSI. TAS' internal customer satisfaction rating was 84 percent for FY 2007.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The Fund relies heavily on its host Bureaus (BPD, FMS, and DO) to provide the basis of its human capital strategy. Each bureau has done significant work in this area. The Fund, in a supplemental role, continues to improve recruitment, retention, professional development and evaluation strategies. The Fund makes full use of special hiring authorities, such as the Federal Career Intern, Outstanding Scholar and Student Career Experience Programs. With a significant portion of the FTE's located in Parkersburg, WV, the Fund has had a great deal of success recruiting highly qualified personnel.

The Treasury Franchise Fund maintains its "EthicSmart" initiative that increases awareness of ethical dilemmas that are heightened in a service business environment. This initiative helps support one of the Fund's goals of complying with relevant laws and regulations. The program is designed to help convey management's desire to create an environment where employees can make the right decision and take the right course.

4B – Information Technology Strategy

The businesses in the Treasury Franchise Fund (TFF) use their host bureaus for information technology (IT) strategic planning. If the Fund developed crosscutting or corporate level IT investment needs, the Fund's Advisory Board could function as an Investment Review Board (IRB). In this role, the Fund's Advisory Board would monitor investment activity. All IT investments would be supported by a business need and the investment must add value to the services TFF provides its customers. When reviewing investments, the TFF IRB would consider/address these questions:

- Does the IT investment support core/priority mission functions that need to be performed by the Treasury Franchise Fund?
- Does the project have to be undertaken by the Franchise Fund because no alternative private sector or government source can support the function more efficiently?
- Does the investment support work processes that have been simplified or otherwise redesigned to reduce costs, improve effectiveness, and make maximum use of commercial, off-the-shelf technology?
- Does the investment eliminate redundant systems and centralize core functions consistent with Treasury's enterprise architecture?

4.2 – PART Evaluation Table

The Treasury Franchise Fund has not received a PART Evaluation.

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

Bureau of Engraving and Printing

Mission Statement

To design and manufacture high quality security documents that meet customer requirements for quality, quantity and performance, including counterfeit deterrence.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2007	FY 2008	FY 2009		
Bureau of Engraving and Printing	Obligated	Estimated	Estimated	$ Change	% Change
Manufacturing	$493,000	$469,000	$497,500	$28,500	6.08%
Protection and Accountability of Assets	63,000	62,000	62,000	0	0.00%
Total Resources	**$556,000**	**$531,000**	**$559,500**	**$28,500**	**5.37%**

FY 2009 Priorities

- The continued re-tooling and retrofitting of the currency production process which will allow BEP to integrate to a 50-subject (notes per sheet) manufacturing capability from the current 32-subject (notes per sheet) currency production process. This new equipment will ensure that the BEP continues to operate in an efficient and cost-effective manner.

- The introduction of a new $100 note. The new $100 notes will contain enhanced security features including subtle background colors as well as a new overt counterfeit deterrent feature. The Federal Reserve will determine when the new note is issued to the public. The new notes are part of the current multi-year initiative to implement the most ambitious currency redesign in United States history.

- Continue process improvements as required of an ISO 9001 certified organization, a designation that indicates to current and prospective customers that the Bureau employs a rigorous quality management program.

- Continue to work with the Advanced Counterfeit Deterrent Committee and other Government agencies to research and develop state-of-the-art counterfeit deterrent features for use in future currency notes that will enhance and protect future notes.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that deter counterfeiting and meet customer requirements for quality, quantity and performance.

The Bureau of Engraving and Printing began printing currency in 1862. The Bureau operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a) (4) to engrave and print currency and other security documents. Operations are financed by a means of a revolving fund established in 1950 in accordance with Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products. This eliminated the need for appropriations from Congress.

The Bureau's vision is to maintain its position as a world-class securities printer providing its customers and the public superior products through excellence in manufacturing and technological innovation. The Bureau strives to produce U.S. currency of the highest quality, as well as many other security documents issued by the federal Government. Other activities at the Bureau include engraving plates and dies; manufacturing inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with the requirements of customers. In addition, the Bureau provides technical assistance and advice to other federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence.

The Bureau's top priorities for FY 2009 include the continued re-tooling and retrofitting of the currency production process which will allow the BEP to integrate to a 50-subject (notes per sheet) manufacturing capability from the current 32-subject (notes per sheet) currency production process. This new equipment will ensure that the BEP continues to operate in an efficient and cost-effective manner. Another top priority for FY 2009 is the introduction of a new $100 note. The new $100 notes will contain enhanced security features including subtle background colors as well as a new overt counterfeit deterrent feature. The Federal Reserve will determine when the new note is issued to the public. Background colors help consumers, particularly those who are visually impaired, to tell the denominations apart. Because aggressive law enforcement, effective design, and public education are all essential components of a concerted anti-counterfeiting program, the Bureau will continue its work with the Advanced Counterfeit Deterrent Committee to research and develop future currency designs that will enhance and protect future notes.

Manufacturing – The Bureau of Engraving and Printing manufactures high quality security documents that deter counterfeiting while supporting commerce through safe and secure U. S. notes. These products are grouped into two programs: Federal Reserve notes and other security documents.

Protection and Accountability of Assets – The Bureau's Protection and Accountability of Assets activity supports the Department of the Treasury's strategic objective, Trust and Confidence in U.S. Currency Worldwide. Because of the value of the products manufactured, the Bureau must maintain an accurate and cost effective system of accountability for all Bureau products, which will ensure that products are accounted for while in production and that its customers receive the correct quantity of the product ordered. The protection and accountability of assets is a joint effort crossing many divisions within the Bureau; products are tracked and accounted for at every step of the production process. The primary mission of the Bureau's Office of Security is to preserve the integrity of and safeguard critical Bureau resources and assets such as personnel, products, facilities and equipment.

1B – Program History and Future Outlook

Redesigned Federal Reserve Notes: The Bureau of Engraving and Printing has a long term commitment to develop state-of-the-art counterfeit deterrent features for use in future currency notes through new, more innovative technologies. The Bureau expects to redesign United States currency every seven to ten years in an effort to stay ahead of counterfeiters as advances in technology make counterfeiting of currency less difficult. The Advanced Counterfeit Deterrent Steering Committee, which includes members from BEP, other Department of the Treasury officials, the United States Secret Service, and the Federal Reserve Board, is continually researching counterfeit deterrent features for possible use in future currency designs that will enhance and protect future notes from counterfeiting. Aggressive law enforcement, an effective design, and public education are all essential components of a concerted anti-counterfeiting program. The United States government continues to enhance the security of our nation's currency in an effort to provide the public with safe and secure notes and information which instills public confidence in order to enable commerce.

In FY 2008, production of a redesigned $5 note will begin and it will be placed in circulation later in the year. The redesigned $5 was the fourth denomination in the new currency series that incorporated enhanced security features, as well as subtle background colors and symbols of freedom into the designs. This note was selected to be redesigned at this time because ongoing scrutiny of counterfeiting techniques detected a pattern where counterfeiters bleached the ink off of old $5 notes, and then printed counterfeit $100 notes on the paper. The public was deceived because of similarities between the placement of the security features on the $5 and $100 notes. While these counterfeit attempts posed no significant economic problems, Treasury and Federal Reserve officials determined that a redesign of the $5 would help ensure such problems would not develop in the future. A redesigned $100 note is scheduled to be in production in FY 2009.

Public Education: Because the improved security features in the redesigned currency are most effective when the public knows about and uses the features to authenticate their currency, a broad, public education program is crucial to the anti-counterfeiting effort. In cooperation with the Federal Reserve, BEP administers a public education program to support the introduction of new currency designs. The program offers public education

and training materials to the public in order to inform them about the latest currency designs. These materials are also available on line and can be downloaded from www.moneyfactory.gov/newmoney. The site has received over 222 million hits since its launch in May 2003 and gets about 280,000 unique visitors each month.
The goal of this program is 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. Statistics continue to indicate that the amount of counterfeit U.S. currency worldwide is less than one percent of genuine U.S. currency in circulation.

An education campaign will be conducted for the new $100 notes following the successful campaigns for the redesigned $20, $50, $10 and $5 notes. No domestic paid advertising will be used to introduce the new notes, but paid media of some nature may prove necessary in certain foreign markets. $100 notes comprise more that 50 percent of outstanding United States currency, an estimated two-thirds which is held outside the United States borders. This education program ensures that people all over the world accept, recognize and use the enhanced security features of the new currency.

<u>Quality:</u> Along with innovative, cutting-edge designs, BEP will maintain its focus on producing high quality security products in the most cost effective manner possible. It will continue to pursue process improvements as required of an ISO 9001 certified organization, a designation that indicates to current and prospective customers that the Bureau employs a rigorous quality management program. Continuous process improvements will be the catalyst for world class quality and improved cost performance through streamlined processes and low spoilage. In FY 2007, the BEP attained ISO 14001 certification for its environmental management systems institutionalizing its commitment to sound environmental stewardship.

<u>Cost Reduction Efforts:</u> The Bureau strives to provide its customers with superior products for the lowest possible price. The BEP continuously looks for ways to cut costs without compromising quality. Significant capital investments are planned in FY 2008 and FY 2009 that will enhance productivity and reduce spoilage. During FY 2006 the Bureau streamlined the organization by realigning and grouping similar functions together. This has improved efficiency, reduced response time, and facilitated currency redesign efforts.

Improvements in image inspection technology have led to the development 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 it's capability of delivering a high quality product.

BEP's success would not be possible without the contributions of its people. The Bureau remains strongly committed to the continued streamlining and 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 2008, BEP plans to perform a skills assessment of its workforce in preparation for the installation of new manufacturing technology and to prepare for the anticipated wave of baby-boomer retirements. Strategic investment in people and technology will continue to be critical factors in maintaining the Bureau's status as a world class securities manufacturer.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Bureau of Engraving and Printing	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
FTE	**2,109**	**2,200**	**2,150**
Object Classification:			
11.1 - Full-time permanent	161,500	166,200	168,300
11.3 - Other than full-time permanent	0	0	0
11.5 - Other personnel compensation	13,000	11,900	13,000
11.8 - Special personal services payments	0	0	0
12 - Personnel benefits	46,000	46,500	47,000
13 - Benefits for former personnel	0	0	0
21 - Travel and transportation of persons	1,750	1,900	1,900
22 - Transportation of things	150	100	100
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 - Comm, utilities, and misc charges	12,000	12,500	15,000
24 - Printing and reproduction	800	800	800
25 - Other contractual Services	0	0	0
25.1 - Advisory and assistance services	4,500	4,500	4,600
25.2 - Other services	44,000	45,000	51,000
25.3 - Other purchases of goods and services from Govt. accounts	0	0	0
25.4 - Operation and maintenance of facilities	8,200	8,500	8,700
25.5 - Research and development contracts	3,000	3,000	3,000
25.6 - Medical care	0	0	0
25.7 - Operation and maintenance of equip	7,000	7,000	7,000
25.8 - Subsistence and support of persons	0	0	0
26 - Supplies and materials	171,000	155,000	176,000
31 - Equipment	80,000	65,000	60,000
32 - Land and structures	0	0	0
33 - Investments and loans	0	0	0
41 - Grants, subsidies, and contributions	0	0	0
42 - Insurance claims and indemnities	100	100	100
43 - Interest and dividends	0	0	0
44 - Refunds	0	0	0
Total Budget Authority	$556,000	$531,000	$559,500
Budget Activities:			
Manufacturing	493,000	469,000	497,500
Protection and Accountability of Assets	63,000	62,000	62,000
Total Budget Authority	$556,000	$531,000	$559,500

2.3 – Resource Detail Table

Dollars in Thousands

Description	FY 2007 Actual FTE	FY 2007 Actual AMOUNT	FY 2008 Estimated FTE	FY 2008 Estimated AMOUNT	FY 2009 Estimated FTE	FY 2009 Estimated AMOUNT	% Change FY 2007 to FY 2008
Revenue:							
Federal Reserve Notes		$572,700		$532,000		$562,000	5.6%
Other Security Products		5,400		6,000		6,000	0.0%
Total Revenue		$578,100		$538,000		$568,000	5.6%
Expenses:							
Direct Manufacturing	1800		1700		1650		-2.9%
Paper and Ink		$171,000		$160,000		$180,000	12.5%
Direct Labor		32,000		31,500		31,000	-1.6%
Other Direct Mfg Costs		7,000		7,500		7,500	0.0%
Subtotal Direct Manufacturing Costs		210,000		199,000		218,500	9.8%
Indirect Manufacturing Support	500	259,500	500	269,000	500	278,000	3.3%
Total Manufacturing Activity Costs		469,500		468,000		496,500	6.1%
Total Protection & Accountability of Assets Activity Costs		62,300		63,000		63,000	0.0%
Total Expenses		$531,800		$531,000		$559,500	5.4%
Net Results		$46,300		$7,000		$8,500	21.4%
Federal Reserve Notes Manufactured (in Billions)		9.1		8.3		9.3	12.0%

2B – Appropriations Language and Explanation of Changes

BEP receives no appropriated funds from Congress.

2C – Legislative Proposals

BEP has no legislative proposals for FY 2009.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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 2008 Estimated** AMOUNT	**FY 2009 Estimated** AMOUNT	**Percent Change** AMOUNT
U.S. notes & coins	531,000	559,500	**5.4%**
Total	**$531,000**	**$559,500**	**5.4%**

3A – Manufacturing *($497,500,000 from reimbursable programs):* BEP manufactures high quality security documents that deter counterfeiting. These manufactured products are grouped into two programs: Federal Reserve notes and other security documents. The Bureau's Manufacturing Activity supports Treasury's strategic objective, 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 that have developed their 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 2007, the Bureau delivered 9.1 billion Federal Reserve Notes to the Federal Reserve Banks. The currency order was fulfilled on schedule, at lower cost than anticipated. The Federal Reserve has ordered 8.3 billion notes for delivery in FY 2008 and their order is estimated at 9.3 billion notes for FY 2009 based on their projections of currency demand.

3.2.1 – Manufacturing Budget and Performance Plan

Manufacturing Budget Activity					
Resource Level	**FY 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Estimated**	**FY 2009 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$436,000	$445,000	$493,000	$469,000	$497,500
Total Resources	**$436,000**	**$445,000**	**$493,000**	**$469,000**	**$497,500**
Budget Activity Total	**$436,000**	**$445,000**	**$493,000**	**$469,000**	**$497,500**

Manufacturing Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**
Manufacturing costs for currency (dollar costs per thousand notes produced) ($) (E)	$28.83	$27.71	$28.71	$33	$34
Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements (%) (Oe)	99.9%	99.9%	100%	99.9%	99.9%

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

Description of Performance:

Manufacturing Costs for Currency (dollar cost per 1,000 notes produced) is an indicator of manufacturing efficiency and effectiveness of program management. This measure is based on contracted price factors, and anticipated productivity improvements. Actual performance against standard depends on BEP's ability to meet annual spoilage, efficiency, and capacity utilization goals. Performance against this measure has been favorable for the past seven years.

Percent of Currency Notes Delivered to the Federal Reserve that meet customer quality requirements has an annual target of 99.9 percent. The Bureau has met or exceeded this target for the last three years as indicated. BEP's ability to consistently meet this annual target enables commerce by ensuring that currency notes delivered will work the first time and every time in day-to-day financial transactions.

3B – Protection and Accountability of Assets *($62,000,000 from reimbursable programs):* The purpose of the Bureau's Protection and Accountability of Assets Activity is to provide effective and efficient security and accountability during the manufacture and delivery of United States currency to the Federal Reserve, as well as protect thousands of BEP employees and contractors, facilities and equipment. The activity supports Treasury's strategic objective, Trust and confidence in U.S. Currency Worldwide. BEP's ability to provide product security and accountability during the manufacture and delivery of currency notes preserves the integrity of the nation's currency.

The value of what the Bureau produces requires it to have the highest standards of accountability and control available. The Bureau must maintain an accurate and cost effective system of accountability for all Bureau products which will ensure that products are accounted for while in production and that customers receive the correct quantity of products ordered. The protection and accountability of assets is a joint effort crossing many divisions within the Bureau; products are tracked and accounted for at every step of the production process.

The Bureau's annual financial statement audit represents an assessment by an independent, certified public accounting firm of the integrity of the Bureau's revolving fund and the reliability of the financial data used for managerial decision making. Successful financial reporting at the Bureau is a joint effort that requires coordination between financial management, operations, and information technology personnel, as well as close coordination with the independent, certified public accounting firm contracted to perform the annual audit and the Office of Inspector General, which oversees their work. In addition, the Bureau's Office of Security's primary mission is to preserve the integrity of and safeguard critical Bureau resources and assets such as personnel, products, plant facilities and equipment.

3.2.2 – Protection and Accountability of Assets Budget and Performance Plan

Protection and Accountability of Assets Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$56,000	$61,000	$63,000	$62,000	$62,000
Total Resources	**$56,000**	**$61,000**	**$63,000**	**$62,000**	**$62,000**
Budget Activity Total	**$56,000**	**$61,000**	**$63,000**	**$62,000**	**$62,000**

Protection and Accountability of Assets Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Security costs per 1000 notes delivered ($) (E)	$5.75	$6	$5.92	$5.65	$5.5
Currency shipment discrepancies per million notes (%) (Oe)	0%	0.01%	0.01%	0.01%	0.01%

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

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 amount of currency notes produced and the speed at which the notes are processed. However, BEP continually strives to meet its long term goal of 0 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. This measure 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.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

To best position the Bureau of Engraving and Printing for the future, the Bureau completed a functional realignment of its organizational structure in early FY 2007. The realignment streamlined the organization and the Bureau has benefited from the synergies created. FY's 2008/2009 human capital strategy includes:

- Use of pay incentive flexibilities to retain unique expertise that enables the Bureau to meet its goals;

- Expansion of the BEP Telework program enhancing employee work life and increasing work flexibilities that benefit employee recruitment and retention programs;

- Mission critical training for all Bureau employees is documented in the "BEP Master Training Plan." In collaboration with management, mission critical training was identified and made available to all Bureau employees. Training is on-going;

- Management's annual performance goals and accomplishment of strategic goals are directly linked to the achievement of organizational goals;

- All employee performance plans include core elements directly linked to organizational goals;

- BEP's Senior Management Service Candidate Development Program reflects the Bureaus' commitment to provide equal opportunities at the highest management levels and improve succession planning; and

- Completing a skills assessment survey to identify and target skill gaps and prepare for the wave of baby-boomer retirements.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments Major IT Investments/Funding Source	Budget Activity	FY 2006 & Earlier Enacted	FY 2007 Enacted	FY 2008 Likely Enacted	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
		0	0	0	0%	0	0%
Subtotal, Major IT Investments		$0	$0	$0	0%	$0	0%
Non-Major IT Investments Technology[1]							
Manufacturing Support Systems	Manufacturing	1.6	1.2	1.4	17%	1.6	14%
Public Sales System	N/A	0.61	0.63	0.78	24%	0.8	3%
WebTA	N/A	0.04	0.02	0.07	250%	0.08	14%
Subtotal, Non-Major IT Investments		$2.25	$1.85	$2.25	290%	$2.48	31%
Infrastructure Investments[2]		0	0	0	0%	0	0%
BEP Data Ctr. Sys. & Serv. (for Consolidation)	Manufacturing	3.6	3	5.7	90%	6	5%
BEP End User Sys. & Serv. (for Consolidation)	Manufacturing	3.8	3.1	6.2	100%	6.5	5%
BEP Telecommunications (for Consolidation)	Manufacturing	0.51	0.45	0.3	-33%	0.3	0%
BEP Infrastructure Security (for Consolidation)	Protection and Accountability	1.4	1.8	0	-100%	0	0%
Subtotal, Infrastructure Investments		$9.31	$8.35	$12.20	57%	$12.80	10%
Enterprise Architecture	N/A	0.271	0.02	0.05	-100%	0.03	-40%
Subtotal, Enterprise Architecture Investments		$0.27	$0.02	$0.05	-100%	$0.03	-40%
IT Investments		$11.83	$10.22	$14.50	247%	$15.31	1%

Note[1]: In FY 2005 and prior years, costs for these systems were included in BEP's Infrastructure and Office Automation programs.

Note[2]: Infrastructure funding is consolidated into the Treasury Departmental Integrated IT Infrastructure Exhibit 300.

4B – Information Technology Strategy

Information Technology (IT) and IT-Embedded Investments are fully aligned with the Department of the Treasury's and BEP's Strategic Plan to support the technical development and manufacturing of Federal Reserve notes.

Major Investments: BEP has no planned independent major investments. BEP participates as a partner in significant Treasury-wide enterprise level investments such as T/Net (Treasury's implementation of General Services Administration 's (GSA) Networx), Homeland Security Presidential Directive -12 (again through Treasury's partnership with GSA), HRConnect (an Human Resources Line of Business service provider) and Internet Protocol version 6.

Non-Major Investments: BEP adheres to the Treasury's Capital Planning and Investment Control (CPIC) program as well as BEP's own IT CPIC processes. Limited additional non-major investments are planned to garner savings in administrative costs and provide organizational efficiencies.

Infrastructure Investments: Appropriately categorized as part of Treasury Optimized Enterprise IT Infrastructure.

Enterprise Architecture: It is the policy of the Bureau to implement and comply with the requirements of the Clinger-Cohen Act, the Government Performance and Results Act, the Federal Information Security Reform Act, Office of Management and Budget (OMB) Circular A-130, "Management of Federal Information Resources," OMB Circular A-11, Part 7, and associated Capital Programming Guide, and all applicable Federal Enterprise Architecture guidance issued by OMB, to include both the Federal Enterprise Architecture and associated reference models.

4.2 – PART Evaluation Table

PART Name:	**New Currency Manufacturing**
Year PARTed:	2005
Rating	Effective
OMB Major Findings/Recommendations	
1. The program's New Currency program has a clear purpose, is well planned, and is managed effectively. 2. The program met the initial production and timeline goals of its New Currency program with the rollout of the new $20 bill in 2003. 3. The program has adequate long-term targets and timeframes, including planned rollouts of counterfeit deterrent features for use in future generation notes through the next seven to ten years.	
Bureau Actions Planned or Underway	
1. Working closely with the Advanced Counterfeit Steering Committee to identify and evaluate future counterfeit deterrent designs. 2. Continuing to work with the Advanced Counterfeit Deterrent Steering Committee to assess impact of New Currency on counterfeiting performance measures across government. 3. Monitoring its design and overhead costs related to the manufacture of New Currency to ensure the most efficient production and distribution of future denominations.	

PART Name:	**Protection and Accountability**
Year PARTed:	2006
Rating	Effective
OMB Major Findings/Recommendations	
1. This program is on track to reduce security costs by 43 percent from 2006 to 2012. 2. This program maintains high consistency and reliability standards, demonstrated by its ISO 9001 certification. 3. Guarding against theft is a priority of this program.	
Bureau Actions Planned or Underway	
1. Performing in-depth, annual assessments of the program's security and accountability by an internal group not associated with the program and contracting with an outside group on a two-to-three-year cycle. 2. Ensuring that proper accountability and security features are identified and addressed during each stage of acquisition and installation of new equipment. 3. Updating and revising the Bureau's strategic plan; the new plan will focus on enhancing the Protection and Accountability program.	

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

United States Mint

Mission Statement

The men and women of the United States Mint serve the nation by exclusively and efficiently creating the highest quality, most beautiful and inspiring coins and medals that enable commerce; reflect American values; advance artistic excellence; educate the public by commemorating people, places and events; and fulfill retail demand.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2007	FY 2008	FY 2009		
United States Mint	**Obligated**	**Estimated**	**Estimated**	**$ Change**	**% Change**
Manufacturing	$1,770,265	$2,129,806	$2,079,192	($50,614)	-2.38%
Protection	43,943	45,520	46,624	1,104	2.43%
Total Resources	**$1,814,208**	**$2,175,326**	**$2,125,816**	**($49,510)**	**-2.28%**
Capital Investments (Not included in Total Resources Above)	$22,654	$44,763	$37,116	($7,642)	-17.0%

FY 2009 Priorities

- Efficiently and effectively produce and distribute approximately 15.4 billion coins to meet demand for circulating coins during FY 2009 to effectively enable commerce, an important strategic objective for the Department of the Treasury's manufacturing activities.

- Mint and issue Presidential $1 Coins for circulation to honor Presidents Martin Van Buren, William Henry Harrison, John Tyler and James K. Polk.

- Continue to produce and ship other Presidential $1 Coin Act products, including the 24-Karat First Spouse Gold Bullion Coins and 24-Karat American Buffalo Gold Bullion Coins, and to mint and issue Native American $1 Coins.

- Produce and distribute new 2009 coin and commemorative programs including redesigned one-cent coin, new quarters and the Lincoln and Braille commemorative programs.

- Produce and distribute recurring numismatic products and sets, as well as other numismatic items, in quantities sufficient to make them accessible, available, and affordable to Americans who choose to purchase them.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The United States Mint is the world's largest coin manufacturer with operations in California, Colorado, Kentucky, New York, Pennsylvania, and Washington, D.C. The United States Mint's vision is "to embody the American spirit through the creation of our nation's coins and medals." The United States Mint is committed to holding down costs, streamlining operations, and providing value to the American people. Every coin and medal that the United States Mint makes should represent something great about America; (the workers that made it, the flawless quality of "Made in America", and the beautiful designs).

The United States Mint has established the following strategic goals for achieving its mission in line with this vision:

- Establish and reinforce the exclusive brand identity of the United States Mint
- Create and execute the most effective coin and medal portfolio strategy
- Achieve greater excellence in coin and medal design
- Increase operational efficiency while meeting the highest quality standards
- Develop optimal workforce and workplace culture

1B – Program History and Future Outlook

Since FY 1996, the United States Mint has been operating under the United States Mint's Public Enterprise Fund (PEF). As authorized by Public Law 104-52 (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) and numismatic items to the public are the source of funding for operations. Both operating expenses and capital investments are associated with the production of circulating and numismatic coins and coin-related products and protective services. Revenues in excess of amounts required by the PEF are transferred to the United States Treasury General Fund.

The United States Mint's consolidated earned revenue, plus other financing sources (seigniorage), increased to $2.6 billion in FY 2007 from $2.3 billion in FY 2006. These results reflect increases in the demand for both circulating and numismatic products. As a result of operations, the United States Mint transferred $825 million to the Treasury General Fund in FY 2007, compared with $750 million in FY 2006. This increase is primarily attributable to the release of the first three Presidential $1 Coins.

Although the challenge of rising metal prices continued to burden the United States Mint's circulating coinage operations in FY 2007, the face value of circulating coins shipped to the Federal Reserve increased to $1,727.8 million, $455.9 million higher than $1,271.9 million in FY 2006. The average market prices through September 2007 for copper, nickel, and zinc increased 7 percent, 78 percent, and 23 percent, respectively, from FY 2006. Rising metal prices have had a significant effect on circulating coinage results and are causing the one-cent coin (penny) and

5-cent coin (nickel) to cost more than their face value to manufacture on a per-unit basis. The United States Mint has been working with the Department of the Treasury and Congress to keep the public informed and to examine alternatives that could mitigate the effect that current metal prices are having on the circulating coinage. In July 2007, the Administration transmitted to Congress a United States Mint legislative proposal that would allow the Secretary of the Treasury to change the compostion of coins to less expensive materials. As a result, the "Coinage Materials Modernization Act of 2007" (H.R. 3330 and S. 1986) was introduced. Changing the composition of pennies and nickels to less expensive materials could save the United States Treasury approximately $100 million a year without compromising the utility of these coins.

The United States Mint's numismatic and bullion operations' sales to the public decreased to $907.6 million from $1.052 billion in FY 2006. The decrease is attributable to a decline in bullion coin demand.

The United States Mint is positioning itself for a future environment that is expected to bring new challenges and opportunities. Future success depends on further developing coin production expertise, increasing organizational flexibility, and implementing new production technology. To achieve this, innovative new technologies and materials are being considered to increase capability and agility in the design and manufacture of new products and to streamline administrative and related support services.

Challenges

United States Mint operations face key challenges. The new products legislated by the Presidential $1 Coin Act of 2005, coupled with efforts for the core recurring numismatic products, offer the public many new opportunities for collections, gifts, or investments. Some of the key challenges the United States Mint expects to face in the coming years are:

- Promoting Robust Circulation of $1 Coins – While first-year orders for the Presidential $1 Coins approached 1 billion, the coins have not yet entered into general circulation. The United States Mint is finalizing plans to educate more vendors, transit agencies, retailers and citizens on the utility of the $1 coin to promote general circulation. In addition, continued efforts are needed to facilitate the most efficient and effective distribution from the United States Mint and Federal Reserve into the hands of consumers.

- Rising Prices of Metal Leading to Higher Production Costs – Steady and dramatic increases in the prices of zinc, copper, and nickel have increased the cost of producing circulating coinage. This is causing the one-cent and 5-cent coins to cost more than their face value on a per-unit basis. As a result, the Department of the Treasury is working with Congress to explore alternatives to mitigate the effect of high metals prices, and legislation has been introduced to allow the Secretary of the Treasury to change the metal composition of coins.

- Conclusion of the 50 State Quarters® Program – In recent years, there has been an increased demand for numismatic products – much of it because of the popularity of the 50 State Quarters products. However, this numismatic product line will cease when the 50 State Quarters Program ends in December 2008.

1C – Industry Outlook

Historic coin production levels reflect a long-term underlying increase in the need for circulating coins. While demand in individual years may fluctuate, the United States Mint sees a future in which the demand for circulating coinage is relatively stable from year to year. In this environment, there is opportunity for growth with numismatic coins, as evidenced by the popularity of circulating commemorative programs such as the 50 State Quarters Program and the Westward Journey Nickel Series™. To position operations to accommodate new designs and new products, it is necessary to analyze the market and communicate with the public, in addition to developing the production techniques and capacity.

United States Mint plans for addressing these challenges include the following:

Establish and reinforce the exclusive brand identity of the United States Mint

The United States Mint is a well-known brand within the numismatic and coin collecting community, but its brand identity among the general public and in the commercial marketplace is less pervasive. Strengthening the United States Mint brand is essential to building the numismatic business line. The current strategic planning process encompasses the design and development of cost-effective programs to build the United States Mint brand image into one of the most recognized names in the marketplace. At the same time, the United States Mint will strive to improve customer satisfaction.

Create and execute the most effective coin and medal portfolio strategy

The United States Mint has had substantial growth in its numismatic business over the past several years. While circulating coin demand has remained stable, there are many opportunities to expand the numismatic business to meet the needs of the public. A key element of the United States Mint strategy is to analyze current and historic products, reassess customer demand, and explore ethnic and geographic markets to develop the optimal product portfolio. The United State's Mint will then create and execute a portfolio strategy that not only meets the needs of the collector marketplace, but also leads to an increased customer base and increased units sold with lower customer acquisition costs.

Achieve greater excellence in coin and medal design

Programs such as the Artistic Infusion Program (AIP) have proven very successful and have increased the quality of designs significantly. The AIP was launched in 2004 to enrich and invigorate the design of the nation's coins and medals. The artists, selected from a nationwide competition, represent a broad range of disciplines from illustration drawing, sculpture, painting, and graphic design. Several Master Designer artists who have been with the program for a number of years have developed into top performers earning an impressive list of design credits. The United States Mint's goal is to continue to develop and mentor new and existing AIP artists to become successful coin and medal designers.

In addition, the United States Mint is placing more emphasis on coinability requirements and has raised the standards for excellence in design overall. Most notably, great strides are being made in the development of 2D digital design and 3D digital sculpting, resulting in consistently higher quality coins and medals.

During the American Numismatic Association convention held in August 2007, the United States Mint received the prestigious "Coin of the Year" award for its Marine Corps 230th Anniversary Silver Dollar. Coins from throughout the world are selected on the basis of excellence in artisanship, practicality, and general appeal. With greater emphasis placed on excellence in design, more design awards are anticipated in the near future.

While prior successes in coin and medal design are noteworthy, the United States Mint strives to reach new levels in coin design excellence. By assembling the right talent, providing the right inspiration, communicating American values and evoking the American spirit, the United States Mint will introduce a new era in coin and medal design.

Increase operational efficiency while meeting the highest quality standards

The United States Mint continually strives to improve production and administrative efficiencies. With new designs such as the Presidential $1 Coin products, it is necessary to have the shortest time to take a coin from authorizing legislation to the finished product for sale. It also maximizes the availability of coins for purchase by the public.

- The United States Mint is researching and developing new technologies and new materials to achieve greater capabilities and efficiencies in the design and manufacturing processes. Initiatives include establishing a technology center at the United States Mint at Philadelphia, assessing new technologies in digital engraving, and developing a plan to improve the response and capability of die manufacturing operations. These initiatives are designed to improve quality and lower the costs per coin.

- Coin manufacturing positions are under review to create a more efficient and effective position management structure. This includes developing a coin and die competency-based certification program to ensure skill proficiency now and for the future.

Develop optimal workforce and workplace culture

- The United States Mint is positioning itself to meet current and future challenges by ensuring its workforce has the necessary skills to perform the duties of the future and to be engaged in accomplishing the mission of the United States Mint. The United States Mint is working towards improving standings in workplace surveys so that all employees contribute and feel valued for their contribution. The United States Mint is committed to ensuring a safe work environment for its employees. While the current accident rate is already low compared to industry standards, the United States Mint will strive to improve on this safety record whenever possible.

- Projected Full Time Equivalent (FTE) levels for both FY 2008 and FY 2009 are increasing slightly to 2,071 and 2,065 from 1,944 actual usage in FY 2007. This reflects increases at the manufacturing facilities to keep up with increased production of new and ongoing programs.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: United States Mint	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
FTE	**1,944**	**2,071**	**2,065**
Object Classification:			
11.1 - Full-time permanent	118,587	137,207	141,712
11.3 - Other than full-time permanent	0	0	0
11.5 - Other personnel compensation	21,098	15,157	14,987
11.8 - Special personal services payments	0	0	0
12 - Personnel benefits	27,892	44,609	45,960
13 - Benefits for former personnel	883	1,055	125
21 - Travel and transportation of persons	3,235	3,436	3,509
22 - Transportation of things	26,088	28,933	28,803
23.1 - Rental payments to GSA	592	407	408
23.2 - Rental payments to others	13,874	17,584	17,888
23.3 - Comm, utilities, and misc charges	12,959	22,800	23,988
24 - Printing and reproduction	3,167	4,370	4,372
25 - Other contractual Services	0	0	0
25.1 - Advisory and assistance services	44,842	77,413	61,550
25.2 - Other services	29,722	84,805	67,429
25.3 - Other purchases of goods and services from Govt. accounts	0	12,175	12,283
25.4 - Operation and maintenance of facilities	0	0	0
25.5 - Research and development contracts	0	3,000	2,443
25.6 - Medical care	0	0	0
25.7 - Operation and maintenance of equip	21,883	26,408	20,996
25.8 - Subsistence and support of persons	0	0	0
26 - Supplies and materials	1,481,202	1,693,715	1,677,088
31 - Equipment	8,160	2,147	2,165
32 - Land and structures	0	0	0
33 - Investments and loans	0	0	0
41 - Grants, subsidies, and contributions	0	0	0
42 - Insurance claims and indemnities	24	105	110
43 - Interest and dividends	0	0	0
44 - Refunds	0	0	0
Total Budget Authority	$1,814,208	$2,175,326	$2,125,816
Budget Activities:			
Manufacturing	1,770,265	2,129,806	2,079,192
Protection	43,943	45,520	46,624
Total Budget Authority	$1,814,208	$2,175,326	$2,125,816

2.3 – Resource Detail Table

	FY 2007 Actual		FY 2008 Estimated		FY 2009 Estimated		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Revenue / Offsetting Collections								
Circulating		$1,049,977		$974,250		$1,442,940		48.11%
Commemorative Quarters		677,800		748,000		165,500		-77.87%
Numismatic		907,572		1,117,412		1,065,033		-4.69%
Total Revenue / Offsetting Collections		$2,635,349		$2,839,662		$2,673,473		-5.85%
Unobligated balances, Start of year		0		0		0		0.00%
Recoveries of prior year obligations		0		0		0		0.00%
BA: Offsetting Collections - Anticipated, without advance		0		0		0		0.00%
Total budgetary resources available		$2,635,349		$2,839,662		$2,673,473		-5.85%
Expenditures/Obligations								
Circulating	435	472,088	438	613,827	699	923,603	59.59%	50.47%
Commemorative Quarters	323	353,241	330	417,547	83	106,858	-74.85%	-74.41%
Numismatic	818	944,936	920	1,098,432	900	1,048,732	-2.17%	-4.52%
Protection	368	43,943	383	45,520	383	46,624	0.00%	2.43%
Total Expenditures / Obligations	1,944	$1,814,208	2,071	$2,175,326	2,065	$2,125,816	-0.29%	-2.28%
Capital Investments		$22,654		$44,763		$37,116		
Net Results		$821,141		$664,336		$547,657		-3.58%
Coin Shipments (In Millions)								
Circulating:								
One-Cent		8,080		7,660		8,079		
Five-Cent		1,306		1,451		1,413		
Dime		2,342		2,771		2,710		
Quarter		2,799		2,992		2,648		
Half-Dollar		2		6		6		
Dollar		896		545		521		
Total Circulating		15,425		15,425		15,377		
Numismatic		13		14		12		
Bullion		10		10		10		

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 [2008]*2009* under such section 5136 for circulating coinage and protective service capital investments of the United States Mint shall not exceed [$33,200,000]*$42,150,000*. *(Department of the Treasury Appropriations Act, 2008.*	

2C – Legislative Proposals

The United States Mint has no legislative proposals for FY 2009.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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 2008 Estimated AMOUNT	FY 2009 Estimated AMOUNT	Percent Change AMOUNT
U.S. notes & coins	2,175,326	2,125,816	**-2.3%**
Total	**$2,175,326**	**$2,125,816**	**-2.3%**

3A – Manufacturing *($2,079,192,000 from reimbursable programs):* The United States Mint manufactures and sells products. For budget reporting purposes, these products are grouped into three programs: Circulating Coinage, 50 State Quarters, and Numismatic.

Circulating Program

Circulating Coinage includes the one-cent coin, 5-cent coin, dime, half-dollar and dollar used to enable the conduct of trade and commerce. The focus of this mission is to produce coins for circulation to meet the needs of the United States in a cost efficient and safe manner using state-of-the-art manufacturing technology and equipment. The United States Mint delivers the circulating coinage to the Federal Reserve Bank for distribution.

The current FY 2009 budget estimate includes resource needs of $924 million to produce and ship 14.7 billion coins and generate $1.443 billion in face value (excluding 50 State Quarters).

By spending $924 million on circulating coinage in FY 2009, the United States Mint will produce and ship approximately:

- 8.1 billion one-cent coins with an aggregate value of $81 million,
- 1.4 billion 5-cent coins with an aggregate value of $71 million,
- 2.7 billion dime coins with an aggregate value of $270 million,
- 2.0 billion quarter-dollar coins (non-50 State Quarters coins) with an aggregate value of $500 million,
- 521 million dollar coins with an aggregate value of $521 million.

50 State Quarters® Program

A significant component of operations is the 50 State Quarters Program, which began in 1999 to commemorate and honor each of the 50 states over a ten-year period. Five new commemorative quarter-dollar coins are produced each year. Each quarter's reverse celebrates one of the 50 states with a design honoring that state's unique history, traditions, and symbols. The quarters are released in the same order in which the states ratified the United States Constitution or were admitted into the Union. The releases for calendar year 2008 quarters are Oklahoma, New Mexico, Arizona, Alaska and Hawaii. The quarters are circulating coins; however, by statute, the revenue from this program is considered numismatic for budgetary reporting purposes. The Program is displayed separately in the narrative and the financial schedules to present a clearer picture of its impact. The 50 State Quarters Program will come to an end in December 2008. During the first three months of FY 2009, the United States Mint will continue to produce 2008 50 State Quarters. The United States Mint plans to spend $107 million to produce and ship approximately 664 million 50 State Quarters coins, generating revenues of $166 million dollars in FY 2009.

Impact of the FY 2008 Consolidated Appropriations Act on Mint

A provision of the FY 2008 Consolidated Appropriations Act, Public Law (P.L. 110-161) authorizes the Secretary of the Treasury to issue a series of circulating commemorative quarter-dollar coins in calendar year 2009 with reverse designs emblematic of the District of Columbia and each of the United States Territories. In 2009, six quarter-dollar coins will be minted and issued by the United States Mint in honor of the District of Columbia and the five United States Territories: the Commonwealth of Puerto Rico, Guam, American Samoa, the United States Virgin Islands, and the Commonwealth of the Northern Mariana Islands.

Public Law (P.L. 110-161) also includes an amendment to move the inscription "In God We Trust" from the edge of the Presidential $1 Coins and Native American $1 Coins to the face.

Numismatic Program

The Numismatic program includes six types of coin products, which the United States Mint markets and sells to the public, including (1) Bullion Coins, (2) American Eagle Proof Coins, (3) 24-Karat Gold Proof Program, (4) Recurring Coin Programs, (5) Commemorative Coins, and (6) Medals. The program focuses on providing quality products and services, expanding markets and supporting the long-term objectives. The current FY 2009 budget estimate includes resource needs of $1,049 million to generate $1,065 million in revenues from the sale of these products.

Bullion coins are largely bought by precious metal dealers and sold to consumers who desire precious metals as part of an investment portfolio. Gold and platinum bullion coins are issued with one-tenth, one-quarter, one-half or one ounce precious metal content. Silver bullion coins are issued with one ounce of silver metal content. The demand for bullion coins can be greatly affected by the performance of other investment options, such as equities markets or currency markets, and therefore is highly unpredictable. As required by law, in 2006, new 24-karat gold bullion coins were introduced as part of the American Buffalo Gold Coin Program, and the coins in this program complement the popular 22-Karat gold bullion coins. 24-karat (99.99 percent fineness) has become the global standard for gold investment coins. The new coins give investors a second option to purchase gold bullion coins whose content and purity are backed by the United States Government in the global precious metal market.

American Eagle Proof Coin products include platinum, gold, and silver and are issued in proof quality. Gold and platinum proof coins are issued with one-tenth, one-quarter, one-half or one ounce precious metal content. Silver proof coins are issued with one ounce of silver metal content. The proof quality coins are considered numismatic products and are sold directly to consumers from the United States Mint, either as individual coins or in sets.

The 24-Karat Gold Proof coins are collector versions of the official United States Mint American Buffalo Gold Bullion Coins and are available in limited mintages. The obverse features a profile of a Native American. The reverse features an American Buffalo. These are the first 24-karat gold coins ever issued by the United States Government.

The First Spouse Program, which honors our nation's first spouses in the order they served as first spouses, is also a feature product of the 24-karat gold coins produced by the United States Mint. These one-half ounce gold coins are issued on the same schedule as the Presidential $1 Coins.

Recurring products are circulating-derived products, such as proof sets; uncirculated sets; silver proof sets; and rolls and bags of quarter-dollars, half-dollars, and dollars. These products are designed for mass appeal.

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 the designated recipient organizations for projects that benefit the community. For example, the American Bald Eagle Recovery and National Emblem Commemorative Coin Act (Public Law 108-486, dated December 23, 2004), requires the United States Mint to produce three coins in 2008 – one gold, one silver and one clad coin – to celebrate the recovery and restoration of the American bald eagle, the national symbol of the United States.

The United States Mint also produces national medals—selective awards authorized by Congress—to commemorate significant historical events of the nation, or to honor those persons whose superior deeds and achievements have enriched our history, or the world. Some are produced as part of a continuing series, such as the Presidents of the United States, Secretaries of the Treasury, Directors of the Mint, and Historic Buildings of the United States.

3.2.1 – Manufacturing Budget and Performance Plan

Manufacturing Budget Activity Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$979,159	$1,469,100	$1,770,265	$2,129,806	$2,079,192
Total Resources	**$979,159**	**$1,469,100**	**$1,770,265**	**$2,129,806**	**$2,079,192**
Budget Activity Total	**$979,159**	**$1,469,100**	**$1,770,265**	**$2,129,806**	**$2,079,192**

Manufacturing Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Cost per 1000 Coin Equivalents ($)(E)	$7.42	$7.55	$7.23	Discontinued	Discontinued
Cost per 1000 Coin Equivalents (% Deviation From target)(E)	N/A	N/A	N/A	0.00%	0.00%
Order Fulfillment (%)(Oe)	94.00%	95.00%	98.00%	Discontinued	Discontinued

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

Because of the creation of a new United States Mint Strategic Plan, new performance measures are currently under development. The new measures tie to the strategic goals listed at the beginning of this document. The performance measures listed below are measures that were previously tracked, some of which may not be used in the future.

Description of Performance:

Conversion Cost per 1,000 Coin Equivalents

The United States Mint’s costs vary by product, and the product mix has been variable over time. This makes it difficult to compare operating results from year to year. The coin equivalent calculation converts the production output to a common denominator based on the circulating quarter. Production costs, excluding metal and fabrication, are then divided by this standardized production level, thus resulting in “conversion costs per 1,000 coin equivalents.” This metric allows comparison of performance over time by negating the effects of changes in the product mix. Starting in FY 2008, the target and results will be presented as a percentage difference from the baseline in order to allow for the impact of fixed costs as they get spread over varying levels of production. The dollar value of the target is then dependent upon the actual volume of coin equivalents produced. For example, at a production level of 21.9 billion coin equivalents, the baseline cost target would be $7.51 per 1,000 coin equivalents. The conversion cost per 1,000 coin equivalents through September FY 2007 was $7.23, an improvement over the FY 2006 result of $7.55. The performance measure met the FY 2007 target of $7.27.

Order fulfillment

Overall order fulfillment is tracked for the circulating coins shipped to the Federal Reserve and the numismatic coins sold to the public. Order fulfillment is an important aspect of the United States Mint's operations. On-time fulfillment of Federal Reserve orders ensures adequate inventory of coins available for commerce. One important component of customer satisfaction with numismatic coin products is the timely fulfillment of orders. Both components are weighted by their respective share of the total revenues and other financing sources. Order fulfillment through FY 2007 was 98 percent, an increase from 95 percent in FY 2006. This means that 98 percent of the United States Mint’s revenue and other financing sources through FY 2007 were earned from products that were shipped to the customer in a timely fashion, meeting the target of 96 percent.

As previously mentioned, new performance measures are currently under development and the Order Fulfillment measure will be discontinued after FY 2007.

3B – Protection *($46,624,000 from reimbursable programs):* The United States Mint secures over $100 billion in market value of the nation's gold reserves, silver, and other assets. The United States Mint Police protects United States Mint assets while safeguarding its employees against potential threats at its facilities across the country. The United States Mint Police addresses possible threats by ensuring good perimeter security at all sites and coordinating with various federal, state and local law enforcement agencies. It also ensures that proper policies are in place, and procedures followed, in handling the assets used to produce and transport coinage.

Plans include efforts to leverage new technology to automate entry and exit procedures at United States Mint facilities. Innovative threat assessment strategies will continue to be pursued to effectively prevent and counteract any security threats against its operations.

3.2.2 – Protection Budget and Performance Plan

Protection Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$34,984	$36,917	$43,943	$45,520	$46,624
Total Resources	**$34,984**	**$36,917**	**$43,943**	**$45,520**	**$46,624**
Budget Activity Total	**$34,984**	**$36,917**	**$43,943**	**$45,520**	**$46,624**

Protection Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Protection Cost Per Square Foot ($) (E)	$32.43	$32.49	$31.75	$32.11	$32.00
Total Losses ($) (Oe)	$1,135	$ 0	$0	$5,000	$2,000

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

Description of Performance:

Protection Cost per Square Foot

Protection cost per square foot is the Office of Protection's total operating cost divided by the area of usable space, which is 90 percent of the total square footage. The cost per square foot provides a measurement of efficiency over time. The square footage of usable space at the United States Mint is a stable figure and will only change significantly with major events such as the addition or removal of a facility. Protection cost per square foot through September 2007 was $31.75, a decrease from $32.49 in FY 2006, meeting the performance target of $32.99.

Total Losses
The United States Mint performs its protection function by minimizing the vulnerability to theft and preventing unauthorized access to critical assets. Total losses measures the dollar amount of losses incurred in cases that have been investigated and closed. The total losses measure includes three categories of losses:

- *Financial Losses*: intentional monetary losses, thefts or fraud from metal reserves, produced coinage, retail sales and other administrative losses
- *Cost of Intrusions*: the cost of repair or recovery from an intentional intrusion, either electronically or physically, into United States Mint systems and facilities
- *Productivity Losses*: the cost of intentional damage or destruction to production capabilities, including related costs for continuity of operations

At the end of FY 2007, the United States Mint initiated a review to examine the policies and procedures that serve as the basis for this measure. The FY 2007 result for the Total Losses measure is pending the outcome of this review. The review is expected to be completed during FY 2008, and the results for FY 2007 will be published in subsequent budget reports and in the FY 2008 annual report.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The United States Mint's human capital strategies and efforts continue to evolve and include the following initiatives:

- Creating a leadership development program to develop highly skilled supervisors and leaders and proactively plan for succession
- Developing a coin and die competency-based certification program to ensure skill proficiency now and for the future
- Ensuring employees are engaged in the mission

As of September 2007, 46 percent of the United States Mint's workforce is, or will become, eligible for retirement before FY 2011. Four mission-critical occupations are most affected by imminent retirements and lack of technical expertise and skills: Metal Forming Machine Operators, Coin Assembly Machine Operators, Toolmakers, and Production Machinery Mechanics.

To mitigate this challenge, the United States Mint is developing a Coin and Die Manufacturer Certification Program. Its purpose is to build teams of multi-skilled workers in order to provide more flexibility and efficiency in operations, to identify skills needed for the future and plan for acquiring these skills, and to develop a career ladder program to provide a vehicle for further advancement.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments								
Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Obligated 1/	FY 2007 Obligated	% Change from FY06 to FY07	FY 2008 Estimated	% Change from FY07 to FY08	FY 200 Estimat
Retail Sales System	Manufacturing	$4,800	$4,850	1.0%	$4,900	1.0%	$4,
Subtotal, Major IT Investments		$4,800	$4,850	1.0%	$4,900	1.0%	$4,
Non-Major IT Investments		$4,600	$4,540	-1.3%	$4,700	3.5%	$4,
Infrastructure Investments		$35,900	$36,677	2.2%	$35,935	-2.0%	$35,
Enterprise Architecture		$1,100	$1,302	18.4%	$3,050	134.3%	$2,
Total IT Investments		$46,400	$47,369	2.1%	$48,585	2.6%	$47,

1/ This chart includes resources only, and may not reflect total project costs.

2/ This column reflects resources provided to a project in FY 2006 and any previous years.

4B – Information Technology Strategy

The United States Mint is a manufacturing agency whose primary mission is to produce coinage to effectively enable commerce. As such, capital investment requirements are predominantly for manufacturing-type equipment, rather than Information Technology purchases, as reflected in the chart below.

The United States Mint's capital projects are focused on improving processes, developing new coin design capabilities, and expanding information handling. These investments are designed to reduce costs, shorten the overall time from product concept to production, and achieve greater flexibility to respond to shifts in market demands. The major IT investment planned for 2009 is in the Retail Sales System.

The Retail Sales System (RS2) was developed in response to a growing need to meet the rapidly expanding numismatic market and to take advantage of new technology that would better support the United States Mint's business requirements. RS2 was designed to meet high public demand for E-Government services and provide an easy and secure way for customers to order products directly from the United States Mint. An integrated mail order and cataloging system supports the United States Mint's core mission as well as the President's E-Government initiative.

Capital Investments

(Dollars in Millions)

Major Investments	FY 2007 Obligations	FY 2008 Estimated	FY 2009 Estimated
Circulating & Protection Capital Investments			
Circulating Information Technology	1.286	3.012	0.971
Circulating Building Improvements	3.835	4.239	5.061
Circulating Equipment	5.208	7.218	8.617
Protection	2.008	8.940	3.475
Total Circulating and Protection	12.337	23.409	18.124
Numismatic Capital Investments			
Numismatic Information Technology	1.286	3.012	0.970
Numismatic Building Improvements	1.165	6.787	6.668
Numismatic Equipment	7.866	11.555	11.354
Total Numismatic	10.317	21.354	18.992
Total Capital Investments	22.654	44.763	37.116

The United States Mint's FY 2009 circulating and protection capital request is $18.1 million, which is $24.1 million below the projected circulation and protection depreciation (capital limit) amount of $42.2 million.

Each year, the United States Mint commits funds for capital projects to maintain, upgrade or acquire physical structures, equipment, physical security, and information technology systems. Total capital projects are estimated to be $37.1 million in FY 2009. This includes approximately $14.6 million for circulating projects, $3.5 million for security improvement projects, and $19.0 million for numismatic projects.

4.2 – PART Evaluation Table

PART Name: Coin Production
Year PARTed: 2002
Rating: Effective
OMB Major Findings/Recommendations
1. The Mint has established performance measures focused on customer satisfaction and improving cost efficiencies. For instance, the Mint reports the results of a Federal Reserve Board Customer Satisfaction survey.
2. The Mint needs to improve customer satisfaction survey scores.
3. The Mint has shown some efficiency improvements in achieving reduced manufacturing costs. The Mint has achieved a 19 percent reduction in manufacturing costs since 1997.
Bureau Actions Planned or Underway
1. Reducing the maintenance down time of coin manufacturing machinery.
2. Competing customer service and order mailing staff to determine if contractors could handle these functions more efficiently.
3. Establishing a performance target to reduce the time rquired to process raw materials into produce coins.

PART Name: Numismatic Program
Year PARTed: 2004
Rating: Effective
OMB Major Findings/Recommendations
1. The program has made enormous strides over the past several years to streamline the production of numismatic products. Between 1999 and 2003, the Mint reduced costs by 38 percent and reduced workforce by 50 percent. During that same time period, production levels increased by 46 percent.
2. The Mint has an excellent internal management structure that is able to receive and analyze real-time financial, production, and other operating data on a daily basis. This enables the Mint to respond quickly to changing production and customer demand.
3. The Mint is making significant progress toward meeting its inventory turnover target of 4.2 in 2005, which reflects the number of times per year the Mint works through its inventory. This measure improved 27 percent from 1.96 in 2003 to 2.48 in 2004. By improving performance, the Mint reduces costs associated with inventory and the production planning process runs more efficiently.
Bureau Actions Planned or Underway
1. Continuing substantial progress toward reaching the Mint's target goal for inventory turnover.
2. Continuing to streamline the production of numismatic products in order to reduce costs and improve efficiency.

PART Name: Protection Program
Year PARTed: 2005
Rating: Effective
OMB Major Findings/Recommendations
1. The United States Mint has developed adequate long-term performance measures with ambitous targets and timeframes. The Mint's target for total losses is $250,000 in 2005 and $0 in 2010
2. The United States Mint's Protection program has a clear purpose, is well planned, and managed effectively. However, it is somewhat duplicative of other Federal efforts aimed at protecting money, such as the Bureau of Engraving and Printing, and the Federal Reserve Police forces.
3. The United States Mint regularly achieves its annual performance goals and works with other law enforcement partners to assess threat levels and assist in achieving future goals. The United States Mint is a participant in the multi-agency Counter-Terrorism Program.
Bureau Actions Planned or Underway
1. Continue to assess and implement ways in which the cost of protection per square foot can be minimized.
2. Continue to improve employee confidence in the United States Mint protection program.

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

Office of the Comptroller of the Currency

Mission Statement

To ensure a safe and sound national banking system for all Americans.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2007	FY 2008	FY 2009		
Office of the Comptroller of the Currency	Obligated	Estimated	Estimated	$ Change	% Change
Supervise	$528,622	$625,582	$675,780	$50,198	8.02%
Regulate	91,296	98,669	108,414	9,745	9.88%
Charter	18,515	24,849	26,678	1,829	7.36%
Total Resources	**$638,433**	**$749,100**	**$810,872**	**$61,772**	**8.25%**

FY 2008 Priorities

- Regulate and supervise approximately 1,740 national bank charters and 48 federal branches of foreign banks with total assets of approximately $7.7 trillion;
- Conduct examinations based on the risk profile of individual national banks to ensure they are safe and sound, sufficiently capitalized, and comply with consumer protection laws and regulations;
- Address potential adverse changes in national bank asset quality and risk profiles;
- Fill key experienced and specialty examiner and bank supervision policy analyst positions; continue the recruitment of entry-level examiners and enhance their retention at the critical three/four-year point of their careers; develop the next generation of bank supervision leadership;
- Work with other federal banking regulators to implement the banking agencies' risk-based capital standards (Basel II);
- Combat fraud and money laundering and protect the integrity of the financial system through national banks' compliance with the Bank Secrecy Act, anti-money laundering, and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act laws and regulations;
- Address sound underwriting, risk management systems, and consumer issues presented in connection with retail banking products offered by national banks;
- Continue to support and defend the attributes and benefits of the national bank charter; and
- Continue to support a competitive national banking system through entry of new charters, other bank structure transactions, and expansion of bank services and products in a safe and sound manner.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Office of the Comptroller of the Currency (OCC) was created by Congress to charter national banks, to oversee a nationwide system of banking institutions, and to ensure that national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.

The OCC supervises approximately 1,740 national bank charters and 48 federal branches of foreign banks in the United States (U.S.). Total assets under the OCC supervision are approximately $7.7 trillion or 68 percent of total U.S. commercial banking assets. The average size and complexity of the institutions in the national banking system continue to grow, creating increasing and diverse challenges for the OCC.

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

The OCC's priorities for the 2008 fiscal year (FY) include supervisory issues related to potential adverse changes in national bank asset quality and risk profiles, continued work on proposed revisions to the federal banking agencies' risk-based capital standards, compliance with Bank Secrecy Act/anti-money laundering (BSA/AML) and USA PATRIOT Act requirements, and addressing issues raised by the range of retail banking products offered by national banks. Coordination and cooperation with state regulators will be a significant focus for the agency. Filling key experienced and specialty examiner and bank supervision policy analyst positions, recruiting entry-level examiners and enhancing their retention at the critical three/four-year point of their careers, and developing the next generation of bank supervision leadership are also critical initiatives of the OCC.

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 U.S. Resident examiner teams are located in the largest banking companies, and there is an examining office in London, England.

Operations are funded primarily (approximately 96 percent) from semiannual assessments levied on national banks. Revenue from investments in U.S. Treasury securities and licensing and other fees comprises the remaining four percent of the OCC's funding. The OCC does not receive congressional appropriations to fund any portion of its operations.

Continued uncertainty about the future direction of interest rate changes, coupled with net interest margin compression, will pose challenges to bank management and put pressure on bank earnings. Credit quality will continue to be monitored closely for deterioration, with the leveraged lending and subprime markets being the most vulnerable. Domestic and foreign nonbank players and investors increasingly affect the way that banks structure and price products and manage their risk profiles. The role and transparency of hedge funds in financial markets will continue to receive heightened scrutiny by investors, regulators, and Congress. Fair lending, information security, and other consumer protection issues will remain in the forefront for the banking industry and the OCC. BSA and AML supervision will continue to be an important component of the federal law enforcement and national security programs. Basel II implementation will require significant bank and examiner resources at mandatory Basel II banks and large banks owned by foreign-owned banking organizations. Operational risk issues, including technology security and management, payment systems and backroom operations, and outsourcing and vendor management, will continue to be prominent.

The following are highlights of the OCC's FY 2007 accomplishments and specific FY 2008 challenges.

<u>Supervisory Activities</u>

The OCC continuously supervises banks in its community bank, midsize and credit card bank, and large bank programs. A supervisory strategy is developed based on each banking institution's risk profile and condition. Examination activities focus on safety and soundness, consumer compliance, BSA/AML/USA PATRIOT Act, fair lending, asset management, bank information technology, and the Community Reinvestment Act (CRA).

Areas of emphasis during the OCC's FY 2007 supervisory strategies included: credit quality and the adequacy of credit risk management systems; allowance for loan and lease loss methodology and adequacy; compliance with guidance on nontraditional mortgage products and commercial real estate concentrations; risk management practices; audit and internal controls; BSA/AML compliance; Basel II implementation at mandatory and opt-in banks; capital adequacy; risk measurement and management for new and innovative trading activities; risk management systems related to hedge fund exposures; compliance management systems; Home Mortgage Disclosure Act (HMDA) data and fair lending reviews; and business continuity planning.

Monitoring Credit Quality
Monitoring and evaluating the quality of the loans and investments made by national banks is a fundamental component of the OCC's supervision program. Examiners evaluate asset quality and the adequacy of a bank's credit and investment risk management and controls through their on-site examination activities. They also look to

ensure that the bank has properly recorded any losses that have occurred in their loans or investments and that the bank maintains adequate reserves for inherent losses in their loan portfolio.

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 the banking system. FY 2007 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 examiners believe that the inherent credit risk in banks' portfolios are increasing or decreasing.

- Shared National Credit Review - The annual Shared National Credit (SNC) review is a joint program conducted by the OCC, the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS) that reviews large syndicated loans held by multiple banks. The 2007 review covered 7,700 facilities (or 5,400 borrowers) with commitments totaling $2.3 trillion. SNC commitments increased by nearly $400 billion, or 21 percent, since the 2006 SNC review. Overall credit quality of the SNC portfolio remains satisfactory with criticized commitments as a percentage of total SNC commitments in-line with prior year results. Easing of underwriting standards continued to be evident, especially in the syndicated leveraged loan market. However, the largest national banks that originate and agent SNCs mitigate direct credit risk by selling down their SNC exposures to hold levels that are appropriate for the bank's earnings/capital position. The OCC and other agencies also continued work on a modernization effort to standardize and expand the data collection process to improve the effectiveness of SNC reviews. This project will also continue in FY 2008.

- Horizontal Examinations - Large Bank Supervision (LBS) conducted or is in the process of completing three horizontal reviews to determine large bank compliance with interagency guidance. The scope of these reviews focused on nontraditional mortgage guidance, credit risk management guidance for home equity lending, and credit card account management guidance.

Bank Secrecy Act/Anti-Money Laundering
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 investigates national banks that fail to meet BSA/AML requirements and brings enforcement actions against them. Other supervisory activities during FY 2007 included updates to the Federal Financial Institutions Examination

Council's (FFIEC) BSA/AML Examination Manual and issuance of the OCC's 2007 Money Laundering Risk (MLR) System results. The MLR provides over 1600 community bank charters with succinct BSA/AML risk assessment information. This information also enhances the OCC's effectiveness in BSA/AML supervision. Also, an Interagency Statement on Enforcement of BSA/AML Requirements was issued by the OCC, FRB, FDIC, OTS, and the National Credit Union Administration (NCUA) which promotes consistency among the agencies, as well as transparency in the way that enforcement decisions are made.

Concentrations in Commercial Real Estate Lending

Commercial real estate is an area in which some banks are becoming increasingly concentrated. In FY 2007, the OCC, FRB, and FDIC issued guidance on sound risk management practices for concentrations in commercial real estate lending to help ensure that institutions pursuing a significant commercial real estate lending strategy remain healthy and profitable while continuing to serve the credit needs of their communities.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (ALLL) represents one of the most significant estimates in an institution's financial statements and regulatory reports. Management's assessment of the appropriateness of the ALLL is critical to the safety and soundness of a financial institution, especially in today's uncertain economic environment and when concentrations in untested loan products are present. In December 2006, the OCC, FRB, FDIC, OTS, and NCUA (the agencies) issued updated guidance that describes the responsibilities of the boards of directors, management, and examiners of banks and savings associations regarding the ALLL; factors to be considered in the estimation of the ALLL; and the objectives and elements of an effective loan review system, including a sound credit grading system. The agencies also issued a series of frequently asked questions to assist institutions in applying the guidance. During FY 2007, the OCC completed ALLL training related to this new policy statement.

Subprime and Nontraditional Mortgages

Weaknesses in the U.S. housing and mortgage markets, resulting in increased residential mortgage delinquencies and foreclosures, have been a major concern for bankers, consumers, regulators, and public policy officials throughout the past year. In recent weeks these concerns have adversely affected U.S. and global financial markets. These effects have included a sharp contraction in the liquidity in certain secondary markets, such as those for jumbo, non-conforming mortgage loans, asset-backed commercial paper programs, and various collateralized debt obligations. Investors' heightened concerns about overall credit quality have also affected the commercial leveraged and collateralized loan markets. Through the OCC's on-site examiners at the OCC's largest institutions and various regulatory coordinating mechanisms, the agency is monitoring closely these market conditions. The OCC will work with Treasury and the other regulatory agencies to pursue any policies or actions as needed. In addition, the OCC will continue to encourage banks to work with homeowners who are unable to make mortgage payments.

Supervisory Guidance

During the past year, the OCC has worked with the other federal banking regulators to issue supervisory guidance on nontraditional mortgage products and subprime mortgage lending. Both issuances articulate the prudent safety and soundness and consumer protection standards that institutions should follow to ensure that borrowers obtain loans they can afford to repay. Given the prominent role that nonfederally regulated institutions play in these markets, the agencies worked closely with the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators to encourage individual states to adopt and effectively enforce these guidelines for mortgage brokers under their supervision. The agencies also issued a statement encouraging financial institutions to work constructively with residential borrowers who are financially unable to make their contractual payment obligations on their home loans.

Illustrated Consumer Disclosures for Nontraditional and Subprime Mortgage Products

To make informed choices when seeking a mortgage loan, consumers must understand and be able to compare the material features and potential risks, including the likelihood of increased payments or substantial prepayment penalties, of products before entering a loan. The agencies' supervisory guidance sets forth recommended practices to ensure that consumers have clear and balanced information about these products. The agencies issued illustrations of consumer information to help institutions implement these practices. They also published a booklet for consumers, *Interest-Only Mortgage Payments and Payment-Option ARMs — Are They for You?* that provides a glossary of lending terms, a mortgage shopping worksheet, and a list of additional information sources. This information can help consumers, whether buying a house or refinancing a mortgage, decide whether an interest-only mortgage (an I-O mortgage) or an adjustable-rate mortgage (ARM) with the option to make a minimum payment (a payment-option ARM) is right for them.

<u>Assessing Complex Financial Activities</u>

Advances in risk modeling and the concurrent globalization of financial markets have led to an ever expanding array of complex financial products that are used and offered by large national banks. The OCC resident examination staffs at the largest national banks closely monitor these developments to ensure that banks have adequate risk management policies and controls in place to govern these activities. Supervisory activities in this area during FY 2007 included:

- Improving Backroom Processing of Derivatives Contracts - The OCC has worked with other U.S. and international regulators and major dealers to improve the infrastructure that supports the global derivatives market. These efforts, which include reducing the level of backlog confirmations and moving towards more electronic processing platforms, will help ensure the smooth operations of the derivatives markets as the volume of activities in these markets continue to grow.

- Interagency Statement on Complex Structured Finance Transactions - In January 2007, the OCC, FRB, FDIC, OTS, and Securities Exchange Commission (SEC) issued a final statement on the complex structured finance activities of financial institutions. The statement describes the types of internal controls and risk management procedures that should help financial institutions identify, manage, and address the heightened legal and reputational risks that may arise from certain complex structured finance transactions.

<u>Implementation of a Revised Capital Framework - Basel II</u>

Bank capital serves as a buffer against unexpected losses. The OCC continued work with the FRB, FDIC, and OTS to modernize the agencies' regulatory capital requirements. Beginning with the issuance of the New Basel Accord in June 2004, the OCC has worked with the other U.S. banking regulators to implement the revised framework for risk-based capital standards. In September 2006, the OCC, together with the FRB, the FDIC, and the OTS issued a proposed regulation, generally referred to as the Basel II proposal, implementing that framework for certain U.S. banks. At the same time, the agencies published revisions to their current market risk capital rule. Subsequently (in December 2006), the agencies issued a third proposed regulation that would revise the current risk-based capital framework. This third proposal was commonly referred to as Basel IA.

When the Basel II proposal was issued, the agencies contemplated that the largest, internationally active U.S. banks (so-called "core banks") would be required to use the Basel II rule. Certain other banks (so-called "opt-in banks") could use the Basel II rule with the permission of their primary federal supervisor, and banks that were neither core banks nor opt-in banks would be subject to the Basel IA rule. On July 20, 2007, the Comptroller of the Currency and the principals of the other three federal banking agencies announced their agreement on an approach to finalizing the Basel II rule and on a plan to issue a new proposal that would make the so-called standardized approach, contained in the new Basel Accord, available to non-core banks. This would replace the earlier proposed rule to adopt the "Basel 1A" option. The final Basel II rule was published in the Federal Register on December 7, 2007 (72 FR 69288), and the text of the new standardized proposal is expected to be released during 2008.

<u>Protecting the National Bank System and Its Customers against Natural Disasters, Criminal Activity, and Terrorist Threats</u>

The events of September 11, 2001, and more recently, Hurricanes Katrina and Rita underscore the vital role that the national banking system plays in the U.S. economy and the lives of its citizens. Through the OCC supervisory programs and partnerships with other government agencies, the OCC works to ensure the resiliency of the nation's banking system in the face of regional or national emergencies and to prevent the inappropriate use of the financial system by criminals and terrorists.

Sound business continuity plans allow banks to recover, resume, and maintain their critical operations in the event of an unexpected disruption. To assist banks in developing and evaluating their business continuity plans, the OCC, in conjunction with the FFIEC, is revising the FFIEC's Business Continuity Planning Booklet for release in FY 2008. The revised booklet will incorporate lessons learned from the Gulf Coast hurricanes. It will also highlight issues and challenges that financial institutions could face during a pandemic, and the mitigating controls that should be implemented to address pandemics.

Fair Access to Financial Services and Fair Treatment of Bank Customers

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

The OCC's fair lending supervisory and enforcement 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 that enforcement action is taken when warranted. This includes referrals to the Department of Justice and notifications to the Department of Housing and Urban Development (HUD).

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. To better reach consumers directly, the OCC launched a new website in July 2007, helpwithmybank.gov, which is designed to help consumers when they have questions or need help in resolving problems with their banks.

During FY 2007, the OCC and other federal banking agencies issued proposed interagency questions and answers that address topics related to their CRA regulations, updated lists of distressed or underserved non-metropolitan middle-income geographies in which bank revitalization or stabilization activities will receive CRA consideration, and updated median family income levels that are used in CRA performance evaluations.

The OCC actively supports the efforts of national banks to engage in sound and successful community development activities. During FY 2007, the OCC issued a bulletin to national banks implementing changes in the authority for national banks to make public welfare investments under 12 USC 24. On October 13, 2006, the Financial Services Regulatory Relief Act of 2006 was enacted, which among other provisions increased the maximum aggregate public welfare investment limit for a national bank from 10 to 15 percent of the bank's unimpaired capital and surplus.

The OCC held a tele-seminar that focused on the Small Business Administration 504 Certified Development Companies Loan program, which brought together 504 practitioners and an examiner to provide interested listeners with additional information on how the program operates. The OCC also publishes periodic *Community Development Insights* papers on products, services, and initiatives that are relevant to community development and consumer banking activities. During FY 2007, the OCC produced such papers on foreclosure prevention, new markets tax credits, reaching ethnic markets, workforce housing, and federal low-income housing tax credits. The OCC also published *Community Developments* newsletters covering topics on community development venture capital and minority-owned financial institutions.

During FY 2007, the OCC continued its work with the other federal banking agencies to improve financial disclosures to consumers. In May 2007, the agencies issued final illustrations of consumer information for nontraditional mortgage products. The illustrations are intended to help implement the consumer protection portion of the "Interagency Guidance on Nontraditional Mortgage Products Risks." English and Spanish versions of the illustrations are available on the OCC's website. Also, in March 2007, the OCC and seven other federal regulators released a notice of proposed rulemaking requesting comment on a proposed model privacy notice. The proposed model privacy notice is intended to provide consumers with a succinct and comprehensive privacy notice.

The OCC issued several bulletins and advisories that were geared toward helping consumers. Consumer Advisory 2007-3 provides advice to help consumers avoid becoming victims of fraud involving cashier's checks, money orders, and official bank checks. In March 2007, the OCC issued a consumer alert regarding certain deceptive loan solicitations sent to consumers that implied cash grants or disbursements were available from so-called CRA programs.

The OCC also issued a reminder to banks about working with customers in disaster areas related to hurricane Katrina. The OCC Bulletin 2007-8 provided guidance on making decisions regarding payment deferrals, loan modifications, extensions, restructurings or other workout programs.

In addition, the OCC issued Bulletin 2007-14, which discusses the interagency policy on working with mortgage borrowers who have ARMs scheduled to reset in the next 12 to 18 months, particularly subprime hybrid ARMs. The OCC, along with the other federal banking agencies, encourages institutions to work with borrowers who may be unable to meet contractual payment obligations on loans secured by their primary residence. The OCC paid special attention to foreclosure prevention issues affecting banks and consumers, in particular by highlighting best practices of bankers and their nonprofit partners in a research paper and by holding interagency roundtables across the country. The OCC also unveiled public service announcements aimed at encouraging delinquent mortgage borrowers to get help by contacting their lenders or a trusted counselor in order to avoid foreclosure. In addition, the OCC highlighted efforts to assist minority-owned banks, including sponsoring an interagency conference and a newsletter dedicated to issues involving those institutions.

Customer Assistance

The OCC's Customer Assistance Group (CAG) assists consumers who have questions or complaints about national banks and their operating subsidiaries. The CAG received 67,000 contacts from consumers in the form of telephone calls, letters, faxes, and e-mails in FY 2007.

In FY 2007, CAG received favorable results from a customer satisfaction survey that was conducted at the beginning of the fiscal year. In FY 2008, follow-up surveys will be conducted to identify trends and patterns in the responses. Also, during FY 2007, the OCC expanded the CAG call center hours to Monday through Friday, from 7 a.m. to 7 p.m. (CST) to enhance customer accessibility.

During FY 2007, outreach activities to state bank regulators resulted in Memorandums of Understanding (MOU) being signed between the OCC and 25 state banking departments and the Commonwealth of Puerto Rico with several other MOU agreements in process. The agreements detail ways to gain efficiencies in processing cases by streamlining the way the states and the CAG exchange bank customers' complaint information. The CAG goals for FY 2008 include a continuation of outreach activities to state regulators and others.

Regulation

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. In FY 2007, the OCC participated in the interagency review of regulations required by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), continued progress on the implementation of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act), and issued supervisory guidance in areas of lending activity that present new or heightened risks to national banks.

The OCC's strategic objectives emphasize regulatory oversight practices that support national banks' ability to compete while maintaining safety and soundness. This objective entails, among other things, refinement and clarification of the key attributes that define the national bank charter, including the preemptive attributes of the charter. In FY 2006, the U.S. Supreme Court granted *certiorari* in Watters v. Wachovia Bank, *N.A.*, a national bank preemption case in which the OCC, represented through the Solicitor General of the United States, participated as *amicus curiae*. The Supreme

Court's decision in the *Watters* case, issued in FY 2007, reaffirmed the key principle from its *Barnett Bank of Marion County, N.A. v. Nelson* decision of over a decade ago that state law may not significantly burden, curtail, or hinder a national bank's exercise of its express or implied powers, whether those powers are exercised directly by the bank or through other means. *Watters* confirms that preemption depends on the effects that state law has on the exercise of national bank powers regardless of the corporate structure a bank uses.

In FY 2007, the OCC made permanent a pilot program aimed at helping community banks with national charters continue to meet the credit needs of their customers. National banks are generally allowed to lend no more than 15 percent of capital on an unsecured basis, plus an additional 10 percent secured by readily marketable collateral, to a single borrower. Many states have established higher limits for the banks they charter. Under the program, a qualified, well-managed national bank may use a higher lending limit for 1-4 family residential real estate loans, small business loans, and small farm loans, if the state where the bank is located allows its state-chartered banks to use a higher lending limit for these types of loans.

In FY 2008, the OCC will continue to provide case-by-case analysis, when appropriate, with respect to the applicability of state law and the exclusivity of the agency's visitorial authority under the national banking laws, in order for national banks to operate efficiently under uniform national standards.

Completion of Regulation Review

In FY 2006, the OCC, together with the other federal banking agencies and the NCUA, completed the review of regulations required by the EGRPRA. EGRPRA requires the federal agencies that are members of the FFIEC to review their rules every 10 years to identify those that are outdated or unnecessary and to revise or eliminate such rules if appropriate.[1] Upon completion of the review, EGRPRA further requires the agencies to submit a report to Congress. The agencies submitted that report in November 2007.

The OCC identified a number of changes to its rules that should streamline existing requirements or procedures and enhance national banks' flexibility in conducting authorized activities. The OCC's proposed amendments to its rules effecting these changes were published for comment in July 2007. Work on a rule to finalize the changes the OCC proposed will continue into FY 2008.

Implementation of the FACT Act

The FACT Act[2] amended the Fair Credit Reporting Act in a number of areas that require the issuance of implementing regulations. In FY 2006, the OCC, together with the FRB, the FDIC, the OTS, and the NCUA completed a rulemaking implementing the FACT Act's limitations on obtaining and sharing medical information. In addition, these agencies and the Federal Trade Commission issued a final rule in October 2007,

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[1] 12 U.S.C. § 3311

[2] Pub. L. No. 108-159, 117 Stat. 1952 (Dec. 4, 2003)

pertaining to patterns, practices, and specific forms of activity (referred to as “red flags”) that indicate the possible existence of identity theft.

OMB Circular A-123, Management’s Responsibility for Internal Control, Appendix A

In compliance with OMB Circular A-123, Appendix A, in FY 2007 the OCC continued to refine its A-123 program. A risk assessment of all business processes related to financial reporting was expanded to include additional assessment of other programs that have an impact on the OCC’s financial statements or which pose other risks to the OCC, such as reputation risk. Based on this assessment, the OCC carried out 40 comprehensive test plans, including coverage of the information systems that support financial reporting. The testing revealed no material internal control weaknesses. During FY 2008, the OCC’s risk assessment process will be enhanced to incorporate the Enterprise Risk Management Framework recommended by the Committee of Sponsoring Organizations of the Treadway Commission, as well as the OCC strategic risk assessment. The OCC will also update documentation over financial processes as needed and carry out test plans to support the FY 2008 assessment over financial reporting.

Homeland Security Presidential Directive 12 (HSPD-12) and Federal Information Security Management Act (FISMA)

In FY 2007, the OCC successfully established a HSPD-12 program that involves both a physical and logical security implementation strategy. This program involves close coordination with the Treasury HSPD-12 Program Management Office (PMO) and General Services Administration (GSA) Managed Service Office (MSO). The program plan calls for a three-phase implementation strategy. The three phases of the OCC HSPD-12 program are: 1) Phase I - Project planning, requirements analysis, and acquisition of integration services, 2) Phase II – HSPD-12 system enterprise/infrastructure integration and deployment, and 3) Phase III – HSPD-12 systems maintenance and the OCC application integration.

In FY 2007, the OCC completed the Phase I project planning elements of the program. It established system integration plans with both Treasury and GSA. The OCC is working with Treasury to leverage the shared services solution provided by the GSA MSO. This Treasury and GSA solution will also satisfy the additional goals pertaining to the E-Government initiatives for sharing government-wide services and will also provide a complete solution to support the OCC’s ID badge program requirements. In FY 2008, the OCC will work with Treasury and GSA on the Phase II systems enterprise/infrastructure integration and deployment of the systems necessary to create and use smartcard IDs, which control both physical access to the OCC facilities and logical access to the OCC information systems.

The OCC also has made improvements in computer security via policy and technical changes. New rules instituted in FY 2007 on the use of the OCC computer equipment and networks include a policy that all data on computers and removable media be encrypted, procedures for assessing the impact and any needed agency response to data breaches, and procedures for sensitive data on the OCC computers. Technical changes include full disk encryption on the OCC computers, encrypting all BlackBerry devices, enhancing network and computer security software, and instituting two-factor authentication for remote access to the OCC network. On the compliance side, the OCC continues to refine its approach to documentation, training, and certification and accreditation activities required by the FISMA as well as evolving Treasury and government-wide standards. Employees and contractors in the OCC's Chief Information Officer's office with special security responsibility took additional training to underscore and reinforce their security duties.

To further strengthen computer and physical security, during FY 2007, the OCC contracted with a third-party vendor to conduct an end-to-end assessment. This project resulted in recommendations for improvements to physical and technological infrastructure and security policies and procedures. Actions to address the recommendations are currently underway.

1C – Industry Outlook

Bank earnings have been strong for the last 15 years, and strong earnings have in turn contributed to healthy capital ratios. Banks have successfully expanded their product range, and this expansion has been an important factor in maintaining robust earnings growth. Along with the greater range of products has come the growing importance and complexity of off-balance sheet income and noninterest income. These have been especially important at the largest banks, and are now becoming important for some smaller institutions as well. The OCC expects these trends to continue. There is more uncertainty about banks' ability to continue to rely on the real estate sector to drive asset and earnings growth.

Over the next five years, bank assets are likely to grow at the same rate as nominal Gross Domestic Product (GDP). This is consistent with historical experience and with the status of banking as a mature industry, in which profits grow over the long-term at about the rate of nominal GDP.

	Commercial Banks		National Banks		Share of total system assets
	Assets ($t)	Number	Assets ($t)	Number	in banks over $10 billion
2006	10.1	7,402	6.8	1,715	77.3%
2011e	12.9	6,781	8.7	1,571	80.0%

The number of banks has fallen steadily for at least two decades. The long-term trend of bank consolidation is likely to continue, and that over the next five years, the number of national banks will likely decline at the same rate experienced by the total commercial bank population. In 2006, 88 banks had assets exceeding $10 billion, while about 3,200 banks had assets under $100 million. By 2011, the number of banks over $10 billion is expected to remain about the same, while the number of banks under $100 million is expected to continue to decline.

Large banks will continue to dominate the industry. Banks with over $10 billion in assets now account for 77 percent of system assets; this share has been increasing, and this trend is expected to continue.

Until about five years ago, national banks consistently accounted for about 59 percent of all commercial bank assets. Since then, a series of mergers has increased the national bank share to about 68 percent of commercial bank assets.

Risks to the banking system include an economic slowdown, and deterioration in real estate markets, have accounted for much of the growth in bank income and assets over the last several years.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Office of the Comptroller of the Currency	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
FTE	**2,954**	**3,078**	**3,139**
Object Classification:			
11.1 - Full-time permanent	308,736	347,157	369,946
11.3 - Other than full-time permanent	7,583	7,194	7,666
11.5 - Other personnel compensation	1,726	2,003	2,135
11.8 - Special personal services payments	148	0	0
12 - Personnel benefits	105,590	116,584	132,787
13 - Benefits for former personnel	453	190	206
21 - Travel and transportation of persons	39,073	45,360	50,351
22 - Transportation of things	2,023	2,837	3,190
23.1 - Rental payments to GSA	921	2,690	2,716
23.2 - Rental payments to others	27,380	29,432	31,371
23.3 - Comm, utilities, and misc charges	9,744	14,242	15,367
24 - Printing and reproduction	1,158	1,182	1,234
25 - Other contractual Services	0	0	0
25.1 - Advisory and assistance services	33,460	37,247	38,524
25.2 - Other services	15,472	19,223	20,665
25.3 - Other purchases of goods and services from Govt. accounts	4,786	6,588	7,082
25.4 - Operation and maintenance of facilities	2,834	3,678	3,954
25.5 - Research and development contracts	0	0	0
25.6 - Medical care	0	0	0
25.7 - Operation and maintenance of equip	43,629	56,206	56,598
25.8 - Subsistence and support of persons	0	0	0
26 - Supplies and materials	5,269	7,152	8,022
31 - Equipment	20,056	20,481	26,443
32 - Land and structures	8,368	29,604	32,565
33 - Investments and loans	0	0	0
41 - Grants, subsidies, and contributions	0	0	0
42 - Insurance claims and indemnities	24	50	50
43 - Interest and dividends	0	0	0
44 - Refunds	0	0	0
Total Budget Authority	$638,433	$749,100	$810,872
Budget Activities:			
Supervise	528,622	625,582	675,780
Regulate	91,296	98,669	108,414
Charter	18,515	24,849	26,678
Total Budget Authority	$638,433	$749,100	$810,872

2.3 – Resource Detail Table

	FY 2007 Obligated		FY 2008 Estimated		FY 2009 Estimated		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Revenue / Offsetting Collections								
Assessments		$677,890		$725,400		$779,900		7.51%
Interest		27,622		29,100		31,100		6.87%
Other Income		2,810		3,100		3,200		3.23%
Total Revenue / Offsetting Collections		$708,322		$757,600		$814,200		7.47%
Unobligated balances, Start of year		597,772		667,661		676,161		1.27%
Recoveries of prior year obligations		0		0		0		0.00%
Net transfers *(includes capital transfers)*		0		0		0		0.00%
Total budgetary resources available		$1,306,094		$1,425,261		$1,490,361		4.57%
Expenses/Obligations								
Supervision	2,482	528,622	2,557	625,582	2,609	675,780	2.03%	8.02%
Regulate	390	91,296	428	98,669	436	108,414	1.87%	9.88%
Charter	82	18,515	93	24,849	94	26,678	1.08%	7.36%
Total Expenses / Obligations	2,954	$638,433	3,078	$749,100	3,139	$810,872	1.98%	8.25%
Net Results		$667,661		$676,161		$679,489		0.49%

2B – Appropriations Language and Explanation of Changes

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 2009 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 2008 Estimated** AMOUNT	**FY 2009 Estimated** AMOUNT	**Percent Change** AMOUNT
Economic competitiveness	123,518	135,092	**9.4%**
Fin. & econ.crises	625,582	675,780	**8.0%**
Total	**$749,100**	**$810,872**	**8.2%**

3A – Supervise *($625,582,000 from reimbursable programs):* The Supervise program consists of those 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 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Estimated**	**FY 2009 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$408,091	$471,882	$528,622	$625,582	$675,780
Total Resources	**$408,091**	**$471,882**	**$528,622**	**$625,582**	**$675,780**
Budget Activity Total	**$408,091**	**$471,882**	**$528,622**	**$625,582**	**$675,780**

Supervise Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Percentage of national banks that are categorized as well capitalized (%) (Oe)	99%	99%	99%	95%	95%
Percentage of national banks with composite CAMELS rating 1 or 2 (%) (Oe)	94%	95%	96%	90%	95%
Rehabilitated national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4, or 5) (%) (Oe)	44%	46%	52%	40%	40%
Percentage of national banks with consumer compliance rating of 1 or 2 (%) (Oe)	94%	94%	97%	94%	94%
Total OCC costs relative to every $100,000 in bank assets regulated ($) (E)	N/A	$8.57	$8.89	$9.55	$9.55

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

Description of Performance:

Well Capitalized National Banks
The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) based on their capital levels relative to their risks. Through September 30, 2007, 99 percent of national banks were classified as well capitalized. National banks' capital has remained at this consistently high level for the past several years.

National Banks with Composite CAMELS Rating of 1 or 2
The composite CAMELS (**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, 2007, 96 percent of national banks earned a composite CAMELS rating of either 1 or 2, signifying an overall safe and sound national banking system and a foundation for a strong U.S. economy.

Rehabilitated National Banks
Problem banks 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. The OCC recommends corrective actions to problem banks for improving their operations and, as a result, 52 percent of banks with composite CAMELS rating of 3, 4, or 5 one year ago have improved their ratings to either 1 or 2 this year. This is an improvement from 46 percent achieved in FY 2006 and 44 percent achieved in FY 2005.

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 97 percent earning a consumer compliance rating of either 1 or 2 through September 30, 2007.

Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated
Beginning in FY 2006, the OCC implemented a performance measure—Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated—that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex national banking system. OCC costs are those reported as total program costs on the annual audited Statement of Net Cost. Bank assets are those reported quarterly by national banks on their Reports of Condition and Income. Total bank assets represent the growth and complexity of the national banking system. This measure supports the OCC's strategic goal of efficient use of agency resources. The OCC's ability to control its costs while ensuring the safety and soundness of the banking system benefits all national bank customers.

3B – Regulate *($98,669,000 from reimbursable programs):* The Regulate program consists of those ongoing activities that result in the establishment of regulations, policies, operating guidance, and interpretations of general applicability to national banks. These regulations, policies, and interpretations may establish system-wide standards, define acceptable banking practices, provide guidance on risks and responsibilities facing national banks, or prohibit (or restrict) banking practices deemed to be imprudent or unsafe. 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 2005 Obligated**	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Estimated**	**FY 2009 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$64,011	$70,992	$91,296	$98,669	$108,414
Total Resources	**$64,011**	**$70,992**	**$91,296**	**$98,669**	**$108,414**
Budget Activity Total	**$64,011**	**$70,992**	**$91,296**	**$98,669**	**$108,414**

Regulate Budget Activity					
Measure	**FY 2005 Actual**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Target**	**FY 2009 Target**

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

3C – Charter *($24,849,000 from reimbursable programs):* The Charter program involves those ongoing activities that result in the chartering of national banks as well as the evaluation of the permissibility of structures and activities of national banks and their subsidiaries. This includes the review and approval of new national bank charters, federal branches and agencies, mergers, acquisitions, conversions, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations, and subordinated debt issues.

3.2.3 – Charter Budget and Performance Plan

Charter Budget Activity					
Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$15,011	$13,952	$18,515	$24,849	$26,678
Total Resources	**$15,011**	**$13,952**	**$18,515**	**$24,849**	**$26,678**
Budget Activity Total	**$15,011**	**$13,952**	**$18,515**	**$24,849**	**$26,678**

Charter Budget Activity					
Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Percentage of licensing applications and notices completed within established timeframes. (%) (Oe)	96%	94%	96%	95%	95%

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

Description of Performance:

Licensing Applications and Notices Completed within Time Frames
The OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks to complete various corporate transactions and introduce new financial products and services. Delays in providing prompt decisions on applications and notices can deprive a bank of a competitive or business opportunity, create business uncertainties, or diminish financial results. Time frames have been established for completing each type of application and notice. The OCC completed 96 percent of applications and notices within the time standard through September 30, 2007. Institutions receiving decisions on their corporate applications and notices rated the OCC's overall licensing services an average of 1.2. The licensing survey is based on a five-point rating scale, in which 1 indicates outstanding and 5 indicates significantly deficient.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The OCC has 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 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 high priority recruitment needs and approves incentives specifically designed to address those priorities. Other strategies include: 1) using all qualified personnel on priority assignments, realizing the increasing dependence and need for "fungibility" among and within various disciplines; 2) using the midsize/community banks area as the primary entry-level recruitment, training, and development vehicle to provide a diverse bank examiner selection pool for many departments and divisions in the bureau; and 3) identifying skill gaps and using them to establish recruitment and training priorities as part of the OCC's ongoing strategic planning process.

The OCC has implemented a number of 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, almost 600 examiners have been hired, including more than 150 in FY 2007. The agency has focused heavily on recruiting the expertise needed to fill positions in our Chief National Bank Examiner's (CNBE) office and Large Banks 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 recently developed a framework to assess where and when specialized skills are needed (e.g., what types of bank assignments) and to ensure that the OCC has the staffing resources 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 line 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, which can be compared to actual examination resources necessary for the effective supervision of the population of national banks. Assessment results will aid examination staffing, 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.

A second human capital goal is to develop current and future leaders who demonstrate strong strategic, people management, and technical skills. To achieve this goal, the OCC is piloting a leadership development program, LeaderTRACK, based upon identified competencies. The program, which will be piloted for 18 months, began in FY 2007. This pilot program 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 also 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/benefit programs and performance systems that link with organizational goals and mission accomplishment, enable the OCC to recruit and retain critical positions, and reward high performers. To accomplish this goal, the OCC regularly reviews and adjusts compensation and benefits and performance management programs to ensure that they continue to support the OCC objectives. The OCC operates under a merit-based 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 needs, and employee contributions to the OCC's priorities. The OCC continually evaluates its programs to ensure that there is an appropriate correlation between pay and performance.

The OCC is confident that these strategies will enable it to avoid any critical deficiencies in terms of having the right numbers of people with the right skills to accomplish the OCC's mission.

OCC Makes Top Ten List of Best Places to Work in Federal Government

The OCC ranked fourth out of more than 200 federal agency sub-components for best places to work in the federal government in 2006, according to the Partnership for Public Service and American University's Institute for the Study of Public Policy Implementation. The list reflects the responses of more than 221,000 randomly selected federal employees who completed the Office of Personnel Management's 2006 Federal Human Capital Survey. The list compares agencies in effective leadership, employee skills/mission match, family friendly culture, pay and benefits, performance-based rewards and advancement, strategic management, support for diversity, teamwork, training/development, and work/life balance.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments (from Exhibit 53) * (Dollars in thousands) Major IT Investments / Funding Source	Budget Activity	FY 2006 Obligated	FY 2007 Obligated	% Change from FY06 to FY07	FY 2008 Estimated	% Change from FY07 to FY08	FY 2009 Estimated	% Change from FY08 to FY09
Chief Counsel	OCC - Charter, Supervise, Regulate	3,765	2,770	-26.4%	523	-81.1%	0	-100.0%
Enterprise Services	OCC - Charter, Supervise, Regulate, Manage	1,262	1,323	4.8%	806	-39.1%	0	-100.0%
Examinations	OCC - Supervise	3,946	2,535	-35.8%	3,236	27.7%	0	-100.0%
WISDM ***	OCC - Supervise	0	0	0.0%	0	0.0%	2,452	0.0%
Fiscal Management ***	OCC - Manage	754	312	-58.6%	2,490	698.1%	1,920	-22.9%
Subtotal, Major IT Investments **		$9,727	$6,940	-28.7%	$7,055	1.7%	$4,372	-38.0%
Chief Counsel	OCC - Charter, Supervise, Regulate	240	0	-100.0%	0	0.0%	203	0.0%
Canary Early Warning System	OCC - Supervise	301	460	52.8%	250	-45.7%	150	-40.0%
Examiner View	OCC - Supervise	0	0	0.0%	665	0.0%	669	0.6%
Ombudsman	OCC - Supervise	154	150	-2.6%	745	396.7%	389	-47.8%
Shared National Credit	OCC - Supervise	731	0	-100.0%	3,567	0.0%	1,542	-56.8%
SIS LB - Institutional Data	OCC - Supervise	523	0	-100.0%	847	0.0%	410	-51.6%
SIS - Peer Analytical Data	OCC - Supervise	0	0	0.0%	636	0.0%	370	-41.8%
Suspicious Activity Reports	OCC - Supervise	181	204	12.7%	0	-100.0%	0	0.0%
CARS & FINDRS	OCC - Supervise	0	272	0.0%	0	-100.0%	0	0.0%
STARS	OCC - Supervise	0	0	0.0%	5,755	0.0%	0	-100.0%
HR/Operational Datamarts & Mainframe Retirement	OCC - Manage	966	321	-66.8%	0	-100.0%	0	0.0%
Web & Electronic Publishing System	OCC - Supervise	488	0	-100.0%	4,449	0.0%	1,672	-62.4%
Non-Major IT Investments **		$3,584	$1,407	-60.7%	$16,914	1102.1%	$5,405	-68.0%
OCC - Data Center Systems & Services (Consolidated Infrastructure)		6,099	8,261	35.4%	8,486	2.7%	18,085	113.1%
OCC - Security Program		1,396	2,077	48.8%	2,959	42.5%	0	-100.0%
OCC - Telecommunications Systems & Services		11,258	12,453	10.6%	11,476	-7.8%	21,200	84.7%
OCC - Enterprise Identity Management		0	1,323	0.0%	1,050	-20.6%	2,159	105.6%
Infrastructure Investments		$18,753	$24,114	28.6%	$23,971	-0.6%	$41,444	72.9%
Enterprise Architecture		$0.00	$0.00	0.0%	$0.00	0.0%	$0.00	0.0%
Total IT Investments		$32,064	$32,461	1.2%	$47,940	47.7%	$51,221	6.8%

Notes:

*/ All OCC budget authority derives from an indefinite availability trust fund, i.e., "no-year".

**/ OCC uses an IT Portfolio setaside where major and non-major projects can be selected throughout the year which may cause realignments between categories or line-items for FY 2009.

***/ Beginning in FY 2009, OCC will report 1 major investment to Treasury (FISCAL MANAGEMENT). WISDM will be reported as part of the consolidated Treasury Enterprise Content Management 300.

4B – Information Technology Strategy

The OCC's strategic plan for meeting its IT needs is tied to the current and target enterprise architecture. The OCC's enterprise architecture provides the agency with the data, technology, and infrastructure needs to support the operational and strategic needs of the business. The OCC's capital planning process ensures that all IT investments are aligned with the current or target enterprise architecture and will align to the mission of the OCC before a project is selected for funding.

The capital planning process ensures that business cases are reviewed to ensure alignment to Enterprise Architecture (EA), to leverage opportunities to use existing technology, to capitalize on enterprise opportunities as well as ensure that there is no redundancy in IT systems that are selected into the portfolio.

The Department's 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 and Subcommittee (TSS). The TSS is chaired by the Chief Information Officer and includes the Senior Deputy Comptrollers for Large Bank Supervision, International and Economic Affairs, the Chief Financial Officer, and the Chief of Staff. Both the IRB and TSS have regularly scheduled meetings to address IT investments. This process ensures that the overall IT strategy has adequate funding, resources, and prioritization to support the direction of Information Technology in alignment with the mission, goals and objectives of the agency.

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. Investments are monitored on a quarterly basis by the IRB and TSS. The OCC's IT investments are also subject to Quarterly Control reviews conducted by Treasury's CIO Council. During the Quarterly Control Review meetings, the IRB and TSS decide whether to continue, defer, or terminate projects based on project performance including performance metrics. If it is determined that the project is not meeting its performance metrics, it first is asked to develop a remediation plan to address the risk. The IRB monitors the risk mitigation implementation process and decides whether the strategy is satisfactory. The IRB decides whether to terminate or proceed with the project based on the results of the implementation of the risk mitigation strategy.

4.2 – PART Evaluation Table

PART Name:	Bank Supervision
Year PARTed:	FY 2003
Rating:	Effective

OMB Major Findings/Recommendations

1. The FY 2003 assessment of the OCC's Bank Supervision found that the program purpose is clear, goals are outcome-oriented, program measurements are clear, program is efficiently and effectively managed, but the program is not unique in that other agencies perform similar types of regulatory functions in the banking industry.

2. Federal banking regulatory agencies, including the OCC, the Office of Thrift Supervision (OTS), the National Credit Union Administration (NCUA), the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC), should work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.

Bureau Actions Planned or Underway

1. Regulatory agencies that include the OCC, OTS, NCUA, FDIC, Federal Reserve, Office of Federal Housing Enterprise Oversight (OFHEO), Securities and Exchange Commission (SEC), and the Federal Housing Finance Board (FHFB) continue to share their strategic plans, performance plans, and performance measures on a regular basis. This allows each agency to consider the approaches used by the other agencies when developing or revising their goals and measures. The OCC and OTS, as bureaus in the Department of the Treasury, continue to work together to maintain alignment of their performance measures.

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

Office of Thrift Supervision

Mission Statement

To supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws and to encourage a competitive industry that meets America's financial services needs.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2007	FY 2008	FY 2009		
Office of Thrift Supervision	**Obligated**	**Estimated**	**Estimated**	**$ Change**	**% Change**
Supervision of the Thrift Industry	$232,500	$245,500	$251,638	$6,138	2.50%
Total Resources	**$232,500**	**$245,500**	**$251,638**	**$6,138**	**2.50%**

FY 2008 Priorities

- Comprehensive and Risk-Focused Examinations,
- Interest Rate and Credit Risks including sub-prime mortgage lending,
- Compliance Risks, Financial Crimes, Data Breaches, and Information Security,
- Disaster and Emergency Preparedness,
- Global Financial Services,
- Regulatory Burden Reduction,
- Communicate the benefits of the Thrift Charter, and
- Succession Planning and Management of OTS Resources.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

Established by Congress as a bureau of the Department of the Treasury on August 9, 1989, the Office of Thrift Supervision (OTS) charters, examines, supervises, and regulates federal savings associations insured by the Federal Deposit Insurance Corporation (FDIC). OTS's primary statutory authority is the Home Owners' Loan Act originally enacted in 1933. OTS also examines, supervises, and regulates state-chartered savings associations insured by the FDIC and provides for the registration, examination, and regulation of savings and loan holding companies (SLHCs) and other affiliates.

The thrift charter has several unique characteristics including nationwide branching under a single charter; a holding company structure offering a single regulator for the holding company and its subsidiary depository institution; and preemption authority. OTS is the only federal-banking agency that both charters depository institutions and supervises their holding companies. The thrift charter continues to flourish as institutions change and adapt their business strategies and focus. OTS supervised holding companies are diverse, ranging from large, multinational corporations to small companies with few assets other than their thrift charter. As of September 30, 2007, OTS supervised 470 holding company enterprises with approximately $8.5 trillion in U.S. domiciled consolidated assets. Over half of all savings associations and 83 percent of total savings association assets are owned by OTS regulated holding companies.

The thrift industry is strong and well capitalized. As of September 2007, OTS regulated 831 savings associations with total assets of $1.57 trillion. Savings associations operate in a safe and sound manner with 93 percent achieving an overall composite CAMELS rating of 1 or 2. The CAMELS rating reflects OTS's evaluation of an institution's Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to market risk. The industry's capital position remains strong with 99 percent of savings associations meeting the well-capitalized standards.

<u>OTS Vision, Strategic Goals and Priorities</u>

OTS's vision is to perform and be recognized as the premier regulator of financial institutions and holding companies. The FY 2008 budget submission is guided by the four strategic goals outlined in the OTS 2007-2012 Strategic Plan.

- A safe and sound thrift industry.
- Fair access to financial services and fair treatment of thrift customers.
- A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.
- A professional, highly motivated, and diverse workforce that effectively uses OTS resources to provide exceptional service to its customers.

OTS's FY 2008 budget of $245.5 million supports OTS's efforts to address these key strategic issues and challenges:

- Examine, supervise, and regulate 831 savings associations with total assets of $1.57 trillion
- Supervise 470 holding company enterprises with approximately $8.5 trillion in consolidated assets,
- Tailor examinations to the risk profile of the institution and streamline the examination of smaller institutions,
- Conduct safety and soundness examinations of savings associations every 12-18 months that also incorporates an assessment of compliance with consumer protection laws and regulations,
- Promote the reduction of regulatory burden,
- Coordinate supervisory and policy development activities with relevant domestic and foreign financial regulators,
- Abate money laundering and terrorist financing by examining savings associations for compliance with the Bank Secrecy Act, the USA PATRIOT Act, and other anti-money laundering laws,
- Communicate the benefits of the thrift charter and the important role of community-based thrifts,
- Continue efforts to implement the international Basel II risk-based capital framework, and
- Address succession planning.

1B – Program History and Future Outlook

OTS is headquartered in Washington, D.C. with five regional offices located in Jersey City, Atlanta, Chicago, Dallas, and San Francisco. The headquarters office develops nationwide policies and programs for the agency and coordinates the operations of OTS. The regional offices examine and supervise institutions and process most applications. Approximately 72 percent of OTS's staff of 1,028 employees work in OTS's regional offices.

The President, with Senate confirmation, appoints OTS's Director for a 5-year term. OTS's Director also serves as a member of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC), a member of the Federal Financial Institutions Examination Council (FFIEC), and a director of NeighborWorks® America.
The following activities highlight FY 2007 OTS accomplishments and FY 2008 strategic priorities and challenges.

<u>Comprehensive Examination Approach</u>

OTS conducts a comprehensive examination combining safety and soundness and compliance reviews to eliminate multiple reviews of the same area for different purposes. OTS's examination teams issue one report of examination that covers both compliance and safety and soundness. This approach allows OTS to comprehensively assess an institution's risk management programs, business strategy, and operations with a top-down, risk-focused approach that promotes comprehensive compliance management, including the establishment of adequate internal controls to ensure regulatory compliance and to prevent predatory practices. OTS is also able to evaluate compliance management programs and compliance with the Bank Secrecy Act, Fair Lending, and Flood Disaster Protection on a more frequent basis.

OTS is more efficient and has reduced regulatory burden due to its comprehensive examination approach. It issues one information request package prior to the start of each examination and examines lending portfolios from both compliance and safety and soundness perspectives at the same time. This comprehensive approach reduces savings association cost and burden while promoting an efficient, risk-focused examination report that details all exam findings. The majority of OTS-regulated institutions indicate a favorable response to the comprehensive examination approach.

To maintain its rigorous staff accreditation standards, OTS requires that its examiners: 1) undergo formal, informal, and independent training, 2) pass proficiency tests, 3) receive on-the-job training to become proficient in examination disciplines and 4) serve as examiner-in-charge of at least two comprehensive examinations prior to accreditation. OTS continually works to provide specialized training, rigorous accreditation and professional development programs, and other supervisory tools to ensure OTS is capably equipped to supervise a dynamic and growing industry. OTS also recognizes that there are very complex and highly technical issues that arise in connection with our comprehensive examination approach. For this reason, OTS continues to maintain compliance, lending, capital markets, trust, and information technology specialists to assist examiners in addressing these matters.

Interest Rate and Credit Risks

As community-based lenders, thrifts remain focused on residential mortgage lending with 50.7 percent of assets invested in 1-4 family mortgage loans as of September 30, 2007. Given this concentration, thrift asset quality is dependent on stable real estate values and consumers' continued employment and ability to service their debt.

OTS closely monitors interest rate risk due to the thrift industry's natural concentration in longer-term mortgage loans, which are generally funded with shorter-term deposits and borrowings. OTS maintains an interest rate risk sensitivity model that stress-tests savings association portfolios to evaluate potential exposure to changing interest rates. OTS remains cautious of the potential impact of a rapid increase in market interest rates and will remain vigilant in monitoring savings associations for adverse trends. In 2006, OTS enhanced its state of the art Net Portfolio Value (NPV) Model to expand OTS's off-site interest rate risk monitoring capability and improve the efficiency and effectiveness of on-site examinations. The NPV model improves the agency's unique ability to provide OTS regulated institutions with quarterly estimates of their interest rate risk exposures.

Alternative or nontraditional mortgage lending products (such as variable rate mortgages, pay option ARMS or interest only) present a unique hybrid of credit and interest rate risks. Credit risk in mortgage lending, typically managed by sound underwriting criteria, is more complex with these nontraditional lending products. In 2006 the federal financial regulatory agencies issued guidance to address the risks posed by these types of loans, recommending that management recognize these products require strong risk management standards, capital levels commensurate with the risk, and a loan loss allowance reflective of the portfolio collectibility. On May 31, 2007 the regulatory agencies issued final illustrations of consumer information intended to help institutions implement the consumer protection portion of the Interagency Guidance on Nontraditional Mortgage Product Risks that the agencies adopted October 4, 2006. The guidance addresses the risks posed by residential mortgage products that allow borrowers to defer repayment of principal and sometimes interest. It describes sound practices for managing risk and supplements existing OTS guidance on these products.

OTS and the other banking agencies worked with the Conference of State Bank Supervisors and American Association of Residential Mortgage Regulators to encourage individual states to adopt the guidelines for mortgage brokers under their supervision. The banking regulators also encouraged financial institutions to work with residential borrowers that are unable to meet their contractual home loan obligations.

The thrift industry's current sound financial condition permits it to address potential credit quality problems from a position of strength. Thrifts continue to take appropriate steps in response to the continued weakness in the housing market by maintaining strong capital and increasing their provisions for loan losses. The ability of the industry to post solid earnings while continuing the provisioning for loan losses, and the current strong capital position, will help the industry weather any further weakening in the housing markets.

Compliance Risks

An OTS-regulated institution is required to have an effective compliance management program that is commensurate with its size, complexity, and risk profile. OTS examiners assess whether an institution is ensuring the privacy and security of consumer financial information, guarding against money laundering and terrorist financing, and ensuring fair and equal access to credit for all customers.

OTS examines for Bank Secrecy (BSA), the USA PATRIOT Act, and other Anti-money Laundering (AML) compliance. Between January 1, 2006 and June 30, 2007, OTS conducted 884 BSA examinations and cited 148 institutions for violations. Most violations were remedied during the examination process and resulted in no further action. The others resulted in OTS initiating 40 enforcement actions.

On July 19, 2007, the federal financial regulatory agencies issued a statement setting forth the agencies' policy for enforcing specific anti-money laundering requirements of the Bank Secrecy Act (BSA). The purpose of the *Interagency Statement on Enforcement of Bank Secrecy Act/Anti-Money Laundering Requirements* is to provide greater consistency among the agencies in enforcement decisions in BSA matters and to offer insight into the considerations that form the basis of those decisions.

OTS's compliance program is structured to ensure that thrifts keep credit information confidential, fight identity theft, and ensure the accuracy of consumers' credit reports. Data security is reviewed at thrifts and third party technology service providers. The Gramm-Leach-Bliley Act requires that all financial institutions establish a program to protect their customer's personal information. OTS, with the other financial banking agencies, issued guidance regarding data security, security breach notification requirements, and electronic authentication in an electronic banking environment.

Thrifts provide services that encourage home ownership and affordable housing and contribute to economic growth. As of the end of September 2007, thrifts held over $1 trillion in housing-related loans and securities. In March 2007, OTS revised its Community Reinvestment Act (CRA) regulations to reestablish uniformity between its regulations and those of the other federal banking agencies. The alignment best serves the interests of insured depository institutions and their communities by providing for consistency in regulation and compliance. The vast majority of OTS institutions are in compliance with the Community Reinvestment Act. OTS's compliance reviews help to ensure fair and equal access to credit for all Americans.

Emergency and Disaster Preparedness

OTS is actively involved in initiatives to address emergency and disaster preparedness. In October 2007, OTS urged thrifts in areas affected by the Southern California wildfires to consider all reasonable steps to meet customers' financial needs while maintaining standards of safety and soundness and emphasized that thrifts in affected areas could:

- Consider temporarily waiving charges for late payments and penalties for early withdrawal of savings;
- Reassess the credit needs of their communities and offer prudent loans to help rebuild;
- Restructure borrowers' debt obligations, when appropriate, by adjusting payment terms;
- Solicit state and federal guarantees and other means to help mitigate excessive credit risks; and
- Consider all available programs offered by the Federal Home Loan Banks.

For the past 20 years, OTS, in conjunction with the other FFIEC agencies, has issued guidance to the industry with regard to Disaster Recovery and Business Continuity Planning. During examinations, OTS reviews each institution's plans for continuity of operations and emergency preparedness. OTS participates on the Financial and Banking Information Infrastructure Committee to improve the reliability and security of the financial industry's infrastructure.

Global Financial Services

OTS's Complex and International Organization program oversees OTS's global services. The European Union (EU) seeks to ensure that financial conglomerates domiciled outside EU member countries are subject to an equivalent level of supervision by foreign supervisors and to enhance coordination among relevant supervisors. OTS is the supervisor for U.S. thrift holding companies, including a number of financial conglomerates active in the EU. OTS was the first regulatory authority to be designated a consolidated coordinating regulator of a holding company with operations in the EU. The EU designation was received in December 2004 for OTS's oversight of GE Capital Services, in September 2006 for Ameriprise, and January 2007 for the American International Group, Inc. (AIG). The supervision and examination of GE, AIG, and Ameriprise are managed by a group solely dedicated to that task in Supervision.

The federal banking agencies are continuing efforts to implement the international Basel II risk-based capital framework. In early November, 2007, the Federal Reserve, the Office of the Comptroller of the Currency, the OTS, and the Federal Deposit Insurance Corporation approved a final rule regarding the advanced approaches for computing large banks' risk-based capital requirements. That rule should be published in the Federal Register before year-end, with an effective date of April 1, 2008. The federal banking agencies also plan to propose, in the first quarter of 2008, a standardized capital framework as an option for all remaining U.S. banks that will not be required to adopt the advanced approaches. This proposal will introduce a capital framework similar to that which is available in many other countries. By design, it should also mitigate some concerns about domestic competitive equity raised by the adoption of the advanced approaches. It will supplant the now-abandoned Basel IA proposal.

Regulatory Burden Reduction

Under the Economic Growth and Regulatory Paperwork Reduction Act, enacted by Congress in 1996, federal banking agencies are required to review all of their regulations at least once every 10 years. In 2003, the agencies began a joint effort to categorize the regulations, publish the categories for comment, report to Congress on any significant issues raised by the comments, and eliminate unnecessary regulations. The first review was completed in 2006, as required under this law.

The federal banking agencies identified burdens that would require legislative changes to the underlying statutes before changes could be made to the regulations. These changes were presented to Congress as a list of consensus items that the national bank and thrift industries support. Congress passed the "Financial Services Regulatory Relief Act of 2006" on September 30, 2006, and President Bush signed it into law on October 13, 2006. This law provides regulatory burden relief for the financial services, banking, and thrift industries. The law allows regulators to adjust exam cycles of healthy institutions for greater efficiency and modernizes record keeping requirements for regulators.

Staffing and Succession Planning

Fifty-five percent of OTS's current staff will reach retirement eligibility by the end of 2010. OTS is actively addressing succession planning and the corresponding training needs. Over 70 new examiners were hired during fiscal year 2007 and OTS upgraded its training program for new and existing examiners. OTS's compensation program enables OTS to attract, retain, and reward staff comparable to the other federal banking agencies.

1C – Industry Outlook

The thrift industry continues to fulfill its traditional role as a mortgage lender. Capital levels remain strong and earnings remain positive, despite the pressures on earnings and asset quality resulting from the growing weaknesses in the housing market, rising mortgage delinquencies and foreclosures, and deterioration in secondary market liquidity.

As of September 30, 2007, 99 percent of all thrifts exceed the regulatory standard to qualify as "well-capitalized". Net income for fiscal year 2007 totaled $11.3 billion. The number of problem thrifts — those with composite examination ratings of 4 or 5 — was up from ten thrifts in June 2007 to 12 as of September 2007.

Financial services consolidation has reduced the overall number of savings institutions, but industry asset size has remained stable. OTS expects this to continue. OTS has worked closely with the industry to maintain the integrity and viability of the thrift charter as the industry continues to adapt to the evolving nature of the financial services business and the demands of its customers.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Office of Thrift Supervision	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
FTE	**1,015**	**1,104**	**1,104**
Object Classification:			
11.1 - Full-time permanent	115,224	122,981	126,056
11.3 - Other than full-time permanent	2,217	4,194	4,298
11.5 - Other personnel compensation	0	0	0
11.8 - Special personal services payments	0	0	0
12 - Personnel benefits	67,085	65,274	66,906
13 - Benefits for former personnel	300	190	195
21 - Travel and transportation of persons	13,984	15,562	15,951
22 - Transportation of things	241	287	294
23.1 - Rental payments to GSA	0	0	0
23.2 - Rental payments to others	3,944	4,384	4,494
23.3 - Comm, utilities, and misc charges	3,582	4,335	4,443
24 - Printing and reproduction	216	306	314
25 - Other contractual Services	0	0	0
25.1 - Advisory and assistance services	2,161	3,326	3,409
25.2 - Other services	5,623	8,851	9,072
25.3 - Other purchases of goods and services from Govt. accounts	3,923	3,674	3,766
25.4 - Operation and maintenance of facilities	5,220	4,195	4,300
25.5 - Research and development contracts	0	0	0
25.6 - Medical care	0	0	0
25.7 - Operation and maintenance of equip	328	311	319
25.8 - Subsistence and support of persons	0	0	0
26 - Supplies and materials	1,669	2,069	2,121
31 - Equipment	5,544	4,342	4,451
32 - Land and structures	1,239	1,219	1,249
33 - Investments and loans	0	0	0
41 - Grants, subsidies, and contributions	0	0	0
42 - Insurance claims and indemnities	0	0	0
43 - Interest and dividends	0	0	0
44 - Refunds	0	0	0
Total Budget Authority	$232,500	$245,500	$251,638
Budget Activities:			
Supervision of the Thrift Industry	232,500	245,500	251,638
Total Budget Authority	$232,500	$245,500	$251,638

2.3 – Resource Detail Table

Description	FY 2007 Actual	FY 2008 Estimated	FY 2009 Estimated	% Change FY 2008 to FY 2009
Summary of Revenue and Expenses:				
Revenue:				
Supervision				
Assessments	$218,100	$220,000	$225,500	2.50%
Rental Income	$5,070	$4,950	$5,074	2.50%
Interest	$8,500	$11,000	$11,275	2.50%
Fees & Other	$7,330	$16,050	$16,451	2.50%
Total Revenue	$239,000	$252,000	$258,300	2.50%
Expenses:				
Supervision				
Compensation & Benefits	$184,825	$192,639	$197,455	2.50%
Travel & Transportation	$14,225	$15,849	$16,245	2.50%
Facilities	$14,310	$14,280	$14,637	2.50%
Other Services & Supplies	$19,140	$22,732	$23,300	2.50%
Total Expenses	$232,500	$245,500	$251,637	2.50%
Net Results	$6,500	$6,500	$6,663	2.50%

2B – Appropriations Language and Explanation of Changes

OTS receives no appropriated funds from Congress.

2C – Legislative Proposals

OTS currently has no legislative proposals.

Section 3 – Budget and Performance Plan

This table lists all FY 2009 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 *TREASURY Strategic Objective* TREASURY Strategic Outcome	**FY 2008 Estimated** AMOUNT	**FY 2009 Estimated** AMOUNT	**Percent Change** AMOUNT
Economic competitiveness	24,550	25,164	**2.5%**
Fin. & econ.crises	220,950	226,474	**2.5%**
Total	**$245,500**	**$251,638**	**2.5%**

3A – Supervision of the Thrift Industry *($245,500,000 from reimbursable programs):* OTS examines savings associations every 12 – 18 months for safety and soundness and compliance with consumer protection laws and regulations. During these exams, the association's ability to identify, measure, monitor, and control risk is evaluated, including the risk posed by other entities within the corporate structure. When weaknesses are identified, supervisory action is taken.

OTS receives no appropriated funds from Congress; the revenue of the bureau is derived principally from assessments on savings associations and savings and loan holding companies. Other sources of income include fees, rents, and interest on investments. OTS has received consecutive unqualified opinions on its financial statements since being formed in 1989.

OTS's four strategic goals guide the annual budget activity.

Strategic Goal 1: A safe and sound thrift industry.
Through the examination process, OTS assesses the financial condition and risk profile of savings associations, including their ownership structure, and identifies and addresses unsafe and unsound practices and violations of law and regulation. Through the off-site monitoring process, OTS regularly monitors the financial performance of individual savings associations and the industry. Such monitoring enables early identification of emerging trends or problems.

Strategic Goal 2: Fair access to financial services and fair treatment of thrift customers.
OTS's Community Affairs Program supports the thrift industry's efforts to meet the convenience and needs of the communities they are chartered to serve; fulfill their CRA obligations; and provide safe and sound loans, investments and financial services for low

and moderate income individuals, communities and other areas of greatest need. OTS's Community Affairs staff works with savings associations, community-based organizations, government officials and others to promote partnerships and other initiatives with savings associations at the local level to address and respond to community and economic development needs. In addition, OTS promotes industry adoption of comprehensive compliance management programs and encourages associations to strategically develop the diverse opportunities presented by the communities they are chartered to serve.

Strategic Goal 3: A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.
OTS strives to reduce the regulatory burden on savings associations while maintaining effective supervision. To achieve this goal, OTS is improving the application process, limiting assessment rate increases and reviewing statutes and regulations of other governmental entities that may be burdensome. OTS reduced the amount of on-site examination time, redesigned regulations to make them easier to understand, and eliminated unnecessary restrictions. OTS tailors examinations to the risk profile of the individual institutions. This ensures that the examination process is responsive and enables the thrift industry to provide competitive financial services.

OTS strives to manage operations to ensure that assessment rate increases do not exceed the inflation rate. Without compromising responsibilities, the assessment rate increases have not exceeded the inflation rate for the past four years.

Strategic Goal 4: A professional, highly motivated and diverse workforce that effectively uses OTS resources to provide exceptional service to its customers.
OTS strives to maintain a workforce that is professional and well trained to regulate the thrift industry and to deal with the public in a professional, informed, and responsive manner. OTS will continue to cross-train its examiners in both the safety and soundness and compliance disciplines. OTS provides the public with statistical reports, securities filings of OTS registrants, chartering records and other public information. OTS assists savings association customers with inquiries and complaints concerning savings associations.

In line with the President’s Management Agenda, OTS is committed to the effective, efficient, and economic management of its resources. OTS analyzes new enterprise initiatives for best value.

3.2.1 – Supervision of the Thrift Industry Budget and Performance Plan

Supervision of the Thrift Industry Budget Activity Resource Level	FY 2005 Obligated	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Estimated	FY 2009 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$187,434	$199,497	$218,129	$245,500	$251,638
Total Resources	**$187,434**	**$199,497**	**$218,129**	**$245,500**	**$251,638**
Budget Activity Total	**$187,434**	**$199,497**	**$218,129**	**$245,500**	**$251,638**

Supervision of the Thrift Industry Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target
Total OTS costs relative to every $100,000 in savings association assets regulated ($) (E)	N/A	$13	$14	$15	$15
Percent of safety and soundness exams started as scheduled (%) (Ot)	93%	94%	95%	90%	90%
Percent of thrifts that are well capitalized (%) (Oe)	100%	100%	99%	95%	95%
Percent of thrifts with compliance examination ratings of 1 or 2 (%) (Oe)	94%	93%	97%	90%	90%
Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) (Oe)	94%	93%	93%	90%	90%

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

Description of Performance: OTS met all of its performance measure targets for FY 2007 and plans to maintain its current high level of achievement for all performance measures. The FY 2008 Performance Budget describes the goals, strategies, and priorities that will guide OTS's operations. The FY 2008 budget enables OTS to continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

Percent of thrifts with composite CAMELS ratings of 1 or 2.
On December 9, 1996, the Federal Financial Institutions Examination Council (FFIEC) adopted the CAMELS rating system (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.

Percent of thrifts with compliance examination ratings of 1 or 2.
A uniform, interagency compliance rating system was first approved by the FFIEC in 1980. The FFIEC rating system was designed to reflect, in a comprehensive and uniform fashion, the nature and extent of a savings association's compliance with consumer protection statutes, regulations and requirements. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern.

OTS elected to combine safety and soundness and compliance examinations in 2002 to attain exam efficiencies and to improve risk assessment. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process.

<u>Percent of thrifts that are well capitalized.</u>
Capital absorbs losses, promotes public confidence and provides protection to depositors and the FDIC insurance fund. It provides a financial cushion that can allow a savings association to continue operating during periods of loss or other adverse conditions. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

<u>Percent of safety and soundness exams started as scheduled</u>
OTS examines savings associations every 12-18 months for safety and soundness, compliance and consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with statutory authority. When safety and soundness or compliance issues are identified during its risk-focused examinations, OTS acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS staff often meets with the savings association’s board of directors after delivery of the Report of Examination to discuss findings and recommendations.

<u>Difference between the inflation rate and the OTS assessment rate increase.</u>
Without compromising responsibilities and the risk-based examination approach, OTS strives to efficiently manage its operations and budget to ensure that assessment rate increases do not exceed the inflation rate without compromising OTS’s responsibilities and the risk-based examination approach. However, if OTS believes that events require more personnel or other expenditures, OTS may increase assessments to raise the required resources. Annually, OTS analyzes its operating costs and compares them to the assessments it charges savings associations and holding companies in order to achieve a structure that keeps assessment rates as low as possible while providing OTS with the resources necessary for effective supervision.

<u>Total OTS Costs Relative to Every $100,000 in Savings Association Assets Regulated.</u>
Beginning in FY 2006, OTS included a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex thrift industry. This measure supports OTS’s ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. Approximately 60 percent of all savings associations have total assets of less than $250 million and are generally community-based organizations that provide retail financial services in their local markets. The measure

does not include over $8.5 trillion in assets of holding company enterprises regulated by OTS.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/dcfo/accountability-reports/2007-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Human capital represents OTS's primary resource to meet its strategic objectives. Sustaining and nurturing human capital resources requires a blend of competitive compensation, strategic and innovative training, and a diverse, supportive work environment.

OTS developed its Human Capital Strategic Plan in response to the President's Management Agenda. The Plan follows the Department of the Treasury's Human Capital Strategic Plan for Fiscal Years 2004-2008 and incorporates strategies and practices to ensure that OTS has sufficient staff with the right skills to accomplish its mission presently and in the future. The Plan consists of four main strategic goals: Organizational Effectiveness, Recruitment and Diversity, Employee Retention and Satisfaction, and Technology Skills.

Fifty-five percent of OTS's current staff will reach retirement eligibility by year-end 2010. OTS is developing a revitalized succession planning program to analyze specific positions and categories of positions, identify internal and external pools of available and projected candidates, and design professional development programs to match these needs. Over 70 new examiners were hired during 2007. OTS's compensation program enables OTS to attract, retain, and reward staff comparable to the other federal banking agencies.

OTS is working to cross train its examination staff to create a work force capable of performing multiple examination types (e.g., safety and soundness examinations and compliance examinations), as well as designing training programs to meet the challenges OTS faces with anticipated retirements as part of its overall succession planning program.

To meet the needs of a thriving thrift industry, OTS seeks qualified experienced and entry level candidates with diverse backgrounds. OTS is developing recruiting materials, attending job fairs including events targeting minority and women's groups, and working to provide both centralized and regional recruitment support to meet its various recruitment needs.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Enacted 1/	FY 2007 Enacted	FY 2008 President's Budget	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
Major IT Investments		$0.0	$0.0	$0.0	0.0	0.0	0.0
Non-Major IT Investments							
Administrative - Mixed	Supervision	$851.5	$863.9	$975.0	11.4%	$999.0	2.4%
Examinations	Supervision	$1,915.8	$1,799.9	$1,632.0	-10.3%	$1,673.0	2.5%
Thrift Financial Data	Supervision	$2,596.8	$3,522.2	$3,105.0	-13.4%	$3,182.0	2.4%
TFR Validation	Supervision	$1,532.6	$1,555.1	$1,507.0	-3.2%	$1,544.0	2.4%
Industry Structure and Tracking	Supervision	$1,745.5	$1,532.0	$1,140.0	-34.4%	$1,169.0	2.5%
CIO Planning	Supervision	$1,953.7	$1,757.4	$1,920.0	8.5%	$1,968.0	2.4%
Total Non-Major IT Investments		$12.2	$11,030.5	$10,279.0	-7.3%	$10,535.0	2.4%
Infrastructure Investments							
Treasury Consolidated Data Center & Services		$2,770.0	$3,754.8	$7,801.0	51.9%	$7,996.0	2.4%
Treasury Consolidated Telecommunications		$921.6	$814.2	$1,750.0	53.5%	$1,793.0	2.4%
Treasury Consolidated End User Services		$2,732.0	$2,987.7	$3,360.0	11.1%	$3,444.0	2.4%
Treasury Consolidated Security		$865.8	$1,710.6	$0.0	0.0%	$0.0	0.0%
Total Infrastructure Investments		$7,289.4	$9,267.3	$12,911.0	28.2%	$13,233.0	2.4%
Enterprise Architecture		$170.3	$115.0	$148.0	2.5%	$151.0	2.0%
Total IT Investments		$21.6	$20,412.8	$23,338.0	2.5%	$23,919.0	2.4%

4B – Information Technology Strategy

The OTS Information Technology Investment Review Board (IRB) provides overall direction and vision for how OTS's information technology should contribute to OTS's goals and objectives. It serves as the forum for senior OTS executives to make decisions regarding IT expenditures and investments.

OTS's Chief Information Officer is responsible for the policy, oversight and improvement of all information systems, information management and data communications used by OTS to carry out its mission; he serves as the Executive Director of the IRB. OTS's Director serves as the IRB Chair.

The IRB meetings are incorporated into the Regional Managers meetings to ensure that all senior staff participates in the discussion of the IT program, its budget, projects, strategies, and priorities. Projects are evaluated annually during the budget cycle and can be terminated or funded for further development.

OTS successfully implemented the Personal Identity Verification (PIV) process in 2006 to comply with the PIV-1 requirements of Homeland Security Presidential Directive 12 (HSPD-12). OTS will work with Treasury's team to implement a new identity management program and to issue new smartcard badges.

During 2007, OTS provided timely and efficient technological assistance and solutions to meet regulatory responsibilities and improve operations. OTS continues to make progress in achieving OMB's, requirements for full-disk encryption and two-factor authentication. At year end 2006, all of our remote user workforce and regional office staff hard-drives were fully encrypted. Full encryption of Washington staff machines was complete by the end of the 2007 calendar year.

OTS is working to develop a security program that adequately addresses the National Institute of Standards and Technology (NIST) requirements while being manageable for a small agency. OTS strengthened its IT Security program during FY 2006 and hired five new security professionals who are dedicated to addressing operational and regulatory security requirements. OTS also separated Operational Security into a distinct team to address day-to-day security concerns and activities. OTS will strive to improve the Federal Information Security Management Act (FISMA) posture by implementing new processes compliant with the NIST standards and by recertifying its national systems.

OTS has no major IT investments planned for FY 2008.

4.2 – PART Evaluation Table

PART Name: Thrift Supervision	
Strategic Goal:	Increase the reliability of the U.S. financial system (F3)
Rating:	Effective

OMB Major Findings

1. The program purpose is clear.
2. The program developed new goals that are outcome-oriented and program measurements which are clear.
3. The program is efficiently and effectively managed.

OMB Recommendations

1. Federal banking regulatory agencies, including the OTS, the OCC, the NCUA, and the FDIC, work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.
2. The OTS evaluates the efficiency and effectiveness of a single examination for both Safety and Soundness and Compliance functions.
3. The OTS take steps to examine long-term systemic risks in the industry.

OTS Actions Taken

1. OCC and OTS worked together throughout the strategic and performance planning efforts to ensure that their strategic goals were closely aligned. The banking regulatory agencies share their strategic and performance plans with each other and meet quarterly to discuss strategic and performance planning.
2. Based on feedback received over the past two years, the vast majority of the industry prefers the efficiency and effectiveness of a joint examination. OTS eliminated much of the redundancy of two separate exams. OTS will fulfill its statutory examination responsibilities with less FTEs as a result of this change.
3. During the 2004 strategic planning process, systemic risks were examined and addressed in the Plan.

OTS Actions Planned or Underway

1. OTS will continue to work with the OCC to ensure that strategic goals are closely aligned. OTS will continue to share its strategic and performance plans with the other banking regulatory agencies and meet to discuss strategic and performance planning.
2. OTS will continue to perform a joint examination.
3. OTS will continue to examine and address systemic risks.

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

E-Government Initiatives

Introduction

The primary purpose of the E-Government and Lines of Business initiatives is to improve services to U.S. citizens and promote increases in the efficiency and effectiveness of government operations so that they provide savings to the taxpayer. The Treasury Department has made significant progress toward these goals by providing funding for 14 of the 27 E-Government initiatives and six of the nine Lines of Business. By facilitating discussions between Departmental E-Government representatives and the federal Managing Partners, the Treasury Department has improved the efficiency of many of its activities and has begun to identify and eliminate duplicative systems. For example, as managing partner of the Internal Revenue Service Free File program, the Treasury Department made it possible for almost 4 million taxpayers to file electronically in tax year 2006, producing a cost savings for the government of $9.1 million. The Treasury Department's participation in the E-Travel initiative allowed the Department to save $402,000 in travel management fees in FY 2007. Further specifics on the benefits, level of funding, and source of funding for each of the Department's E-Government initiatives are laid out in this chapter.

Program Summary by Funding Source
Dollars in Thousands

Funding Source	FY 2009
Agency Contributions	$3,292
Agency Service Fees 1/	$29,027
Grand Total Financial Plan Requirements	$32,319

1/ Service fees are estimates based on actual usage.

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Section 1 – Program Benefits

1.1 – Description and Benefits of E-Government Initiatives

Government to Citizen..$2,600,213

IRS Free File $1,800,000 (Agency Contribution) The Internal Revenue Service's (IRS) Free File program allows eligible taxpayers to prepare and electronically file their tax returns over the Internet using commercial software for free. This free filing service is available at www.irs.gov and is made possible through a partnership between the government and the Free File Alliance, a consortium of tax preparation software manufacturers. For the 2006 tax year, the IRS reached out to 70 percent of the tax filing public and received 3.85 million e-filed tax returns through Free File services representing a cost-savings to the government of approximately $9.1 million. Treasury is the only agency supporting the Free File Initiative and the source of funding for the operation and maintenance of Free File are appropriated funds.

Since inception in 2003, IRS Free File has allowed the U.S. Government to realize cost savings of $45.5 million and through FY 2007 the IRS has spent $2,250,000 and used 19 FTEs on the Free File program. The cost increase for FY 2007 included $1,500,000 used to market the program. Both the IRS Inspector General and the Electronic Tax Administration Advisory Committee (a group of external experts that advises the IRS on electronic issues) have recommended expansive Free File marketing efforts. In response, the IRS developed a robust marketing campaign. Additional costs were due to an increase in contract costs for updating the IRS Free File website and the application that provides guides to taxpayers to the different company offerings. The contract for those services was renegotiated prior to FY 2007.

GovBenefits.gov $323,840 (Agency Service Fee) GovBenefits.gov supports the Treasury Department's mission by increasing public awareness of valuable tax benefit programs that allow businesses and individuals to grow and prosper without being limited by unnecessary or obsolete rules and regulations. For FY 2007, over 7,678 referrals to Treasury Department program pages were accessed by citizens using GovBenefits.gov.

Disaster Assistance Improvement Plan $476,373 (Agency Contribution) The Disaster Assistance Improvement Program (DAIP) is a government-wide initiative to improve the delivery of assistance to disaster victims. Through modification of an existing E-Gov initiative, GovBenefits.gov, DAIP provides a one-stop portal for those affected by disasters by providing information on programs offering disaster assistance and screening of benefits for which they may be eligible. After determining their eligibility, users may apply for disaster assistance benefits using a single application through FEMA, leading to a more simplified, streamlined process. All benefit applications are adjudicated by the appropriate agency. DAIP will also allow returning users to check the status of the request for benefits available through the single application. DAIP includes member agencies that have programs that: provide benefits for persons in response to disasters;

help facilitate the application and delivery process through validation; have other resources that may assist disaster victims: or are otherwise relevant to those who are impacted by disasters. During its first year of operation, the DAIP Program Office will quantify and report on the benefits and cost savings for each member agency.

Government to Business……………………………………………………...…$838,606

Business Gateway $354,132 (Agency Contribution) Business Gateway (BG) is a convenient portal for businesses to access a wide range of applicable forms online. BG reduces costs associated with forms printing, duplication, and distribution through the www.business.gov website and benefits the Treasury Department by supporting the Department's desire to help businesses succeed. BG supports the Alcohol and Tobacco Tax and Trade Bureau (TTB) and the IRS by providing businesses and citizens greater access to compliance tools and documents including 59 links to guidance resources and forms. BG also provides links to 674 tax guidance resources, forms, and tools and provides a centralized location for sharing changes in tax regulations or in the tax code and providing a forum to solicit feedback on such issues. Forms.gov, an extension of Business.gov, currently has 987 government-to-business and government-to-citizen forms and 1,045 related documents from all bureaus and offices.

E-Rulemaking $484,474 (Agency Service Fee) The Treasury Department fully implemented its rulemaking processes to the Federal Docket Management System (FDMS), E-Rulemaking's government-wide solution. The Department will continue to implement other rulemaking-related documents to FDMS. This initiative enables the Treasury Department to streamline and automate the rulemaking process, improve citizen participation in the comment phases, and enhance information management processes within the Department.

Government to Government…………………………………….……...……..$74,596

Grants.gov $74,596 (Agency Contribution) Grants.gov benefits the Treasury Department by providing a single location for citizens to find and apply for Department grant opportunities. The Department has three grant-making programs: the IRS Low Income Taxpayer Clinic, IRS Tax Counseling for the Elderly, and the Community Development Financial Institutions (CDFI) Fund. The Department of the Treasury is meeting its targeted goals regarding posting of grant opportunities and applications on the Grants.gov portal. The Department has posted five funding opportunities and five application packages on Grants.gov. The Department received 293 electronic applications and expects to report a total cost avoidance of $45,000 in FY 2007.

Internal Efficiency and Effectiveness…………………………………….$28,266,198

Recruitment One-Stop $808,814 (Agency Service Fee) The USAJOBS.GOV web-portal allows the Treasury Department to announce position openings and attract qualified candidates from a larger and diversified pool. This expedites the Department's ability to fill mission critical positions and reduces paper applications and processing time, thus improving access to top candidates and the efficiency of the hiring process. The Treasury Department also leverages the USAJOBS resume function by uploading into its automated system, CareerConnector.

E-Payroll $17,772,620 (Agency Service Fee) As a participant in the E-Payroll initiative, the Treasury Department leverages economies of scale through the use of the National Finance Center (NFC). E-Payroll creates standardized services and provides full payroll services to the Treasury Department.

E-Travel $7,426,421 (Agency Service Fee) The Treasury Department is in the process of migrating all of its travel services to GovTrip, one of the designated E-Gov Travel Service (ETS) providers. The Treasury Department has fully deployed GovTrip in all but one bureau, and the remaining bureau is scheduled for full deployment by May 2008. As a result of deployment to GovTrip, the following benefits have been realized. Through a combination of advantageous Travel Management Center (TMC) pricing and a substantially higher degree of On-Line Booking Engine (OBE) usage (73 percent), the Department saved over $402,000 in travel management service fees for reservations in FY 2007. By utilizing ETS, the Department reduced the time for manual post travel audits by 30 percent. The Department continues to process vouchers through the ETS and processed over 2,000 in August 2007. The Department decommissioned costly stovepipe legacy systems further supporting the Presidential Management Agenda (PMA) goals and objectives.

Enterprise Human Resources Integration $1,027,500 (Agency Service Fee) Enterprise Human Resources Integration (EHRI) provides a standard Department-wide approach to gathering, maintaining, and analyzing personnel data across its 11 bureaus. Data warehouse and data-mining tools assist with forecast projections for strategic hiring, trend analysis, and succession planning. The Treasury Department is also planning to use EHRI resources to convert paper-based Official Personnel Folders (OPFs) to electronic format for some of its bureaus. This will be the first in a multi-year effort to convert all OPFs across the Department.

E-Training $750,000 (Agency Service Fee) The Treasury Department previously had five separate Learning Management Systems (LMSs) servicing over 110,000 employees and, through a collaborative process, consolidated these disparate LMSs to one system in FY 2007. This consolidation eliminated redundant software and hardware, thereby decreasing future operations and maintenance costs. Additionally, the Department will leverage its buying power to lower the cost of future upgrades and enhancements. The Department can now electronically collect, maintain, and report training information and monitor professional development Department-wide. The transformation from a bureau-centric to an enterprise-wide approach will ensure that the Department is able to fully address the growing need to meet Treasury mission requirements through delivery of quality and cost-effective training.

Integrated Acquisition Environment $367,879 (Agency Service Fee) Through adoption of Integrated Acquisition Environment (IAE) tools and services, the Treasury Department is improving its ability to make informed and efficient purchasing decisions and automate manual processes. IAE will provide a common data warehouse to facilitate trend analysis and provide acquisition information across the Department. IAE has allowed the Department to automate manual and paper-based processes as well as retire legacy systems. For example, the Department retired an acquisition data system in FY 2005 for a savings of $161,000.

Integrated Acquisition Environment – Loans and Grants $112,963 (Agency Contribution) All agencies participating in the posting and/or awarding of Loans & Grants are required by the Federal Funding Accountability and Transparency Act (FFATA) to disclose award information on a publicly accessible website. Cross-government cooperation with the Office of Management and Budget's Integrated Acquisition Environment initiative in determining unique identifiers for Loans & Grants transactions furthers the agency in complying with the Transparency Act, which enhances transparency of federal program performance information, funding, and Loans & Grants solicitation.

Lines of Business (LOBs)……………………………………………………….$474,330

Human Resources Management $260,870 (Agency Contribution) The Treasury Department operates HR Connect, an approved HR Line of Business (LoB) service provider. This initiative allows the Department to spread the cost of managing HR systems and processes across a larger customer base, reducing agency costs to operate these systems and processes.

Financial Management $75,000 (Agency Contribution) The Treasury Department's Bureau of Public Debt is one of four federal Financial Management (FM) LoB shared service providers. The Department hosts and administers financial systems and performs business processing operations for over 30 Government organizations, including most Department bureaus and 16 non-Department-related organizations. The increased customer base reduces duplicative financial management systems within the Department and allows for sharing of overall operation and maintenance costs. The Department leverages its IT and financial processing expertise to realize cost savings and avoidance through the standardization of business processes and a common business language at the agency and bureau levels.

Grants Management $28,460 (Agency Contribution) By relying on shared service centers for the processing of grants, the Treasury Department will benefit from improved delivery of services to grant recipients, improved decision-making and decreased costs associated with building and maintaining grants management IT systems. The IRS, one of two grant-making entities within the Treasury Department, will continue to rely on the Department of Health and Human Services (HHS) for grants processing. CDFI, the second grant-making entity within the Treasury Department, has signed an Interagency Agreement (IAA) to migrate its grants-processing functions to HHS and expects to report cost savings/avoidance as these functions migrate.

Budget Formulation and Execution $95,000 (Agency Contribution) The Budget Formulation and Execution (BFE) LoB is a cross-agency effort to find common solutions that produce efficiencies in budget formulation and execution activities across the federal government. In working toward this goal, the BFE LoB developed nine technology-based capabilities solutions. One of these solutions includes "Agency Budgeting Tools," which is intended to make software applications already developed by some agencies available to the overall federal budget community. The Treasury Department has been leading an effort in making the formulation module of the Budget Formulation and Execution Manager (BFEM) available to any agency that wishes to use the tool. Since that time, six agencies have used the service and the Department is now working to make a performance module available as well. Aside from benefiting the overall federal government by eliminating costs agencies must incur for independent development efforts, this effort has a direct benefit for the Treasury Department since it spreads the cost of future BFEM development work. By creating a pool of funds contributed to by a wide range of agencies, the Department no longer has to fund BFEM development itself and can share those costs with other agencies.

Geospatial $15,000 (Agency Contribution) The Treasury Department uses geospatial data to assist enforcement efforts and financial forecasting. The Geospatial LoB will enable geospatial interoperability across federal programs. Through interagency cooperation, federal programs can enhance their capacity for understanding and using information in terms of its relevant geography. Optimal use of geographic data and geo-analytics can significantly improve the way that governments plan their strategies, manage their organizations, and offer goods and services to the public. The LoB also facilitates a more coordinated approach to producing, maintaining, and using geospatial data, and will ensure sustainable participation from federal partners to establish a collaborative model for geospatial-related activities and investments.

Cross-Cutting……………………………………………………………..$65,000

E-Authentication $65,000 (Agency Service Fee) The E-Authentication initiative allows the Treasury Department and its bureaus to use identity credentials issued and managed by organizations internal and external to the federal government, thereby relieving the Department of the cost of providing its own identity management solutions. The ultimate goal of the Department's identity management solutions will be to enable users of one domain to securely access data or systems of another domain seamlessly, and without the need for completely redundant user administration. Use of identity management standards can reduce cost by eliminating the need to scale one-off or proprietary solutions. It can increase security and lower risk by enabling the Department to identify and authenticate a user once, and then use that identity information across multiple systems, including external partner websites.

Exhibit 300s for all of Treasury's capital investments can be found at http://www.treas.gov/exhibit300/ . The Treasury Department does not serve as the managing partner for any multi-agency E-Government initiatives.

Section 2 – Budget

2.1 – Funding by Program

Funding by Program	Managing Agency	FY 2009
Government to Citizen		
IRS Free File	Department of the Treasury	$1,800,000
GovBenefits.gov 1/	Department of Labor	$323,840
Disaster Assistance Improvement Plan	Department of Homeland Security	$476,373
Government to Citizen (Total)		$2,600,213
Government to Business		
Business Gateway	Small Business Administration	$354,132
E-Rulemaking 1/	Environmental Protection Agency	$484,474
Government to Business (Total)		$838,606
Government to Government		
Grants.gov	Health and Human Services	$74,596
Government to Government (Total)		$74,596
Internal Efficiency and Effectiveness		
Recruitment One-Stop 1/	Office of Personnel Management	$808,814
E-Payroll 1/	Office of Personnel Management	$17,772,620
E-Travel 1/	General Services Administration	$7,426,421
EHRI 1/, 2/	Office of Personnel Management	$1,027,500
E-Training 1/	Office of Personnel Management	$750,000
Integrated Acquisition Environment 1/	General Services Administration	$367,879
Integrated Acquisition Environment - Loans and Grants	General Services Administration	$112,964
Internal Efficiency and Effectiveness (Total)		$28,266,198
Lines of Business		
Human Resources	Office of Personnel Management	$260,870
Financial Management	Department of Energy / Department of Labor	$75,000
Grants Management	National Science Foundation / Department of Energy	$28,460
Budget Formulation and Execution	Department of Education	$95,000
Geospatial	Department of Interior	$15,000
Lines of Business (Total)		$474,330
Cross-Cutting		
E-Authentication 1/	General Services Administration	$65,000
Cross Cutting (Total)		$65,000
Grand Total		$32,318,943

1/ Service fees are estimates based on actual usage.

2/ The Working Capital Fund Steering Committee will determine the exact scope of FY 2009 efforts during FY 2008.