EXECUTIVE SUMMARY

FY 2011 President's Budget by Function

(Dollars in Thousands)

	FY 2009		FY 2010	FY 2011		
	Enacted	ARRA	Enacted	President's Budget	Increase/ Decrease	Percent Change
Management & Financial	$745,583	$238,000	$890,192	$892,141	$1,949	0.2%
Departmental Offices Salaries and Expenses*	278,870	131,000	304,888	346,401	41,513	13.6%
Dept-wide Systems & Capital Invest. Programs	26,975		9,544	22,000	12,456	130.5%
Office of Inspector General	26,125		29,700	30,269	569	1.9%
Treasury IG for Tax Administration	146,083	7,000	152,000	155,452	3,452	2.3%
Special IG for TARP	0		23,300	49,600	26,300	112.9%
Community Development Financial Institutions Fund	107,000	100,000	246,750	250,000	3,250	1.3%
Financial Crimes Enforcement Network	91,465		111,010	100,419	(10,591)	-9.5%
Alcohol & Tobacco Tax and Trade Bureau	99,065		103,000	106,168	3,168	3.1%
Less Offsetting Fees	0		0	*-106,168*	*(106,168)*	*100.0%*
Net, ATTB	99,065		103,000	0	(103,000)	-100.0%
Treasury Forfeiture Fund**	-30,000		-90,000	-62,000	28,000	-31.1%
Fiscal Service Operations	$417,137	$0	$426,376	$411,238	-$15,138	-3.6%
Financial Management Service	239,785		244,132	235,253	(8,879)	-3.6%
Bureau of the Public Debt	187,352		192,244	185,985	(6,259)	-3.3%
Less Offsetting Fees	*-10,000*		*-10,000*	*-10,000*	*0*	*0.0%*
Net, BPD	177,352		182,244	175,985	(6,259)	-3.4%
Tax Administration	$11,522,598	$80,000	$12,146,123	$12,633,270	$487,147	4.0%
IRS Taxpayer Services	2,293,000		2,278,830	2,321,975	43,145	1.9%
IRS Enforcement	5,117,267		5,504,000	5,797,400	293,400	5.3%
IRS Operations Support	3,867,011		4,083,884	4,108,000	24,116	0.6%
IRS Business Systems Modernization	229,914		263,897	386,908	123,011	46.6%
IRS Health Insurance Tax Credit Administration	15,406	80,000	15,512	18,987	3,475	22.4%
Total, Treasury Appropriations Committee	$12,685,318	$318,000	$13,462,691	$13,936,649	$473,958	3.5%
Treasury International Programs	$1,578,802		$2,128,670	$3,065,176	$936,506	44.0%
International Financial Institutions	1,493,802		2,043,670	2,957,176	913,506	44.7%
Technical Assistance	25,000		25,000	38,000	13,000	52.0%
Debt Restructuring	60,000		60,000	70,000	10,000	16.7%
Total	$14,264,120	$318,000	$15,591,361	$17,001,825	$1,410,464	9.0%

*ARRA funding includes $122 Million for IRS, $6 Million for FMS and $3 Million for DO.

**In both FY 2009 and FY 2010, the Administration proposed a permanent cancellation of a portion of the Fund's unobligated balances.
In both of these years, Congress enacted appropriations legislation that made the rescissions temporary.

Overview

The Department of the Treasury continues to play a leading role in stabilizing the economy and reforming our financial system following one of the worst crises since the Great Depression. The Department's FY 2011 Budget supports the critical work that Treasury is doing to ensure that the financial industry plays by new, safer rules, and to spur growth in the face of unacceptably high unemployment.

The FY 2011 Budget provides $13.9 billion to fund activities at the Department's ten appropriated bureaus. The Budget provides almost $474 million more than the FY 2010 enacted level, a 3.5 percent increase. The Budget also includes $3.065 billion to fund Treasury's International Programs.

The Department has set three high priority performance goals for FY 2010 and FY 2011:

- Repair and reform the financial system;
- Increase voluntary tax compliance; and
- Significantly increase the number of cost-saving, paperless transactions with the public.

These goals reflect key areas of concern to the Department and the American people. The Budget supports work toward these goals as discussed below. See the High Priority Performance Goals section for measures, milestones, and indicators of success at achieving these goals.

<u>Goal 1: Repair and reform the financial system</u>

The Department is engaged in a broad array of programs to stabilize the financial system, put in place new rules to help prevent the recurrence of a crisis similar to the one that just occurred and promote long-term stability.

Financial Regulatory Reform – The Department is working with Congress to enact legislation to reform an outdated and ineffective financial regulatory system. The goals are simple: to promote more robust supervision and regulation of financial firms, especially the largest, most complex and most interconnected firms that can pose the greatest risk to overall stability; to establish comprehensive regulation of financial markets, including those now largely outside the regulatory ambit; to protect consumers and investors; provide the government with more powerful tools to manage financial crises and resolve failing firms that can threaten overall stability; and to improve international cooperation. Further information on the Department's reform efforts can be found at http://financialstability.gov/roadtostability/regulatoryreform.html or the Regulatory Reform chapter of this document. Additionally, the Department is engaged internationally through the Financial Stability Board, the G-20 and other forums to develop high-quality financial standards and processes around the globe to help avert future crises.

Expanding Treasury's Policymaking and Analysis Capacity – The FY 2011 Budget continues efforts begun in FY 2010 to provide additional resources for the Offices of Domestic Finance, Tax Policy, and Economic Policy. The events of the past year have demonstrated that the Department needs to expand the capacity of the Department in order to more effectively respond to current and future financial challenges.

These efforts include providing an additional $16.7 million for the Office of Domestic Finance to:

- Expand expertise in capital markets, including in securities market structure and housing finance;
- Conduct significant research projects drawing on interdisciplinary expertise in areas such as finance, economics, and law; and
- Provide leadership in developing and implementing financial regulatory policy.

The FY 2011 Budget also provides an additional $2.4 million to the Office of Tax Policy for new tax specialists, who will:

- Analyze recently emerging issues critical to the development of tax policies; and
- Provide rapid response to financial crises, support the financial stimulus plan, and provide timely tax analysis for climate change and health care related provisions.

Additionally, the Budget includes $2 million to expand the Office of Economic Policy to:

- Address the demand for more economic analysis and ensure swift, effective analysis of policies and shifting events in the housing and financial sectors; and

- Create a data analysis unit to maintain the Department's large financial and non-financial databases.

Evaluation Initiative – As part of the Administration's government-wide initiative to strengthen program evaluation, the request includes funds to support four substantive program evaluations at a total cost of $5.3 million. These evaluations include:

- Testing alternative mortgage modification strategies;
- Testing the impact of financial innovations in community development;
- A study linking data on individual mortgages to administrative data to better assess mortgage risk, including the factors associated with success of mortgage modification programs; and
- A combined study to evaluate different approaches to no-fee debit cards and Volunteer Income Tax Assistance (VITA) prepaid cards.

Emergency Economic Stabilization Act (EESA) Programs – The Troubled Asset Relief Program (TARP), established under EESA, has played a significant role in averting a potentially catastrophic collapse of the American financial system. As a result of improved financial conditions and careful stewardship of the program, the ultimate cost to the taxpayer of TARP investments is likely to be significantly lower than previously estimated. However, challenges remain in the form of rising foreclosures and a persistently high unemployment rate. For these reasons, the Department announced the extension of TARP authority until October 3, 2010. The Department will continue trying to help responsible homeowners avoid foreclosure, and will implement additional ways to get needed credit to job-creating small businesses. To ensure appropriate oversight of TARP activities, the Budget provides $49.6 million for the Special Inspector General for the Troubled Asset Relief Program (SIGTARP).

Housing Government Sponsored Enterprise (GSE) Programs – Using authority granted under the Housing and Economic Recovery Act of 2008 (HERA), the Department has sought to stabilize and repair the two largest GSEs, the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), as well as the Federal Home Loan Banks (FHLB). These efforts have restored investor confidence that the GSEs will continue to play their critical roles in maintaining the smooth functioning of the nation's housing and mortgage markets. Treasury has helped ensure the viability of the GSEs by purchasing over $200 billion in GSE mortgage-backed securities, and has helped state and local housing finance agencies obtain needed financing to aid low- and moderate-income Americans. The Department will continue to promote stability in the GSE securities market and ensure the viability of the GSEs.

Community Development Financial Institutions (CDFI) Fund – The FY 2011 Budget will expand the availability of affordable credit in distressed communities by providing a 30 percent increase in funding for the CDFI Fund's core merit-based grant program – the CDFI Program – and continued robust support for Native Initiatives. The Budget also includes resources for two new initiatives: the Healthy Food Financing Initiative (HFFI) and the Bank On USA initiative. HFFI will provide grants and loans to help expand the availability of healthy foods in distressed communities, while Bank on USA will promote access to affordable and appropriate financial services and basic consumer credit products for households without access to such products and services.

Recovery Act Activities – Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), Treasury administers cash assistance, payments in lieu of tax credits, and over 50 tax relief provisions, which will deliver over $300 billion in assistance to American families and businesses. In addition, the Department is easing the fiscal crisis of state and local governments through the creation and expansion of innovative, low-cost borrowing tools.

ARRA increased access to financing in economically distressed communities by expanding existing Community Development Financial Institutions (CDFI) and Native American CDFI Assistance programs. The Build America Bond (BAB) program has attracted new investors to the municipal bond market and reduced borrowing costs for state and local governments hard hit by the decline in tax revenues. BAB issuances in 2009, totaling nearly $64 billion, have been used to finance hospital and school construction, as well as other public infrastructure projects around the country. New cash payments in lieu of tax credits for investments in low-income housing and renewable energy established by the Recovery Act injected $4 billion into state housing agency budgets and $2 billion into the renewable energy industry. These sums attracted new private sector investment at better than a 2-to-1 ratio. One-time Economic Recovery Payments issued by the Financial Management Service in 2009 helped to ease the financial strain on 55 million Social Security beneficiaries and veterans. The Making Work Pay provision allowed American workers and families to keep more of what they earned. The expanded First-Time Homebuyer tax credit enabled taxpayers to receive a credit towards home purchases.

Goal 2: Increase voluntary tax compliance

The tax gap, or difference between the amount owed under tax law and the amount actually paid on time, is estimated to be $345 billion. Addressing this gap through improved voluntary compliance is a top priority of the Department. The Department proposes to improve compliance through targeted changes to the tax code and further investment in tax enforcement, taxpayer services, and Internal Revenue Service (IRS) systems modernization.

Tax Compliance and Debt Collection Legislative Proposals – The Budget includes a number of legislative proposals that will improve tax collection efficiency and lead to increased collections with minimum additional burden on taxpayers. These proposals include efforts to expand information reporting, improve compliance by businesses, strengthen tax administration, expand penalties, and improve debt collection activities. In total these proposals are expected to increase collections by $26 billion over the next ten years. Further information on these proposals can be found in the Treasury 2010 Green Book (available at http://www.treas.gov/offices/tax-policy/).

Tax Enforcement – The Budget provides nearly $250 million in new enforcement initiatives to improve compliance. These initiatives are expected to produce $1.946 billion in additional annual enforcement revenues once the new hires reach full potential in FY 2013 (see table below for return on investment (ROI) figures). FY 2011 initiatives will build on the foundation established in the FY 2010 Budget to address international tax evasion, and reduce noncompliance by businesses and high net-worth taxpayers. The new funding will focus on complex international enterprise structures and transactions. It also will be used to increase audit coverage of business and high-income taxpayer returns, as well as increase efforts to bring taxpayers who fail to file or pay their tax debt into compliance.

Return on Investment for Enforcement Initiatives

Dollars in Millions	First Year (FY 2011)			Full Performance (FY 2013)		
FY 2011 Enforcement Investment	Cost	Revenue	ROI	Cost	Revenue	ROI
All Enforcement Initiatives	$247.4	$719.8	2.9	$209.6	$1,946.2	9.3
Direct Revenue Producing Initiatives	$236.9	$719.8	3.0	$200.6	$1,946.2	9.7
Address Business and Individual International Compliance	121.1	300.8	2.5	101.3	812.2	8.0
Reduce the Reporting Compliance Tax Gap	77.7	211.7	2.7	65.8	659.6	10.0
Reduce the Nonfiling and Underpayment Tax Gap	38.1	207.3	5.4	33.5	474.4	14.2
Other Enforcement Initiatives	$10.5	$0.0	0.0	$9.0	$0.0	0.0

Taxpayer Service – Quality taxpayer service is an important complement to enforcement efforts. Recent legislation has increased the volume of calls to 1-800 service lines at the IRS, leading to longer wait times and unanswered calls. The FY 2011 Budget provides $20.9 million to increase the level of service for 1-800 lines to achieve a 75 percent call answer rate, up from the FY 2009 rate of 70 percent. The Budget also includes $25 million for infrastructure improvements to IRS.gov. This multi-year project will improve self-service, reduce taxpayer burden, increase compliance, reduce costs, and continue to position IRS.gov as the preferred choice for taxpayer service.

IRS Systems Modernization – The Budget provides $386.9 million for the IRS's Business Systems Modernization account, a significant investment in advancing tax administration. These resources will allow for the completion of the new taxpayer account database in 2011, making this new service available for the 2012 filing season. The new database will improve taxpayer service through faster refunds and resolution of taxpayer account issues, eliminate notices based on out-of-date information, and allow daily mailing of notices which will reduce spikes in telephone call volumes associated with the current weekly mailing of notices.

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

The Department is committed to moving to paperless processing throughout its bureaus and programs, including increasing the number of payments and collections made electronically. The Department will in-crease the use of electronic benefit pay-ments, business tax filings, and savings bond issuances. The actions will streamline inter-governmental process and will enhance service to the general public.

Efforts will include working to transition Treasury employees to electronic earnings and leave statements; transition federal benefits payments to electronic systems; a reduction in the number of tax forms distributed to taxpayers by the IRS; the release of proposed regulations to move to a paperless Treasury; and a comprehensive effort to inform the public of the changes and the alternatives that are available.

Financial Innovation and Transformation Program – The FY 2011 Budget provides $17 million to develop shared, government-wide financial solutions associated with agency financial management services (e.g., invoice processing, cash collections, interagency agreement management). This effort will increase efficiency and reduce unnecessary paperwork by offering agencies central automated solutions for transactions processing and financial report production.

International Programs

The Department's Request includes $3.065 billion in total funding for International Programs and reflects the President's commitment to meet major global challenges – poverty, hunger and climate change – through multilateral institutions and processes. $2.957 billion in funding is requested for the multilateral development banks (MDBs), including $408.4 million dollars for the U.S. contribution to a new multilateral food security fund, which will allow for an initial contribution of $475 million when combined with 2010 funds, and $635 million for international efforts to combat global climate change and to help developing countries respond to its impacts. The MDB request also includes $1.285 billion for the International Development Association and $106.6 million for the first of five annual payments to the Asian Development Bank's (AsDB) recently-approved General Capital Increase (GCI). As part of Treasury's pledge to pay back the significant unmet U.S. commitments to these the MDBs, the Department is requesting $76 million in funds for MDB arrears. Finally, the Department is re-questing $108 million for our debt restructuring and technical assistance programs, with which Treasury will continue to support much-needed debt relief and promote economic growth by strength-ening capacity of core institutions in countries around the world, including Afghanistan, Pakistan and other fragile states.

Fiscal Prudence

In recognition of the current fiscal outlook and in order to partially offset the cost of high priority investments, Treasury's FY 2011 Budget includes savings of $314.6 million in Department discretionary funding and additional savings in mandatory programs. The Budget proposes reductions in funding for three bureaus, where efficiency-improving changes will offset inflation increases, as well as other savings. Highlights include:

- IRS savings – $167 million;
- U.S. Mint – legislative proposal would authorize the Secretary to approve alternative coinage materials to reduce coin production costs;
- Bureau of Engraving and Printing – legislative proposal to repeal the contract limit for distinctive currency paper to potentially increase competition and lower costs;
- Financial Management Service administrative savings and legislative proposals – $13 million;
- Terrorism Risk Insurance Program – eliminates nearly $250 million in Federal subsidies to insurance companies for terrorism insurance. These subsidies are no longer necessary given the robust private market for such insurance, and domestic terrorism insurance policies are now sufficiently available and affordable to meet demand;
- Bureau of Public Debt administrative savings and facility consolidation – $9 million;
- Departmental Offices administrative savings – $11 million; and
- CDFI reductions from two programs to free up resources for investments in the core

CDFI program and two new innovative programs – $105 million.

Securing Americans Value and Efficiency (SAVE) – The Department is actively reviewing, and in some cases already implementing, savings ideas provided by Treasury employees as part of the President's SAVE challenge. Many of these ideas are included in the administrative savings and paperless transition proposals listed above. Other examples include:

- Combine support functions between bureaus – Departmental management is working with the bureaus to promote greater use of Treasury's Administrative Resource Center.
- Reduce energy consumption – the Department will reduce its Greenhouse Gas emissions by 33 percent over the next 10 years.
- Expand use of New Hire Database in tax administration – the Department is proposing legislation as part of the Budget that will expand the IRS' access to information in the database to improve compliance.

The Department will continue to review all SAVE proposals from our employees and implement the most promising.

Funding the Alcohol and Tobacco Tax and Trade Bureau (TTB) with Annual Licensing & Registration Fees - The FY 2011 Budget proposes to shift the cost of paying for regulating the alcohol and tobacco industries from the general taxpayer to the industries themselves by funding TTB with annual licensing and registration fees, totaling $106 million a year. This practice is standard for most regulatory agency funding.

Offsetting Cancellation - The FY 2011 Budget includes a $62 million proposed permanent cancellation from the unobligated balances of the Treasury Forfeiture Fund.

High Priority Performance Goals

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

The Department of the Treasury develops a 5-year strategic plan, as well as an annual performance plan and annual report on our progress. As part of developing the FY 2011 Budget and performance plan, the Department of the Treasury has also identified a limited number of high priority performance goals that will be a particular focus over the next two years. These goals are a subset of those used to regularly monitor and report performance. To view the full set of performance information please visit: http://www.treas.gov/offices/management/budget/planningdocs/

Goal 1: Repair and reform the financial system

Measures and milestones:

- Complete up to four million trial mortgage loan modifications by December 31, 2012.
- Implement strong, comprehensive regulatory reform to restore stability and accountability to the financial system.

Indicators:

- Mortgage interest rates.
- Cost of credit to businesses.

Goal 2: Increase voluntary tax compliance

Measures and milestones:

- Make progress against the Tax Gap through improved service and enhanced enforcement of the tax laws:
  - Achieve over four million document matching closures in a year in FY 2011 (where IRS information does not match taxpayer reported information).
  - Implement the new Customer Account Data Engine database and processing platform by December 2011, doubling the number of taxpayers receiving refunds on a five-day cycle.
- Assist Americans in voluntarily meeting their tax obligations:
  - Increase individual income tax filers' American Customer Satisfaction Index to 69 percent.
  - Improve telephone level of service to 75 percent by the end of FY 2011.

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

Measures and milestones:

- Increase electronic payment, collections, and savings bonds transactions by 33 percent by the end of FY 2011.
- Increase individual tax return E-file rate to 81 percent.

FY 2011 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	$70,533	$7,667	$360,992	$12,400	$207,888	$29,704	$314,728	$16,921	$954,141	$66,692
Departmental Offices Salaries and Expenses	70,533	6,142	110,992	10,875	105,969	9,704	58,907	7,121	346,401	33,842
Dept-wide Systems & Capital Invest. Program					1,500		20,500		22,000	0
Office of Inspector General							30,269	8,500	30,269	8,500
Treasury IG for Tax Administration							155,452	1,300	155,452	1,300
Special Inspector General for TARP							49,600		49,600	
Community Development Financial Institutions Fund			250,000						250,000	0
Financial Crimes Enforcement Network					100,419	20,000			100,419	20,000
Alcohol & Tobacco Tax and Trade Bureau		1,525		1,525					0	3,050
Fiscal Service Operations	$411,238	$238,840	$0	$0	$0	$0	$0	$0	$411,238	$238,840
Financial Management Service	235,253	216,730							235,253	216,730
Bureau of the Public Debt	175,985	22,110							175,985	22,110
Tax Administration	$12,361,836	$128,158	$0	$0	$271,434	$16,434	$0	$0	$12,633,270	$144,592
IRS Taxpayer Services	2,321,975	34,159							2,321,975	34,159
IRS Enforcement	5,590,511	45,072			206,889	16,434			5,797,400	61,506
IRS Operations Support	4,043,455	48,927			64,545				4,108,000	48,927
Business Systems Modernization	386,908								386,908	0
Health Insurance Tax Credit Administration	18,987								18,987	0
Total, Treasury Appropriations Committee [1/]	$12,843,607	$374,665	$360,992	$12,400	$479,322	$46,138	$314,728	$16,921	$13,998,649	$450,124
Treasury International Programs	3,065,176								3,065,176	0
Total, Appropriated Level	$15,908,783	$374,665	$360,992	$12,400	$479,322	$46,138	$314,728	$16,921	$17,063,825	$450,124
Non Appropriated Bureaus	$0	$0	$0	$4,024,623	$0	$0	$0	$176,213	$0	$4,200,836
Treasury Franchise Fund								176,213	0	176,213
Office of Financial Stability				297,749					0	297,749
Bureau of Engraving and Printing				588,000					0	588,000
U.S. Mint				2,062,607					0	2,062,607
Office of the Comptroller of the Currency				831,400					0	831,400
Office of Thrift Supervision				244,867					0	244,867
Subtotal, Direct $	$15,908,783		$360,992		$479,322		$314,728		$17,063,825	
Subtotal, Reimbursable $		$374,665		$4,037,023		$46,138		$193,134		$4,650,960
Total, Treasury Level	$16,283,448		$4,398,015		$525,460		$507,862		$21,714,785	

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

Appropriation	FY 2009 Actual			FY 2010 Estimated			FY 2011 President's Budget		
	Direct	Reimb.	Total	Direct	Reimb.	Total	Direct	Reimb.	Total
Departmental Offices Salaries and Expenses	1,089	124	1,213	1,266	137	1,403	1,342	137	1,479
Administrative Expenses, Recovery Act	276	0	276	1,200	0	1,200	0	0	0
Office of Inspector General	108	0	108	150	0	150	154	0	154
Treasury IG for Tax Administration	797	3	800	835	3	838	835	3	838
Special Inspector General for the TARP	29	0	29	133	0	133	160	0	160
Community Development Financial Institutions Fund	60	0	60	84	0	84	90	0	90
Financial Crimes Enforcement Network	311	2	313	331	1	332	327	1	328
Alcohol & Tobacco Tax and Trade Bureau	511	8	519	535	15	550	0	562	562
Financial Management Service	1,629	268	1,897	1,698	285	1,983	1,568	271	1,839
Bureau of the Public Debt	1,006	0	1,006	1,042	0	1,042	1,009	0	1,009
Internal Revenue Service	92,577	792	93,369	95,069	956	96,025	96,419	961	97,380
Subtotal, Treasury Appropriated Level	98,393	1,197	99,590	102,343	1,397	103,740	101,904	1,935	103,839
Office of Financial Stability	86	0	86	260	0	260	271	0	271
Working Capital Fund	0	190	190	0	226	226	0	222	222
Treasury Franchise Fund	0	944	944	0	1,003	1,003	0	1,043	1,043
Bureau of Engraving and Printing	0	1,944	1,944	0	2,050	2,050	0	2,000	2,000
U.S. Mint	0	1,812	1,812	0	1,955	1,955	0	1,955	1,955
Office of the Comptroller of the Currency	0	3,104	3,104	0	3,216	3,216	0	3,263	3,263
Office of Thrift Supervision	0	1,051	1,051	0	1,065	1,065	0	1,082	1,082
Terrorism Insurance Program	9	0	9	10	0	10	10	0	10
Total	98,488	10,242	108,730	102,613	10,912	113,525	102,185	11,500	113,685

Summary of FY 2011 Increases and Decreases

(Dollars in Thousands)

	DO	DSCIP	OIG	TIGTA	SIGTARP	CDFI	FINCEN	TTB	TEOAF	FMS	BPD	IRS	Total
FY 2010 Enacted	$304,888	$9,544	$29,700	$152,000	$23,300	$246,750	$111,010	$103,000	($90,000)	$244,132	$182,244	$12,146,123	$13,462,691
FERS Percentage Adjustment	374	0	47	46	9	22	104	128	0	369	188	16,392	17,679
Non-Pay Inflation Adjustments	1,762	0	56	343	278	85	804	500	0	843	1,005	36,121	41,797
Pay Annualization Adjustments	935	0	115	636	702	54	192	325	0	933	651	47,473	52,016
Pay Inflation Adjustments	2,513	0	294	1,917	296	128	556	837	0	2,415	1,327	119,537	129,820
Maintaining Current Levels	$5,584	$0	$512	$2,942	$1,285	$289	$1,656	$1,790	$0	$4,560	$3,171	$219,523	$241,312
Base Realignment	0	0	0	0	25,015	0	0	0	0	0	0	3,494	28,509
Rescission/User Fee Adjustment	0	0	0	0	0	0	0	0	90,000	0	10,000	0	100,000
Non-Recurring Costs	(2,500)	(9,544)	0	0	0	0	(8,250)	(3,500)	0	0	0	(32,680)	(56,474)
Transfers	0	0	0	0	0	0	0	0	0	0	0	0	0
Efficiency/Savings	(10,603)	0	(5)	(276)	0	(151)	(3,997)	(622)	0	(13,439)	(9,430)	(157,958)	(196,481)
Adjustments to Base	($13,103)	($9,544)	($5)	($276)	$25,015	($151)	($12,247)	($4,122)	$90,000	($13,439)	$570	($187,144)	($124,446)
FY 2010 Base	$297,369	$0	$30,207	$154,666	$49,600	$246,888	$100,419	$100,668	$0	$235,253	$185,985	$12,178,502	$13,579,557
Program Decreases	0	0	0	0	0	(109,150)	0	0	0	0	0	(9,000)	(118,150)
Program Reinvestments	0	0	0	0	0	0	0	0	0	0	0	2,792	2,792
Program Increases	49,032	22,000	62	786	0	112,262	0	5,500	0	0	0	460,976	650,618
FY 2011 President's Budget	$346,401	$22,000	$30,269	$155,452	$49,600	$250,000	$100,419	$106,168	$0	$235,253	$185,985	$12,633,270	$14,114,817
Offsetting Fees and Cancellation of Unobligated Balances	0	0	0	0	0	0	0	(106,168)	(62,000)	0	(10,000)	0	(178,168)
FY 2011 President's Budget less Offsetting Fees	$346,401	$22,000	$30,269	$155,452	$49,600	$250,000	$100,419	$0	($62,000)	$235,253	$175,985	$12,633,270	$13,936,649

Departmental Offices - S & E

FY 2011

Congressional Justification

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Departmental Offices Salaries & Expenses

Mission Statement

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

Program Summary by Budget Activity

(Dollars in thousands)

Appropriation	FY 2009		FY 2010	FY 2011		
	ARRA	Enacted	Enacted	Request	$ Change	% Change (Plus Admin Allocation)*
Executive Direction	$0	$21,619	$21,983	$38,587	$16,604	76%
Economic Policies and Programs	$0	$45,910	$47,249	$70,562	$23,313	49%
Financial Policies and Programs	$0	$36,038	$48,580	$91,212	$42,632	88%
Terrorism and Financial Intelligence	$0	$62,098	$64,611	$102,613	$38,002	59%
Treasury-wide Management and Programs	$0	$21,600	$22,679	$43,426	$20,747	91%
Administration Programs	$131,000	$91,604	$99,786	$0	($99,786)	(100.0%)
Total Appropriated Resources	**$131,000****	**$278,869**	**$304,888**	**$346,401**	**$41,513**	**13.6%**
Total FTE	**892**	**1,204**	**1,266**	**1,342**	**76**	**5.6%**

*FY 2011 numbers and percentage changes reflect the reallocation of the Administration Programs dollars to their respective budget activities, resulting in across-the-board increases to other budget activities.
**ARRA funding includes $122 million for IRS, $6 million for FMS, and $3 million for DO

FY 2011 Priorities

As part of developing the FY 2011 Budget and performance plan, the Department of the Treasury has also identified a limited number of high priority performance goals that will be a particular focus over the next two years.

<u>Goal 1</u>: Repair and reform the financial system
Measures and milestones:

- Complete up to four million trial mortgage loan modifications by December 31, 2012.
- Implement strong, comprehensive regulatory reform to restore stability and accountability to the financial system.

<u>Goal 2</u>: Increase voluntary tax compliance
Measures and milestones:

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

<u>Goal 3</u>: Significantly increase the number of paperless transactions with the public
Measures and milestones:

- Increase electronic payment, collections, and savings bonds transactions by 33 percent by the end of FY 2011.
- Increase individual E-file rate to 81 percent.

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

Departmental Offices, as the headquarters bureau for the Department of the Treasury, provides leadership in critical areas including U.S. and international economic and financial policy, terrorism and financial intelligence, financial crimes, and general management. The Secretary of the Treasury has the primary role of formulating and managing the domestic and international tax and financial policies of the Federal Government. Through effective management, policies, and leadership, the Treasury Department enables the use of financial tools in the war on terror, promotes the stability of U.S. and global financial markets to strengthen American economic opportunities, manages key global challenges, and ensures the government's ability to collect revenue.

The FY 2011 budget request supports DO's leading role in accomplishing key objectives:

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

• ***Securing America's Economic and Financial Future* –** The Departmental Offices will continue to develop and implement policies that promote economic growth as well strengthen global financial stability and open trade and investment policies to foster U.S. export and job opportunities in order to maintain America's economic strength and prosperity.

• ***Strengthening National Security* –** The Departmental Offices lead the U.S. Government's effort to keep the world's financial systems accessible to legitimate users, while excluding those who wish to exploit the systems for illegal purposes. The Department is integral to countering terrorist organizations' financing networks. The Departmental Offices implement targeted financial measures in the form of sanctions with the goal of stopping the flow of money to terrorist organizations, drug traffickers, money launderers, weapons proliferators, rogue regimes and their support networks that constitute a threat to the United States. The Department also supports national security objectives by strengthening the economic policies and the capacity of core institutions in countries of vital national security interest to the United States, including Afghanistan, Pakistan, and Iraq.

• ***Producing Effective Results* –** The Department is committed to creating the conditions that maximize program and activity efficiency and effectiveness, while continuing to drive results through performance and cost-based decision-making through department-specific ownership of administrative costs.

1B – Program History and Future Outlook

From the beginning of this Administration, Treasury has confronted extraordinary challenges: a severe recession here and around the world; a catastrophic loss of trust and confidence in our financial system; unprecedented foreclosure rates; small businesses struggling to stay afloat; and millions of Americans worried about losing their jobs and their savings. The current economic challenges that the United States faces require bold and comprehensive action. Treasury has responded to these challenges with an array of programs and initiatives to reignite growth, restore our financial system, and strengthen the U.S. and global economy.

Historically, the Treasury Department has affected Americans in their daily lives in many different ways, by collecting the taxes that build roads, fund vital programs, and protect our security. Now, in the face of severe challenges, Treasury is helping individuals and families in even more immediate ways. Treasury is acting to address multiple facets of this complicated economic crisis with new, comprehensive programs that are helping to stabilize the economy and the financial system—at home and abroad. Treasury has actively worked to strengthen the global economy and financial systems, as well as maintain open trade and investment policies, to foster improved economic opportunities for all Americans. Treasury is also taking a leading role in the design and implementation of the Administration's financial regulatory reform agenda to ensure that the circumstances that created this crisis are not allowed to re-emerge. While there is still more work to be done, Treasury has already accomplished a great deal during this FY, and will continue to work at an unprecedented pace to restore balance and growth to our economy. The section below describes the highlights of Treasury's critical achievements in the past year related to America's economic and financial future, and lays out key priorities going forward.

Tax Policy

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

<u>American Recovery and Reinvestment Act</u>. Treasury has played a critical role in the implementation of key provisions of the American Recovery and Reinvestment Act (Recovery Act). Treasury is responsible for implementing more than 30 tax changes that have and will continue to provide relief to the American taxpayer. Under the Recovery Act, 70 percent of the tax benefits target the middle 60 percent of American workers, and an estimated 2 million families will be lifted out of poverty as a result of Recovery Act tax cuts. Furthermore, it is estimated that over 1 million jobs will be saved or created from these tax cuts alone.

<u>Build America and School Bonds Program</u>. The Build America Bonds and School Bonds program was introduced to help states and localities pursue needed capital projects, such

as infrastructure development and public school construction. Over $8 billion of Build America Bonds have been sold. Over the next year to 18 months, an estimated $100 billion and $150 billion will be sold into the market.

Domestic Finance

Domestic Finance advises and assists in areas of domestic finance, banking, and other related economic matters. In addition, this office develops policies and guidance in the areas of financial institutions, federal debt finance, financial regulation, capital markets, financial management, fiscal policy, and cash management decisions.

Treasury has taken a leadership role in addressing the financial crisis with a comprehensive, forceful, and sustained response. The Financial Stability Plan, as well as the subsequent initiatives that have built on the Plan, are designed to mitigate the immediate effects of the crisis and to restore balance and growth to our economy. Treasury, working with others in the Administration, has introduced a series of programs that address multiple aspects of the complicated financial crisis. These programs include an unprecedented "stress test" of the nation's largest banks that attracted a wave of private capital to the sector; capital support for financial institutions; targeted initiatives to support key credit markets for consumer and small businesses; critical support for the auto industry during a period of necessary restructuring; and assistance to at-risk homeowners to reduce mortgage rates and limit the number of foreclosures.

<u>Office of Financial Institutions</u>

Key areas of recent work and future priorities for the Office of Financial Institutions include:

<u>Reforming the U.S. Financial Regulatory System.</u> Treasury has taken the lead within the Administration in developing and promoting a sweeping financial regulatory reform plan that will lay a new, solid foundation for growth. Such a plan will help increase stability in the financial markets and prevent the next crisis, by streamlining and strengthening the prudential regulatory system (including raising capital requirements), closing loopholes that allowed some firms to escape appropriate regulation, and creating strong safeguards for previously under-regulated financial markets, such as those for over-the-counter derivatives and asset-backed securities. The plan will strengthen protections for consumers and investors, through a proposal to establish a dedicated Consumer Financial Protection Agency. Finally, the plan will protect the economy and taxpayer from future crises in the financial markets by giving the government the tools to safely and efficiently wind down nonbank financial institutions whose failure would pose a threat to the system.

<u>*Addressing the housing crisis and ensuring strong housing policies going forward*</u>. The Office of Financial Institutions has played a key role in developing the Administration's housing crisis response policies. The Office has helped develop and expand the Making Home Affordable program, and is also playing a critical part in shaping the

Administration's mortgage finance policy, including policy with regard to housing finance markets and the future roles of Fannie Mae and Freddie Mac.

Protecting financial consumers. In the spring of 2009, the Office of Financial Institutions established a Deputy Assistant Secretary for Consumer Protection, which oversees the Office of Consumer Protection. Consumer Protection has developed and promoted the consumer and investor planks of the Administration's financial regulatory reform agenda, including the proposed establishment of a new Consumer Financial Protection Agency. Going forward, the Office of Consumer Protection will play an ongoing role as a leader in developing federal consumer and investor protection policy.

Managing diverse financial institution regulatory issues. The Office of Financial Institutions has also led Treasury's efforts in a diverse range of financial regulatory matters, including amending the Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac, operating Treasury's Temporary Money Market Mutual Fund Guarantee Program, supporting the Secretary as a Board member on the Pension Benefit Guaranty Corporation (which included a suspension of the recent investment policy), and representing Treasury on the Board of the Securities Investor Protection Corporation (including managing the consequences of the Madoff fraud).

Promoting financial education and access to financial services. The Office of Financial Education (OFE), under the Office of Financial Institutions, develops policies that promote financial empowerment and works with other agencies to help ensure that families and individuals have the knowledge, skills, and access they need to make wise financial choices. OFE also serves a key leadership role with respect to the President's Advisory Council on Financial Literacy and the Financial Literacy and Education Commission. In FY 2010, OFE has worked with the Community Development Financial Institutions Fund to create the Bank on USA Initiative, a newly proposed program that will promote access to affordable and appropriate financial services and basic consumer credit products for households without access to such products and services.

Office of Financial Markets

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

Successfully financing the federal debt. IN FY 2009, the Office of Debt Management conducted 296 auctions, issuing over $8.86 trillion in marketable securities and raising over $1.78 trillion in new cash, a significant increase from the previous record of $760 billion in FY 2008. This year's financing needs were completed through a number of changes to the auction calendar, which included both increases in the frequency of existing securities and the introduction of new securities. The Office pursued a number of policies to support the liquidity and functioning of the market for Treasury securities.

Supporting the housing market through purchases of mortgage-backed securities. Under the authority granted to Treasury in the Housing and Economic Recovery Act of 2008, the Office of Debt Management has purchased $225 billion of Agency mortgage-backed securities to support the housing market. This has helped keep mortgage rates at historically low levels for consumers across the country, reducing economic pressure on families and helping to stem the tide of foreclosures.

Modernizing Treasury's lending and investment MOUs. The Office of Policy and Legislation Review is working with its Agency borrowers on new, comprehensive Agency-Treasury agreements that cover borrowing and investing relationships with Treasury. Treasury policies and procedures are clearly defined in writing, providing transparency to all parties.

Office of Fiscal Service

The Office of Fiscal Service has been invaluable in the following achievements:

Promoting financial stability. Over the last year, the Fiscal Service established an unprecedented new government infrastructure to implement and manage the Treasury's investments – including securities, loans, guarantees, and equity ownership – under the Housing and Economic Recovery Act (HERA) and the Emergency Economic Stabilization Act (EESA). This infrastructure includes the ability to perform investment accounting, pricing, valuation, and cash flow projections; payments, collections, and cash management processing; asset management and servicing; and transaction closing and asset custody activities.

Implementing programs under the American Recovery and Reinvestment Act. The Fiscal Service has implemented two new programs establishing cash payments in lieu of tax credits under the American Recovery and Reinvestment Act of 2009. Over the past year, Treasury received over 92 applications from 51 state housing agencies and awarded $4 billion for the Payments to States for Low Income Housing Projects in Lieu of Tax Credits. Additionally, Treasury has awarded over $1.95 billion to 190 applicants under the Payments for Specified Renewable Energy Property in Lieu of Tax Credits program.

Enhancing reporting and modernizing systems. In addition to continued support for the Treasury's financial stability and economic recovery efforts, in the coming year the Fiscal Service will work to produce more accurate and useful financial statements and reports for the public, as well as to modernize systems and processes to reduce operating costs and improve the robustness of the government's financial infrastructure.

In FY 2010, the office will create the Office of Federal Financial Transformation (OFFT) program to develop and expand efforts to support shared, government-wide financial solutions associated with agency financial management services (e.g., invoice processing, cash collections, interagency agreement management), that will allow for the elimination of redundant processing of information. This program will eliminate the passing of financial information from one location or entity to the next. Instead, the transactions and information will reside in one location and users, stakeholders and the public will be able to access the information or append to the information without requiring the movement of the data. This will streamline processes and allow for more transparency of information.

This program will be run by the new Office of Financial Transformation funded by the government-wide CFO Council. Contract resources are requested to support this effort in the Departmental-wide Systems and Capital Investment (DSCIP) budget request.

Economic Policy

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

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

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

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

The Office has also provided expertise on policy development in the areas of climate change, energy and infrastructure. In addition, the office will continued to carry out its traditional responsibilities in the preparation of the Administration's budget and supporting the Secretary of the Treasury in his roles as Chairman and Managing Trustee of the Social Security and Medicare Boards of Trustees.

International Affairs

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

Supporting the Global Recovery to Help Promote U.S. Growth.
Treasury has led efforts to mitigate the impact of the global financial crisis and avert a more serious economic depression through global leadership that involved unprecedented

global cooperation. Treasury's leadership was critical to the U.S. role in securing in G-20 Leaders' commitments at the Washington and London Summits on measures to combat the global economic and financial crisis. Treasury has also secured strong multilateral support at the G-20 meetings for robust, coordinated policy response to reverse the global economic slide and take all necessary steps to restore public confidence, economic growth, and job creation for the U.S. economy. Treasury has worked closely with the International Financial Institutions (IFIs), other U.S. agencies, and via Treasury's technical assistance program, to rapidly respond to the global crisis, encouraging the IFIs to respond quickly with assistance and ensuring that they have adequate resources to do so. In particular, Treasury secured Congressional approval to provide the International Monetary Fund with supplemental resources to backstop the IMF's lending capacity and restore confidence to the global financial system. Treasury has also led efforts to strengthen international financial regulation through the Financial Stability Board and other international forums to ensure high-quality standards around the globe.

Deepening U.S. Engagement with Key Emerging Markets and Priority Countries. Given the increasingly interconnected global economy, Treasury has led efforts to engage emerging market economies to pursue more balanced and sustainable growth patterns, open markets for U.S. exports, and create new job and economic opportunities for American workers. To this end, Treasury has undertaken strategic dialogues with China, India, Russia, Afghanistan, Pakistan, and Iraq. Treasury has closely focused on engaging currency adjustment and expanding export opportunities for American businesses to strengthen the U.S. economy, specifically working closely with China and other leading emerging markets.

Economic policy cooperation between the U.S. and China has been one of the most important elements of the international effort aimed to rebalance growth. The meeting of the U.S.-China Strategic and Economic Dialogue held in Washington in July 2009 offered an opportunity for candid communication in which the United States and China reaffirmed their commitment to maintaining strong policy responses to support global recovery, and committed to a new framework for achieving more sustainable and balanced growth once global recovery is assured. These engagements will continue in bilateral, regional and multilateral channels.

Maintaining Attractiveness of the U.S. Investment and Trade Environment. Through a number of priority initiatives and responsibilities, Treasury promotes and reinforces open and transparent international trade and investment regimes at home and abroad, which are essential to U.S. growth and competitiveness. As Chair of the Interagency Committee on Foreign Investment in the United States (CFIUS), Treasury helps maintain an open investment environment by focusing CFIUS reviews of foreign investments solely and rigorously on protecting U.S. national security, consistent with statutory authority. Treasury also supports trade liberalization and budget discipline through its role in negotiating, implementing, and policing international agreements to reduce official export subsidies. Treasury has drastically reduced the subsidies that member governments of the Organization for Economic Co-operation and Development (OECD) can provide when financing national exports. The OECD agreements open markets and level the playing field for U.S. exporters and save U.S. taxpayers $800 million annually. Treasury has actively engaged in interagency deliberations and decisions impacting on at least 55 specific trade actions. Treasury actively fights to keep markets open by supporting efforts by the G-20 leaders to refrain from new protectionist measures during the period of the global economic crisis.

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

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

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

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

Treasury has played a critical role in the formulation of the President's Afghanistan-Pakistan Strategy and has been instrumental in focusing attention on the important connections among macroeconomic stability, effective public financial management, security, and political stability. Treasury participation was key to ensuring an extension of Afghanistan's debt relief from the Paris Club, which will provide Afghanistan an opportunity to reach the Completion point for Heavily Indebted Poor Countries before April 2010, resulting in the cancellation of all remaining Paris Club claims. Treasury has led support for Kosovo's integration into the global financial and economic communities by facilitating and developing support for Kosovo's membership in the International Monetary Fund (IMF) and World Bank. This has provided a solid foundation to reinforce our efforts to promote peace and prosperity in the region. Treasury also successfully negotiated the release of two installments of US credit guarantees of Israeli debt under the Israel-US Loan Credit Guarantee Agreement. Treasury has helped the Government of Iraq to successfully complete the IMF Stand-By Arrangement, leading to the release of final installment of Paris Club debt relief. Treasury also hosted the US-Iraq "Forum on Iraq Financial Issues" to help the Iraqi Government formulate and execute economic policies that are consistent with a sovereign, secure, and self-reliant Iraq.

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

Terrorism and Financial Intelligence

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

In FY 2009, Treasury designated 31 entities and individuals under Executive Order 13382 -- an authority aimed at freezing the assets of weapons of mass (WMD) proliferators and those who support them in the Asian and Middle East regions. Under Executive Order (E.O.) 13448 and 13464, two individuals and 23 entities were designated, imposing financial pressure against key financial backers of the Burmese regime. Treasury also targeted five individuals pursuant to E.O. 13413 targeting political or military leaders of foreign armed groups operating in African continent. Under E.O. 13469, Treasury designated four individuals and 21 entities, targeting those who provide financial and other support to the Zimbabwe government and Zimbabwean Specially Designated Nationals (SDNs) and thwarting the financial and logistical support they provided to the regime enabled Robert Mugabe to pursue policies that seriously undermine democratic processes and institutions in Zimbabwe.

In FY 2009, Treasury designated 26 individuals as Specially Designated Global Terrorists pursuant to E.O. 13224. These actions included the designation of Abdul Haq, leader of the Eastern Turkistan Islamic Party (ETIP) and responsible for terrorist acts in China and four Pakistan-based individuals who provided direct support to Al Qaida and Lashkar-e Tayyiba.

The Foreign Narcotics Designation Kingpin Act gives Treasury the authority to apply economic sanctions against foreign narcotics trafficking worldwide. In FY 2009, Treasury designated a Mexican pharmaceutical company diverting precursor materials for methamphetamine production, four key leaders of the Gulf Cartel in Mexico, three members of the Revolutionary Armed Forces of Colombia's (FARC) international committee, and a FARC trafficking associate in Costa Rica. Additionally, Treasury designated a drug trafficking network in Asia and the financial network of Peruvian drug Kingpin Fernando Zevallos. Additionally, Treasury designated 42 individuals and 37 entities pursuant to E. O. 12978 targeting drug trafficking centered in Colombia. Treasury also designated a money laundering network based in Colombia and Mexico resulting in the identification of a major narcotics trafficking organization centered in Medellín, Colombia.

Treasury serves as the lead or co-chair on several international working groups within the Financial Action Task Force (FATF) and FATF-style regional bodies (FSRB). These working groups have produced valuable guidance and reports for identifying and addressing vulnerabilities in the international financial system. This international outreach effort includes the promotion of financial system standards and safeguards through bilateral relationships and multilateral organizations. In FY 2009, Treasury participated in or reviewed over 50 mutual evaluations or assessments of jurisdictions' compliance with international anti-money laundering and counter-terrorist financing standards. Treasury also offered training and other technical assistance to counterparts abroad working to create effective anti-money laundering frameworks and financial regulation and oversight capable of combating terrorist finance. Further, Treasury promulgates policy related to money laundering and related financial crimes, including addressing emerging value transfer mechanisms and other challenges to financial transparency. Throughout the year, Treasury continued to develop conduct-based sanctions and executive orders to target illicit actors and works closely with the private sector, both individuals and financial institutions, to amplify these targeted measures. Treasury staff also worked with counterparts in foreign governments to extend U.S. sanctions efforts through corresponding sanctions in foreign jurisdictions.

Treasury continues to enhance its efforts to provide timely, accurate, actionable, and policy-relevant intelligence analysis. These threats are addressed by strengthening our understanding of the global financial network and encompass four areas: the financial underpinnings of national security threats, foreign leadership's and adversaries' plans, intentions, and financial vulnerabilities, the impact of targeted financial measures, and threats to international financial stability. As the Treasury Department's national security role has grown, so has its potential as a target for foreign intelligence services and non-state actors such as terrorists and criminal groups. In FY 2009, Treasury pursued this objective by developing and implementing a counterintelligence and security program commensurate with the Department's national security responsibilities.

Treasury-Wide Management

Producing Effective Results. The Departmental Offices (DO) continues to provide effective management tools necessary to execute its mission. Essential components required for achieving the DO mission include human resources, emergency planning, information technology, financial services, and procurement.

In 2009, DO undertook several core management projects to ensure that the Department produced effective results for the American people. DO was able to account for approximately $1.8 billion in collections associated with the Exchange Stabilization Fund Money Market Guarantee Program. In addition, DO has awarded 36 contracts valued at over $125 million for the Troubled Asset Relief Program (TARP) since October 2008, with no adverse GAO findings after five audits. In support of the Recovery Act, Treasury has awarded 12 contract actions and obligated $55.4 million in Recovery Act funds since March 2009.

Human Capital Management developed several Treasury-wide strategic initiatives including the design of user-friendly vacancy announcement templates, piloting an employee exit survey to identify systemic causes of employee attrition and developing a Treasury-wide recruitment “brand” that leverages the Treasury name and reputation.

The Treasury Department provides a secure information technology infrastructure. In FY 2009, Treasury strengthened its networks and improved sensitive data protection by tightening security policies, implementing safeguards to reduce exposure to Internet-based threats, strengthening the security configuration of its desktop and laptop systems by deploying the Federal Desktop Core Configuration, and achieving 97 percent and 98 percent completion rates for certification/accreditation and annual contingency plan testing, respectively. In FY 2010, we will continue the work we have begun to deploy Domain Name Server Extensions (DNSSEC) and the DHS Internet Security Sensors (“Einstein II”) and conduct in-depth pilots of data leakage prevention tools.

In acknowledgement of the social and economic impacts our programs have on the lives of Americans, the Department is working on the development of rigorous, independent program evaluations for FY 2011. These evaluations will allow us to measure program effectiveness and will further strengthen our capacity to conduct similar evaluations on current and future programs. Engaging in evaluations of Treasury programs will provide our management and policy makers with the information needed to invest in effective programs and target problems in programs found to be ineffective. All of our proposed evaluation initiatives will be coordinated within our Departmental Offices, and in two cases, in partnership with other federal agencies.

Finally, in FY 2011, DO propose to re-allocate administrative expenses by operational budget activity, instead of maintaining a separate budget activity just for administrative expenses. The reallocation will make each of the DO offices responsible for the most efficient utilization of their administrative costs and will result in a level funding stream allocation for each budget activity, which will be sustained through future years. Resources and programs which are currently housed within this budget activity will be transferred directly to DO’s policy budget activities utilizing a per- cost weighted cost allocation methodology. This re-alignment of resources will ensure that the policy offices feel ownership for their administrative costs, thereby eliminating the problem of free ridership which can occur when offices do not directly manage their resources.   It will also give oversight officials a better understanding of the full cost of each program within DO.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Departmental Offices - S & E		
FY 2010 Enacted	1,265.5	304,888
Changes to Base:		
Base Realignment:	16.5	$0
Base Realignment	16.5	-
Maintaining Current Levels (MCLs):	-	$5,584
FERS % Change	-	374
Non-Pay Inflation Adjustment	-	1,762
Pay Annualization	-	935
Pay Inflation	-	2,513
Non-Recurring Costs:	-	($2,500)
National Academy of Science Transfer	-	(2,500)
Efficiencies Savings:	(3)	($10,603)
DO IT Contract Savings	-	(5,300)
DAS Operations	-	(1,700)
Operations Center	-	(1,500)
Centralized Services	-	(500)
TFI and IA Office Savings	(3)	(1,603)
Subtotal FY 2011 Changes to Base	10.5	($7,519)
Total FY 2011 Base	1,279	297,369
Program Changes:		
Program Increases:	63	$49,032
Domestic Finance Capacity Building	24	16,681
IA Multilateral Meeting Support	-	6,739
Program Evaluations	-	5,292
OIA Global Finance Initiative	10	3,600
Cyber Security	-	3,000
Alpha Computers Modeling Systems	-	2,750
Procurement Improvements	10	2,500
Tax Policy Capacity Building	8	2,400
Recovery Act	3	2,000
Economic Policy Capacity Building	6	2,000
Global Tax Forum	-	1,000
OIA Counterproliferation	2	770
OIA IT Connectivity/Information Sharing	-	300
Subtotal FY 2011 Program Changes	63	$49,032
Total FY 2011 Budget Request	**1,342**	**346,401**

2A – Budget Increases and Decreases Description

Base Realignment ....+$0 / +16.5 FTE

Base Realignment +$0 / +17 FTE

This realigns Secure Communications positions previously located within the Treasury Working Capital Fund. These positions were moved back into DO because they only support DO, and not other bureaus.

Maintaining Current Levels (MCLs) ....+$5,584,000 / +0 FTE

FERS % Change +$374,000 / +0 FTE

Funds are requested for the increase in agency retirement contribution percentages for GS employees from 11.2 percent to 11.5 percent for FY 2011 as required by OPM.

Non-Pay Inflation Adjustment +$1,762,000 / +0 FTE
Funds are requested for non-pay related items such as contracts, travel, supplies, equipment and GSA rent.

Pay Inflation +$2,513,000 / +0 FTE
Funds are requested for the FY 2011 pay increase.

Pay Annualization +$935,000 / +0 FTE
Funds are requested for the FY 2011 cost of the 2010 pay raise.

Efficiencies Savings ....-$10,603,000 / -3 FTE

Departmental Offices IT Contract Savings -$5,300,000 / +0 FTE
Savings will be realized through contracting improvement and more efficient use of and reduced IT consumption. These savings will be realized proportionally across all of DO because of the re-alignment of the Administration Programs budget activity based on a per capita ratio.

Deputy Assistant Secretary of Operations -$1,700,000 / +0 FTE
Reduction will be realized through more efficient use and reduced consumption of utilities and a streamlined space plan. These improvements will be shared at a per capita level across DO as a result of the re-alignment of Administration Programs dollars based on a proportional spread.

Treasury Operations Center -$1,500,000 / +0 FTE
Efficiencies will be gained by consolidating portions of existing offices within the new combined Treasury Operations Center (TOC). The combined TOC will use fewer contract communications officers and need less IT and telecommunications and subscriptions support.

Centralized Services -$500,000 / +0 FTE
Reduction will be realized through the centralization of IT servers previously funded through the Working Capital Fund. This savings is shared proportionally across DO.

Terrorism and Financial Intelligence and International Affairs Office Savings -$1,603,000 / -3 FTE
A $1.6 million reduction to IA ($580 thousand) and TFI ($1.02 million) will be realized through the implementation of their identified cost efficiencies and other savings.

Program Increases ....+$49,032,000 / +63 FTE

Domestic Finance Capacity Building +$16,681,000 / +24 FTE
To more effectively respond to the financial crisis and to promote stronger and more equitable financial regulations going forward, the Administration recognizes that the Department of Treasury needs additional resources to support more robust institutional capacity within the Office of Domestic Finance. Additional resources will enable

Domestic Finance to provide expert advice to the current and future administrations, promoting a strong economy while maintaining fiscal discipline. To accomplish the reforms necessary to achieve its goals, Domestic Finance requests resources to increase its staff (with associated administrative overhead) and contract support, as well as to add two staff members within the Office of General Counsel and one within the Office of Legislative Affairs. The additional resources requested will allow Domestic Finance to pursue the following critical goals: (1) Expand expertise in capital markets, including in securities market structure and housing finance, to deepen capacity in an area critical to financial crisis response and prevention; (2) Conduct significant long-term, policy-related research projects drawing on interdisciplinary expertise in areas such as finance, economics, and law; (3) Provide leadership in developing and implementing financial regulatory policy. The areas of emphasis will include housing initiatives, small business, community development, consumer and investor protection, and financial education; and (4) Support research activities to allow the Office to obtain high-quality, time-sensitive research, data, and analysis to inform policy development. $3.5 million (included in the request above) is requested to fund these activities; (5) The resources requested will also support two initiatives included in the Administration's financial regulatory reform legislation: (i) an office of full-time, expert staff to support the newly created Financial Services Oversight Council, which will identify emerging systemic risks and improve interagency cooperation; and (ii) the Office of National Insurance, which will gather information, develop expertise, negotiate international agreements, and coordinate policy within the insurance sector.

International Affairs Multilateral Meetings Support +$6,739,000 / +0 FTE
In 2009, Treasury provided an unprecedented level of support for President Obama as he pursued the U.S. economic agenda at numerous international summits focused on mitigating the impact of the global financial crisis, and building strong, sustainable and balanced growth in the future. In FY2011, Treasury continues to hold the major responsibility of convening other countries to ensure financial and economic stability and growth in order to foster new economic opportunities and jobs for Americans. The major international summits and meetings that must be convened include G-20 meetings, Asia-Pacific Economic Cooperation (APEC) meeting, and economic summits with China, India and regional groups, as well as numerous ministerial engagements. These meetings are critical to achieving the U.S. economy agenda as they provide venues to advance U.S. policy priorities to foster economic growth. Therefore, Treasury is requesting funds to host these high-level engagements as well as $400,000 for official reception and representation expenses.

Program Evaluations +$5,292,000 / +0 FTE
As part of the Administration's government-wide initiative to strengthen program evaluation, the request includes funds to support four substantive program evaluations at a total cost of $5.766 million, of which $474,000 can be funded out of existing administrative funding for the Office of Financial Stability. These evaluations include (1) Testing alternative mortgage modification strategies; (2) Evaluating CDFI Financial Innovations; (3) Linking mortgage/administrative data to assess mortgage risk; and (4) A combined study to evaluate different approaches to no-fee debit cards and Volunteer

Income Tax Assistance (VITA) prepaid cards. These studies are just a few of 23 evaluation proposals specifically approved by the Office of Management and Budget for 2011 to strengthen the quality and rigor of Federal program evaluation. To ensure the study is well designed and implemented, Treasury will work with evaluation experts at OMB and the Council of Economic Advisers during the planning, design, and implementation of the study. Treasury is committed to promoting strong, independent evaluation that can inform policy and program management decisions and will post the status and findings of this and other important evaluations publicly available online.

Office of Intelligence and Analysis Global Finance +$3,600,000 / +10 FTE
This builds upon the FY 2009 Global Finance Initiative to further leverage financial intelligence that informs and enables senior Treasury leaders in the formulation of policy and the execution of Treasury authorities, and allows OIA to play a critical role in coordinating global finance intelligence issues across the Intelligence Community.

Cyber Security +$3,000,000 / +0 FTE
These base resources are used for department-wide policy implementation of the Cyber Security program, and are not developmental. The reallocation would eliminate the challenges associated with a recurring program funded through an account which is developed as a zero-based budget, by providing a permanent funding stream for the ongoing operations and maintenance of the program. The Cyber Security program helps ensure the protection of Treasury systems and information against threats. The program provides greater protection against network intrusions, which can result in significant disruptions and delays in its business activities.

Alpha Computers Modeling Systems +$2,750,000 / +0 FTE
Alpha computers are large scale computer systems which support several critical applications for Departmental Offices, including the Office of Tax Policy tax models, the Federal Financing Bank Loan Management System, Economic Policy modeling, the Treasury Library catalog application and Domestic Finance applications. These computers were purchased and installed in FY 2005 to meet the large scale processing and data storage requirements of these policy offices. Since these systems will be over six years old and are no longer manufactured by the vendor, this initiative will replace these systems with Intel-based 64 bit blade servers.

Procurement Improvements +$2,500,000 / +10 FTE
Treasury requires additional centralized procurement resources to identify, manage, execute and make sustainable initiatives to generate procurement influenced savings, additional strategic sourcing efforts within Treasury and across government, and systemic process improvements. The approach to identifying and realizing these goals is to focus the additional resources on corporate-wide opportunities in an optimized and sustainable manner to: achieve ongoing savings and high risk contracting reductions; improve our e-Procurement and drive process efficiencies; drive needed policy support; and to stand-up and manage effective corporate governance, accountability and reporting. This investment will enable and promote an optimized, efficient and effective corporate

procurement approach utilizing centers of excellence, consolidated purchasing with common tools and processes. When the improvement opportunities are realized, they will yield a significant return on investment.

Tax Policy Capacity Building +$2,400,000 / +8 FTE

To meet the challenges that have resulted from the current global financial crisis and continuing tax policy challenges facing the American people, the Office of Tax Policy (OTP) is requesting an additional eight positions. Tax specialists will be allocated to the development of tax policies addressing key tax policy issues. These tax specialists will ensure the OTP is able to respond to new challenges due to the financial crisis, support the financial stimulus plan, and address tax policy issues such as climate change, health care, and tax reform. OTP will use these new resources to ensure that tax policies allow the Department of Treasury and the President to respond in a more flexible manner to new challenges and provide support for Administration priorities in these key areas.

Recovery Act +$2,000,000 / +3 FTE

This Department of the Treasury initiative is requesting three staff members and additional contract funds for an interagency agreement between the National Renewable Energy Research Lab and Treasury to review application for the Cash Payments for Specified Energy Property in Lieu of Tax Credits. These resources are needed to support Treasury's critical role in the implementation of the American Recovery and Reinvestment Act (ARRA), specifically supporting Cash Payments to States for Low-Income Housing Projects in Lieu of Low-Income Housing Tax Credit Allocations and Cash Payments for Specified Energy Property in Lieu of Tax Credits. These payments cover a wide range of options for the American people: housing payments help attract private capital to invest in the construction, acquisition, or rehabilitation of qualified low-income housing buildings; energy payments support the deployment of specified energy property (including qualified facilities that produce electricity from wind and certain other renewable resources; qualified fuel cell property; solar property; qualified small wind energy property; geothermal property; qualified microturbine property; combined heat and power system property; and geothermal heat pump property. These three additional staff members and additional contract support provide a vital function, managing a high profile program which is showing direct impacts to the American people.

Economic Policy Capacity Building +$2,000,000 / +6 FTE

The Office of Economic Policy (OEP) develops and analyzes policies in the housing and financial sectors. Demand for its services has risen sharply. OEP has an excellent record of accomplishments, but needs specialized expertise to: analyze events and make policy proposals, understand how recent and future policy actions affect the economy, and use all available data more efficiently. OEP needs to increase its staff expertise to provide analysis in utilizing various government and private databases which differ in structure and content. OEP requests resources to add expert economists in the housing and financial sectors and to create a small, efficient Data Analysis unit. The unit will maintain the large financial and nonfinancial databases needed to assess the financial and economic situation and support policy analyses.

<u>Global Tax Forum +$1,000,000 / +0 FTE</u>
The Global Forum was previously funded through the Organization for Economic Co-operation and Development (OECD) budget, but as part of a restructuring to become a more independent body, it is moving to a new funding structure that will require members of the Global Forum to fund it themselves (entirely outside the regular OECD budget). Recent developments have increased the importance of transparency and exchange of information in tax matters. Major progress has been made, with all jurisdictions previously surveyed by the Global Forum on Transparency and Exchange of Information (the Global Forum) having now committed to the standards on transparency and exchange of information for tax purposes. The Declaration of the G-20 Heads of State on Strengthening the Financial System issued after the London summit in April 2009 calls on the Global Forum to conduct and strengthen objective peer reviews, based on existing processes, and to review its structure. This message was reinforced by G-8 Leaders who met in L'Aquila, Italy, on July 8-9, 2009. On September 1-2, 2009, the Global Forum met in Mexico and began the process of implementing this new mandate. The Global Forum's new peer review mechanism will allow a more in-depth assessment which should lead to a clear rating system, resulting in objective measurements of how well jurisdictions are implementing the international standards on transparency and exchange of information. The budget of the Global Forum is allocated among its members, with each county's contribution calculated on the basis of the relative percentages of the adjusted national incomes of each member. National income statistics (GNP at factor cost less 10 percent depreciation allowance) are adjusted to a common currency unit (USD) at official exchange rates by a $450 per capita deduction. Based on this methodology, Treasury believes that its contribution for continued U.S. participation this G-8 and G-20 commitment, initiated at the behest of the United States, will be at least $1 million.

<u>Office of Intelligence and Analysis Counterproliferation +770,000 / + 2 FTE</u>
Targeting the financing of proliferation networks, including those associated with terrorists seeking weapons of mass destruction (WMD), is a key component of USG efforts to deter, disrupt, and prevent the spread of WMD. OIA leads Treasury's effort to identify, monitor, and assess the evolution of proliferation finance networks and supports the use of targeted financial measures against them. OIA proposes to expand these activities to ensure Treasury's continued progress in disrupting proliferation networks as they evolve and adapt, as well as to respond to emerging proliferation threats posed by state and non-state actors

<u>Office of Intelligence and Analysis IT Connectivity/Information Sharing +300,000 / + 0 FTE</u>
Resources dedicated to this initiative will help implement the Identity and Access Management capability in support of the National Intelligence Strategy Enterprise Objective, improve information integration and information sharing. This capability will establish an enterprise capability within the sensitive compartmentalized information (SCI) computer networks.

2.2 – Operating Levels Table

Table 2.2 Dollars in Thousands							
Appropriation Title: DO Salaries and Expenses	FY 2009 Enacted	FY 2010 President's Budget	Cong. Action	FY 2010 Enacted	FY 2011 Increase and Decreases	FY 2011 Request	% Change FY 2010 to FY 2011
FTE	1,204	1,266	0	1,266	77	1,342	
Object Classification:							
11.1 Full-Time Permanent Positions..........................	$131,308	$145,562	$0	$145,562	$8,976	$154,538	6.2%
11.3 Other than Full-Time Permanent Positions.........	2,781	2,781	0	2,781	323	3,104	11.6%
11.5 Other Personnel Compensation.........................	197	197	0	197	560	757	284.3%
11.8 Special Personal Services Payments................	0	0	0	0	1,162	1,162	----
Personnel Compensation (Total)	$134,286	$148,540	$0	$148,540	$11,022	$159,561	7.4%
12.0 Personnel Benefits...	28,377	28,861	0	28,861	11,431	40,293	39.6%
13.0 Benefits to Former Personnel............................	0	0	0	0	253	253	----
Pay	162,663	177,401	0	177,401	22,706	200,107	12.8%
21.0 Travel..	5,047	5,286	0	5,286	4,601	9,888	87.0%
22.0 Transportation of Things......................................	0	0	0	0	302	302	----
23.1 Rental Payments to GSA.....................................	4,000	5,427	0	5,427	(1,495)	3,932	-27.5%
23.2 Rent Payments to Others.....................................	0	0	0	0	170	170	----
23.3 Communications, Utilities, & Misc.......................	14,112	14,889	0	14,889	(5,435)	9,454	-36.5%
24.0 Printing and Reproduction..................................	2,715	2,715	0	2,715	(33)	2,682	-1.2%
25.1 Advisory & Assistance Services..........................	41,581	47,213	0	47,213	4,215	51,428	8.9%
25.2 Other Services..	19,229	19,229	0	19,229	1,888	21,117	9.8%
25.3 Purchase of Goods/Serv. from Govt. Accts.........	22,249	22,249	2,500	24,749	1,681	26,430	6.8%
25.4 Operation & Maintenance of Facilities................	900	900	0	900	308	1,208	34.2%
25.5 Research & Development Contracts..................	0	0	0	0	0	0	0.0%
25.6 Medical Care..	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment............	1,000	1,000	0	1,000	1,857	2,857	185.7%
25.8 Subsistence & Support of Persons.....................	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials..	3,430	3,498	0	3,498	6,947	10,445	198.6%
31.0 Equipment..	1,944	2,581	0	2,581	3,801	6,381	147.3%
32.0 Lands and Structures..	0	0	0	0	0	0	0.0%
33.0 Investments & Loans..	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies..	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn................................	0	0	0	0	0	0	0.0%
43.0 Interest and Dividends……………………………	0	0	0	0	0	0	0.0%
44.0 Refunds..	0	0	0	0	0	0	0.0%
Non-Pay	116,207	124,987	2,500	127,487	18,807	146,294	14.8%
Total Budget Authority…………………………………	$278,869	$302,388	$2,500	$304,888	$41,513	$346,401	13.6%
Budget Activities:							
Executive Direction	$21,619	$22,383	($400)	$21,983	$16,604	$38,587	75.5%
Economic Policies and Programs	45,910	44,749	2,500	$47,249	$23,313	$70,562	49.3%
Financial Policies and Programs	36,038	47,580	1,000	$48,580	$42,632	$91,212	87.8%
Terrorism and Financial Intelligence	62,098	64,611	0	$64,611	$38,002	$102,613	58.8%
Treasury-wide Management and Programs	21,600	22,779	(100)	$22,679	$20,747	$43,426	91.5%
Administration Programs	91,604	100,286	(500)	$99,786	($99,786)	$0	-100.0%
Total Budget Authority…………………………………	$278,869	$302,388	$2,500	$304,888	$41,513	$346,401	13.6%

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

2.3 – Appropriations Detail Table

Dollars in Thousands

Appropriation Detail
Table 2.3
(Dollars in Thousands)

Resources Available for Obligation	FY 2008 Obligations		FY 2009 Enacted		FY 2010 Enacted		FY 2011 Pres. Budget		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:										
Executive Direction Programs	129	$20,273	131	$21,619	132	$21,983	162	38,587	23%	76%
Economic Policies and Programs	244	41,852	247	45,910	243	47,249	272	70,562	12%	49%
Financial Policies and Programs	194	29,134	199	36,038	244	48,580	306	91,212	25%	88%
Terrorism and Financial Intelligence	308	51,904	342	62,098	346	64,611	437	102,613	26%	59%
Treasury-wide Management Policies and Programs	99	16,384	101	21,600	109	22,679	165	43,426	51%	91%
Administration Programs	160	82,630	185	91,604	192	99,786	0	0	-100%	-100%
Subtotal Newly Appropriated Resources	1,133	242,176	1,204	278,869	1,266	304,888	1,342	346,401	6%	14%

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

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
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, [$304,888,000, of which not to exceed $21,983,000 is for executive direction program activities; not to exceed $47,249,000 is for economic policies and programs activities, including $1,000,000 that shall be transferred to the National Academy of Sciences for a study by the Board on Mathematical Sciences and Their Applications on the long-term economic effects of the aging population in the United States, to remain available until September 30, 2011, and $1,500,000 that shall be transferred to the National Academy of Sciences for a carbon audit of the tax code as authorized in section 117 of the Energy Improvement and Extension Act of 2008 (Public Law 110-343), to remain available until September 30, 2011; not to exceed $48,580,000 is for financial policies and programs activities; not to exceed $64,611,000 is for terrorism and financial intelligence activities; not to exceed $22,679,000 is for Treasury-wide management policies and programs activities; and not to exceed $99,786,000 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 4 percent by all such transfers: Provided further, That any change in funding greater than 4 percent shall be submitted for approval to the House and Senate Committees on Appropriations] *$346,401,000*: *Provided* [further], *That notwithstanding any other provision of law, of the amount appropriated under this heading, up to $1,000,000, may be contributed to the Global Forum on Transparency and Exchange of Information for Tax Purposes, a Part II Program*	**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 $400,000 to reflect Treasury's greater increased international responsibilities and participation as hosts for multilateral meetings.**

of the Organization for Economic Cooperation and Development, to cover the cost assessed by that organization for Treasury's participation therein: Provided further, That of the amount appropriated under this heading, not to exceed $3,000,000, to remain available until September 30, [2011] *2012*, is for information technology modernization requirements; not to exceed $200,000 is for official reception and representation expenses; *$400,000 is to support increased international representation commitments of the Secretary;* and not to exceed $258,000 is for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Secretary of the Treasury and to be accounted for solely on his certificate: *Provided further*, That of the amount appropriated under this heading, $6,787,000, to remain available until September 30, [2011] *2012*, is for the Treasury-wide Financial Statement Audit and Internal Control Program, of which such amounts as may be necessary may be transferred to accounts of the Department's offices and bureaus to conduct audits: *Provided further,* That this transfer authority shall be in addition to any other provided in this Act: *Provided further,* That of the amount appropriated under this heading, $500,000, to remain available until September 30, [2011] *2012*, is for secure space requirements: *Provided further, That of the amount appropriated under this heading, $1,100,000 to remain available until September 30, 2012, 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, *up to* $3,400,000, to remain available until September 30, [2012] *2013*, 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, [2012] *2013*, is for modernizing the Office of Debt Management's information technology. *(Department of the Treasury Appropriations Act, 2010.)*	

2C – Legislative Proposals

There are no legislative proposals for the Departmental Offices.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 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 (Includes Reimbursables)
(Dollars in Thousands)

Treasury Strategic Goal	FY 2010 Enacted	FY 2011 Request	% Change FY 2010 to FY 2011
Effectively Managed U.S. Government Finances	$62,386	$76,675	22.9%
U.S. and World Economies Perform at Full Economic Potential	109,336	$121,866	11.5%
Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems	114,815	$115,673	0.7%
Management and Organizational Excellence	$52,193	$66,029	26.5%
Total FY 2010 Request	$338,730	$380,243	12.3%

3A – Executive Direction *($38,587,000 from direct appropriations and $2,536,000 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 offices include: Secretary/Deputy Secretary, Chief of Staff, Executive Secretariat, General Counsel, Legislative Affairs, Public Affairs, and Treasurer.

The Office of General Counsel is a constituent component of Executive Direction. This division provides legal support and guidance on all matters pertaining to the Department, from issues relating to tax and financial policies, international treaties, human resources related matters and procurement. This is a vital function for the Department and the American people as it ensures legal cooperation between the financial sector and the law.

3.2.1 Budget and Performance Plan
(Dollars in Thousands)

Executive Direction Programs Budget Activity					
Resource Level	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$19,094	$20,273	$21,619	$21,983	$38,587
Reimbursable Resources	0	599	1,092	1,092	2,536
Total Resources	$19,094	$20,872	$22,711	$23,075	$41,123
Budget Activity Total	$19,094	$20,872	$22,711	$23,075	$41,123

No specific performance goals/measures are presented for this budget activity as the work of the offices within this budget activity is captured within the other budget activities.

3B – Economic Policies and Programs *($70,562,000 from direct appropriations and $7,537,000 from reimbursable programs):* A major mission of the offices within the Economic Policy and Programs budget activity is to promote economic growth and security. The Offices pursue this mission by providing economic guidance and support to the Secretary in his role as the President's chief economic adviser. These offices play a key role in supporting the Secretary by providing technical analysis, economic forecasting, and policy guidance on issues ranging from changes in entitlement policy to responding to international financial crises. They provide economic intelligence and support by analyzing and reporting on current and prospective economic developments in the U.S. and world economies, assisting in the determination of appropriate economic policies, and evaluating policy ideas. The offices review and analyze domestic and international economic issues and developments in the financial markets.

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

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

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

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

3.2.2 Budget and Performance Plan
(Dollars in Thousands)

Economic Policy and Programs Budget Activity					
Resource Level	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$35,581	$41,852	$45,910	$47,249	$70,562
Reimbursable Resources	3,195	4,073	5,097	5,097	7,537
Total Resources	$38,776	$45,925	$51,007	$52,346	$78,099
Budget Activity Total	$38,776	$45,925	$51,007	$52,346	$78,099

Economic Policies and Programs Budget Activity Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Number of new trade and investment negotiations underway or completed (Oe)	N/A	14	6	6	2	2
Percentage of grant and loan proposals containing satisfactory frameworks for results measurement (%) (Oe)	92	94	90	94	90	90
Improve International Monetary Fund (IMF) effectiveness and quality through periodic review of IMF programs (%) (Oe)	100	93	90	23	90	90
Scope and intensity of engagement (Traction) (E)	N/A	4	4	4	4	4
Changes that result from project engagement (Impact) (Oe)	N/A	3	3	3	3	3

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

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

Treasury’s Office of International Affairs (IA) advises and assists in the formulation and execution of U.S. international economic and financial policy. In FY 2009, the office exceeded its targets for all of its performance measures related to trade and investment. During FY 2010 - FY 2011 it is anticipated that completion of new international trade and investment agreements will be challenged by protectionist sentiment associated with the 2007-2009 global recession. Commitments by G-20 nations to complete the World Trade Organization’s Doha Round of trade negotiations and limit protection are extremely favorable, but matching the performance results of FY 2009 will remain challenging until political impediments associated with the recession diminish. Performance targets for FY 2010 and FY 2011 for IA measures have been set to reflect these economic conditions.

To help ensure that the accountability in the lending of the MDBs, Treasury monitors the percentage of grant and loan proposals containing satisfactory results measurement frameworks. Over the past several years, most of the MDBs have made substantial progress towards developing frameworks to measure the results of their development assistance. For FY 2009, 94 percent of grant and loan proposals contained satisfactory results measurement frameworks, exceeding the Department's target of 90 percent. The Department will continue to encourage the development of robust, transparent performance measurement systems at the MDBs to ensure accountability for the resources they utilize.

In FY2009, the Department led efforts to restore global confidence in the wake of the financial crisis by ensuring the IMF had the adequate resources and tools necessary to respond. This action was critical to strengthening the U.S. economy via the stabilization of international markets and other major and emerging economies. By convening two G-20 meetings, the Department also developed a new international economic architecture that ensures that all major economies participate in economic governance, including efforts to foster strong, balanced and sustainable growth, which will help boost U.S. exports. The Department led efforts in this regard to secure international agreement for a shift in IMF quota share of at least 5 percent in favor of dynamic emerging market and developing countries, and from over-represented to under-represented countries. The Department's efforts to work through the IMF to secure sound institutional and operational practices for sovereign wealth funds culminated in FY 2009 with the publication of the Santiago Principles.

The Department systematically reviews IMF country programs to monitor quality and enhance the effectiveness of IMF lending. The Department's review of IMF programs for FY 2009 yielded an improvement rate of 23 percent versus 93 percent in FY 2008. The lower result was largely due to a shortened timeframe for review of IMF program documents (from two weeks to several days) due to the activation of emergency lending procedures to support crisis-affected countries. The IMF effectiveness indicator for FY 2010 and FY 2011 has been modified to take emergency review procedures into account, which should not be considered a departure from performance-based assessment as the target has been raised to 100 percent.

In FY 2009, OTA continued its ongoing effort to verify and evaluate its performance. Building on its initiatives in 2008, it conducted a 100 percent review of all technical assistance projects to verify performance. It also reciprocated a peer-review process begun with the Australian Treasury in 2008. For the past six years OTA has been developing a tool to enhance its performance measures. The tool uses evaluations by resident advisors to rate projects on the level of engagement with the host government (Traction in OTA parlance) and the changes that result from that engagement based on technical indicators specific to each of the five financial disciplines (what OTA calls Impact). This innovative approach was showcased by the OMB Associate Director for Administration and Management, to be presented at the annual Excellence in Government Conference in 2008. Results from 2008 encouraged OTA to forecast goals for the next three years of 3.6 (out of 5) for Traction, and 3.1 for Impact. Calculated results for FY 2009 were 3.7 for Traction and 3.1 for Impact.

In 2008, the Department of the Treasury of the Government of Australia conducted a professional peer review of OTA work to assess effectiveness. The report was beneficial and contributed valuable insight to OTA's mid- and long-term planning. The process was so successful that the Australian Treasury requested that the U.S. Treasury reciprocate the process using its own financial technical assistance projects as the object of examination. The results of this second peer-review, which was conducted in May 2009, were presented to an international group of representatives from other countries who engaged in financial technical assistance. The process was highly beneficial to both parties. The first outcome was that the Australian Treasury became aware of how their projects were judged on process and results from a professional and technical point of view by someone who had no agenda but reporting the truth as they saw it. The second and not inconsiderable benefit was to OTA itself, since the process required that we determine the relevant areas to evaluate, set criteria and methods to conduct the study, and fairly judge the work being done by a peer agency. The process of peer review recommends itself to other organizations on the basis of OTA experience.

3C – Financial Policies and Programs *($91,212,000 from direct appropriations and $8,182,000 from reimbursable programs):* Offices within the Financial Policies and Programs budget activity monitor and provide advice and assistance to the Secretary in the areas of tax policy, domestic finance, financial markets, and the regulation of financial institutions.

Office of Tax Policy (TP)

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

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

Office of Domestic Finance (DF)

The mission of the Office of Domestic Finance is to advise and assist the Secretary on the domestic financial system and fiscal policy and operations, as well as governmental assets and liabilities. The office advises the Secretary on regulations and legislation for financial institutions to ensure a resilient and healthy financial sector. The Office of Domestic Finance includes the Office of Financial Markets, the Office of Fiscal Policy, the Office of Financial Institutions, the Office of Critical Infrastructure Protection, and the Office of Financial Stability.

3.2.3 Budget and Performance Plan
(Dollars in Thousands)

Financial Policies and Programs Budget Activity					
Resource Level	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$24,878	$29,134	$36,038	$48,580	$91,212
Reimbursable Resources	4,304	4,261	5,225	5,225	8,182
Total Resources	$29,182	$33,395	$41,263	$53,805	$99,394
Budget Activity Total	$29,182	$33,395	$41,263	$53,805	$99,394

Financial Policies and Programs Budget Activity						
Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Audit opinions received on government-wide financial statements	1	Discontinued	Discontinued	Discontinued	Discontinued	Discontinued
Release Federal Government-wide Statements on time (Oe)	Yes	Yes	Meet Deadline	Was Met	Meet Deadline	Meet Deadline
Variance between estimated and actual receipts (%) (Oe)	2.1	4.6	5	5.5	4.5	4.5

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

Description of Performance: As part of managing the government's central operating account and cash position, the Office of Fiscal Projections (OFP) provides forecasts of federal receipts, outlays, and debt transactions to ensure that funds are available on a daily basis to cover federal payments. To analyze the effectiveness of cash management techniques employed, OFP measures the variance between actual and projected government receipts. Given economic stimulus efforts, stress in global credit markets, restructuring of the Federal Reserve's balance sheet, a spike in deposit insurance outlays and lower tax receipts associated with the recession, forecasts for FY 2009 were not as good as those for FY 2008. The estimated variance for FY 2009 was 5.5 percent, higher than the 4.6 percent variance in FY 2008 and 5.0 percent target for FY 2009. FY 2009 proved a more challenging forecasting year than FY 2008, given the rapid rates of decline in key indicators such as employment levels and implementation of tax provisions directly impacting receipts such as Making Work Pay. Moreover, any additional changes in economic conditions or promulgation of new programs and initiatives will impact volatility in government tax receipts. OFP is making significant efforts to assess and improve modeling systems to reduce error and return to target error ranges. Targets for FY 2010 and FY 2011 have been set at 5 percent. OMB revised the accelerated December 15, 2009 deadline to February 16, 2010 and we are on target to meet the revised deadline for the FY 2009 Financial Report of the United States Government (FR). The statutory deadline for the FR is March 31, 2010.

3D – Terrorism and Financial Intelligence *($102,613,000 from direct appropriations and $9,484,000 from reimbursable programs):* The Office of Terrorism and Financial Intelligence (TFI) oversees the Department's functions that strengthen national security with the twin aims of safeguarding financial systems against illicit use and combating rogue nations, terrorist facilitators, money launderers, drug kingpins, proliferators of weapons of mass destruction, and other national security threats.

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

Office of Intelligence and Analysis (OIA)
The Office of Intelligence and Analysis (OIA) is responsible for the receipt, analysis, 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 and driving collection on support networks of terrorists, weapons of mass destruction 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 (TFFC)
The Office of Terrorist Financing and Financial Crimes (TFFC) is the policy and outreach apparatus for the Office of Terrorism and Financial Intelligence (TFI) on terrorist financing, money laundering, 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 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 (FATF), and increases our multilateral and bilateral efforts in this field. The office advances international standards, conducts assessments, and applies protective countermeasures against high-risk foreign jurisdictions and financial institutions. Bilaterally, TFFC works with foreign counterparts to craft strategies to jointly attack terrorist financing both globally and within specific regions.

3.2.4 Budget and Performance Plan
(Dollars in Thousands)

Terrorism and Financial Intelligence Budget Activity					
Resource Level	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$43,115	$51,904	$62,098	$64,611	$102,613
Reimbursable Resources	3,934	3,866	5,637	5,637	9,484
Total Resources	$47,049	$55,770	$67,735	$70,248	$112,097
Budget Activity Total	$47,049	$55,770	$67,735	$70,248	$112,097

Terrorism and Financial Intelligence Budget Activity						
Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Increase the number of outreach engagements with the charitable and international financial communities (Ot)	85	80	Discontinued	Discontinued	Discontinued	Discontinued
Number of countries that are assessed for compliance with the Financial Action Task Force (FATF) 40 + 9 recommendations (Ot)	6	12	Discontinued	Discontinued	Discontinued	Discontinued
Number of open civil penalty cases that are resolved within the statute of limitations period (Ot)	296	233	Discontinued	Discontinued	Discontinued	Discontinued
Impact of TFI programs and activities (OE)			Baselined	7.81	7.4	7.6

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

Description of Performance:
In FY 2009, the Department discontinued using all of its performance measures that were previously reported, as shown in the table above. These measures are now used as indicators for the new composite measure that was developed. TFI introduced and began to apply a composite performance measure in FY 2009 to improve the assessment of its impact. There are four components within the composite measure that align to each office within TFI, each are linked to its overall performance goals and the Department's strategic outcomes. The four focus areas and corresponding ratings are; the impact of policy making, outreach, and diplomacy (6.75), the impact of economic sanctions (7.7), impact of information and analysis (9.4), and the impact of activities to create safer and more transparent financial systems (7.4). The score is based on a possible ten points, with low impact being rated at 0-3, medium being 4-7, and high impact being scored at 8-10. This performance measure was baselined in FY 2009 with a value of 7.8, or medium impact, and has a target of 7.4 for FY 2010 and 7.6 for FY 2011. TFI and the Department will continue to refine how the measure is rated and scored.

3E - Treasury-wide Management and Programs: *($43,426,000 from direct appropriations and $6,103,000 from reimbursable programs)* The primary role of offices within Treasury-wide Management (TWM) is to create the conditions which allow Administration priorities and goals to be achieved as efficiently and effectively as possible. TWM provides strategic planning and develops policy direction in the areas of: human resources; emergency management, privacy, records management, civil liberties; information technology security; procurement; and financial administration (such as the formulation and management of Treasury's budget). The Department develops integrated plans to align policy and operations in order to produce maximum value for the American people.

3.2.5 Budget and Performance Plan
(Dollars in Thousands)

Treasury-wide Management Programs Budget Activity					
Resource Level	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$15,705	$16,384	$21,600	$22,679	$43,426
Reimbursable Resources	2,696	4,295	4,575	4,575	6,103
Total Resources	$18,401	$20,679	$26,175	$27,254	$49,529
Budget Activity Total	$18,401	$20,679	$26,175	$27,254	$49,529

Treasury-wide Management and Programs Budget Activity Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Completed investigations of EEO complaints within 180 days (%) (Oe)	52	56	50	65	65	65
Percent of complainants informally contacting Equal Employment Opportunity (EEO) (for the purpose of seeking counseling or filing a complaint) who participate in the ADR Process (%) (Oe)	29	45	30	35	35	40
Number of material weaknesses closed (significant management problems identified by GAO, the IGs and/or other bureaus) (Oe)	n/a	2	n/a	n/a	1	1
Injury and illness rate Treasury-wide - including DO (Oe)	1	1.29	Discontinued	Discontinued	Discontinued	Discontinued
Management cost per Treasury employee ($) (E)	29.64	Discontinued	Discontinued	Discontinued	Discontinued	Discontinued

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

Description of Performance: DO, through Treasury-wide Management (TWM), is committed to building a strong institution that is dedicated to serving the public's interest and focused on delivering results.

Beginning in FY 2008 the Office of the Deputy Assistant Secretary of Human Resources-Chief Human Capital Officer (DASHR-CHCO) identified two performance measures to assess the effectiveness of human capital at the Treasury Department. First, how effective is Treasury at recognizing employee performance and second does Treasury have the needed talent to achieve organizational success?

There was a change between FYs 2008 and 2009 in SES relationship between performance and awards based on the change in the metrics. For 2009, Treasury used the Office of Personnel Management's most recent Pearson's Correlation Coefficient of .627 based 2008 performance data. (The 2009 performance data has not been received yet.) This is a standard metric across Federal Government provided by an objective third party. Using this metric provides consistency year to year in terms of assessment as well as relativity in terms of performance of other federal agencies.

Similarly a standard federal wide metric that is used to measure the effectiveness of performance is the Office of Personnel Management's Performance Appraisal Assessment Tool (PAAT). OPM considers 80 points a "passing score" for agency bureaus. For FY 2009 Treasury received an overall score of 73 percent, based on six bureaus receiving a passing score. Agency bureaus that did not receive a passing score were required to submit and begin execution of an improvement plan.

Several "indexes" from the 2008 Federal Human Capital survey were used as indicators for talent and performance. Treasury received a 59.9 percent overall positive rating for the Talent Index and 65.7 percent overall positive rating for the Job Satisfaction Index. For the Performance Culture Index, Treasury received an overall positive rating score of 56.8 percent. In fiscal 2010 Treasury will review and update all human capital metrics as part of a strategy to improvement human capital strategic at the Treasury Department.

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, not only to maintain the present skills base and diversity in the Department's workforce, but to also meet future human resource needs. The Department-wide focus on succession planning looks to ensure that future management acquires appropriate skills to enable them to lead the Department in an ever-changing environment.

The offices comprising the TWM budget activity are committed to ensuring accountability and a well understood strategic direction in order to build a world-class organization. In FY 2009, offices have worked to objectively monitor their progress toward program outcomes and Treasury's strategic objectives.

3F – Administration Programs *($0 from direct appropriations and $0 from reimbursable programs):* Administration Programs provided operational support and shared services to all offices within DO, including activities such as accounting, budgeting, human resource management, information technology services, procurement services, facilities support, and travel services. Approximately one-third of this budget activity was dedicated to information technology support (desktop computers, printers, faxes, copiers, helpdesk support, etc.). Another one-third consisted of shared services: GSA rent, utilities, telecommunications, printing and graphics, public transit subsidy, workers compensation, human resources support, and financial system support. The final third consisted of employee salaries, routine building maintenance, and custodial services.

3.2.6 Budget and Performance Plan
(Dollars in Thousands)

Administration Programs Budget Activity					
Resource Level	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$75,154	$82,630	$91,604	$99,786	$0
Reimbursable Resources	3,028	3,837	17,016	12,216	0
Total Resources	$78,182	$86,467	$108,620	$112,002	$0
Budget Activity Total	$78,182	$86,467	$108,620	$112,002	$0

For FY 2011, Treasury has made the decision to allocate administrative expenses for Departmental Offices by operational budget activity, instead of maintaining a separate budget activity just for administrative expenses. The reallocation will make each of the DO offices responsible for the most efficient utilization of their administrative costs and will result in a level funding stream allocation for each budget activity, which will be sustained through future years. Where necessary, performance assessment will accommodate for this level increase, so that performance results will maintain historical comparability with prior years' results. The administrative expenses have been allocated across operational budget activities of the Departmental Office budget utilizing various cost-allocation methodologies based upon the type of service which is being allocated.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://treas.gov/offices/management/budget/

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The Departmental Offices (DO) Office of Human Resources (OHR) ensures the availability of tools required to manage the human capital that supports accomplishment of DO's strategic goals and mission. OHR does this through the provision of sound advice and guidance to managers and execution of processes related to staff employment, retention, recognition, employee and labor relations, benefits, performance management, and development.

FY 2009 Accomplishments

HC Strategic Goal 1: Recruitment and Diversity – *Recruit and hire a highly skilled and diverse workforce aligned with business goals. In conjunction with this goal, OHR:*

- Supported the quick stand-up of the Office of Financial Stability to allow the Department to rapidly implement the authorities of the Emergency Economic Stabilization Act.
- Successfully facilitated the out-processing and in-processing of political appointees during the Presidential transition.
- Used a variety of hiring flexibilities to help offices effectively fill current positions. (quality and time) Flexibilities used includes the on-boarding of the first class of Hamilton Fellows (using the Federal Career Intern Program authority), and the use of the Presidential Management Fellows Program, the Student Career Experience Program; DO specific fellowship programs; and other hiring authorities.
- Actively supports initiatives aimed at increasing the diversity of its workforce, including the hiring of student interns through the Hispanic Association of Colleges and Universities National Internship Program and the Washington Internships for Native American Students (WINS).
- Participated in the Treasury-wide Disability Summit and Career Fair. This event provided an opportunity for human capital leaders, recruiters and hiring managers share best practices on recruiting and hiring of individuals with targeted disabilities. It also connected DO Program Offices with qualified candidates with disabilities.

HC Strategic Goal 2: Employee Retention and Satisfaction – *Retain a high performing workforce while maintaining an environment conducive to a high level of employee satisfaction. In conjunction with this goal, OHR:*

- Facilitated the implementation of the first collective bargaining agreement with the National Treasury Employees Union (NTEU) by providing training to managers and employees.
- Continued to provide programs to improve employee understanding of benefit programs to ensure they can make more informed choices, including hosting a health and wellness fair and several "Benefits Brown Bag" sessions.
- Contracted with an outside vendor to provide several retirement seminars in anticipation of the large number of DO employees eligible to retire within the next five years
- Updated the New Employee Orientation program to include Department-wide awareness so new employees understand and take pride in overall Treasury mission.

- Developed a quick reference guide, entitled “The Keys to the Treasury”, to help orient all new DO employees. The guide provides critical information pertaining to employee services and resources.
- Piloted an automated exit survey to identify the reasons why individuals are leaving DO. This survey results will help identify employee engagement and job satisfaction issues and provide valuable information for developing solutions.
- Implemented the Treasury Learning Management System (TLMS), an online learning system that provides employees with training at no cost for program offices.

HC Strategic Goal 3: Organizational Effectiveness – *To achieve organizational effectiveness; accomplish mission objectives through the alignment of human capital plans, strategies, and systems. In conjunction with this goal, OHR:*

- Implemented the e-OPF (Electronic Official Personnel Folder) initiative as mandated by OPM and OMB. Electronic employment files will enhance the maintenance and retrieval of employment data and ensure timely and secure transfer of employees’ employment data.

HC Strategic Goal 4: Highly effective human capital practitioners – *Work as key partners with the Department’s leaders to ensure effective human capital management is a strategic business component in achieving the Department’s mission. In conjunction with this goal, OHR:*

- Hired Senior HR Specialists (HR Business Partners) to provide DO program offices with a single point of contact that could provide focused attention and human capital consultation.
    - The HR Business Partner transforms the HR Specialist from a transactional, rules-based posture to one more consultative and advisory.

FY 2011 Challenges

In FY 2011 OHR will face a number of human capital challenges:

Challenge: *Competition from the private sector and other government agencies for high quality candidates 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 and retention flexibilities and incentives, e.g., direct hire authority, superior qualifications appointments, recruitment incentives, student loan repayments, retention allowances, alternative work arrangements, and other work life programs.
- Enhance workplace flexibilities and employee assistance programs to attract high quality applicants, increase employee job satisfaction/engagement, and enhance retention.

Challenge: *The loss of institutional knowledge through retirement, particularly for critical subject matter experts, managers, and senior executives.*

Strategies for Addressing Challenge

- Lead a workforce planning effort throughout DO to determine leadership bench strength as well as supporting leadership and executive development programs that help identify and prepare a cadre of future leaders.
- Coordinate with DO program 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 and funding each year.
- Make broad use of programs to attract and potentially hire private sector retirees who have an interest in public service as a second career, and use authorities to hire reemployed annuitants who have the skill sets to fill key positions while recruitment efforts are underway to hire new talent.
- Analyze Employee Viewpoint surveys and exit survey results to determine employee dissatisfaction and develop actions plans that will address issues, improving retention of key talent.

Challenge: *Continue to develop a results-oriented performance management culture within DO.*

Strategies for Addressing Challenge

- Monitor the revised performance management policy to ensure commitments are clearly linked to organizational goals, are measurable, and are results-based.
- Conduct reviews of DO program offices to ensure employees have performance plans and are receiving timely and meaningful feedback from their supervisors.
- Ensure performance awards are based on objective, relevant, merit-based criteria and distributed in a fair manner.
- Provide ongoing workshops and guidance to program offices on how to develop appropriate performance commitments that meet the criteria of the OPM certification process.
- Enhance the use of e-performance tools.

4.1 – Summary of IT Resources Table

Dollars in Thousands

4.1 Summary of IT Resources Table								
Dollars in Thousands								
Information Technology Investments 1/								
		FY 2008	FY 2009		FY 2010		FY 2011	
Major IT Investments/Funding Source	Budget Activity	Enacted	Enacted	% Change from FY08 to FY09	Enacted	% Change from FY09 to FY10	Request	% Change from FY10 to FY11
Treasury Foreign Intelligence Network (TFIN)								
Departmental Offices Salaries and Expenses	Terrorism and Financial Intelligence	$3,000	$3,060	2.0%	$4,337	41.7%	$4,337	0.0%
Department-wide Systems Capital Investments Program (DSCIP)	Terrorism and Financial Intelligence	$0	$0	0.0%	$2,000	0.0%	$0	-100.0%
Alpha Computers Modeling Systems		$0	$0	0.0%	$0	0.0%	$2,750	100.0%
Enterprise Content Management								
Department-wide Systems Capital Investments Program (DSCIP)		$6,000	$6,000	0.0%	$0	-100.0%	$5,000	100.0%
Federal Financial Transformation Program								
Department-wide Systems Capital Investments Program (DSCIP)		$0	$0	0.0%	$0	0.0%	$17,000	100.0%
Subtotal, Major IT Investments		$9,000	$9,060	0.7%	$6,337	-30.1%	$29,087	359.0%
Non-Major IT Investments		$6,979	$9,018	29.2%	$7,514	-16.7%	$7,608	1.3%
Infrastructure Investments		$0	$0	N/A	$0	N/A	$0	N/A
Enterprise Architecture (DSCIP)		$400	$1,000	150.0%	$0	-100.0%	$0	0%
Total IT Investments		$16,379	$19,078	16.5%	$13,851	-27.4%	$36,695	164.9%
1/ The TFIN percentage increase reflects the transfer of funds from the DSCIP account.								
2/ This chart includes appropriated resources only and may not reflect total project costs.								
3/ This column reflects TFIN transfer request of total funding for FY11								
4/ The Departmental Offices S&E funds include MCL amounts								

4B – Information Technology Strategy

The Department is extremely reliant on its Information Technology infrastructure. It is upon this infrastructure (e.g., data centers, networks and servers) that more than $8 trillion dollars in debt are managed, more than $2 trillion in revenue is collected and more than $58 billion in daily cash transactions are performed. It is the cost associated with this same infrastructure however, that represents one of the greatest opportunities the Department has for parlaying the savings from greater efficiency to the deployment of new capabilities. The Department overall spends approximately $1.1 billion on IT infrastructure which is roughly one third of our total IT spending. A 2008 Gartner Group benchmarking study suggests that Treasury could achieve cost savings of up to $200 million if the Department maximized all infrastructure optimization and consolidation opportunities. Ferreting out and taking advantage of these potential cost savings is not only good management, but is necessary if the Department is to effectively field the new capabilities required to support the Department's expanding financial and economic missions.

Background

The core challenge to realizing these savings lies in the delicate balance of optimizing cost efficiency while still enabling the autonomous and agile delivery of capability against the, at times, extremely disparate missions of the bureaus comprising the Department. In light of this, the Treasury E-Board has endorsed the following multi-faceted strategy for assessing and executing against the opportunities that exist for reducing the cost of the Department's IT infrastructure.

- Converge our voice and data networks to a more capable and cost effective platform

  Treasury currently operates the largest private, secured civilian government network in the United States. While the reliability and security of these networks is critical to the Department's mission, these networks also represent a significant component of Treasury's overall IT Infrastructure expense. Furthermore, newer managed service type offerings built on digitally converged networks allow for the secure provisioning and management of voice, data, fax and video services in a much more cost effective manner than Treasury enjoys today. In light of this, Treasury is actively migrating to a newer, managed service type offering. Once completed, this migration will enable the Department to quickly tailor specific features and functionality to the needs of a particular bureau, team or individual based on their mission objectives, security requirements and geographic location. It will also allow Treasury to aggressively manage the unit costs of these services.

- Expand the usage of virtualization technologies to further improve the cost efficiency of our computing centers

  Treasury currently manages several different server and mainframe technologies to operate its IT infrastructure. The costs associated with these server technologies vary tremendously and current utilization rates indicate there are clear opportunities for improved consolidation and increased, overall hardware utilization. Building on our current successes in leveraging virtualization technologies, we will continue to deploy these technologies in both our server and desktop environments to further drive down unit costs and improve the agility with which computer platforms can be provisioned.

- Promote greater leverage of either Department-wide or multi-bureau IT capabilities (i.e., data centers, enterprise content management, etc.)

  As disparate as the missions of the Bureaus comprising the U.S. Department of the Treasury can be, there are also significant opportunities for creating and leveraging capabilities that are shared across more than one Bureau. This includes data centers, help desks, or common applications (i.e., human capital, enterprise content management, business analytics platforms, etc.) Treasury will be extremely aggressive in identifying, rationalizing and executing against these opportunities for providing greater functionality at a lower unit cost.

- Ensure the usage of cross enterprise licensing for commodity software and hardware

  Treasury Bureaus and Offices have traditionally sole sourced licenses for various IT related products and services which have at times resulted in disparate fee schedules and inconsistent vendor performance. Treasury will aggressively pursue enterprise level agreements in an effort to provide reduced licensing fees, better product and agreement terms, and more consistent vendor performance.

4.2 – Program Evaluation

Program Name: Economic and Trade Sanctions Program - OFAC

Assessment and Improvement Actions

- The program lacked long-term performance goals with specific targets
- The program had not yet instituted annual performance goals to determine the effectiveness
- The program was lacking unit cost measures of its sanctions

Bureau Actions Planned or Underway

TFI introduced and began to apply a composite performance measure to improve the assessment of its impact. There are four components within the composite measure aligned to each office within TFI that are linked to its overall performance goals and the Department's strategic outcomes. This performance measure was baselined in FY 2009 and has a target of 7.14 for FY 2010 and FY 2011. TFI and the Department will continue to refine how the measure is rated and scored.

Department-wide Systems and Capital Investment 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 2009	FY 2010	FY 2011		
	Enacted	Enacted	Request	$ Change	% Change
Department-wide Systems and Capital Investments Program	$26,975	$9,544	$22,000	$12,456	130.5%
Total Appropriated Resources	**$26,975**	**$9,544**	**$22,000**	**$12,456**	**130.5%**
Total FTE	-	-	-	-	-

FY 2011 Priorities

- To continue the program management and initial deployment of the Department-wide Enterprise Content Management (ECM) Program.
- To design and implement the Financial Innovation and Transformation Program

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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. A new investment for FY 2011 will be the establishment of the Financial Innovation and Transformation Program. Continuing investments include the Enterprise Content Management (ECM) Program.

Top Priorities for FY 2010

Enterprise Content Management (ECM) – A key Treasury initiative for 2011 is the reduction of paper-based processes and transactions. The ECM program is an essential element of this initiative as it will provide a common approach across Treasury to modernizing paper-based business processes. FY 2011 funding will allow the program to continue, with a focus on enhancing mission effectiveness, reducing total cost of ownership by promoting economies of scale, and enabling all Treasury bureaus to progress toward a paperless environment.

Financial Innovation and Transformation– DSCIP funding is also requested to develop and expand efforts to support shared, government-wide financial solutions associated with agency financial management services (e.g., invoice processing, cash collections, interagency agreement management), For example, the program will develop innovations available to agencies that can provide access to users and stakeholders to certain financial information or append their information without requiring the movement of data. This will also streamline processes and allow for more transparency of information to the public. This program will be coordinated through a new Office of Financial Innovation and Transformation (OFIT).

1B – Program History and Future Outlook

The Treasury Department has utilized DSCIP to fund enhancement of the Treasury Secure Data Network, meet Department wireless communications requirements, enhance the high priority, classified intelligence capabilities of the Treasury Foreign Intelligence Network, upgrade the infrastructure for Treasury's Back-up Disaster Recovery Capacity, and develop Treasury's automated Personnel System, HR Connect, which serves customers across all Treasury bureaus. Additionally, DSCIP funding has strengthened Treasury's Cyber Security program, allowing the Department to approve performance in meeting the requirements of the Federal Information Security Management Act (FISMA) and other government-wide security initiatives.
Improvements have resulted in the recent closure of the report on the Department-wide security material weakness.

During FY 2010, DSCIP funding will go toward completion of ECM program planning and the initiation phase of the ECM solution. The ECM program will be appropriately scoped, with business requirements gathered and prioritized for migration into the prospective Treasury ECM architecture, and alternatives analyses will be presented. Treasury will award a contract for system integration (SI) of the ECM functional requirements in 2010. This independent industry assessment will constitute the basis for the design, development, and implementation of the proposed ECM solution and related changes in organizational business and technical management processes. The result will be the establishment of high-level functional and technical requirements, revised lifecycle cost estimates, and further refinements to the governance structure of the ECM program. The first phase of the ECM solution will be implemented (including the preparation of detailed design requirements, architecture, and hardware and software requirements) based on the highest ECM priorities as determined from the independent assessment. It is anticipated that one or more pilots may be deployed in the first phase to expedite deployment of the ECM solution for entities with pressing needs.

Using the requested FY 2011 funds, Treasury will utilize the contract vehicle to implement the second phase of the ECM solution, including deployment of the next set of prioritized bureau capabilities and infrastructure requirements identified during the independent assessment (such as modular hardware and virtual machine technology to enable a scalable and incremental build-out of the ECM platform). Treasury will leverage the tools, technologies, standards, processes, and lessons learned across all Treasury bureaus, and mitigate costs through shared resources. Bureau and office content management needs will be continually reviewed for provisioning on the technologically evolving ECM platform, and existing systems that continue to possess useful life will be analyzed for eventual migration and/or retirement.

Treasury will also use FY 2011 funds to begin the development of new financial management solutions through the Financial Innovation and Transformation Program. This program will allow for efficiencies through the implementation of solutions for transaction processing and financial report production. Current financial systems require multiple agencies to build and maintain multiple systems. This new program will create options that will allow agencies to perform essential financial transaction processing, such as invoice processing, within a single source. These automated solutions would be web-based; require automated data and payments; have complete financial information; enable agencies and customers to append data; provide performance information; and, as appropriate, provide public access to information.

The Treasury Department has 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; and,
- Ensure management and organizational excellence.

The Department uses DSCIP funds to make investments necessary to facilitate achievement of these goals. For FY 2011, proposed investments are as follows:

Enterprise Content Management (ECM) Program: The ECM Program will allow organizations to electronically capture, store, search/analyze, and share documents from internal and external customers, including citizens, corporations, intelligence, law enforcement, and financial communities.

ECM will encourage a modern means of information sharing with those supporting the counter-terrorism, financial stability, and regulatory missions of Treasury. With a successful ECM Program, Treasury's Strategic Goals can be more effectively met. Front-line staff will be better positioned to fulfill core mission objectives (e.g., Terrorism Prevention, Law Enforcement, and Financial Stability), quickly process the continuous backlog of FOIAs, and advance casework management. ECM will also result in improved information sharing among organizations and allow Treasury to make significant progress towards a paperless environment.

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

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

<u>Litigation Efficiencies through Paper Reduction:</u> Implementing a NARA/DOD 5015.2 compliant database will allow Treasury to store official records electronically, rather than just in paper form. The ECM Program will ensure compliance with regulations, eliminate the time spent filing and copying paper documents, and automate the workflow process. The paper intensity of the current workflow process not only involves human resources, but also requires storage space to warehouse multiple working copies and originals of cases. ECM will deliver both cost savings and cost avoidance, and will assist in meeting e-Discovery requirements. Official electronic records management will improve litigation efficiency through paperwork reduction.

<u>Collaboration in Sanctions Programs:</u> Applications for exceptions to sanctions (an instrument of national security and economic power) are currently handled via paper processes. Paper applications are received in free form, requiring that the information be manually entered into a legacy database for processing and tracking. This manual entry delays sanction licensing and has the potential to adversely impact U.S. foreign policy. With a public-facing, customer-driven licensing application for specific programs, the sanctions process would become electronic, thus reducing licensing time, improving relationships with external stakeholders (e.g., the Commerce and State Departments), and fostering transparency, accountability, and effectiveness in sanctions processing.

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

<u>Tax Enforcement:</u> ECM will be used in investigating tax evasion cases, and when made public, the compliance impact will be many times the cost of the investigation. ECM will enable criminal investigators to reduce the cycle time of cases by improving document management, thereby increasing the amount of direct investigative time and enabling more investigative cases to be worked. This will directly help to reduce the tax gap.

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

Financial Innovation and Transformation Program: OMB and the Department have partnered to transform the government's financial management. This partnership will help to reduce costs and improve quality in financial management across government.

At present, the processes that government agencies use to conduct financial transactions and to prepare associated financial reports are fragmented, expensive, and inefficient. Improvements can be made to the current approach to financial management, and now is the time to make necessary improvements and offer solutions to the way that government agencies conduct financial operations. Under the new partnership between the Department and OMB, the Fiscal Service would develop innovative solutions for transaction processing and financial report production that could offer efficiencies to agency customers. These automated solutions will be web-based; require automated processing of data; contain necessary financial information; enable agencies and customers to add data; provide performance information; and, as appropriate, provide public access to information. The objective is to reduce the paper flow for financial transactions and to reduce the submission, capture, and movement of data from system to system.

Promoting innovative methods is important to improving the federal financial process. As part of the Financial Innovation and Transformation Program, OMB and the Department will actively research potential system solutions, such as the FMS web-based system—the Internet Payment Platform (IPP). An IPP-like system could improve the way the government deals with vendors, by automating the invoice submission and review process, as well as making all payments electronic. Another possible initiative the Financial Innovation Program may evaluate is developing a central solution to support interagency transactions. Currently, this process is inefficient and prone to error as well as being material weaknesses for the Federal government.

This program will be run by a new Office of Financial Innovation and Transformation (OFIT) and funded by the government-wide CFO Council.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Department-wide Systems and Capital Investments Program	FTE	Amount
FY 2010 Enacted	-	9,544
Changes to Base:		
Non-Recurring Costs:	-	($9,544)
Zero Base DSCIP	-	(9,544)
Subtotal FY 2011 Changes to Base	-	($9,544)
Total FY 2011 Base	-	-
Program Changes:		
Program Increases:	-	$22,000
Enterprise Content Management Program	-	5,000
Financial Innovation and Transformation Program	-	17,000
Subtotal FY 2011 Program Changes	-	$22,000
Total FY 2011 Budget Request	**-**	**22,000**

2A – Budget Increases and Decreases Description

Non-Recurring Costs ....-$9,544,000 / +0 FTE

Zero Base DSCIP -$9,544,000 / +0 FTE

DSCIP is a zero-based budget.

Program Increases ....+$22,000,000 / +0 FTE

Enterprise Content Management Program +$5,000,000 / +0 FTE

Using the requested FY 2011 funds, Treasury will utilize the systems integration contract vehicle to implement the second phase of the ECM solution, including deployment of the next set of prioritized bureau capabilities and infrastructure identified during the independent assessment (such as modular hardware and virtual machine technology to enable a scalable and incremental build-out of the ECM platform). Using the FY 2011 funding, the Department plans to procure the services of an SI vendor to design, develop, and implement ECM through integration of the necessary hardware and software into a solution that meets Treasury/bureau business needs. Examples of ECM solutions that are utilized by multiple bureaus and offices include: FOIA; correspondence management; e-Discovery; records management; and law enforcement and financial stability document management.

Financial Innovation and Transformation Program +$17,000,000 / +0 FTE

Treasury will use FY 2011 funds to begin the development of financial management solutions through the Financial Innovation and Transformation Program. This program will develop innovative methods, made available to agencies, for improving the efficiency of native financial transactions. These automated solutions would be web-based; require automated data and payments; have complete financial information; enable agencies and customers to append data; provide performance information; and, as appropriate, provide public access to information.

2.2 – Operating Levels Table

Department-wide Systems and Capital Investments Program	FY 2009 Enacted	FY 2010 President's Budget	Congressional Action Including Rescission	FY 2010 Enacted Level	Proposed Reprogrammings	FY 2010 Proposed Operating Level	FY 2011 Requested Level
FTE	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Object Classification:							
21 - Travel and transportation of persons	5	0	0	0	0	0	0
25.1 - Advisory and assistance services	1,000	5,000	0	5,000	0	5,000	0
25.2 - Other services	11,527	0	0	0	0	0	22,000
25.3 - Other purchases of goods and services from Govt. accounts	2,000	0	0	0	0	0	0
25.7 - Operation and maintenance of equip	400	0	0	0	0	0	0
26 - Supplies and materials	25	0	0	0	0	0	0
31 - Equipment	500	0	0	0	0	0	0
32 - Land and structures	11,518	4,544	0	4,544	0	4,544	0
Total Budget Authority	**$26,975**	**$9,544**	**$0**	**$9,544**	**$0**	**$9,544**	**$22,000**
Budget Activities:							
Department-wide Systems and Capital Investments Program	26,975	9,544	0	9,544	0	9,544	22,000
Total Budget Authority	**$26,975**	**$9,544**	**$0**	**$9,544**	**$0**	**$9,544**	**$22,000**

2.3 – Appropriations Detail Table

Dollars in Thousands

Appropriation Detail Table
(Dollars in Thousands)

Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted		FY 2010 Enacted		FY 2011 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:								
Department-wide Systems and Capital Investments Programs			0	$26,975	0	$9,544	0	$22,000
New Appropriated Resources			0	$26,975	0	$9,544	0	$22,000
Other Resources:								
Subtotal Other Resources			0	$0	0	$0	0	$0
Total Resources Available for Obligation			$0	$26,975	$0	$9,544	0	$22,000

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, [$9,544,000] *$22,000,000*, to remain available until September 30, [2011] *2013*: [Provided That $4,544,000 is for repairs to the Treasury Annex Building] *Provided*, That these funds shall be transferred to accounts and in amounts as necessary to satisfy the requirements of the Department's offices, bureaus, and other organizations: *Provided further*, That this transfer authority shall be in addition to any other transfer authority provided in this Act [Provided further, That none of the funds appropriated shall be used to support or supplement ``Internal Revenue Service, Operations Support" or ``Internal Revenue Service, Business Systems Modernization".] (*Department of the Treasury Appropriations Act, 2008*)	The legislative language change requested will allow the Department-wide Systems and Capital Investments Program to implement the Enterprise Content Management Program Department-wide, by striking the language prohibiting funding for the Internal Revenue Service Business Systems Modernization and Operations Support.

2C – Legislative Proposals

DSCIP has no legislative proposals for FY 2011.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 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 2010 Enacted	FY 2011 Request	Percent Change
Accountability & trans	-	3,500	**100.00%**
Aligned organization	4,544	17,000	**274.12%**
National security	2,000	500	**-75.00%**
U.S. & Intl financial sys	3,000	1,000	**-66.67%**
Total	**$9,544**	**$22,000**	**130.51%**

3A – Department-wide Systems and Capital Investments Program *($22,000,000 from direct appropriations):* The purpose of DSCIP funds is to modernize business processes and increase efficiencies through IT investment. All of the DSCIP efforts provide tangible benefits in their specific areas to produce an improved overall IT environment for the Department of the Treasury. The following section describes what the Treasury Department expects to accomplish with the requested DSCIP funding and the specific benefits each program will provide at the completion of FY 2011.

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

ECM Program Performance will be measured through the identification of performance metrics. Measures and results to be achieved include reduced paper costs, increased efficiency/productivity of staff, reduced time required to share information, reduced management reporting burden, and retirement of legacy systems.

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

- Enhanced security for records and documents

- Improved regulatory compliance
- Improved data collection and quality
- Improved information sharing
- Quicker and more accurate management reporting
- Development of Treasury-wide standards for enterprise content management

Financial Innovation and Transformation Program - This developmental program will improve government-wide financial management, streamline processes, and provide better service through the development and implementation of state-of-the-art information technology solutions made available to agency customers that will reduce financial operations costs.. The first initiative under this program will be an E-Gov pilot slated for September 2010 in which agencies can use the services of a Treasury web-based system that encompasses electronic payment transactions—from submission of the vendor invoice, through review and approval, to notification and payment to the vendor.

This initial project will analyze government financial operations and implement improvements that modernize and harmonize government vendor payments through a web-based, resource-pooling technology. This pilot project will pool resources and automate financial transaction processing in one place using a developmental Treasury, web-based "Cloud Computing" system.

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

- Reduced costs and elimination of duplicative efforts.
- Streamlined processes between vendors and government agencies.
- Improvements in agency and government-wide financial data.
- Financial reports that support policy making and management decision making.
- Transparency of information.

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

Department-wide Systems and Capital Investments Program Budget Activity					
Resource Level	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Request**
Appropriated Resources	$30,268	$10,546	$26,975	$9,544	$22,000
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$30,268**	**$10,546**	**$26,975**	**$9,544**	**$22,000**
Budget Activity Total	**$30,268**	**$10,546**	**$26,975**	**$9,544**	**$22,000**

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://treas.gov/offices/management/budget/

4B – Information Technology Strategy

As the steward of the United States government's finances, the Treasury Department plays a critical role in U.S. and global economies. We effectively manage the government's finances, promote economic opportunity at home and abroad through sound fiscal policy, work for entitlement reform, strengthen trade and investment policies, and maximize voluntary tax compliance. Comprised of thirteen bureaus, each with at times very disparate missions, the Treasury Department collects over $2 trillion annually, manages over $8 trillion in debt and performs more than $58 billion in daily cash transactions. Successfully executing this mission requires not only an extreme focus on protecting the security of our nation's monetary assets, but also on stimulating U.S. economic growth and strengthening our financial institutions and markets. None of this could be done today without Information Technology.

As Treasury's goals and objectives shift to address new economic challenges, so must its IT capabilities. In developing our Information Technology Strategy it is the Department's goal to provide an enterprise-wide set of information technology capabilities that are effective, efficient, flexible and elastic. In summary, Treasury's IT Strategy is built on four major tenets:

1) The Department will seek to continually transform Treasury's IT organization to further enhance our enterprise efficiency and effectiveness. This will be done through an even tighter focus on expense optimization, even greater leverage of business and IT capabilities across the Department, and by further enabling an agile, delivery focused IT organization.

2) The Department will continually provide innovative solutions to its business needs while also ensuring the long term viability of our core systems. Treasury will enable this by becoming an information centric organization, by ensuring its core platforms are operating as efficiently and effectively as possible, by further enabling its mobile workforce and by delivering solutions that promote greater transparency to, and collaboration with its customers.

3) The Department will ensure all of its IT capabilities are adequately secure, robust and reliable enough to serve department-wide needs. In support of this, the Department will establish even tighter control and protection of its information assets and it will continually enhance its information and communication services to make them as reliable and robust as economically viable.

4) The Department will provide high quality solutions by being diligent in its focus on enabling its people, improving our processes, managing risk and meeting its customers' needs.

Office of the 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 promote economy, efficiency, and effectiveness in the administration of Treasury programs and operations, and 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 2009	FY 2010	FY 2011		
	Enacted	Enacted	Request	$ Change	% Change
Audit	$20,116	$22,869	$23,306	$437	1.9%
Investigations	$6,009	$6,831	$6,963	$132	1.9%
Total Appropriated Resources	**$26,125**	**$29,700**	**$30,269**	**$569**	**1.9%**
Total FTE	**154**	**154**	**154**	**-**	**-**

FY 2011 Priorities

Ensure the effectiveness and integrity of Treasury programs:

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

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

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

The OIG's requested funding will be used for critical audit and investigative resources. The OIG will continue to address mandated requirements related to audits of (1) the Department's financial statements, (2) the Department's implementation of the Federal Information Security Management Act (FISMA), and (3) failed institutions regulated by the Office of the Comptroller of the Currency (OCC) or the Office of Thrift Supervision (OTS) resulting in material losses to the deposit insurance fund (material loss is defined as the greater of $25 million or 2 percent of the institution's assets). To the extent that resources are available, the OIG will conduct audits of the Department's highest risk programs and operations. Four of those programs and operations are discussed below. It should be noted that this list is not all inclusive and risks change over time and circumstance.

<u>Programs to Ensure the Safety and Soundness of the Nation's Financial Markets</u> – The wave of bank failures beginning in calendar year 2007 underscore the need for proactive audit coverage. Material loss reviews are a backward look at the quality of supervision. While material loss reviews are useful to identify and correct weaknesses in the supervisory process, OIG must also determine the effectiveness of regulators addressing emerging financial risks in real time. The subprime mortgage crises was a costly lesson that serves as a reminder that regulators need to anticipate, recognize, and control business practices that create unreasonable risk.

<u>Programs to Promote Economic Recovery</u> - The Recovery Act provided Treasury with, among other things, approximately $4 billion for low-income housing projects and specified energy properties, of which the OIG has jurisdiction or joint jurisdiction with the Treasury Inspector General for Tax Administration (TIGTA). Additionally, the Community Development Financial Institutions Fund (CDFI Fund) received $100 million to supplement FY 2009 funding for qualified program applicants. This funding nearly doubled the amount available to the CDFI Fund through FY 2010. While the funds through the Recovery Act are available through FY 2010, oversight is necessary into FY 2011 and into the future years. Treasury OIG initiated work at Departmental Offices and the CDFI Fund to review the controls over the Recovery Act funding. OIG will continue this work and determine whether the funds were spent as intended by the legislation.

Another area that requires vigorous oversight is Treasury's responsibilities under the Housing and Economic Recovery Act of 2008 (HERA). As of December 31, 2009, Treasury has one active responsibility involving the September 2008 decision to place Fannie Mae and Freddie Mac in conservatorship. This responsibility relates to Treasury's agreement to purchase senior preferred stock in the companies as necessary to ensure each company maintains a positive net worth. In February 2009, Treasury announced that it was amending the preferred stock purchase agreements with the conservatorships from $100 billion to $200 billion each. This agreement was further amended on December 24, 2009, to allow the cap on Treasury's funding commitment to increase as necessary to accommodate any cumulative reduction in net worth over the next three years. At the conclusion of the three year period, the remaining commitment will then be fully available to be drawn down per the terms of the agreements. As of September 30, 2009, Treasury's payments to Freddie Mac and Fannie Mae were $50.7 billion and $44.9 billion, respectively.

Treasury had two other responsibilities under HERA that expired on December 31, 2009. These responsibilities were to 1) establish a new secured lending credit facility that will be available to the two companies, as well as the Federal Home Loan Banks, for short-term loans; and 2) initiate a temporary program to purchase new mortgage backed securities issued by the companies. As of the expiration date, the secured lending facility was never used and Treasury purchased approximately $225.5 billion in Mortgage Backed Securities.

HERA also created the Capital Magnet Fund (CMF) to be administered by the CDFI Fund. The CMF was intended to be funded from a percentage of the unpaid principal balances of new business purchases by Fannie Mae and Freddie Mac. The intent of the CMF is to provide CDFIs and eligible non-profits with capital to leverage activities related to affordable housing as well as ancillary economic development activities. In a July 2008 analysis, the Congressional Budget Office estimated that this could provide CDFIs with an additional $99 million in 2010; $156 million in 2011, and then annually at least $218 million in new grant funding. This represents a significant expansion of the CDFI Fund's activities requiring OIG audit and investigative oversight.

<u>*Programs to Combat Terrorist Financing and Money Laundering*</u> – Treasury faces unique challenges in carrying out its responsibilities under the Bank Secrecy Act (BSA) and the USA Patriot Act to prevent and detect money laundering and terrorist financing. To effectively prevent and detect financial crimes and terrorist financing it is necessary (1) for financial institutions to ensure that business is conducted with reputable parties within strong control environments, and large currency transactions and suspicious activities are properly and timely reported, and (2) federal and state regulatory agencies examine and enforce BSA and USA Patriot Act requirements, and identify and refer law enforcement leads through strong analytical capability.

While FinCEN is the Treasury bureau responsible for administering BSA, it relies on other Treasury and non-Treasury agencies to enforce compliance with the Act's requirements. The Office of Foreign Assets Control (OFAC), the Treasury office responsible for administering U.S. foreign sanction programs, also relies on other Treasury and non-Treasury agencies to ensure compliance with OFAC requirements. Past audits and Congressional hearings have surfaced serious regulatory gaps in the detection of and/or timely enforcement action against financial institutions for BSA and related violations. Furthermore, with the current distress facing many financial institutions both domestically and globally, there is an increased risk that compliance with BSA may have deteriorated further and may continue to worsen. For these reasons, this management challenge will continue to be a major focus of the OIG's audit program.

Treasury's Management of Capital Investments – Treasury needs to ensure that large acquisitions of systems and other capital investments are properly managed. The Department's record in this regard has been mixed, at best. The OIG should give coverage to include a new electronic content management (ECM) system as well as to continue its oversight of the Department's implementation of the Treasury Network (TNet), a new telecommunications system, which has already encountered significant delays.

In addition to audit responsibilities, upcoming investigative priorities for FY 2011 include:

- Investigating complaints of alleged criminal and serious misconduct;
- Investigating allegations of fraud and other crimes involving Treasury contracts, procurements, grants, guarantees (fictitious instruments), and federal funds;
- Investigating a variety of financial programs, like those where fraud and other crimes are involved in the issuance of licenses or benefits provided to citizens;
- Continue reviewing and investigating instances where mutilated currency and coin redemption programs are potentially being used to facilitate money laundering, structuring, and other unlawful activities;.
- Proactive efforts in detecting, investigating, and deterring electronic crimes and other threats to the Department's physical and cyber critical infrastructure.

Resources required to support OIG operations for FY 2011 are $30,269,000 from direct appropriations, and $8,500,000 from reimbursable agreements for contract audits of other Treasury bureaus.

Office of Inspector General's Fiscal Year 2011 Budget Request

In accordance with the Inspector General Act, as amended, the Treasury Inspector General submits the following information relating to the OIG's requested budget for FY 2011:

- the aggregate budget request for the operations of the OIG is $30,269,000,
- the portion of this amount needed for OIG training is $700,000, and
- the portion of this amount needed to support the Council of Inspectors General on Integrity and Efficiency (CIGIE) is $62,000

The amount requested for training satisfies all OIG training needs for fiscal year 2011.

1B – Program History and Future Outlook

In FY 2009, the OIG completed 68 audit products, completed 100 percent of statutory audits on time, reviewed 2,584 allegations, closed 100% of cases (8 judicial and 8 non-judicial cases) opened, and had 92% of all cases accepted by prosecutors, referred for agency action, or closed during fiscal year, and completed within 18 months of case initiation. As the result of an increasing number of bank failures, the OIG has been required to dedicate significant resources to conduct mandated material loss reviews. The OIG has also dedicated resources to conduct oversight of Treasury's Recovery Act funds.

The OIG introduced two new measures in FY 2009. The target measures are: 70 percent of all cases closed during the fiscal year are to be referred for criminal/civil prosecution or Treasury administrative action; and 70 percent of all cases accepted by prosecutors, referred for agency action, or closed during the fiscal year and are to be completed within 18 months of case initiation. The measures provide a more reliable and qualitative measure of the OIG's investigative accomplishments.

In FYs 2010 and 2011 the OIG expects to complete 62 Audit products, complete all statutory audits on time, and meet or exceed the investigative measures.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Office of Inspector General	**FTE**	**Amount**
FY 2010 Enacted	154	29,700
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$512
FERS % Change	-	47
Non-Pay Inflation Adjustment	-	56
Pay Annualization	-	115
Pay Inflation Adjustment	-	294
Efficiencies Savings:	-	($5)
Procurement Savings	-	(5)
Subtotal FY 2011 Changes to Base	-	$507
Total FY 2011 Base	154	30,207
Program Changes:		
Program Increases:	-	$62
CIGIE Fees	-	62
Subtotal FY 2011 Program Changes	-	$62
Total FY 2011 Budget Request	**154**	**30,269**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$512,000 / +0 FTE

FERS % Change +$47,000 / +0 FTE

Funds are requested for the cost of the increase in the FERS agency contribution percentage of $47,000

Non-Pay Inflation Adjustment +$56,000 / +0 FTE

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

Pay Annualization +$115,000 / +0 FTE

Funds are requested for the FY 2011 cost of the January 2010 pay raise.

Pay Inflation Adjustment +$294,000 / +0 FTE

Funds are requested for the January 2011 pay raise.

Efficiencies Savings ....-$5,000 / +0 FTE

Procurement Savings -$5,000 / +0 FTE

3.5% Procurement Savings to be achieved through improved efficiencies and economies in the procurement process.

Program Increases ....+$62,000 / +0 FTE

CIGIE Fees +$62,000 / +0 FTE

Funds are requested for Treasury OIG's share of Council of Inspectors General for Integrity and Efficiency (CIGIE) cost of CIGIE operations. This funding will specifically support coordinated government-wide activities that identify and review areas of weakness and vulnerability in federal programs and operations with respect to fraud, waste, and abuse.

2.2 – Operating Levels Table

Office of Inspector General	FY 2009 Enacted	FY 2010 President's Budget	Congressional Action Including Rescission	FY 2010 Enacted Level	Proposed Reprogrammings	FY 2010 Proposed Operating Level	FY 2011 Requested Level
FTE	**154**	**154**	**0**	**154**	**0**	**0**	**154**
Object Classification:							
11.1 - Full-time permanent	13,098	16,200	800	17,000	0	17,500	17,322
11.3 - Other than full-time permanent	100	70	30	100	0	80	100
11.5 - Other personnel compensation	550	500	50	550	0	500	550
11.8 - Special personal services payments	0	775	-10	765	0	775	795
12 - Personnel benefits	3,361	4,022	778	4,800	0	4,372	4,862
21 - Travel and transportation of persons	650	500	125	625	0	660	650
23.1 - Rental payments to GSA	1,825	1,525	-200	1,325	-350	1,420	1,310
23.2 - Rental payments to others	0	0	320	320	350	350	400
23.3 - Comm, utilities, and misc charges	650	600	125	725	0	775	750
24 - Printing and reproduction	25	20	0	20	0	25	20
25.2 - Other services	2,312	500	395	895	0	650	950
25.3 - Other purchases of goods and services from Govt. accounts	1,554	1,038	362	1,400	0	1,288	1,450
25.6 - Medical care	50	50	-25	25	0	55	60
25.7 - Operation and maintenance of equip	300	300	100	400	0	375	400
26 - Supplies and materials	350	250	50	300	0	375	250
31 - Equipment	1,300	350	100	450	0	500	400
Total Budget Authority	**$26,125**	**$26,700**	**$3,000**	**$29,700**	**$0**	**$29,700**	**$30,269**
Budget Activities:							
Audit	20,116	20,559	2,310	22,869	0	22,869	23,307
Investigations	6,009	6,141	690	6,831	0	6,831	6,962
Total Budget Authority	**$26,125**	**$26,700**	**$3,000**	**$29,700**	**$0**	**$0**	**$30,269**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Audit	85	$17,144	111	$20,116	111	$22,869	111	$23,307	0.00%	1.92%
Investigations	25	5,121	43	6,009	43	6,831	43	6,962	0.00%	1.92%
Subtotal New Appropriated Resources	110	$22,265	154	$26,125	154	$29,700	154	$30,269	0.00%	1.92%
Other Resources:										
Offsetting Collections - Reimbursable	0	7,187	0	7,381	0	8,000	0	10,000	0.00%	25.00%
Subtotal Other Resources	0	$7,187	0	$7,381	0	$8,000	0	$10,000	0.00%	25.00%
Total Resources Available for Obligation	110	$29,452	154	$33,506	154	$37,700	154	$40,269	0.00%	6.81%

Note-The FY 2011 reimbursable amount above differs from the reimbursable amount in the MAX Database due to a late revision for estimated FY 2011 financial statement contract audit costs.

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY OFFICE OF INSPECTOR GENERAL Federal Funds **SALARIES AND EXPENSES:** For necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, *as amended, $30,269,000, of which* not to exceed $2,000,000 for official travel expenses, including hire of passenger motor vehicles; and *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.[,] [$29,700,000,] [of which not to exceed] [$2,500 shall be available for official reception and representation expenses.] (Department of the Treasury Appropriations Act, 2010.)	

2C – Legislative Proposals

The OIG has no legislative proposals.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 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 2010 Enacted	FY 2011 Request	Percent Change
Accountability & trans	37,700	40,269	**6.81%**
Total	**$37,700**	**$40,269**	**6.81%**

3A – Audit *($23,306,000 from direct appropriations and $10,000,000 from reimbursable programs):* The Office of Audit (OA) conducts audits provides firsthand, unbiased perspectives and recommendations for improving the economy, efficiency, and effectiveness of Treasury programs and operations under its jurisdiction. The OA produces more than 60 products annually. The OA has recently been challenged to keep up with an increasing number of bank failures that require dedicated resources to conduct mandated material loss reviews. For FY 2009 and FY 2010, the OA received additional funding to meet this requirement. The requested funding for FY 2011 is necessary to maintain a proper level of oversight of Treasury programs and operations, and to enable the OIG to continue to meet statutory timeframes for completing the increasing number of material loss reviews due to financial institution failures. The OIG also responds to requests by Treasury officials and the Congress for specific work. Reimbursable funding supports agreements for contract audits of other Treasury bureaus.

3.2.1 – Audit Budget and Performance Plan

Audit Budget Activity					
Resource Level	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Request**
Appropriated Resources	$11,561	$12,658	$20,116	$22,869	$23,306
Reimbursable Resources	$1,795	$6,498	$7,381	$8,000	$10,000
Total Resources	**$13,356**	**$19,156**	**$27,497**	**$30,869**	**$33,306**
Budget Activity Total	**$13,356**	**$19,156**	**$27,497**	**$30,869**	**$33,306**

Audit Budget Activity					
Measure	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Actual**	**FY 2010 Target**	**FY 2011 Target**
Number of completed audit products (Ot)	64	64	68	62	62
Percent of statutory audits completed by the required date (E)	100	100	100	100	100

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

Description of Performance: In FY 2009, the Office of Audit completed a total of 68 audit products and completed all statutory audits by the required dates. The Office of Audit plans to complete 62 in FY 2011, though the number of required material loss reviews may impact the ability to meet the target. In FYs 2008 and 2009, the Office of Audit met its mandated audit requirements.

3B – Investigations *($6,963,000 from direct appropriations):* The Office of Investigations prevents, detects and investigates complaints of fraud, waste and abuse. This includes the detection and prevention or deterrence of employee misconduct and fraud, or related financial crimes within or directed against Treasury. The Office refers its cases to the Department of Justice, state or local prosecutors for criminal prosecution or civil litigation, or to agency officials for corrective administrative action. Additionally, investigative oversight also extends to that of performing quality assurance reviews of the Treasury's police operations at the Bureau of Engraving and Printing (BEP) and the U.S. Mint.

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

The OIG is proactively investigating numerous incidences whereby individuals are using fraudulent promissory notes and bonds, containing the Secretary's name and the U.S. Treasury lettering, and attempting to purchase real estate and vehicles. These schemes, which have become increasingly pervasive throughout the United States, are not only damaging to businesses, but are preying on vulnerable taxpayers during the economic recession. OIG's requested funding would facilitate investigations that seek to frustrate continued occurrences of bank and economic fraud involving these schemes and help restore taxpayer confidence in Treasury institutions and programs.

3.2.2 – Investigations Budget and Performance Plan

Investigations Budget Activity					
Resource Level	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Request**
Appropriated Resources	$5,292	$5,792	$6,009	$6,831	$6,963
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$5,292**	**$5,792**	**$6,009**	**$6,831**	**$6,963**
Budget Activity Total	**$5,292**	**$5,792**	**$6,009**	**$6,831**	**$6,963**

Investigations Budget Activity					
Measure	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Actual**	**FY 2010 Target**	**FY 2011 Target**
Number of investigations referred for criminal prosecution, civil litigation or corrective administrative action. (Oe)	188	93	DISC	DISC	DISC
Percentage (%) of all cases closed during fiscal year that were referred for criminal/civil prosecution or Treasury Administrative action. (E)	NA	NA	100	70	70
Percentage (%) of all cases that were accepted by prosecutors, referred for agency action, or closed during the fiscal year and were completed within 18 months of case initiation. (E)	NA	NA	92	70	70

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

Description of Performance: In FY 2008 the Office referred 93 investigations for criminal prosecution, civil litigation, or corrective administrative action. The Office of Investigations undertook a thorough review of their performance measure methodology, and has developed better and more realistic measures with which to gauge their investigative performance. These new measures went into effect in FY 2009, and the Office of Investigations met or exceeded both measures. It is expected that the measures will be met or exceeded in FYs 2010 and 2011 as well. The first measure was discontinued after it was determined by senior leadership that it was not a reflective or accurate representation of investigative performance.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://treas.gov/offices/management/budget/

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 over the past 4 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 Major IT Investments / Funding Source	Budget Activity	FY 2008 Enacted	FY 2009 Enacted	% Change from FY08 to	FY 2010 Enacted	% Change from FY09 to	FY 2011 Requested	% Change from FY10 to
				N/A		N/A		N/A
Subtotal, Major IT Investments		$0	$0		$0		$0	
Non-Major IT Investments	Audit Investigations	$450	$650	44.4%	$600	-7.7%	$1,434	139.0%
Infrastructure Investments		$0	$0		$0		$0	
Enterprise Architecture		$0	$0		$0		$0	
Total IT Investments		$450	$650	44.4%	$600	-7.7%	$1,434	139.0%

The FY 2011 requested amount includes IT FTE costs that were not included in previous FY budget submissions.

4B – Information Technology Strategy

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

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

4.2 – Program Evaluation

Not applicable to the OIG.

Treasury Inspector General for Tax Administration

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2009		FY 2010	FY 2011		
	ARRA	Enacted	Enacted	Request	$ Change	% Change
Audit	$5,600	$55,186	$57,421	$58,725	$1,304	2.3%
Investigations	$1,400	$90,897	$94,579	$96,727	$2,148	2.3%
Total Appropriated Resources	**$7,000**	**$146,083**	**$152,000**	**$155,452**	**$3,452**	**2.3%**
Total FTE	**-**	**835**	**835**	**835**	**-**	**-**

FY 2011 Priorities

- Adapting to the Internal Revenue Service's (IRS) continuously evolving operations and mitigating intensified risks associated with modernization, security, addressing the tax gap, and human capital challenges facing the IRS in domestic and international operations;
- Responding to domestic and international threats and attacks against IRS employees, property, and sensitive information;
- Improving the integrity of IRS operations by detecting and deterring fraud, waste, abuse and misconduct by IRS employees;
- Conducting comprehensive audits, inspections, and evaluations that include recommendations for monetary benefits and enhancing IRS's service to taxpayers;
- Informing the American people, Congress, and the Secretary of the Treasury of problems and progress made to resolve them; and
- Overseeing the IRS's efforts to administer the tax provisions of the American Recovery and Reinvestment Act of 2009 (Recovery Act).

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

TIGTA's FY 2011 budget request of $155,452,000 is an increase of 2.3 percent above the FY 2010 enacted level. These requested resources will finance critical audit, investigative, and inspection and evaluation services, protecting the integrity of tax administration on behalf of the Nation's taxpayers. TIGTA's audit, investigative, and inspection and evaluation priorities include:

- Adapting to the Internal Revenue Service's (IRS) continuously evolving operations and mitigating intensified risks associated with modernization, security, addressing the tax gap, and human capital challenges facing the IRS in domestic and international operations;
- Responding to domestic and foreign threats and attacks against IRS employees, property, and sensitive information;
- Improving the integrity of IRS operations by detecting and deterring fraud, waste, abuse or misconduct by IRS employees;
- Conducting comprehensive audits, inspections, and evaluations that include recommendations for monetary benefits and enhancing IRS's service to taxpayers;
- Informing the American people, Congress, and the Secretary of the Treasury of problems and progress made to resolve them; and
- Overseeing the IRS's efforts to administer tax provisions of the American Recovery and Reinvestment Act of 2009 (Recovery Act).

Additionally, TIGTA's strategic goals contribute to the Department's 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.

TIGTA's commitment to valuing its people was recognized in the Partnership for Public Service's 2009 Best Places to Work Rankings. TIGTA placed 14 out of 216 in the overall index score measuring the performance of agency subcomponents related to employee satisfaction and commitment. For TIGTA this was a 4.1 percent positive change over the 2007 score. This ranking is based on Office of Personnel Management's (OPM) biennial Federal Human Capital Survey which federal agencies use as benchmarks to measure their performance.

In FY 2011, TIGTA faces the challenge of adapting its oversight activities to address increasingly complex and high-risk issues associated with IRS operations. This is particularly true in adapting to the renewed focus of the IRS to close the international tax gap. This effort will be in addition to TIGTA's continuing work including assessing IRS tax compliance initiatives, evaluating the IRS's efforts to administer tax provisions in the Recovery Act, detecting and investigating fraud and electronic crime, reviewing procurement activities, safeguarding taxpayer privacy, evaluating IRS Human Capital activities, and requesting IRS program reviews from Congress and other IRS stakeholders. Each of these issues presents significant challenges for both TIGTA and the IRS.

In accordance with the requirements of Section 6(f)(1) of the Inspector General Act of 1978 (as amended), the Treasury Inspector General for Tax Administration submits the following information related to its requested budget for FY 2011:

- The aggregate budget request for the operations of TIGTA is $155,452,000;
- The portion of this amount needed for TIGTA training is $2,572,000; and
- The portion of this amount needed to support the Council of the Inspectors General on Integrity and Efficiency (CIGIE) is $332,000.

The amount requested for training satisfies all TIGTA training needs for fiscal year 2011.

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

In addition to those efforts, TIGTA managers and employees were significantly involved in assisting in the standup of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). During the organization stage of SIGTARP's stand-up, TIGTA managers and technical experts "stood in" for as-yet-to-be-hired SIGTARP employees. Using TIGTA's electronic meeting expertise and proven multi-location processes, TIGTA managers were able to carry out the duties of SIGTARP managers and facilitate policy and organizational decisions and screening and hiring of key SIGTARP employees. As these permanent employees were brought on board, TIGTA personnel helped them to come up to speed rapidly.

The passage of the American Recovery and Reinvestment Act of 2009 (Recovery Act) provided funding for the additional workload that will arise from overseeing IRS efforts to implement a variety of economic stimulus measures. A key component of the Recovery Act is 56 tax provisions to be implemented by the IRS, 20 individual taxpayer provisions and 36 business taxpayer provisions; most tax provisions became effective in FY 2010. Through a comprehensive risk assessment, TIGTA identified 6 tax provisions for immediate audit in FY 2009 and an additional 21 audits and 1 inspection for FY 2010. Ten high risk areas have been identified for additional scrutiny; TIGTA's program plan includes detailed information on all ongoing and planned activities. Recovery work is allowing TIGTA to revise coordination procedures with the IRS to get interim reports published more quickly and available to the public on our website and Recovery.gov; successful Recovery coordination changes will have positive long-term impact on traditional audits and inspection timelines. Recent audits have received significant attention from the IRS, Congress, and the public: First-Time Homebuyers Credit raised issues with how IRS implemented filters to prevent potential abuse. Upcoming reports will look at Making Work Pay Tax Credit, efforts to ensure proper use of Recovery funds, and health coverage tax credit payment processing.

Because TIGTA is charged with overseeing the IRS, increasing the size and workload of the IRS generates additional work for TIGTA. Just as the IRS will need additional agents and specialists to accomplish their work, TIGTA will use the FY 2011 program increase to enhance critical oversight responsibilities. In many cases, the skills which will be required are distinctly different from those required to carry out TIGTA's current domestically-focused activities.

The President has announced proposals to address illegal overseas tax evasion, closing loopholes, and make it more profitable for companies to create jobs in the United States. Proposed legislative actions include requiring overseas banks to report income earned by Americans in the same fashion that American banks are required to report income for their clients. The FY 2011 budget will allow TIGTA to increase its responsibilities in overseeing the IRS as it expands its international taxation work. Without the additional resources, TIGTA must reduce oversight of domestic programs as there are no resources which can be redirected to meet these new challenges.

TIGTA continues to provide comprehensive coverage and oversight of all aspects of the IRS's operations. In FY 2009, TIGTA's overall accomplishments included:

Ensuring Taxpayer Privacy and Security: Each year, millions of taxpayers entrust the IRS with sensitive financial and personal data that is stored in and processed by IRS information technology systems. The risk that taxpayers' identities could be stolen by exploiting security weaknesses in the IRS's information technology systems continues to increase, as does the risk that IRS computer operations could be disrupted. Both internal factors (such as the increased connectivity of computer systems and greater use of portable laptop computers) and external factors (such as the volatile threat environment related to increased phishing scams and hacker activity) contribute to these risks. In FY 2009, the Office of Audit (OA) issued reports addressing business continuity efforts and system access control weaknesses.

To protect sensitive taxpayer information from being jeopardized, TIGTA proactively identifies IRS employees who inappropriately access and/or disclose private taxpayer information. These violations, known as unauthorized access (UNAX), are often the initial phase of IRS employee misconduct and frequently result in the uncovering of other criminal violations, including fraud and identity theft. IRS employees who are found to have committed UNAX violations are subject to fines and prison terms, if convicted, and loss of their job. Since enactment of the *Taxpayer Browsing Protection Act* in August 1998, TIGTA investigations have resulted in more than 5,500 adverse personnel actions taken by the IRS and 211 criminal prosecutions for UNAX violations through September 2009.

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

In FY 2009, TIGTA established a UNAX modernization group to address all computer applications the IRS currently uses that contain sensitive information. This group's work to date includes monitoring the IRS's efforts to develop and implement an enterprise-wide audit trail solution, providing guidance to the IRS on establishing retention policies so forensic investigations can be conducted, and ensuring the IRS expands its automated capability to proactively detect unauthorized accesses on all computer systems. During FY 2009, TIGTA investigators completed 1,767 employee integrity investigations, of which 502 were UNAX investigations. These resulted in 32 criminal prosecutions and 1,179 administrative disciplinary actions against IRS employees.

Tax Compliance: Tax compliance initiatives include administering tax regulations, collecting the correct amount of tax for businesses and individuals, and overseeing tax-exempt and government entities for compliance. Increasing voluntary compliance and reducing the tax gap (the tax gap is the difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time) are currently the focus of IRS initiatives. Nevertheless, the IRS is facing significant challenges in obtaining more complete and timely data, as well as developing the methods necessary for interpreting the data. The IRS must continue to seek accurate measures for the various components of the tax gap and the effectiveness of the actions taken to reduce it. In FY 2009, an OA issued report addressed a segment of the tax gap that includes the misclassification of employees as independent contractors.

TIGTA continues its outreach efforts to IRS employees and the tax practitioner community. TIGTA reached out to all facets of the IRS workforce and the tax professional community. By doing so, TIGTA developed relationships with these groups to assist in identifying crimes against the IRS and taxpayers. From October 2008 through September 2009, TIGTA provided 2,142 presentations to more than 69,000 IRS employees and educated tax professionals by providing 70 awareness presentations to 6,690 tax practitioners and preparers.

Advising Congress: During FY 2009, TIGTA provided one Congressional testimony, 24 briefings, two Statements for the Record, and two official responses to Congress regarding audit, investigative, and inspection and evaluation activities. Through direct communication, TIGTA aims to address the interest of Congressional committees on critical issues involving IRS operations.

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

Erroneous and Improper Payments: As defined by the Improper Payments Information Act of 2002 (P.L. 107-300, 116 Stat. 2350), an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts. For the IRS, improper and erroneous payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors. In FY 2009, OA issued reports addressing erroneous payments in the Earned Income Tax Credit Program and the issuance of false economic stimulus payments.

Fraud and Electronic Crime: TIGTA's reviews have identified 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, investigative, and inspection and evaluation work provides for coverage of this growing national problem, providing proactive prevention and detection efforts that are required in this highly vulnerable and ever-evolving area. As described in *Presidential Decision Directive NSC-63*, IRS operations that fund the federal government are part of the nation's critical infrastructure. Degradation of the public's trust in the tax system leading to a decline in voluntary compliance represents a potential risk to national security as the federal government's main revenue stream is stymied.

Audit Outcomes: TIGTA strives to protect the integrity of America's tax system. TIGTA's audits focus on the economy, efficiency and effectiveness of tax administration. TIGTA provides recommendations to improve IRS systems and operations while ensuring fair and equitable treatment of taxpayers. Between October 1, 2008, and September 30, 2009, TIGTA issued 142 reports identifying approximately $14.7 billion in potential financial benefits. These reports also impacted approximately 23 million taxpayer accounts in areas such as taxpayer burden, rights and entitlements, protection of resources/reliability of information, and increased revenue/revenue protected. These audits could return $101 for each $1 invested in FY 2009.

Investigative Outcomes: TIGTA's Office of Investigations investigates threats to America's tax system, which could impede collection of tax revenue and taint public confidence. Between October 1, 2008, and September 30, 2009, 83 percent of TIGTA's closed investigations generated results, including 1,427 cases of employee misconduct referred to the IRS for administrative action and 171 cases accepted for prosecution. Even though the IRS is still committed to "stopping UNAX in its tracks," unauthorized access to confidential tax information remains a significant problem. During the same period, TIGTA closed 419 UNAX cases, resulting in 401 adverse personnel actions against IRS employees. Altogether, 116 employees under investigation for UNAX and other violations resigned during the investigation or before any personnel action could be taken.

Inspections and Evaluations Outcomes: I&E took the lead in programming TIGTA's American Recovery and Reinvestment Act of 2009 (Recovery Act) activities. Additionally, I&E has reported on several pertinent issues including on-site security inspections of Taxpayer Assistance Centers and a study of the tax gap that focuses on off-shore and international transactions. Planned evaluations will result in recommendations to streamline operations, enhance data quality, and improve the efficiency and effectiveness of IRS programs.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Inspector General for Tax Administration	FTE	Amount
FY 2010 Enacted	835	152,000
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$2,942
FERS % Change	-	46
Non-pay Inflation Adjustment	-	343
Pay Annualization	-	636
Pay Inflation Adjustment	-	1,917
Efficiencies Savings:	-	($276)
Procurement Savings	-	(276)
Subtotal FY 2011 Changes to Base	-	$2,666
Total FY 2011 Base	835	154,666
Program Changes:		
Program Increases:	-	$786
CIGIE Fees	-	332
Increase Related to IRS Growth	-	454
Subtotal FY 2011 Program Changes	-	$786
Total FY 2011 Budget Request	**835**	**155,452**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$2,942,000 / +0 FTE

FERS % Change +$46,000 / +0 FTE

Funds are requested for the increase in agency retirement contribution percentages for GS employees from 11.2% to 11.5% for FY 2011 as required by OPM.

Non-pay Inflation Adjustment +$343,000 / +0 FTE

Funds are requested for non-pay related items such as contracts, travel, supplies, and equipment.

Pay Annualization +$636,000 / +0 FTE

Funds are requested for the FY 2011 cost of the January 2010 pay raise.

Pay Inflation Adjustment +$1,917,000 / +0 FTE

Funds are requested for the January 2011 pay raise.

Efficiencies Savings ....-$276,000 / +0 FTE

Procurement Savings -$276,000 / +0 FTE

TIGTA continues to work with procurement staff and vendors to identify procurement savings without compromising program quality.

Program Increases ....+$786,000 / +0 FTE

CIGIE Fees +$332,000 / +0 FTE

Funds for Council of Inspectors General on Integrity and Efficiency (CIGIE) will specifically support coordinated government-wide activities that identify and review areas of weakness and vulnerability in federal programs and operations with respect to fraud, waste and abuse.

Increase Related to IRS Growth +$454,000 / +0 FTE

Since TIGTA is charged with overseeing the IRS, increasing the size and workload of the IRS generates additional work for TIGTA. Just as the IRS will need additional agents and specialists to accomplish their work, TIGTA will use the FY 2011 program increase to enhance critical oversight responsibilities. In addition, the Administration is placing an renewed emphasis on addressing illegal overseas tax evasion and closing tax loopholes and make it more profitable for companies to create jobs in the United States. The $454,000 program increase would help fund this effort.

2.2 – Operating Levels Table

Inspector General for Tax Administration								
FTE	**0**	**835**	**835**	**0**	**835**	**0**	**835**	**835**
Object Classification:								
11.1 - Full-time permanent	4,501	78,314	80,624	1,929	82,553	0	82,553	84,496
11.3 - Other than full-time permanent	0	576	593	0	593	0	593	621
11.5 - Other personnel compensation	497	9,131	9,443	213	9,656	0	9,656	9,897
12 - Personnel benefits	1,603	26,298	27,109	687	27,796	0	27,796	28,411
21 - Travel and transportation of persons	301	4,834	4,694	129	4,823	0	4,823	4,860
22 - Transportation of things	0	24	24	0	24	0	24	24
23.1 - Rental payments to GSA	0	8,952	9,143	0	9,143	0	9,143	9,770
23.2 - Rental payments to others	0	288	288	0	288	0	288	292
23.3 - Comm, utilities, and misc charges	0	2,570	2,570	0	2,570	0	2,570	2,533
24 - Printing and reproduction	0	8	8	0	8	0	8	8
25.1 - Advisory and assistance services	0	1,175	1,135	0	1,135	0	1,135	1,119
25.2 - Other services	0	986	921	0	921	0	921	908
25.3 - Other purchases of goods and services from Govt. accounts	0	7,042	6,710	0	6,710	0	6,710	6,613
25.4 - Operation and maintenance of facilities	0	407	407	0	407	0	407	413
25.7 - Operation and maintenance of equip	0	1,277	1,232	0	1,232	0	1,232	1,249
26 - Supplies and materials	98	1,193	1,164	42	1,206	0	1,206	1,200
31 - Equipment	0	2,805	2,732	0	2,732	0	2,732	2,832
42 - Insurance claims and indemnities	0	150	150	0	150	0	150	152
91.0 - Confidential Expenditures	0	53	53	0	53	0	53	54
Total Budget Authority	**$7,000**	**$146,083**	**$149,000**	**$3,000**	**$152,000**	**$0**	**$152,000**	**$155,452**
Budget Activities:								
Audit	5,600	55,186	56,289	1,133	57,421	0	57,421	58,725
Investigations	1,400	90,897	92,711	1,867	94,579	0	94,579	96,727
Total Budget Authority	**$7,000**	**$146,083**	**$149,000**	**$3,000**	**$152,000**	**$0**	**$152,000**	**$155,452**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2009 ARRA		FY 2009 Enacted		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Audit	0	$5,600	349	$55,186	349	$57,421	349	$58,725	0.00%	2.27%
Investigations	0	1,400	486	90,897	486	94,579	486	96,727	0.00%	2.27%
Subtotal New Appropriated Resources	**0**	**$7,000**	**835**	**$146,083**	**835**	**$152,000**	**835**	**$155,452**	**0.00%**	**2.27%**
Other Resources:										
Offsetting Collections - Reimbursable	0	0	3	900	3	1,300	3	1,300	0.00%	0.00%
Subtotal Other Resources	**0**	**$0**	**3**	**$900**	**3**	**$1,300**	**3**	**$1,300**	**0.00%**	**0.00%**
Total Resources Available for Obligation	**0**	**$7,000**	**838**	**$146,983**	**838**	**$153,300**	**838**	**$156,752**	**0.00%**	**2.25%**

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; [$152,000,000] *$155,452,000* , of which not to exceed $6,000,000 shall be available for official travel expenses; of which not to exceed $500,000 shall be available for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General for Tax Administration[; and of which not to exceed $1,500 shall be available for official reception and representation expenses].	

2C – Legislative Proposals

TIGTA does not have any legislative proposals for FY 2011.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 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 2010 Enacted	FY 2011 Request	Percent Change
Accountability & trans	153,300	156,752	**2.25%**
Total	**$153,300**	**$156,752**	**2.25%**

3A – Audit *($58,725,000 from direct appropriations and $551,000 from reimbursable programs):* OA's mission is to promote the sound administration of the nation's tax laws by conducting comprehensive, independent performance and financial related audits of IRS programs. Audits not only focus on the economy and efficiency of IRS functions, but also ensure that taxpayers' rights are protected and the taxpaying public is adequately served.

OA strategically evaluates IRS programs and operations so that TIGTA resources are expended in the areas of highest vulnerability. To carry out this goal, OA develops an annual audit plan that communicates its priorities and incorporates both statutory audit coverage and high risk audit work identified through an annual risk assessment process and stakeholder requests. By focusing on critical areas, OA ensures that TIGTA audits identify and recommend improvements in the most vulnerable IRS programs.

Between October 1, 2008 and September 30, 2009, TIGTA issued 142 audit reports that included potential financial benefits of approximately $14.7 billion and potentially impacted approximately 23 million taxpayer accounts in areas such as taxpayer burden, rights and entitlements, protection of resources/reliability of information, and increased revenue/revenue protected.

American Recovery and Reinvestment Act of 2009 (Recovery Act): The American Recovery and Reinvestment Act of 2009 is an unprecedented effort to jumpstart the American economy, create or save millions of jobs, and put a down payment on addressing challenges the country faces. The Recovery Act includes multiple tax law provisions the IRS must implement. OA identified necessary adjustments to ongoing audits along with new audits that must be started in order to ensure that adequate coverage is provided to ensure effectiveness of the IRS's efforts to implement tax provisions. OA will also continue to provide oversight to IRS's Recovery Act implementation through 2013.

Congress proposed $13.6 billion for the First-Time Homebuyer Credit (Credit) in the Housing and Economic Recovery Act of 2008. The Joint Committee on Taxation estimated that more than $4.3 billion more would be paid to first-time homebuyers in FYs 2009 and 2010 as a result of the revisions in the Recovery Act. TIGTA auditors found that certain key controls preventing individuals from erroneously claiming the Credit were missing. Despite previous TIGTA recommendations, the IRS did not require taxpayers to provide documentation to substantiate the purchase of a home. TIGTA also identified approximately 48,500 taxpayers who may not have been aware of the changes to the Credit included in the Recovery Act and did not claim the full amount to which they were entitled. TIGTA recommended that the IRS develop a plan to address questionable claims for the Credit. The IRS agreed with the recommendation.

Tax Compliance: 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 in Tax Year 2001. This gap exemplifies the considerable challenges the IRS faces in collecting sufficient revenue and the federal tax system's critical dependence on voluntary compliance.

Of the $345 billion tax gap, about $54 billion (16 percent) is attributable to underreported employment taxes. One aspect of underreported employment taxes is the misclassification of employees as independent contractors, a nationwide issue affecting millions of workers that continues to grow and contribute to the tax gap. TIGTA auditors found that the IRS does not have an agency-wide employment tax program to coordinate the decision-making process and efforts among its business divisions. The limited data available indicates that the worker classification issue is growing significantly. When an employee is misclassified, tax revenues are not reported or paid and the burden of uncollected taxes shifts to other taxpayers. TIGTA recommended that the IRS develop and implement an agency-wide employment tax program to address the issue of worker classification to improve coordination among the business divisions, improve compliance, and reduce the tax gap. TIGTA also recommended that the IRS consider conducting a formal National Research Program compliance study to measure the impact of worker misclassification on the employment tax gap. IRS agreed with the recommendations.

An evolving area of the tax gap is the international tax gap. However, TIGTA found that the IRS has not developed an accurate and reliable estimate of the international tax gap. Non-IRS estimates of the international tax gap range from $40 billion to $123 billion. TIGTA concluded that it is doubtful the IRS's tax gap estimate includes the entire international tax gap primarily because identifying hidden income within international activity is very difficult and time-consuming. Recent legislative proposals by both the Administration and Congress could raise an additional $210 billion from international transactions within the next 10 years. In addition, TIGTA found that the IRS has no plans to comprehensively measure the international tax gap with a national research project effort due to cost, staffing, and technical limitations. Consequently, there is less certainty that international tax compliance resources are efficiently allocated to address noncompliance.

Security of the Internal Revenue Service: The Modernized e-File (MeF) system is an IRS system that will provide a single method for filing all IRS tax returns, information returns, forms, and schedules via the Internet. The Modernized Tax Return Database (M-TRDB), a component of the MeF system, is the authoritative store of accepted returns and extensions submitted through the MeF system. TIGTA found that security weaknesses in the controls over system access, monitoring of system access, and disaster recovery have continued to exist even though key phases of the MeF system and the M-TRDB have been deployed. As a result, the IRS is jeopardizing the confidentiality, integrity, and availability of an increasing volume of tax information for millions of taxpayers as application phases are put into operation. TIGTA recommended that the IRS consider all security vulnerabilities that affect the overall security of the MeF system and the M-TRDB before approving milestone exits; provide more emphasis to the MeF project office to both prevent and resolve security vulnerabilities identified during Enterprise Life Cycle processes; and approve interim authorities to operate when significant security control weaknesses exist in system environments. IRS management agreed with the recommendations and has planned corrective actions. However, the corrective actions were focused on continuing to follow or strengthening existing processes. TIGTA believes that the security vulnerabilities were not caused by process deficiencies. Instead, IRS personnel did not fulfill their responsibilities for correcting security vulnerabilities before deployment.

The IRS's ability to protect its employees and provide taxpayer services during and after a major disruption is dependent on the effective preparation of four integrated plans called the Business Continuity "Suite of Plans." However, many of the plans TIGTA reviewed were not up to date, had not been adequately tested, and did not contain sufficient detail to be effective. These deficiencies could affect the IRS's ability to process 235 million tax returns, issue $295 billion in refunds, and collect over $2 trillion in revenue each year. TIGTA recommended that the IRS appoint an executive with cross-organizational authority to oversee the IRS business continuity program and serve as the chairperson of the Emergency Management and Preparedness Executive Steering Committee. TIGTA also recommended that the IRS require the executive responsible for business continuity planning to monitor and ensure that comprehensive testing is conducted and documented for all business continuity plans, and consider testing business continuity plans concurrently as opposed to testing the plans separately. IRS agreed with the recommendations.

Processing Returns and Implementing Tax Law Changes during the Tax Filing Season: Each filing season tests the IRS's ability to implement tax law changes made by Congress. It is during the filing season that most individuals file their income tax returns and call the IRS with questions about specific tax laws or filing procedures. Correctly implementing tax law changes is a continuing challenge because the IRS must identify the tax law changes; revise the various tax forms, instructions, and publications; and reprogram the computer systems used for processing returns. Changes to the tax laws have a major effect on how the IRS conducts its activities, what resources are required, and how much progress can be made on strategic goals. Congress frequently changes the tax laws; thus, some level of change is a normal part of the IRS environment. However, certain types of changes can significantly affect the IRS in terms of the quality and effectiveness of its service and in how taxpayers perceive the IRS.

The IRS issues Individual Taxpayer Identification Numbers (ITIN) to provide a unique number for individuals who are not eligible for a Social Security Number (SSN). The ITINs help these individuals comply with the tax laws and provide a means to efficiently process and account for tax returns. Improvements to the ITIN Program are needed to ensure that it is meeting its intent and that refundable credit claims are verified. TIGTA made a legislative recommendation to clarify whether refundable tax credits such as the Additional Child Tax Credit may be paid to filers without an SSN and, if these credits may not be paid, to provide the IRS math error authority to disallow associated claims for the credits. Disallowance of the Additional Child Tax Credit to filers without an SSN would reduce federal outlays by $8.9 billion over five years. TIGTA also recommended that the IRS develop processes to identify individuals who are improperly using ITINs for work purposes and develop outreach efforts with the Social Security Administration to address the improper use, limit the automatic population feature for ITIN tax returns, and ensure that accurate tax information is input into IRS systems from both paper and electronically filed ITIN tax returns. IRS agreed to continue to work with software companies to limit the auto-populate feature and also agreed to work with the Department of the Treasury's Office of Tax Policy to consider legislation to limit claims for the Additional Child Tax Credit to taxpayers with an SSN. However, the IRS disagreed with the other recommendations. TIGTA does not believe that IRS provided adequate justification for the disagreed recommendations.

More than half of all tax returns filed are prepared by paid preparers. However, the IRS cannot determine the population of preparers or if the preparers are compliant with their own tax obligations as well as all tax laws and regulations. Tax return preparers have a significant effect on taxpayer compliance. A unique identifying number to control each preparer and an effective management information system are necessary for the IRS to facilitate tax administration and provide effective oversight of preparers. TIGTA recommended that the IRS establish a requirement that paid preparers be compliant with their own federal tax filing obligations in order to be allowed to prepare tax returns for others for a fee, revise the target completion date for its study on requiring preparers to use a single identification number when filing tax returns, and develop a method to enforce I.R.C. Section 6695(c), which imposes a penalty on preparers who do not provide an identification number on tax returns they prepare. The IRS agreed with the recommendations and believes some of the recommendations will be addressed by the Commissioner's Tax Return Preparer Review team as well as a guidance project being conducted in coordination with the Department of the Treasury.

Erroneous and Improper Payments: The fraud exposure to IRS programs and operations is tremendous. The IRS collects over $2 trillion annually from taxpayers who entrust the IRS with sensitive financial and personal data every year.

OA continues its oversight of IRS programs susceptible to erroneous or improper payments. OA reported that the IRS successfully developed a number of processes to identify erroneous Earned Income Tax Credit (EITC) payments prior to issuance. However, because compliance resources are limited and alternatives to traditional compliance methods have not been developed, the majority of the potentially erroneous EITC claims identified continue to be paid in error. The IRS reports $10 billion to $12 billion annually in erroneous EITC payments. TIGTA recommended that the IRS conduct a study to identify alternative processes that will expand the IRS's ability to effectively and efficiently identify and adjust erroneous EITC claims for which data show that the taxpayer does not meet EITC requirements. TIGTA also recommended that the IRS work with Treasury's Assistant Secretary for Tax Policy to obtain the authority necessary to implement alternative processes to adjust erroneous EITC claims. IRS agreed with the recommendations.

The IRS issues millions of refunds worth billions of dollars to taxpayers each year through its automated and manual systems. The IRS's inability to promptly resolve some accounts with a large dollar refund freeze (a freeze of a taxpayer's account that has a filed tax return and a credit balance of $10 million or more) can adversely affect taxpayers who may need the refunds to help meet their financial obligations. These delayed actions may also negatively impact the IRS's mission of providing top-quality customer service, in addition to costing the federal government millions of dollars in additional interest. TIGTA recommended that the IRS coordinate with its appropriate functional areas and follow through with implementing the prior recommendations including to properly implement computer system modifications to provide alerts to review large dollar frozen taxpayer accounts for credits that can be released, to systemically release the freeze on accounts when credits fall below the large dollar refund freeze threshold, and to ensure procedures for processing large dollar frozen refunds adequately address common issues that arise. The IRS agreed with the recommendations.

3.2.1 – Audit Budget and Performance Plan

Audit Budget Activity						
	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
Resource Level	Obligated	Obligated	ARRA	Obligated	Enacted	Request
Appropriated Resources	$49,087	$50,852	$5,600	$53,797	$57,421	$58,725
Reimbursable Resources	$300	$539	$0	$361	$551	$551
Total Resources	**$49,387**	**$51,391**	**$5,600**	**$54,158**	**$57,972**	**$59,276**
Budget Activity Total	**$49,387**	**$51,391**	**$5,600**	**$54,158**	**$57,972**	**$59,276**

Audit Budget Activity						
	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
Measure	Actual	Actual	Actual	ARRA	Target	Target
Percentage of Audit Products Delivered When Promised to Stakeholders (Oe)	68	65	81		65	65
Percentage of Recommendations Made That Have Been Implemented (Oe)	90	85	91		83	83

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

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's accountability, operations, and services. Since the IRS needs time to act on recommendations, TIGTA utilizes the Department's Joint Audit Management Enterprise System to track the percentage of recommendations made four years ago that have been implemented, rather than the results of the activities during the fiscal year in which the recommendations are made. TIGTA 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 *($96,727,000 from direct appropriations and $749,000 from reimbursable programs):* While most Offices of Inspectors General focus primarily on fraud, waste, and abuse, TIGTA's mission is more extensive. TIGTA has the statutory responsibility to protect the integrity of tax administration and to protect the ability of the IRS to collect revenue for the federal government. To accomplish this, TIGTA investigates allegations of criminal 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: IRS employee misconduct can hinder the IRS's ability to collect revenue for the federal government. Fifty percent of TIGTA's current investigations involve alleged employee misconduct. In addition to UNAX investigations, employee misconduct investigations include allegations of extortion, theft, false statements, and financial fraud. TIGTA also administers a proactive integrity program to help detect IRS employees who might be committing fraud and other misconduct. From October 1, 2008 to September 30, 2009, TIGTA initiated 41 proactive investigative initiatives.

Employee and Infrastructure Security: Congressional concern regarding the magnitude of uncollected revenue has prompted the IRS to intensify enforcement activities. Heightened enforcement is likely to cause a rise in external threats to IRS employees and infrastructure. Both TIGTA's proactive and reactive investigations are critical to mitigating future risks. TIGTA maintains IRS employee and infrastructure security by conducting investigations into incidents that threaten IRS employees, facilities, and infrastructure. TIGTA's highest priority complaints involve threats and assaults against

IRS employees. TIGTA works aggressively and takes swift action to protect IRS employees, including providing armed escorts. In October 2008, the Inspector General Reform Act of 2008 was signed into law, which allows TIGTA to provide physical security to protect IRS employees against external threats. TIGTA also operates a Criminal Intelligence Program that develops and facilitates pertinent information regarding potential threats to IRS employees and operations. This program includes participation in the FBI sponsored Joint Terrorism Task Forces nationwide. In addition, TIGTA has a System Intrusion and Network Attack Response Team to defend against hackers who attempt to compromise the data integrity of taxpayer information stored in IRS computer systems. From October 2008 through September 2009, Office of Investigations (OI) closed 331 investigations of assaults and/or threats made against IRS employees and facilities.

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

In FY 2011, OI foresees continued risks in IRS programs that will require more oversight. Of great interest and risk are phishing scams that falsely depict e-mails from the IRS. (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.) Such schemes attempt to retrieve a user's SSN and banking information by replicating an official IRS seal and/or requesting information required for depositing tax refunds. The IRS, in coordination with OI, has identified 7,953 phishing sites since November 2005 through September 2009. Oversight in this area is necessary to ensure that misuse of the IRS name, impersonation of an IRS employee, and identity theft incidents are resolved expeditiously.

With the IRS focusing on increased revenue collection from delinquent taxpayers, OI anticipates a rise in attempts to bribe IRS employees involved in those collection activities. TIGTA educates IRS employees on how to recognize bribe overtures and their responsibility to report bribery attempts to TIGTA. During FY 2009, OI conducted 37 investigations into bribery of IRS employees by taxpayers.

Another area of concern that poses risks to tax administration is IRS contract improprieties. TIGTA is committed to conducting procurement investigations that ensure the highest degree of integrity, economy, and efficiency in IRS contracts. TIGTA conducts proactive and reactive investigations to detect and deter criminal activity by contractors and IRS employees. TIGTA's contract fraud work has produced significant results, including nearly $62 million in recovered penalties from October 2008 to September 2009.

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

3.2.2 – Investigations Budget and Performance Plan

Investigations Budget Activity						
	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
Resource Level	**Obligated**	**Obligated**	**ARRA**	**Obligated**	**Enacted**	**Request**
Appropriated Resources	$83,427	$89,161	$1,400	$91,979	$94,579	$96,727
Reimbursable Resources	$627	$727	$0	$582	$749	$749
Total Resources	**$84,054**	**$89,888**	**$1,400**	**$92,561**	**$95,328**	**$97,476**
Budget Activity Total	**$84,054**	**$89,888**	**$1,400**	**$92,561**	**$95,328**	**$97,476**

Investigations Budget Activity						
	FY 2007	**FY 2008**	**FY 2009**		**FY 2010**	**FY 2011**
Measure	**Actual**	**Actual**	**Actual**	**ARRA**	**Target**	**Target**
Percentage of Results from Investigative Activities (Oe)	81	78	83		79	79

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

Description of Performance: Examples of the types of criminal activity investigated are: bribes offered by taxpayers to compromise IRS employees; manipulation of IRS systems and programs through the use of bogus liens and IRS financial reporting instruments; and impersonation of IRS officials. As of September 30, 2009, actual performance has exceeded expectations (actual performance was 83 percent, while the target was 78 percent). These results are indicative of OI's continuous focus on quality investigative activities.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://treas.gov/offices/management/budget/

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 of the Treasury is "management and organizational excellence." In alignment with this strategy, one of TIGTA's major goals in assuring effective management and organizational excellence 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 has three major Human Capital initiatives for FY 2009 through FY 2011:

TIGTA's Recruitment Advisory Council: This council will be responsible for implementing and maintaining a corporate-wide recruitment strategy that includes programs within TIGTA that will attract, acquire, develop, promote and retain quality talent.

TIGTA's Performance Management Working Group: This working group will be leading the effort in developing a results-oriented performance culture system for TIGTA that continues to focus on having a diverse, results-oriented, high-performing workforce, as well as a strategically aligned performance management system that effectively plans, monitors, develops, rates, and rewards employee performance.

Corporate Supervisory and Leadership Development Program: TIGTA will be developing a corporate supervisory and leadership development program that focuses on identifying and addressing leadership competencies so that continuity of leadership is ensured, knowledge is shared across the organization, and an environment of continuous learning is present.

Over the past ten years, TIGTA's employee population has declined 17 percent. Authorized FTE have declined from 1,000 in 1999 to a current level of 835. Vacancies brought on by retirements and other employee departures reduced FTE realized in FY 2009 to 797. One of the most significant human capital challenges facing TIGTA is the ongoing retirement tidal wave. Approximately 34 percent of all TIGTA employees will be retirement eligible by September 30, 2013. This is especially troubling since the skills required of TIGTA's auditors, investigators, information technologists, and systems specialists are highly specialized and require several years to develop to the journeyman level. A continued decline in personnel strength threatens TIGTA's overall ability to effectively fulfill its core mission.

If TIGTA is unable to fill retirees' vacated positions with skilled investigators, it will 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, specifically, electronic crimes. FTE attrition further reduces opportunities to examine high-risk areas and thereby can reduce financial benefits from audit recommendations and impact fewer taxpayer accounts. Succession planning efforts are aimed at addressing these potential risks to TIGTA's operations.

With the exiting of retirees, the influx of new staff has required OA to dedicate a significant portion of its budget to orient the new hires to the audit process and OA requirements, as well as enhance or develop their overall skills/competencies. In order to continue to deliver the high quality audit products we strive to produce, it is important for TIGTA to continue training opportunities for the entire audit staff.

TIGTA must 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's 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.

TIGTA implemented the Treasury Learning Management System (TLMS) during FY 2008 with final rollout during FY 2009. With full deployment to its employees, TIGTA plans to use the competency assessment functionality portion of the TLMS to identify any skill gaps. Currently, this module is not turned on; however, Treasury, in partnership with all the bureaus, is working towards making this module available. In addition, the bureaus are looking into purchasing a competency module that has more capabilities that not only identifies skills gaps but builds individual development plans. Implementing the competency assessment module will greatly assist TIGTA in its succession planning efforts. Succession planning will help ensure the stability of tenure of personnel by providing provisions for the development, replacement, and strategic application of key people over time. Early identification of employees with strong leadership potential, combined with a range of leadership development programs, will deepen the leadership bench strength within TIGTA, and assists tomorrow's promising leaders with career planning. TIGTA will continue its strategic recruitment program to fill critical vacancies and align future hiring in geographic areas where most of TIGTA's workload is located. Additionally, TIGTA will continue to enhance its Senior Executive Service (SES) development program to grow future leaders within the organization.

Additionally, TIGTA needs to expand the breadth of the product lines beyond the current statutory and high-risk performance audit focus in order to more fully assess risks in the tax administration system. To enhance TIGTA's ability to deliver its mission, OA needs to establish a Forensic Auditing Unit whose primary purpose would be to identify fraudulent acts affecting the IRS. The Forensic Audit Unit would combine advanced computer investigative work with traditional auditing techniques to compare various sets of data to more easily connect to possible fraudulent activities and assess situations when a fraud has taken place. Traditional auditors try to ensure that internal controls are in place to decrease the likelihood of fraudulent acts and follow up when risk factors are identified. Forensic auditors on the other hand proactively seek out fraud such as employee embezzlement or an employee directing a fictitious vendor payment to his or her personal bank account. Forensic auditors require a different set of skills and techniques such as: data mining, information technology skills, statistics and investigative skills.

The IG Reform Act of 2008 requires that the SES performance management program be certified separate from the Department. This will require additional Human Capital focus on this program ensuring that TIGTA's executive performance management program is certified by the Office of Personnel Management and ensuring that TIGTA's executives are accountable for supporting TIGTA strategic plans, missions, and organizational objectives.

In order to meet these challenges the expertise, perspectives and innovation of TIGTA's human capital practitioners will be critical. Knowledgeable and highly effective human capital practitioners will need to be prepared to work as key partners with TIGTA's leaders to ensure that effective human capital management is a strategic business component in achieving TIGTA's mission. This will require transforming TIGTA's Human Capital team into a cadre of highly valued advisors, facilitators and experts, through development and regular engagement with decision makers. Continual learning and development is critical for TIGTA's Human Capital practitioners.

While the nature and sensitivity of TIGTA's work limits the possible use of on-site contractors, most of the routine human resources transactions, accounting, travel, and acquisitions work are outsourced to the Bureau of the Public Debt's Administrative Resource Center.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments 1/ Major IT Investments / Funding Source	Budget Activity	FY 2008 & Earlier Enacted 2/	FY 2009 Enacted	FY 2010 Budget Request	% Change from FY09 to FY10	FY 2011 Request	% Change from FY10 to FY11
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**	**$574**	-42.6%	**$574**	0.0%
PARIS Property Module (PPM)	TIGTA: Audit and Investigations Activity	**$500**	**$500**	**$149**	-70.2%	**$149**	0.0%
Non-Major IT Investments	TIGTA: Audit and Investigations Activity	**$1,500**	**$1,500**	**$723**	**-51.8%**	**$723**	**0.0%**
TIGTA End User Systems and Services	TIGTA: Audit and Investigations Activity	**$8,000**	**$8,293**	**$2,678**	-67.7%	**$2,678**	0.0%
Telecommunications Systems and Services	TIGTA: Audit and Investigations Activity	**$3,100**	**$3,300**	**$2,465**	-25.3%	**$2,465**	0.0%
Data Center Systems and Services	TIGTA: Audit and Investigations Activity	**$1,000**	**$1,000**	**$4,003**	300.3%	**$4,003**	0.0%
IT Security 3/	TIGTA: Audit and Investigations Activity	**$750**	**$0**	**$0**	0.0%	**$0**	0.0%
Infrastructure Investments 4/	TIGTA: Audit and Investigations Activity	**$12,100**	**$12,593**	**$9,146**	**-27.4%**	**$9,146**	**0.0%**
Consolidated Enterprise Content Management 5/	TIGTA: Audit and Investigations Activity	**$0**	**$129**	**$0**	**0.0%**	**$0**	**0.0%**
Consolidated Identity Management 5/	TIGTA: Audit and Investigations Activity	**$0**	**$128**	**$0**	**0.0%**	**$0**	**0.0%**
Enterprise Architecture	TIGTA: Audit and Investigations Activity	**$250**	**$250**	**$275**	**10.0%**	**$275**	**0.0%**
Total IT Investments	TIGTA: Audit and Investigations Activity	**$13,850**	**$14,600**	**$10,144**	**-30.5%**	**$10,144**	**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 2008 and any previous years.

3/ The $750 thousand decrease reflects the impact of eliminatinig IT Security as a separate investment and reflecting those resources with End User and Telecommunication systems and services.

4/ TIGTA costs which were previously not reflected prior to FY 2008.

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

End User Systems and Services: IT 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. IT 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 auditors, investigators, and inspection and evaluation personnel to access and analyze data residing on a wide variety of IRS and other governmental information systems. IT 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.

IT provides TIGTA employees with enterprise collaboration tools that allow end users to form virtual work teams from any TIGTA office or broadband Internet connection. This collaboration capability will reduce travel costs over time and greatly enhances TIGTA's ability to function throughout a widespread disaster event.

Telecommunications Systems and Services: IT supports its aspects of Treasury T-Net with access points throughout the continental United States, Hawaii, and Puerto Rico in direct support of a geographically distributed audit, investigative, and inspection and evaluation workforce. T-Net 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, T-Net 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. T-Net 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: IT operates information systems at various offices. In accordance with the IT Strategic Plan and continuing cost containment measures, IT 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 audit and investigative activities. As part of a TIGTA data center, IT provides extensive data analysis services in direct support of audit and investigative 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.

Information Security Services: IT provides *Federal Information Security Management Act* (FISMA) support services to TIGTA. This support comes in three areas. The first support area is Information Integrity. IT provides guidance on security controls and processes to help maintain the confidentiality, availability, and accuracy of its business information. The second support area is Insurance and Assurance which addresses information risk management. This area provides TIGTA with information on the risk factors it is facing with its information systems. This helps TIGTA in making decisions on accepting, avoiding, or mitigating assessed risks around its information systems. The third support area is Regulatory Compliance. IT provides TIGTA support in interpreting guidance from regulatory sources and reporting TIGTA's compliance in meeting FISMA requirements.

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: 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.

Enterprise Content Management: TIGTA continues to use Microsoft SharePoint as an internal content delivery service to our auditors, investigators, and inspection and evaluation personnel. There are a number of other applications TIGTA uses that contain Enterprise Content Management (ECM) functionality, but the functionality is minor compared 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: IT 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 audit and investigative activities and to track assets seized during law enforcement actions.

4.2 – Program Evaluation
Not applicable to TIGTA.

Special Inspector General for TARP

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Overview

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Mandatory and Discretionary Levels	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Request	FY 2011 $ Change	FY 2011 % Change
Salaries and Expenses	$50,000	$23,300	$49,600	$26,300	113%
Public Private Investment Fund (PPIP)	$15,000				
Mandatory Funding	$65,000				
Discretionary Funding		$23,300	$49,600	$26,300	113%
Total Mandatory and Discretionary[1]	**$65,000**	**$23,300**	**$49,600**	**$26,300**	**113%**
Available no-year funds - S&E		$20,100		($20,100)	-100%
Available PPIP funds		$5,000	$5,000	$0	0%
Total Budgetary Resources	**$65,000**	**$48,400**	**$54,600**	**$6,200**	**13%**
Program Summary By Budget Activity:					
Audit	$27,900	$20,700	$23,200	$2,500	12%
Investigation	$37,100	$27,700	$31,400	$3,700	13%
Total by Budget Activity	**$65,000**	**$48,400**	**$54,600**	**$6,200**	**13%**
Total FTE	**100**[2]	**133**[3]	**160**		**20%**

[1] The FY 2009 enacted level includes $50 million of no-year funds provided by Public Law (P.L.) 110—343, the Emergency Economic Stabilization Act of 2009 as amended, (EESA) and an additional $15 million of no-year funds made available pursuant to P. L. 111-22, for a total of $65 million. Carry-forward funds in the amount of $20.1 million, provided by P.L. 110-343, and $5 million provided by P.L. 111-22, and the enacted FY 2010 budget of $23.3 million in direct appropriations, provided by P.L. 111-117, will be used to fund the FY 2010 budget of $48.4 million. These amounts do not reflect an additional $10.2 available in carry-forward from P.L. 110-343. The carry-forward from P.L. 111-22 will be used to partially fund the FY 2011 and FY 2012 budget in the amount of $5 million each year.

[2] This represents a target level of approved FTEs; actual usage in FY 2009 was 29 FTE.

[3] This represents the projected usage level for the FY 2010 approved 160 FTE ceiling.

FY 2011 Priorities

- Promote transparency in the management and operation of TARP, ensuring the satisfaction of the public's right to know how Treasury decides to invest the public's money, how it manages the assets it obtains, and how TARP recipients use these funds.

- Coordinate oversight:

    - Prospectively advise Treasury concerning issues relating to compliance, internal controls and fraud prevention.

    - Retrospectively assess the effectiveness of Treasury's activities, recommend improvements, and evaluate whether TARP recipients are satisfying their legal obligations.

- Prevent, detect, investigate and refer for prosecution cases of fraud, waste and abuse involving TARP funds or programs.

Section 1 – Purpose

1A – Description of Vision and Priorities

SIGTARP supports and complements Treasury's strategic goal of effectively managing the U.S. Government's finances as they relate to the TARP program (which potentially involves more that $2 trillion in TARP and TARP-related funds), through the implementation of SIGTARP's priorities:

- Promoting transparency in the management and operation of TARP programs;
- Coordinating oversight:
  - Prospectively advising Treasury concerning issues relating to compliance, internal controls and fraud prevention;
  - Retrospectively assessing the effectiveness of Treasury's activities and evaluating whether TARP recipients are satisfying their legal obligations; and
- Preventing, detecting, investigating and referring for prosecution cases of fraud, waste and abuse involving TARP funds or programs.

Of the four primary oversight bodies referenced in the Emergency Economic Stabilization Act of 2008, P.L. 110-343 (EESA), (i.e., SIGTARP, the Financial Stability Oversight Board, the Congressional Oversight Panel, and the Government Accountability Office), SIGTARP stands as the sole TARP oversight body charged with criminal law enforcement responsibility: as the cop on the beat. Being the lone cop on the beat would be an intimidating task in a $700 billion purchase and guarantee program as was originally envisioned under EESA. The task, however, has become exponentially more challenging as Treasury has thus far committed TARP funds to 12 separate programs that potentially involve more than $2 trillion. To accomplish SIGTARP's mission to oversee this vast amount of money for the American taxpayer, SIGTARP focuses on its goals of transparency, coordinated oversight, and robust criminal and civil law enforcement.

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

SIGTARP views its oversight role prospectively, retrospectively, internally, and externally. Prospectively, SIGTARP, among other things, advises Treasury on issues relating to compliance, internal controls and fraud prevention. Retrospectively, SIGTARP assesses the effectiveness of TARP activities over time and suggests improvements. Internally, SIGTARP's oversight role reaches to Treasury officials and to other government employees who manage TARP-related programs. Externally, it reaches to the recipients of TARP funds, the other private participants in

TARP-related programs and to vendors that have been retained to assist Treasury in implementing TARP. SIGTARP also plays a significant external coordinating role among TARP oversight bodies both to ensure maximum oversight coverage and to avoid redundant and unduly burdensome requests on Treasury personnel who manage the programs.

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

1B – Program History and Future Outlook

Background: EESA created the TARP and authorized Treasury to purchase, manage, and sell troubled assets under section 101, and to guarantee such assets under section 102. Additionally, section 121 of EESA, as amended, which incorporated selected provisions of the Inspector General Act of 1978, 5 U.S.C. App. 3, created SIGTARP as an independent agency within Treasury responsible to conduct, supervise, and coordinate audits and investigations of any actions taken under EESA.

General Management: SIGTARP commenced operations on December 15, 2008, with the swearing in of the Special Inspector General (SIG). Between December 2008 and September 30, 2009, the SIG and SIGTARP have been extraordinarily productive: building infrastructure, hiring staff, leveraging oversight resources, opening more than 61 investigations, initiating 13 audits, publishing three audit reports and issuing three substantial reports to Congress. In the former regard, SIGTARP has secured temporary office space and equipment for staff; has contracted for permanent space and the rehabilitation of the same; has contracted with public and private vendors for personnel services, procurement assistance, publication consulting, data processing and analysis, and office equipment and services.

Simultaneous with building the infrastructure to enable SIGTARP to carry out its mission, the SIG rapidly designed a staffing and hiring plan. As of January 1, 2010, SIGTARP has hired 99 managers, lawyers, auditors, investigators, and other professionals with a wealth of experience in program auditing, investment banking, securities enforcement, and other relevant curricula. To successfully accomplish this hiring challenge, SIGTARP relied on direct hire authority and dual compensation authority waiver delegated by the Office of Personnel Management. Recently, the Special Inspector General for the Troubled Asset Relief Program Act of 2009, P.L. 111-15, supplemented SIGTARP's dual compensation waiver authority and granted additional hiring incentives included in 5 U.S.C. § 3161.

The TARP has evolved from a $700 billion purchase and guarantee program potentially involving up to a $2 trillion amalgamation of a dozen separate programs, which in some cases are being or will be implemented by government agencies other than Treasury (i.e., the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC)). Accordingly, SIGTARP determined that leveraging other oversight resources would be necessary. In addition to meeting extensively with Treasury and the Federal Reserve concerning program proposals, SIGTARP regularly and continually coordinates with the Financial Stability Oversight Board, the

Congressional Oversight Panel, and the Government Accountability Office concerning our overlapping oversight responsibilities under EESA.

Additionally, SIGTARP has initiated several efforts designed to augment audit and investigative resources. For example, SIGTARP founded the TARP Inspector General Council (TARP-IG Council), which includes the Comptroller General, the Inspectors General for Treasury, the Federal Reserve Board, the FDIC, the Securities and Exchange Commission (SEC), the Federal Housing Finance Agency, the Department of Housing and Urban Development, the Small Business Administration, and the Treasury Inspector General for Tax Administration. The TARP-IG Council meets monthly to discuss developments in TARP and coordinate interconnected audit and investigative issues. Similarly, SIGTARP established the Term Asset-Based Securities Loan Facility (TALF) Task Force, which includes the Inspector General for the Federal Reserve Board, the Federal Bureau of Investigation (FBI), the Financial Crimes Enforcement Network (FinCEN), U.S. Immigration and Customs Enforcement, the Internal Revenue Service Criminal Investigation Division (IRS-CID), the SEC, and the U.S. Postal Inspection Service. The task force members participate in regular briefings about the TALF, collectively identify areas of fraud vulnerability, engage in training exercises, and coordinate audit and investigative efforts. SIGTARP has established a TALF Public Private Investment Program task force, and forged partnerships and launched joint investigations with the FBI, the SEC, IRS-CID, and the New York High Intensity Financial Crime Area (NY HIFCA). In the latter regard, SIGTARP's partnership with NY HIFCA provides SIGTARP with two experienced financial analysts who use FinCEN and other available data resources to identify indicators of fraud associated with the TARP and furnish analytical support with respect to ongoing investigations.

Further, consistent with significant reporting requirements set forth in EESA, on February 6, April 21, July 21, and October 21, 2009, SIGTARP issued wide-ranging reports to Congress, describing the activities and plans of SIGTARP; explaining and evaluating the various TARP programs (both implemented and announced); reviewing the operations of the Office of Financial Stability, which administers TARP; and recommending changes to TARP programs and procedures to increase transparency and effective oversight and decrease the potential for fraud, waste and abuse. In the latter regard, recommendations included in SIGTARP's April 21st report were largely adopted and enacted into law by section 402 of Public Law No. 111-22. SIGTARP's reports also satisfied the requisite reporting requirements of SIGTARP's authorizing statute by detailing its operations; describing the categories of troubled assets purchased or otherwise procured by Treasury; explaining the reasons Treasury deemed it necessary to purchase each such troubled asset; listing each financial institution from which such troubled assets were purchased; listing and detailing biographical information on each person or entity hired to manage such troubled assets; estimating the total amount of troubled assets purchased, the amount of troubled assets held, the amount of troubled assets sold, and the profit or loss incurred on each sale or disposition of each such troubled asset; and listing the insurance contracts issued. SIGTARP expends substantial time and resources on its reports to Congress, which are designed to be the comprehensive reference concerning TARP activities for policy makers, Congress and the American people. These reports are available at http://www.sigtarp.gov/reports.shtml.

In addition to management and operations/overhead staff, SIGTARP carries out its mission via audit and investigative staff.

Audits: The Audit Division (AD) conducts, supervises, and coordinates programmatic audits with respect to Treasury's operation of TARP and recipients' compliance with their obligations under relevant law and contracts; evaluates TARP policies and procedures; and provides technical assistance to Treasury. With respect to auditing, the division is designed to provide SIGTARP with maximum flexibility in the size, timing, and scope of audits so that, without sacrificing the rigor of the methodology, audit results, whenever possible, can be generated rapidly both for general transparency's sake and so that the resulting data can be used to improve the operations of the fast-evolving TARP.

In July 2009, AD issued its first formal audit report concerning how recipients of CPP funds reported their use of such funds based upon a February 2009 survey that SIGTARP sent to more than 360 financial and other institutions that had completed TARP funding agreements through January 2009. Although most banks reported they did not segregate or track TARP fund usage on a dollar-for-dollar basis, they were able to provide insights into their actual or planned future use of TARP funds. For some respondents the infusion of TARP funds helped to avoid a "managed" reduction of their activities; others reported that their lending activities would have come to a standstill without TARP funds; and others explained that they used TARP funds to acquire other institutions, invest in securities, pay off debts, or that they retained the funds to serve as a cushion against future losses. Many survey respondents also highlighted the importance of the TARP funds to the bank's capital base, and by extension, the impact of the funds on lending.

AD also completed an audit examining undue external influences over the CPP decision-making process. This audit addressed the extent to which Treasury and the banking regulators have controls to safeguard against external influences over the CPP decision-making process and whether there were any indications of external parties having unduly influenced CPP decision-making. SIGTARP found no information indicating that external inquiries on CPP applications had affected the decision-making process, but gaps in the internal controls by the government agencies conducting the CPP application process makes it impossible to determine if all attempts to influence TARP decisions were captured by the audit. Of the 56 institutions SIGTARP identified that were the subjects of external inquiries, three institutions did not meet all the CPP quantitative criteria but were approved based on mitigating factors considered by Treasury and banking agency officials. Among these three, one institution stood out. SIGTARP's analysis indicated that discretion afforded this applicant in its approval was greater than that afforded other applicants. In connection with the audit, SIGTARP made recommendations regarding the improvement of internal controls and record keeping, which Treasury has adopted.

AD also issued an audit examining executive compensation restriction compliance. This audit examined the efforts of TARP recipients' to comply with executive compensation restrictions in place at the time of SIGTARP's survey of banks use of funds. The audit was set against a background of the evolving rules on executive compensation for TARP recipients. Although recipients expressed frustration with changing compensation guidance, they were able to report the actions that they have been taking.

AD also has audits nearing completion examining AIG bonuses, AIG counterparty payments and an update on SIGTARP's use of funds survey. In addition, SIGTARP is undertaking a series of new audits, as follows:

- TARP assistance to the first nine CPP recipients, with emphasis on additional assistance to Bank of America subsequently authorized under the Targeted Investment and the Asset Guarantee Programs ("TIP" and "AGP").

- CPP Warrant Valuation and Disposition Process: The audit will seek to determine: (i) the extent to which financial institutions have repaid Treasury's investment under CPP and the extent to which the warrants associated with that process were repurchased or sold; and (ii) what process and procedures Treasury has established to ensure the Government receives fair market value for the warrants and the extent to which Treasury follows a clear, consistent, and objective process in reaching decisions where differing valuations of warrants exist. This audit complements a July 10, 2009, report by the Congressional Oversight Panel examining the warrant valuation process.

- Governance Issues Where U.S. Holds Large Ownership Interests: The audit will examine governance issues when the U.S. Government has obtained a large ownership interest in a particular institution, including: (i) what is the extent of Government involvement in management of companies in which it has made sizeable investments, including direction and control over such elements as governance, compensation, spending, and other corporate decision-making; (ii) to what extent are effective risk management, monitoring, and internal controls in place to protect and balance the Government's interests and corporate needs; (iii) are there performance measures in place that can be used to track progress against long-term goals and timeframes affecting the Government's ability to wind down its investments and disengage from these companies; and (iv) is there adequate transparency to support decision making and to provide full disclosure to the Congress and the public.

- Status of the Government's Asset Guarantee Program with Citigroup: The audit will examine the Government's AGP program with Citigroup. Specifically, the audit will address: (i) how was the program for Citigroup developed; (ii) what are the current cash flows from the affected assets; and (iii) what are the potential for losses to Treasury, the FDIC, and the Federal Reserve.

- Making Home Affordable Mortgage Modification Program: The audit will examine the Making Home Affordable mortgage modification program to assess the status of the program, the effectiveness of outreach efforts, capabilities of loan servicers to provide services to eligible recipients, and challenges confronting the program as it goes forward.

- Auto dealership terminations: The audit will examine the process used by General Motors ("GM") and Chrysler to identify which automotive dealerships should be maintained or terminated. GM and Chrysler reportedly have announced plans to terminate more than two thousand automotive dealerships as part of their restructuring process.

For FY 2011, AD expects to initiate an average of five to seven audits per quarter.

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

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

Since SIGTARP's inception, ID has opened over 77 investigations and closed nine, but it is SIGTARP's policy not to discuss the scope or substance of pending investigations. However, the following activities have been publicly disclosed:

- Taylor, Bean and Whitaker Mortgage Corporation(TBW) and Colonial Search Warrants**:** On August 3, 2009, SIGTARP, with the FBI, HUD OIG, and FDIC OIG, executed search warrants at the offices of Taylor, Bean and Whitaker, formerly the nation's 12th-largest loan originator and servicer, and Colonial Bank, which applied for assistance under the Capital Purchase Program ("CPP"). Prior to the execution of these warrants, SIGTARP had served subpoenas on Colonial after it had announced that it had received preliminary contingent approval from the Treasury to receive \$553 million in TARP funding. Based upon SIGTARP's advice, the funding was never made and this investigation, which is being conducted with both the Department of Justice and the SEC, is ongoing.

- Federal Felony Charges Against Gordon Grigg**:** On April 23, 2009, Federal felony charges were filed against Gordon B. Grigg in the U.S. District Court for the Middle District of Tennessee, charging him with four counts of mail fraud and four counts of wire fraud. The charges are based on Grigg's role in embezzling approximately \$11 million in client investment funds that he garnered through false claims, including that he had invested \$5 million in pooled client funds toward the purchase of the TARP-guaranteed debt. Grigg pleaded guilty to all charges and was sentenced to 10 years imprisonment.

- Federal Trade Commission (FTC) Action Against Misleading Use of "MakingHomeAffordable.gov": On May 15, 2009, based upon an action brought by the FTC, a Federal district court issued an order to stop an Internet-based operation that pretended to operate "MakingHomeAffordable.gov," the official website of the Federal Making Home Affordable program. The FTC's action, which was developed with the investigative assistance of SIGTARP, alleges that the defendants purchased sponsored links as advertising on the results pages of Internet search engines, and, when consumers searched for "making home affordable" or similar search terms, the defendants' ads prominently and conspicuously displayed "MakingHomeAffordable.gov." Consumers who clicked on this link were not directed to the official website, but were diverted to sites that solicit applicants for paid loan modification services. The operators of these websites either purport to offer loan modification services themselves or sold the victims' personally identifying information to others.

- National Housing Modification Center: On September 16, 2009, the FTC filed a complaint against the Nations Housing Modification Center ("NHMC") and its principals in the U.S. District Court for the District of Columbia. With investigative support from SIGTARP and other federal, state and local enforcement partners, the FTC alleged violations of the FTC Act and Telemarketing Sales Rules by NHMC by misrepresenting itself as a Federal government agency or affiliate and falsely claiming that they would obtain mortgage modifications for consumers for a $3,000 fee. SIGTARP's joint investigation is continuing.

- Bank of America: SIGTARP continues to play a significant role in the investigations by the New York State Attorney General's Office, the SEC and the Department of Justice into the circumstances of Bank of America's merger with Merrill Lynch and its receipt of additional TARP funds under the Targeted Investment Program.

For FY 2011, although it is difficult to forecast for a variety of reasons, SIGTARP anticipates opening 75 investigations. In addition, SIGTARP's Hotline, which fields complaints and tips about wrongdoing, as of December 31, 2009, had already processed more than 9,900 contacts.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Special Inspector General for the Troubled Asset Relief Program	FTE	Amount
FY 2010 Enacted	**133**	**$ 23,300**
Adjustments to FY 2010 Enacted		
Base Realignment		
FY 2010 Base Realignment	27	$ 25,015
Subtotal, Base Realignment	**27**	**$ 25,015**
Maintaining Current Levels		**$ 1,285**
FERS % Change		9
Non-Pay Inflation Adjustment		278
Pay Annualization		702
Pay Inflation Adjustment		296
Subtotal, Adjustments to FY 2010 Enacted		**$ 26,300**
Total FY 2011 President's Budget Request	**160**	**$ 49,600**
Carryover from Pub. Law No. 111-22	**160**	**$ 5,000**
Total FY 2011 Budgetary Resources	**160**	**$ 54,600**

2A – Budget Increases and Decreases Description

SIGTARP has an appropriation of $23,300,000 for FY 2010. In addition, section 402(c)(1) of the Helping Families Save Their Homes Act of 2009, Pub. Law No. 111-22, provided SIGTARP with $15,000,000. However, section 402(c)(2) requires SIGTARP, in using these funds, to "prioritize the performance of audits or investigations of recipients of non-recourse Federal loans made under any" EESA program. The supplemental funding, thus, is not available for SIGTARP's general operational uses, and SIGTARP expects that it will take approximately three fiscal years, i.e., $5,000,000 per year for FY 2010, FY 2011, and FY 2012, to expend the supplemental funding in a manner consistent with the statute.

Maintaining Current Levels (MCLs) .... +$1,285,000 / +0 FTE

FERS % change +$9,000 / +0 FTE Funds are requested for the increase in agency retirement contribution percentages for GS employees from 11.2% to 11.5% for FY 2011 as required by OPM.

Non-Pay Inflation Adjustment +$278,000 / +0 FTE SIGTARP anticipates reaching steady state (i.e., full staffing level, permanent office space, and most critical contracts in place) in the second quarter of FY 2010, and, thus, increases in non-personnel costs are largely expected to reflect inflationary pressures, as opposed to new contracting activity.

Pay Annualization +$702,000 / +0 FTE Although FTEs do not increase in FY 2011, SIGTARP estimates being at steady state at the beginning of FY 2011. SIGTARP does not anticipate that it will have completed its hiring efforts until after the conclusion of the second quarter of FY 2010; personnel costs in FY 2011 will be slightly higher on an annualized basis.

Pay Inflation Adjustment +$296,000 / +0 FTE Funds are requested to mitigate the impact of the FY 2011 pay raise.

Because SIGTARP is nascent organization, its capital expenditures, program launches, and hiring has occurred or will occur in FY 2009 and FY 2010. It is, thus, unlikely that capital items purchased will have exhausted their useful life and requires replacement or that programs will be discontinued as early as FY 2011. With respect to program increases, however, Treasury or Congress could expand the TARP. Such an action may prompt SIGTARP to adjust its mission requirements, but this is impossible to predict and, accordingly, SIGTARP has not integrated it into its projections.

2.2 – Operating Levels Table

Dollars in Thousands

Bureau: Special Inspector General for TARP	FY 2009 Enacted Level	FY 2010 Enacted Level	FY 2011 Requested Level	% Change FY 2010 to FY 2011
FTE	**100**	**133**	**160**	**20%**
Object Classification:				
11.1 - Full-time permanent	11,500	14,200	19,600	**38%**
11.3 - Other than Full-time permanent				
11.5 - Other Premium and Differential Pay				
11.6 - Overtime				
11.7 - Other Personnel Compensation	1,300	1,000	1,000	**0%**
11.8 - Special Personal Services Payments				
12.0 - Personnel Benefits	4,200	4,100	5,300	**29%**
21.0 - Transportation of Persons	2,300		3,200	
22.0 - Transportation of Things	-		200	
23.0 Rents, Communications, Utilities and Miscellaneous Charges	2,100		2,300	
24.0 - Printing and Reproduction	300		300	
25.1 - Consulting Services	9,700	4,000	6,500	**63%**
25.2 - Other Services				
25.3 - Purchase of Goods and Services from Other Government Accounts	7,300		6,900	
25.4 - Operation and Maintenance of Facilities	500		400	
25.7 - Operations and Maintenance of Equipment	600		300	
26.0 - Supplies and Materials	800		1,000	
31.0 Equipment	5,700		1,700	
32.1 Leasehold Improvements	3,000		500	
42.0 Insurance Claims and Indemnities	600		200	
91.0 Unvouchered Expenditures	100	-	200	
Subtotal Budget Authority	**50,000**	**23,300**	**49,600**	**113%**
PPIP	15,000			
Mandatory Funding	65,000			
Discretionary Funding		23,300	49,600	113%
Total Mandatory and Discretionary Funding[4]	65,000	23,300	49,600	**113%**
Available no-year funds		20,100		
Available PPIP		**5,000**	**5,000**	
Total Budgetary Resources	**65,000**	**48,400**	**54,600**	**13%**
Budget Activities:				
TARP Oversight	65,000	48,400	54,600	13%
Audit	27,900	20,700	23,200	12%
Investigations	37,100	27,700	31,400	13%
Total Budget Authority	**65,000**	**48,400**	**54,600**	13%

[4] The FY 2009 enacted level includes $50 million of no-year funds provided by Public Law (P.L.) 110—343, the Emergency Economic Stabilization Act of 2009 as amended, (EESA) and an additional $15 million of no-year funds made available pursuant to P. L. 111-22, for a total of $65 million. Carry-forward funds in the amount of $20.1 million, provided by P.L. 110-343, and $5 million provided by P.L. 111-22, and the enacted FY 2010 budget of $23.3 million in direct appropriations, provided by P.L. 111-117, will be used to fund the FY 2010 budget of $48.4 million. These amounts do not reflect an additional $10.2 available in carry-forward from P.L. 110-343. The carry-forward from P.L. 111-22 will be used to partially fund the FY 2011 and FY 2012 budget in the amount of $5 million each year.

2.3 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY2009 Obligations		FY2009 Enacted		FY2010 Enacted		FY2011 Request		% Change FY2010 to FY2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Investigations	17	11,624	58	28,800	72	13,400	92	28,600	21%	113%
Audit	12	8,002	42	21,200	61	9,900	68	21,000	19%	112%
Mandatory Funding	29	19,626	100	50,000						
Discretionary Funding					133	23,300	160	49,600	20%	113%
Total Mandatory and Discretionary Funding[5]	29	19,626	100	50,000	133	23,300	160	49,600	20%	113%
Other Resources:										
Available no-year funds						20,100			0.00%	-100%
PPIP	0	0	0	15,000	0	5,000	0	5,000	0.00%	0%
Subtotal Other Resources	0	0	0	15,000	0	25,100	0	5,000	0.00%	-80%
Total Resources Availabel for Obligation	29	19,626	100	65,000	133	48,400	160	54,600	20%	13%

[5] The FY 2009 enacted level includes $50 million of no-year funds provided by Public Law (P.L.) 110—343, the Emergency Economic Stabilization Act of 2009 as amended, (EESA) and an additional $15 million of no-year funds made available pursuant to P. L. 111-22, for a total of $65 million. Carry-forward funds in the amount of $20.1 million, provided by P.L. 110-343, and $5 million provided by P.L. 111-22, and the enacted FY 2010 budget of $23.3 million in direct appropriations, provided by P.L. 111-117, will be used to fund the FY 2010 budget of $48.4 million. These amounts do not reflect an additional $10.2 available in carry-forward from P.L. 110-343. The carry-forward from P.L. 111-22 will be used to partially fund the FY 2011 and FY 2012 budget in the amount of $5 million each year.

2B – Appropriation Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM Federal funds **SALARIES AND EXPENSES** For necessary expenses of the Office of the Special Inspector General in carrying out the provisions of the Emergency Economic Stabilization Act of 2008 (Public Law 110-343), as amended, [$23,300,000]$49,600,000. (*Consolidated Appropriations Act, 2010)*	

2C – Legislative Proposals

SIGTARP does not have any legislative proposals for FY 2011.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 resources by strategic goal, objective and outcome outlined in the FY 2007-2011 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 2007-2011 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	FY2010 Enacted	FY2011 Request	Percent Changes
Effectively managing the U.S. Government's resources:			
New appropriation[6]	23,300	49,600	112.9%
Available no-year	20,100		
Available PPIP	5,000	5,000	
Total	48,400	54,600	13%

3A – Audit *($21,000,000 from direct appropriations)*:[7] AD conducts, supervises, and coordinates programmatic audits with respect to Treasury's operation of TARP and the recipients' compliance with their obligations under relevant law and contracts; evaluates TARP policies and procedures; and provides technical assistance to Treasury. With respect to auditing, the division is designed to provide SIGTARP with maximum flexibility in the size, timing, and scope of audits so that, without sacrificing the rigor of the methodology, audit results, whenever possible, can be generated rapidly both for general transparency's sake and so that the resulting data can be used to improve the operations of the fast-evolving TARP. For FY 2011, AD expects to initiate an average of five to seven audits per quarter.

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[6] The FY 2009 enacted level includes $50 million of no-year funds provided by Public Law (P.L.) 110—343, the Emergency Economic Stabilization Act of 2009 as amended, (EESA) and an additional $15 million of no-year funds made available pursuant to P. L. 111-22, for a total of $65 million. The remaining carry-forward in addition to the enacted FY 2010 budget of $23.3 million in direct appropriations, provided by P.L. 111-117, will be used to fund the FY 2010 budget of $48.4 million. Additionally, the carry-forward from P.L. 111-22 will be used to partially fund the FY 2011 and FY 2012 budget.

[7] In addition to the SIG and his central office staff (CO), SIGTARP is comprised of the AD, the ID, the Operations Division (OD), and the Division of Chief Counsel (DCC). The basic statutory mission of SIGTARP (i.e., audit and investigation) is largely carried out by AD and ID. The CO, OD, and DCC lend support AD and ID as they fulfill the mission.

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

3.2.1 – Audit Budget and Performance Plan

Audit Budget Activity					
	FY 2007	FY2008	FY2009	FY2010	FY2011
Resource Level	Obligated	Obligated	Obligated	Enacted	Request
Appropriated Resources	n/a	n/a	n/a	9,900	21,000
Available no-year			8,002	10,800	2,200
Total Resources	n/a	n/a	8,002	20,700	23,200
Budget Activity Total	n/a	n/a	8,002	20,700	23,200

Audit Budget Activity	FY 2007	FY2008	FY2009	FY2010	FY2011
Measure	Actual	Actual	Actual	Target	Target
Number of completed audit products (Ot)	n/a	n/a	3	12	16
Percent of recommendations implemented (%) (Oe)	n/a	n/a	100	70	70
Congressional requests for testimony completed (Ot)	n/a	n/a	9	4	4

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

Description of Performance: As discussed in section 1B, AD issued three audit reports and initiated 13 audits.

AD also prolifically reviewed TARP policies and procedures. SIGTARP's March 6th and April 21st reports to Congress (see http://www.sigtarp.gov/reports.shtml) detail the results of these reviews and re-print the recommendations. Among the policies that SIGTARP reviewed and commented upon are TARP agreements, the TALF, Public-Private Investment Program (PPIP), Capital Assistance Program, and Making Home Affordable programs. For example, with respect to:

- TARP Agreements: SIGTARP recommended that Treasury require program participants to use best efforts to account for their use of TARP funds and to report periodically to Treasury concerning such use. (See February report at page 97 from the above website link.) Treasury has not fully implemented this recommendation, for among other reasons, because financial assistance is "fungible." SIGTARP is testing Treasury's response with an audit that includes a survey of 364 financial institutions' use of TARP assistance. The audit is not yet complete, and the survey responses need to be fully analyzed, but one thing is clear: arguments to the effect that the inherent fungibility of money makes accounting for the use of

TARP funds impossible or impractical is unfounded. Many of the 364 financial institutions generally provided a reasonable level of detail regarding their use of TARP funds.

- Public Private Investment Program (PPIP): SIGTARP recommended, among other things, that Treasury impose conflict of interest rules on PPIP fund managers, require PPIP fund managers to screen and identify investors, and mandate that PPIP fund managers acknowledge that they owe a fiduciary duty to the taxpayer. SIGTARP also recommended that Treasury clarify SIGTARP's right of access to all PPIP books and records. Senate Amendment 1043 to Senate Bill No. 896, which passed the Senate by a unanimous vote and was later enacted in P.L. 111-22, essentially incorporated these recommendations.

3B – Investigation *($28,600,000 from direct appropriations):* ID supervises and conducts criminal and civil investigations into those persons and entities, whether inside or outside of government, who waste, steal, or abuse TARP funds. The division is comprised of experienced financial and corporate fraud investigators, including not only special agents, but also forensic analysts and, critically, attorney advisors. This structure provides SIGTARP with a broad array of expertise and perspectives in developing even the most sophisticated investigations. In the interests of maximizing criminal and civil enforcement, ID coordinates closely with other law enforcement agencies with the goal of forming law enforcement partnerships, including task force relationships, across the Federal government to leverage SIGTARP's expertise and unique position. For FY 2011, although it is difficult to forecast for a variety of reasons, SIGTARP anticipates opening 75 investigations.

ID also implements SIGTARP's Hotline, which accepts and processes telephone, e-mail, website, and in-person complaints. The Hotline is administered in a manner designed to ensure conformity with all applicable whistleblower protections.

3.2.2 – Investigation Budget and Performance Plan

Investigations Budget Activity Resource Level	FY 2007 Obligated	FY2008 Obligated	FY2009 Obligated	FY2010 Enacted	FY2011 Request
Appropriated Resources	n/a	n/a	n/a	13,400	28,600
Available no-year			11,624	14,300	2,800
Total Resources	n/a	n/a	11,624	27,700	31,400
Budget Activity Total	n/a	n/a	11,624	27,700	31,400

Investigations Budget Activity **Measure**	FY 2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Target	FY2011 Target
Percentage of investigations accepted by prosecutors (%) (Oe)	n/a	n/a	95	50	55
Percentage of "preliminary investigations" that are converted to "full" investigations (%) (Oe)	n/a	n/a	50	35	40
Percentage of all cases that are joint agency/task force investigations (%) (Oe)	n/a	n/a	60	30	35
Percentage of Hotline complaints referred for investigation or to OFS within 14 days of receipt (%) (E)	n/a	n/a	77	60	65

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

Description of Performance: ID has opened over 77 investigations and closed nine as of January 4, 2010. Specific case results are discussed in section 1B. Additionally, as of December 31, 2009, SIGTARP had processed well over 9,900 Hotline contacts.

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The SIGTARP's strategic management of human capital is consistent with its mission, vision and priorities and supports Treasury's strategic goal of managing the U.S. Government's finances as they relate to the TARP program effectively. SIGTARP projects that it will reach steady state (i.e., full staffing level, permanent office space, and most critical contracts in place) in the second quarter of FY 2010. Moreover, SIGTARP, pursuant to section 121(k) of EESA, as amended, is a temporary organization that is scheduled to cease operations on the date that the last troubled asset is disposed or the last guarantee contract expires, whichever is later. Accordingly, SIGTARP does not foresee that it will confront human capital challenges in FY 2011.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments							
Major IT investments/Funding Source	FY 2008 & Earlier Enacted 1/	FY2009 Enacted	% Change from FY08 to FY09	FY2010 Enacted	% Change from FY09 to FY10	FY2011 Request	% Change From FY10 to FY11
Audit/Investigations	n/a	1,680	n/a	1,726	2.7%	1,133	-34%
Subtotal Major IT Investments		1,680	n/a	1,726	2.7%	1,133	-34%
Non-Major IT Investments							
Continuing Operating Costs	s/a	354	n/a	359	1.5%	243	-32%
Subtotal Non-Major Investments		354	n/a	359	1.5%	243	-32%
Infrastructure Investments		1,590	n/a	318	-80.0%	318	0%
Enterprise Architecture	n/a	0	n/a	0	n/a	0	n/a
Total IT Investments	n/a	3,624	n/a	2,403	-33.7%	1,694	-30%

1/ The Agency was created in FY2009 and has no prior year activity.

4B – Information Technology (IT) Strategy

IT funding has been critical in enabling SIGTARP to fulfill its mission of transparency, coordinated oversight, and robust enforcement. Presently, SIGTARP is in the midst of building an infrastructure that is fully capable of supporting the mission and administrative requirements of a fully-operational government agency with the technology security requirements appropriate to an audit and investigative organization. The major IT investments are for acquisition, installation, integration and training for mission systems such as hotline information management, investigative management, audit management, and electronic storage and for administrative systems such as records management, document management, content management, asset management and training management which are not normally provided by shared services operations. A steady state of IT expenditures is expected to be achieved in FY 2011, and since SIGTARP is a temporary agency, only maintenance and routine enhancements and modifications are required on an ongoing basis thereafter.

The significant infrastructure investments reflected in FY 2009 and FY 2010 support the complete build-out of SIGTARP's facility, including infrastructure planning and installation of cabling to desktops, computer room, telephone room, data storage room, wireless antenna system, additional cooling and backup power and all of the connections required to connect to one or more external voice and data providers. After these initial start-up years, funds are budgeted for standard upgrades in capacity and functionality and for remote office operations.

Accordingly, SIGTARP's IT strategy is currently being finalized, and refreshment needs are not expected to arise until FY 2012. For FY 2011, SIGTARP anticipates only minor IT modifications and additions designed to improve security and streamline procedures.

Community Development Financial Institutions (CDFI) 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 2009		FY 2010	FY 2011		
	ARRA	Enacted	Enacted	Request	$ Change	% Change
Community Development Financial Institutions Program	$90,000	$59,750	$107,600	$140,000	$32,400	30.3%
Bank Enterprise Award Program	N/A	$22,000	$25,000	$0	($25,000)	(100.0%)
Native Initiatives	$8,000	$8,500	$12,000	$12,000	$0	-
Capital Magnet Fund	N/A	N/A	$80,000	$0	($80,000)	(100.0%)
Administration	$1,933	$10,550	$13,797	$23,000	$5,000	27.8%
New Markets Tax Credit Program Administration*	$67	$4,200	$4,203	Inc.	Inc.	Inc.
Financial Education and Counseling	N/A	$2,000	$1,000	$0	($1,000)	(100.0%)
Hawaii Financial Ed and Counseling	N/A	N/A	$3,150	$0	($3,150)	(100.0%)
Bank on USA	N/A	N/A	N/A	$50,000	$50,000	100.0%
Healthy Food Financing Initiative	N/A	N/A	N/A	$25,000	$25,000	100.0%
Total Appropriated Resources	**$100,000**	**$107,000**	**$246,750**	**$250,000**	**$3,250**	**1.3%**
Total FTE	**-**	**60**	**84**	**90**	**6**	**7.1%**

**NMTC Program Administration is included in the Administration budget activity for the FY 2011 Budget request*

FY 2011 Priorities

- To administer all programs and initiatives effectively, efficiently, and in a timely manner, and to improve all management processes through continuous assessment of the CDFI Fund's policies and procedures.
- To enhance the CDFI Fund's compliance monitoring capabilities to handle the increase in the number and types of awards resulting from new programs and funding.
- To implement an external program evaluation of the CDFI Program and Native American CDFI Assistance (NACA) Program.
- To take steps to enhance the CDFI Fund's information technology applications, including contracting with a shared service provider for a more cost effective approach to managing the increased application workload, compliance monitoring, and research reporting.
- To launch the Bank on USA initiative that will promote access to affordable and appropriate financial services and basic consumer credit products for households without access to such products and services.
- To support the Healthy Food Financing Initiative for the purpose of increasing the availability of affordable, healthy foods in underserved urban and rural communities, particularly through the development or equipping of grocery stores and other healthy food retailers.
- To find adequate office space and take the necessary steps to move the operations of the CDFI Fund in a rapid seamless and cost-effective manner.
- To evaluate the impact of Capital Magnet Fund (CMF) grants so that future resource decisions can be informed by this analysis.
- To evaluate the enhancements made to the BEA Program in FY 2009 and FY 2010 and apply this analysis to future funding and programmatic decisions.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The mission of the Community Development Financial Institutions (CDFI) 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 CDFI Fund has established the following priorities to meet this mission:

Priority 1: Administer all programs and initiatives effectively, efficiently, and in a timely manner. To improve all management processes through continuous assessment of the CDFI Fund's policies and procedures.

Priority 2: Enhance compliance monitoring capabilities. To enhance the CDFI Fund's compliance monitoring capabilities to handle the increase in the number and types of awards resulting from new programs and funding.

Priority 3: Conduct research, evaluation, and performance reporting. To implement an external program evaluation of the CDFI Program and NACA Program to assess the long-term impact of increased access to financial services for economically distressed communities and underserved populations. Additionally, the CDFI Fund plans to evaluate CMF and the BEA Program to inform future resource decisions.

Priority 4: Initiate a significant information technology applications upgrade. To take steps to enhance the CDFI Fund's information technology applications, including contracting with a shared service provider for a more cost effective approach to managing the increased application workload, compliance monitoring, and research reporting.

Priority 5: Launch the Bank on USA Initiative. To promote access to affordable and appropriate financial services and basic consumer credit products for households without access to such products and services. These households face a number of problems, including high fees for alternative financial services such as check-cashing; barriers to saving and building credit; and increased exposure to risks such as fraud and theft.

Priority 6: Implement the Healthy Food Financing Initiative. To increase the availability of affordable, healthy foods in underserved urban and rural communities, particularly through the development or equipping of grocery stores and other healthy food retailers.

Priority 7: Relocate to a new headquarters.
To find adequate office space and take the necessary steps to move the operations of the CDFI Fund in a rapid, seamless and cost-effective manner.

1B – Program History and Future Outlook
For FY 2011, the CDFI Fund proposes to administer three core award programs and two new initiatives in support of its mission: the CDFI Program; the NACA Program; the NMTC Program; the Healthy Food Financing Initiative (a component of the CDFI Program); and the Bank on USA Initiative. In addition to administering these award programs and initiatives, the CDFI Fund will continue to certify organizations as CDFIs and CDEs, contract with third-party entities to provide training and technical assistance to CDFIs, and conduct strategic research and program evaluations.

For the FY 2010 rounds of the CDFI and NACA programs (whose application deadlines have passed as of the date of this submittal), the CDFI Fund:

- Received 408 CDFI Program applications requesting $467.4 million in assistance, a 97 percent increase from the $237.7 million requested through the original, pre-Recovery Act application solicitation of the FY 2009 round.
- Received 61 NACA Program applications requesting $23.7 million in assistance, a 30 percent increase from the $18.3 million requested through the original, pre-Recovery Act application solicitation of the FY 2009 round.

In the 2009 round of the NMTC Program, the CDFI Fund:

- Received 249 applications requesting a total of $22.5 billion in investment authority.

<u>CDFI Industry</u>

CDFIs play a unique role in their local markets that is distinct from traditional banks and the continued survival of CDFIs through the current downturn would provide essential financial services to these communities. As of July 2009, there were 784 certified CDFIs, representing $26.7 billion in assets. Of these institutions, there are 64 banks ($17.3 billion in total assets) and 137 credit unions ($4.5 billion in assets), as well as 583 loan funds and venture capital funds ($4.9 billion in assets).

CDFIs fill a gap in the market through their focus on low-to-moderate income (LMI) communities and are required through their certification by the CDFI Fund to allocate 60 percent of their efforts in LMI communities. CDFIs serve communities that traditional banks often find unattractive, and many CDFIs provide non-conforming financial services and products at below-market pricing. In addition, some CDFIs use "mission-driven" deposit funding made by foundations and other socially motivated investors in CDFIs to finance their lending. Moreover, CDFIs maintain a significant focus on small business lending, and in the current economic environment, CDFIs are registering greater demand for loans as traditional lenders have curtailed lending activities in many LMI communities. Indeed, 61 percent of respondents to the CDFI Market Conditions Survey in the third quarter of 2009 reported an increase in applications over the previous year. By and large, CDFIs have survived the economic downturn, but they have been severely buffeted by rising unemployment in LMI communities which is well above national averages, resulting in deteriorating CDFI loan portfolio performance. Nonetheless, in the third quarter 2009, non-performing loans averaged 5.4 percent as a percentage of total loans for all reporting CDFIs in the CDFI Market Conditions Survey versus 3.7 percent for traditional peer banks. It is in this context that communities served by CDFIs recognize that they may not see new entrants if existing CDFIs fail.

Future Challenges

Changing Economic Environment:

In recent years, the community development finance industry has been significantly challenged by the current economic crisis; the need to provide financial services to people who do not currently have or have never had a formal relationship with the mainstream financial services industry (the “unbanked”); the hurricane devastation in the Gulf Coast; and the disinvestment of low-income communities as a result of rising foreclosure rates. Also, the challenges in the debt and equities markets have led to a significant contraction of capital support for many CDFIs. This contraction in capital support is coming at a time when many CDFIs are seeing an increased demand for their products as many of the traditional mainstream lenders are reducing their lending activities.

The role of CDFIs have been given an important boost by the arrival of the new Administration, which views the CDFI industry as a key part of its strategy to address the economic challenges within distressed communities. The first major step was the passage of the American Recovery and Reinvestment Act (ARRA) that provided the CDFI Fund extra funding—$100 million beyond its annual appropriation for fiscal year 2009—to enhance the lending capacity of CDFIs. The new legislation also contained an additional $3 billion of New Markets Tax Credit allocation authority that is being evenly divided between the 2008 and 2009 rounds of the program.

The CDFI Fund implemented the Recovery Act funding with remarkable success. Just four and a half months after the enactment of the Recovery Act, the CDFI Fund announced financial assistance awards to 59 CDFIs and to 10 Native CDFIs. In just 60 days following the award announcement, the CDFI Fund had disbursed 100 percent of the funds awarded to CDFIs through the Recovery Act. In addition, the CDFI Fund also re-opened the New Markets Tax Credit Program application round to award an additional $1.5 billion of Recovery Act allocation authority within 100 days of enactment, and closed all of the award agreements within 30 days of the award announcement.

These ARRA awards and the 2010 and 2011 Budget requests are a part of the Administration’s efforts to invest directly in communities and support community institutions across the country that address a wide variety of economic development issues. These investments are generating capital for first-time homebuyer loans, providing investments in small businesses and microenterprises, and supporting the development of affordable housing and community facilities across the country. Additionally, many of the CDFIs that have received support are engaged in innovative lending to support foreclosure prevention efforts, encouraging entrepreneurs to launch small businesses, expanding bilingual credit unions, and offering alternatives to payday and predatory lenders.

Finally, award disbursements represent only one way that the CDFI Fund has been helping to address the economic crisis. Last fall, as the crisis deepened, the CDFI Fund formed a new Advisory Board Subcommittee to determine the impact of the crisis on the institutions that the CDFI Fund supports and to offer policy recommendations to increase our support. Many recommendations have already been implemented, including the launching a new Capacity-Building Initiative for CDFIs.

Staffing:

The CDFI Fund will implement and manage new and expanding award programs and initiatives in FY 2011. In order to accomplish successful implementation and management of these Administration priorities, the CDFI Fund has requested funding in FY 2011 to support additional staff and office space. To support the Healthy Food Financing Initiative, new subject matter experts with extensive knowledge in the financing of grocery stores and other healthy food retailers in underserved communities will be required. In addition, to support the Bank on USA initiative new subject matter experts with significant experience developing consumer credit products for households and consumer awareness will be required.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

(Dollars in Thousands)

Community Development Financial Institutions Fund	FTE	Amount
FY 2010 Enacted	84	246,750
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$289
FERS % Change	-	22
Non-Pay Inflation Adjustment	-	85
Pay Annualization	-	54
Pay Inflation Adjustment	-	128
Efficiencies Savings:	-	($151)
Procurement Savings	-	(151)
Subtotal FY 2011 Changes to Base	-	$138
Total FY 2011 Base	84	246,888
Program Changes:		
Program Decreases:	-	($109,150)
Bank Enterprise Award Program	-	(25,000)
Capital Magnet Fund	-	(80,000)
Financial Education and Counseling	-	(1,000)
Hawaii Financial Ed and Counseling	-	(3,150)
Program Increases:	6	$112,262
Bank on USA	-	50,000
Healthy Food Financing Initiative	-	25,000
CDFI Program	-	32,400
Administration	6	4,862
New Markets Tax Credit Program	-	Inc.
Subtotal FY 2011 Program Changes	6	$3,112
Total FY 2011 Budget Request	**90**	**250,000**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$289,000 / +0 FTE

Non-Pay Inflation Adjustment +$85,000 / +0 FTE

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

Pay Annualization +$54,000 / +0 FTE

Funds are requested for the FY 2011 cost of the January 2010 pay raise.

Pay Inflation Adjustment +$128,000 / +0 FTE

Funds are requested for the January 2011 pay raise.

FERS Percent Change +$22,000 / +0 FTE

Funds are requested for the increase in agency retirement contribution percentages for GS employees from 11.2 percent to 11.5 percent for FY 2011 as required by OPM.

Efficiencies Savings ....-$151,000 / +0 FTE

Procurement Savings -$151,000 / 0 FTE

Reducing non-competitive actions and implementing the use of social-economic programs such as 8(a) and small business set-asides can achieve procurement savings. Other methods to achieve savings will be proper acquisition planning, strategic sourcing (use of agency and government-wide contract vehicles) in order to obtain better pricing for commonly acquired goods and services.

Program Increases …………………………….……………$112,262,000 / +6 FTE
CDFI Program +$32,400,000 / +0 FTE
The FY 2011 Budget seeks to increase funding to support the greater demand for CDFI Program resources. In FY 2010, the CDFI Fund received 408 applications requesting $467.4 million in assistance, a 97 percent increase from the $237.7 million requested through the original, pre-Recovery Act application solicitation of the FY 2009 round. In FY 2009, the CDFI Fund awarded $143 million through its financial assistance program to 121 certified CDFIs. An analysis of the CDFI Fund's application pool found that there were still 216 highly qualified and unfunded applicants for financial assistance grants that requested $328,510,806. CDFIs use these awards to increase their overall capacity, and their ability to offer loans, investments and other financial services in underserved communities. Awards are used by CDFIs to, among other things, increase their net assets, create loan loss reserves, and offer subordinated debt products. As a result, CDFIs are able to significantly leverage CDFI Program awards. This translates into significantly more lending in support of small businesses and microenterprises, first time homeowners, and the development and rehabilitation of low-income housing and community facilities, such as charter schools and day care centers.

Through the CDFI Program, the CDFI Fund will continue the Capacity-Building Initiative launched in FY 2009 that will make new, specialized technical assistance and training available to CDFIs nationwide, enabling them to expand their lending activities and to spur economic growth in the communities they serve. Training will cover key issues currently affecting CDFIs and the communities they serve, including affordable housing and business lending, portfolio management, risk assessment, foreclosure prevention, financing of healthy food options, training in CDFI business processes, and assistance with liquidity and capitalization challenges. The Capacity-Building Initiative will also offer direct on-site technical assistance and individualized capacity-building plans in addition to focusing on extending CDFI coverage to underserved communities – including a specialized focus in rural areas.

Healthy Food Financing Initiative +$25,000,000 / +0 FTE
The 2011 Budget provides funding for a new multi-year Healthy Food Financing Initiative (HFFI) that will increase the availability of affordable, healthy foods in underserved urban and rural communities, particularly through the development or equipping of grocery stores and other healthy food retailers. To support this initiative, the Departments of Agriculture, Health and Human Services, and Treasury have partnered to make available over $400 million in financial and technical assistance to community development financial institutions, other nonprofits, public agencies, and businesses with sound strategies for addressing the healthy food needs of communities. These organizations will use federal grants, below-market rate loans, loan guarantees and tax credits to attract private sector capital for an even greater investment in projects that increase access to fresh produce and other healthy foods. The goal is to substantially reduce the number of food deserts in our nation over the next several years.

Food deserts are communities in which residents do not have access to affordable and healthy food options. Instead of supermarkets and grocery stores, these communities are typically served by fast food restaurants and convenience stores that offer little if any healthy options. This lack of access contributes to a poor diet and can lead to higher levels of obesity and other diet-related diseases, such as diabetes and heart disease. Most often, these communities are economically distressed and less attractive, under conventional financing, to retailers of healthy food. But effective local programs have shown that well-targeted financing and technical assistance can create viable business outcomes and access to healthier food options. Targeting federal financial assistance to these areas will not only increase the supply of healthy foods and create new markets for farmers, but also create jobs and support broader development efforts to revitalize distressed communities.

CDFIs are specialized financing institutions that have developed innovative and successful models to respond to a variety of needs in underserved communities, including demand for healthier food options. Grants and technical assistance to CDFIs will spur private sector investment, which will increase affordable financing for grocery store development; supplies and equipment to improve food production technology; improvements and modernization of food distribution mechanisms and infrastructure; and the development of outreach and training programs to bring healthy food options to even more communities.

Bank on USA Initiative +$50,000,000 / +0 FTE

The Bank on USA Initiative will promote access to affordable and appropriate financial services and basic consumer credit products for households without access to such products and services. These households face a number of problems, including high fees for alternative financial services such as check-cashing; barriers to saving and building credit; and increased exposure to risks such as fraud and theft. Additionally, many of these households lack access to reasonably-priced short-term consumer credit to meet emergency or regular needs, and often turn to payday loans, refund anticipation loans, pawn shops and other generally high-priced alternatives.

The Bank on USA Initiative would have several distinct components, including:

1. A grant program to seed local initiatives to bank the unbanked and provide appropriate financial products and services to unbanked and underbanked low- and moderate-income people;
2. Outreach and technical assistance, including the development of outreach and partnerships, education tools, and the maintenance of a web-based toolkit for practitioners, to states, localities and other entities engaged in efforts to achieve these goals;
3. Research and development on expanding access to bank accounts, including the development of model low-cost, simple banking products, as well as the development of model implementation and outreach strategies, which will include the integration of financial access and financial education;

4. Outreach to a broad array of financial institutions including national and community banks and credit unions, including but reaching well beyond CDFIs, to encourage adoption of model products and services;
5. An awareness campaign at the national and local levels aimed at the unbanked;
6. The facilitation of partnerships between local and national stakeholders, including partnerships between federal agencies, state and local governments, financial institutions, and non-profit organizations to improve coordination and effectiveness of efforts to bank the underbanked and unbanked.

Administration +$4,862,000 / +6 FTE
Resources will be realigned to cover additional administrative support costs for IT enhancements, analyze the outcomes and impact of the CDFI Fund's programs, and to stand up and administer two high-priority initiatives—the Bank on USA Initiative (+4 FTE) and the Healthy Food Financing Initiative (+2 FTE). The CDFI Fund will set aside funds to cover costs associated with the projected move from its current location, due to the lease expiration in early 2012, and to monitor a growing portfolio of awards.

Additionally, resources will be utilized to administer and oversee a rapidly growing number of NMTC allocations and CDEs, in addition to assessing how changing economic conditions have affected the investment environment for NMTCs.

Program Decreases………………………………………………-$109,150,000/ -0 FTE
Capital Magnet Fund -$80,000,000 / -0 FTE
The CDFI Fund is proposing not to fund the CMF in FY 2011. Treasury will undertake a careful review of the impact of FY 2010 funding, and future resource decisions will be informed by this analysis.

Bank Enterprise Award Program -$25,000,000 / -0 FTE
The CDFI Fund is proposing not to fund the BEA Program in FY 2011. Instead, the Fund will evaluate the enhancements made to the program in FY 2009 and FY 2010 and apply this analysis to future funding and programmatic decisions.

Financial Education and Counseling - $1,000,000 / -0 FTE
The CDFI Fund is proposing not to fund the Financial Education and Counseling Pilot Program in FY 2011. The Bank on USA initiative will employ an educational campaign to improve the financial awareness of the underbanked and unbanked.

Hawaii Financial Education and Counseling - $3,150,000 / -0 FTE
The CDFI Fund is proposing not to fund the Hawaii Financial Education and Counseling Program is FY 2011. The Bank on USA initiative will employ an educational campaign to improve the financial awareness of the underbanked and unbanked.

2.2 – Operating Levels Table

(Dollars in Thousands)

Community Development Financial Institutions Fund	FY 2009 ARRA	FY 2009 Enacted	FY 2010 President's Budget	Congressional Action Including Rescission	FY 2010 Enacted Level	Proposed Reprogrammings	FY 2010 Proposed Operating Level	FY 2011 Requested Level
FTE	**0**	**75**	**84**	**0**	**0**	**0**	**0**	**90**
Object Classification:								
11.1 - Full-time permanent	1,324	6,230	8,223		8,223	0	8,223	8,424
12 - Personnel benefits	326	1,619	2,060		2,060	0	2,060	2,060
21 - Travel and transportation of persons	0	114	119		119	0	119	119
22 - Transportation of things	0	20	20		20	0	20	20
23.1 - Rental payments to GSA	0	1,447	1,553		1,553	0	1,553	1,553
23.2 - Rental payments to others	0	189	190		190	0	190	190
23.3 - Comm, utilities, and misc charges	0	332	368	0	368	0	368	368
24 - Printing and reproduction	0	20	20	0	20	0	20	20
25.1 - Advisory and assistance services	350	2,522	1,023		1,023	0	1,023	4,323
25.2 - Other services	0	630	1,035		1,035	0	1,035	3,334
25.3 - Other purchases of goods and services from Govt. accounts	0	911	867		867	0	867	867
25.5 - Research and development contracts	0	0	1,500	0	1,500	0	1,500	1,500
26 – Supplies and materials	0	111	111		111	0	111	111
31 – Equipment	0	75	111	0	111	0	111	111
33 - Investments and loans	0	530	800	0	800	0	800	0
41 - Grants, subsidies, and contributions	98,000	92,250	225600	3,150	228,750	0	228,750	227,000
Total Budget Authority	**100,000**	**$107,000**	**$243,600**	**$3,150**	**$246,750**	**$0**	**$246,750**	**$250,000**
Budget Activities:								
Community Development Financial Institutions Program	90,000	59,750	113,600	-6,000	107,600	0	107,600	140,000
Bank Enterprise Award Program	0	22,000	22,000	3,000	25,000	0	25,000	0
Native Initiatives	8,000	8,500	10,000	2,000	12,000	0	12,000	12,000
Capital Magnet Fund			81,300	-1,300	80,000		80,000	
Administration	1,933	10,550	12,497	1,300	13,797	0	13,797	23,000
New Markets Tax Credit Program	67	4,200	4,203	0	4,203	0	4,203	Inc.
Financial Education and Counseling	0	2,000	0	1,000	1,000	0	1,000	0
Hawaii Financial Ed and Counseling				3,150	3,150		3,150	
Bank on USA Initiative	0	0	0	0	0	0	0	50,000
Healthy Food Financing Initiative	0	0	0	0	0	0	0	25,000
Total Budget Authority	**$100,000**	**$107,000**	**$243,600**	**$3,150**	**$246,750**	**$0**	**$246,750**	**$250,000**

2.3 – Appropriations Detail

(Dollars in Thousands)

Resources Available for Obligation	FY 2009 Enacted		FY 2009 ARRA Enacted		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
New Appropriated Resources:										
Community Development Financial Institutions Program		$59,750		$90,000		$107,600		$140,000		30.01%
Bank Enterprise Award		$22,000				$25,000		$0		-100.00%
Native Initiatives		$8,500		$8,000		$12,000		$12,000		0.00%
Capital Magnet Fund						$80,000		$0		-100.00%
Administration	60	$10,550		$1,933	69	$13,797	90	$23,000		27.78%
New Markets Tax Credit Program	15	$4,200		$67	15	$4,203		Inc.		0.00%
Financial Education/Counseling		$2,000				$1,000		$0		-100.00%
Hawaii Financial Ed and Counseling						$3,150		$0		-100.00%
Healthy Food Financing Initiative								$25,000		100.00%
Bank on USA								$50,000		100.00%
Subtotal New Appropriated Resources	**60**	**$107,000**		**$100,000**	**84**	**$246,750**	**90**	**$250,000**	**7.14%**	**1.32%**
Other Resources:										
Recoveries		500		0		500		0		N/A
Unobligated Balance		986		0		500		0		N/A
Offsetting Collections		500		0		500		899		N/A
Available multi-year/no-year funds		402		0		402		0		N/A
Subtotal Other Resources	**0**	**$2,388**			**0**	**$1,902**	**0**	**$899**		
Total Resources Available for Obligation	**60**	**$109,388**		**$100,000**	**84**	**$248,652**	**90**	**$250,899**	**7.14%**	**0.90%**

2B – Appropriations Language and Explanation of Changes

DEPARTMENT OF THE TREASURY COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND To carry out the Community Development Banking and Financial Institutions Act of 1994 (Public Law 103-325), including services authorized by 5 U.S.C. 3109, but at rates for individuals not to exceed the per diem rate equivalent to the rate for ES-3, [notwithstanding sections 4707(d) and 4707(e) of title 12, United States Code, $166,750,000] $250,000,000, to remain available until September 30, [2011] 2012; of which $12,000,000 shall be for financial assistance, technical assistance, training and outreach programs, under sections 105 through 109 of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4704-4708), designed to benefit Native [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; of which [$1,000,000 shall be available for the pilot project grant program under section 1132(d) of division A of the Housing and Economic Recovery Act of 2008 (Public Law 110-289); of which $3,150,000 shall be for an additional pilot project grant to an eligible organization located in the State of Hawaii for financial education and pre-home ownership counseling as authorized in section 1132(d) of division A of the Housing and Economic Recovery Act of 2008 (Public Law 110-289), and], notwithstanding section 4707(d), up to $25,000,000 shall be for a Healthy Food Financing Initiative to provide grants and loans to community development financial institutions for the purpose of offering affordable financing and technical assistance to expand the availability of healthy food options in distressed communities; of which [up to $18,000,000 may] $50,000,000 shall be for financial assistance, technical assistance, training and outreach programs to community development financial institutions, other financial service organizations, non-profit organizations, states, and local governments, and partnerships of such entities (or a financial service organization designated as a fiscal agent on behalf of such entity) for the purpose of seeding local initiatives to establish bank accounts for low and moderate-income persons who do not have bank accounts with financial institutions, and providing appropriate financial products and services to underbanked persons, and for the purpose of encouraging such persons to enter into formal banking	

relationships and access financial services and development services, and to evaluate the results of such efforts; of which up to $23,000,000 may be used for administrative expenses, including administration of the New Markets Tax Credit; of which up to $10,200,000 may be used for the cost of direct loans; and of which up to $250,000 may be used for administrative expenses to carry out the direct loan program: Provided, That the cost of direct loans, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: Provided further, That these funds are available to subsidize gross obligations for the principal amount of direct loans not to exceed $25,000,000. [For an additional amount to be transferred to the ``Capital Magnet Fund'', as authorized by section 1339 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 1301 et seq.), as amended by section 1131 of the Housing and Economic Recovery Act of 2008 (Public Law 110-289), to support financing for affordable housing and economic development projects, $80,000,000, to remain available until September 30, 2011: Provided, That, for fiscal year 2010, section 1339(h)(3) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by section 1131 of the Housing and Economic Recovery Act of 2008 (Public Law 110-289), shall be applied by substituting the term ``at least 10 times the grant amount or such other amount that the Secretary may require'' for ``at least 10 times the grant amount''.] (Department of the Treasury Appropriations Act, 2010.)	

Section 3 – Budget and Performance Plan

This table lists all FY 2011 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Department of the Treasury Strategic Plan, which is a corporate level plan for The Treasury 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 Department of the Treasury Strategic Plan, please go to: http://www.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

(Dollars in Thousands)

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Request	Percent Change
Economic competitiveness	246,750	250,000	**1.32%**
Total	**$246,750**	**$250,000**	**1.32%**

3A – Community Development Financial Institutions Program *($140,000,000 from direct appropriations):* Through the CDFI Program, the CDFI Fund provides Financial Assistance (FA) in the form of grants, loans, and equity investments to CDFIs, and Technical Assistance (TA) grants to CDFIs and entities that plan to become CDFIs.

- ***FA*** awards are in the form of grants, loans, and equity investments to CDFIs that have comprehensive business plans for creating community development impact and that demonstrate the ability to leverage private sector sources of capital.

- ***TA*** awards are for CDFIs and entities proposing to become CDFIs in order to build their capacity to advance community development and meet capital access needs in their target markets. TA awards can also be accessed by larger and more established CDFIs to support their continued development.

In February 2009, the CDFI Program received $90 million in funds through the American Recovery and Reinvestment Act (the Recovery Act). In order to disburse the funding as quickly and efficiently as possible into the national economy, the CDFI Fund used the Recovery Act funding for awards made through the initial funding round. Applicants that did not receive an award in the initial funding round were also considered for an award during the supplemental funding round (using FY 2009 appropriated dollars), as described above. The Recovery Act waived the matching funds requirement, as well as the $5 million limit on awards that an awardee can receive in a three-year period.

In the initial funding round (using Recovery Act dollars), the CDFI Program considered 125 applicants requesting a total of $229.7 million. Fifty-nine awards were made totaling $90 million, with individual awards ranging from $500,000 to $2 million. (Please see Table 1 for details.) Awards were announced on June 29, 2009, and funds were fully disbursed within 60 days.

In FY 2010, the CDFI Program received 408 applications requesting an estimated $467 million.

3.2.1 – Community Development Financial Institutions Program Budget and Performance Plan

(Dollars in Thousands)

Community Development Financial Institutions Program Budget Activity	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
Resource Level	Obligated	Obligated	ARRA	Obligated	Enacted	Request
Appropriated Resources	$31,881	$52,886	$90,000	$59,750	$107,600	$140,000
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$31,881**	**$52,886**	**$90,000**	**$59,750**	**$107,600**	**$140,000**
Budget Activity Total	**$31,881**	**$52,886**	**$90,000**	**$59,750**	**$107,600**	**$140,000**

Measure	FY 2007	FY 2008	FY 2009			FY 2010	FY 2011
	Actual	Actual	Target	Actual	ARRA	Target	Target
Administrative costs per Financial Assistance (FA) application processed (E)	7,180	7,200	6,920	3,283	N/A	DISC	DISC
Administrative cycle time from the date when applications are received to the date of award announcement in months (E)	N/A	N/A	N/A	N/A	N/A	8	8
Administrative time from date of award announcement to date of disbursement in months (E)	N/A	N/A	N/A	N/A	N/A	2	2
Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance ($ millions) (Oe)	778	621	635	1,298	N/A	600*	700*
Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI Program Awardees (Oe)	35,022	29,539	30,000	70,260	4,700#	85,000	85,000

Key: Oe – Outcome Measure, E – Efficiency Measure, Ot - Output/Workload Measure, DISC - discontinued. *Note that the matching funds requirement was waved by Congress for FY 2009 and FY 2010 due to the economic crisis. In addition, the performance data for FY2010 and 2011 will be based on the prior year activity (2009 and 2010 respectively) and the targets are set at half the level indicated by trends prior to the financial crisis. # Note that the FTE job target for ARRA funds per OMB guidance must exclude leveraged funds and must only report the proportional contribution of CDFIs lending on job creation. Reports of FTE job creation for other years represent the full effects of leveraged funds and project leverage for the CDFIs loan portfolio.

Description of Performance: In FY 2009, CDFIs reported leveraging from private investment in the prior year nearly $1.3 billion (based on reporting from program year 2008 results), which was more than double the target of $635 million; this success was largely due to increased program funding which was met by private sector commitments before the full onset of the financial crisis. As a result, CDFIs helped provide funds for projects that created or maintained 70,260 jobs, which exceeded the target of 30,000 jobs.

3B – New Markets Tax Credit Program *(included under Administration appropriations):* The NMTC Program spurs the investment of new private sector capital into low-income areas through CDEs, which in turn use the privately managed investment vehicles to make loans and equity investments in businesses and real estate projects in low-income communities.

By making an equity investment in a CDE, individual and corporate investors can receive a tax credit against their federal income taxes worth 39 percent of the value of the amount invested in the CDE over seven years.

In FY 2009, NMTC Program received 249 applications requesting a total of $22.5 billion in investment authority through the NMTC Program.

3.2.2 – New Markets Tax Credit Program Budget and Performance Plan

(Dollars in Thousands)

New Markets Tax Credit Program Budget Activity						
	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
Resource Level	Obligated	Obligated	ARRA	Obligated	Enacted	Request
Appropriated Resources	$4,258	$4,120	$67	$4,200	$4,203	Inc.
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$4,258**	**$4,120**	**$67**	**$4,200**	**$4,203**	**Inc.**
Budget Activity Total	**$4,258**	**$4,120**	**$67**	**$4,200**	**$4,203**	**$5,200**

Measure	FY 2007	FY 2008	FY 2009			FY 2010	FY 2011
	Actual	Actual	Target	Actual	ARRA	Target	Target
Administrative costs per number of New Markets Tax Credit (NMTC) applications processed ($) (E)	5,320	7,400	4,875	3,254	N/A	DISC	DISC
Administrative cycle time from the date when applications are received to the date of award announcement in months (E)	N/A	N/A	N/A	N/A	N/A	6	6
Administrative time from date of award announcement to date of disbursement in months (E)	N/A	N/A	N/A	N/A	N/A	2	2
Community Development Entities' (CDEs) annual investments in low-income communities ($ billions) (Oe)	2.5	3.3	2.5	3.6	N/A	2.5	2.5
Number of full-time equivalent jobs projected to be created or maintained in underserved communities.	N/A	N/A	N/A	N/A	N/A	B	60,000

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, B - baseline, and DISC - Discontinued

Description of Performance: In FY 2009, the NMTC Program competitively awarded $6.5 billion in NMTC allocation authority to CDEs, including both Recovery Act rounds, which provided tax credit allocation authority to Community Development Entities (CDEs) for targeted investments in low-income communities. As reported in FY 2009 (based on reporting from program year 2008 results), cumulative investments in low-income communities by CDEs rose to $12.5 billion (exceeding the performance target by $1.1 billion), and an annual increase of $3.6 billion over the prior year (exceeding the annual target by $1.1 billion).

3C – Bank Enterprise Award Program *($0 from direct appropriations):* The CDFI Fund is proposing not to fund the BEA Program in FY 2011.

3.2.3 – Bank Enterprise Award Program Budget and Performance Plan

(Dollars in Thousands)

Bank Enterprise Award Program Budget Activity						
	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
Resource Level	Obligated	Obligated	ARRA	Obligated	Enacted	Request
Appropriated Resources	$12,551	$19,981	$0	$22,000	$25,000	$0
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$12,551**	**$19,981**	**$0**	**$22,000**	**$25,000**	**$0**
Budget Activity Total	**$12,551**	**$19,981**	**$0**	**$22,000**	**$25,000**	**$0**

Measure	FY 2007	FY 2008	FY 2009			FY 2010	FY 2011
	Actual	Actual	Target	Actual	ARRA	Target	Target
Administrative costs per number of Bank Enterprise Award (BEA) Applications processed ($) (E)	1,950	3,070	1,455	2,366	N/A	DISC	N/A
Administrative cycle time from the date when applications are received to the date of award announcement in months (E)	N/A	N/A	N/A	N/A	N/A	6	N/A
Administrative time from date of award announcement to date of disbursement in months (E)	N/A	N/A	N/A	N/A	N/A	2	N/A
Commercial real estate properties financed by BEA Program applicants that provide access to essential community products and services in underserved communities (Oe)	301	287	285	500	N/A	DISC	N/A
Increase in community development activities over prior year for all BEA Program applicants ($ million) (Oe)	227	232	202	292	N/A	210	N/A

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

Description of Performance: The CDFI Fund received 58 applications requesting a total of $57 million in FY 2009, compared to 60 applications requesting approximately $47 million in FY 2008. The CDFI Fund selected 55 FDIC-insured institutions to receive approximately $22 million in awards. The FY 2009 applicants are headquartered in 25 states and the District of Columbia, compared to the 19 states represented in the prior year.

FY 2009 applicants provided $310.6 million in qualified loans or investments in distressed communities, $173.7 million in qualified loans, deposits and technical assistance to CDFIs, and $53.2 million in qualified financial services in distressed communities.

FY 2009 BEA awardees increased their qualified community development activities by $292.3 million over the prior year:

- $214.2 million increase in loans and investments in distressed communities;
- $74.6 million increase in loans, deposits, and TA to CDFIs; and
- $3.5 million increase in financial services and deposit in distressed communities.

BEA awards are made based on an increase in the applicant's community development financing activity from one year to the next. The increase in lending in distressed communities reported in the FY 2009 funding round is significantly higher than FY

2008's increase in similar activities. This is partly attributable to the increase in the percentage of CDFI bank awardees as compared to FY 2008. The FY 2009 funding round also saw an increase in financing provided to CDFIs over FY 2008 application levels.

In FY 2009, the CDFI Fund issued a revised interim rule for the BEA Program that required BEA Program awardees to use BEA award proceeds for certain qualified community development financing purposes (in addition to having demonstrated the increase in prior year community development activity).

3D – Native Initiatives *($12,000,000 from direct appropriations):* The Native Initiatives are intended to assist entities in overcoming barriers that prevent access to credit, capital and financial services in Native American, Alaskan Native, and Native Hawaiian communities. Native Initiatives' central program is the NACA Program, which increases the number and capacity of existing or new CDFIs serving Native Communities. In addition, the Native Initiatives provide training to help strengthen and develop Native CDFIs.

In February 2009, the CDFI Fund received $8 million in appropriations under the Recovery Act for the NACA Program. In order to disburse the funding as quickly and efficiently as possible into the national economy, Recovery Act funding was used for awards made through the initial funding round.

The Recovery Act waived the matching funds requirement as well as the $5 million limit an awardee can receive in a 3-year period. During FY 2009, the NACA Program considered 10 applicants requesting $8 million for Recovery Act funding. Awards were made to all the awardees for $8 million with awards capped at $730,000. Awards were made for FA as well as TA. Awards were announced on July 1 and fully disbursed within 60 days.

In FY 2010, the NACA Program received 61 applications requesting an estimated $23.7 million.

3.2.4 – Native Initiatives Budget and Performance Plan

(Dollars in Thousands)

Native Initiatives Budget Activity						
	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
Resource Level	Obligated	Obligated	ARRA	Obligated	Enacted	Request
Appropriated Resources	$5,816	$7,327	$8,000	$8,500	$12,000	$12,000
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$5,816**	**$7,327**	**$8,000**	**$8,500**	**$12,000**	**$12,000**
Budget Activity Total	**$5,816**	**$7,327**	**$8,000**	**$8,500**	**$12,000**	**$12,000**

Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Actual	FY 2009 ARRA	FY 2010 Target	FY 2011 Target
Administrative costs per number of Native American CDFI Assistance (NACA) applications processed ($)(E)	13,510	10,990	9,090	3,162	N/A	DISC	DISC
Administrative cycle time from the date when applications are received to the date of award announcement in months (E)	N/A	N/A	N/A	N/A	N/A	6	6
Administrative time from date of award announcement to date of disbursement in months (E)	N/A	N/A	N/A	N/A	N/A	2	2
Annual percentage increase in the total assets of Native CDFIs (%) (Oe)	19	19	15	23	N/A	15	19

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

Description of Performance: In FY 2009, the Native Initiatives, which provides financial assistance, technical assistance, and training to Native CDFIs and other Native entities seeking to become or create Native CDFIs, registered a 23 percent increase in the total assets of Native CDFIs in the program year.

3E – Capital Magnet Fund *($0 from direct appropriations):* The CMF, authorized by the Housing and Economic Recovery Act of 2008, is a program administered by the CDFI Fund for the purpose of increasing capital investment for the development, preservation, rehabilitation, or purchase of affordable housing for low-, very low-, and extremely low-income families, and related economic development activities. As initially conceived, the CMF was to be capitalized through proceeds from Fannie Mae and Freddie Mac, projected by the Congressional Budget Office to exceed $156.1 million in FY 2011. The CDFI Fund is proposing not to fund the CMF in FY 2011 but will monitor the FY 2010 award disbursements and evaluate the community development impact.

3.2.5 – Capital Magnet Fund Budget and Performance Plan

(Dollars in Thousands)

Capital Magnet Fund Budget Activity Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 ARRA	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$0	$0	$0	$0	$80,000	$0
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$0**	**$0**	**$80,000**	**$0**
Budget Activity Total	**$0**	**$0**	**$0**	**$0**	**$80,000**	**$0**

Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Actual	FY 2009 ARRA	FY 2010 Target	FY 2011 Target
Number of affordable housing units developed or produced (Oe)	N/A	N/A	N/A	N/A	N/A	Baseline	N/A
Number of jobs produced (e.g., construction jobs at the housing development) (Oe)	N/A	N/A	N/A	N/A	N/A	Baseline	N/A
Leverage ratio (outside dollars raised to CMF grant) (Oe)	N/A	N/A	N/A	N/A	N/A	Baseline	N/A
Deployment rate (time from receipt of grant to obligation of funds) (E)	N/A	N/A	N/A	N/A	N/A	Baseline	N/A

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

Description of Performance: The CDFI Fund will use its existing CDFI program metrics, with some customization, to measure performance of the Capital Magnet Fund. Awardees will be required to report annually for five years using the existing electronic reporting system at the CDFI Fund. Proposed metrics include:

- Number of affordable housing units developed or produced
    - Number/percentage of low-income renters/owners
    - Number/percentage of very low-income renters/owners
- Number of jobs produced (e.g., construction jobs at the housing development)
- Leverage ratio (outside dollars raised to CMF grant)
- Deployment rate (time from receipt of grant to obligation of funds)

3F – Administration *($23,000,000 from direct appropriations):* This budget activity encompasses the CDFI Fund's operational support and management activities for each of its award programs. This includes finalizing the terms of assistance agreements with awardees, making disbursements, and monitoring awardee compliance with the terms of assistance and allocation agreements.

The CDFI Fund will continue to enhance compliance monitoring of all awardees in each CDFI Fund program in FY 2011. The CDFI Fund has developed IT systems that allow awardees to report information to the CDFI Fund through on-line reporting tools, as well as IT systems that monitor the report submissions against the awardee's assistance agreement to flag any incidence of non-compliance. CDFI Fund staff also engage in compliance site visits to further review the activities and record-keeping of CDFIs and CDEs.

Through strategic research, the CDFI Fund will analyze the impact and outcome of its programs as well and determine how changing economic conditions have affected the operating environment and altered the supply and demand for capital and financial services in underserved and economically distressed communities.

In FY 2011, the CDFI Fund will continue its efforts to improve business processes and realize efficiency gains in program administration, completing the transition to the shared service provider model in its financial management and IT support functions begun in FY 2009.

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

The CDFI Fund's responsibilities are expanding as new award programs are entrusted to it for management and oversight—increasing the need for a reliable, efficient, and scalable awards management information system. The current IT systems applications are not flexible or scalable enough to fully support additional projects. The CDFI Fund will explore ways to improve IT systems, including contracting with a shared service provider that can support CDFI Fund's grants management current and future needs more efficiently.

The Administration budget activity also includes resources to implement an external program evaluation of the CDFI Program and NACA Program to assess the long-term impact of increased access to financial services for economically distressed communities and underserved populations. In addition, the CDFI Fund must find adequate office space and take the necessary steps to move the operations of the headquarters of the CDFI Fund in a rapid seamless and cost-effective manner. The estimated cost to relocate is approximately $2 million.

3.2.6 – Administration Budget and Performance Plan

(Dollars in Thousands)

Administration Budget Activity						
	FY 2007	**FY 2008**	**FY 2009**		**FY 2010**	**FY 2011**
Resource Level	**Obligated**	**Obligated**	**ARRA**	**Obligated**	**Enacted**	**Request**
Appropriated Resources	$9,410	$8,997	$1,933	$10,550	$13,797	$17,800
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$9,410**	**$8,997**	**$1,933**	**$10,550**	**$13,797**	**$17,800**
Budget Activity Total	**$9,410**	**$8,997**	**$1,933**	**$10,550**	**$13,797**	**$17,800**

Measure	**FY 2007**	**FY 2008**	**FY 2009**			**FY 2010**	**FY 2011**
	Actual	**Actual**	**Target**	**Actual**	**ARRA**	**Target**	**Target**
Please see programmatic budget activity performance tables for administrative cost and cycle time measures							

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

Description of Performance:

The CDFI Fund has made significant progress enhancing program administrative business processes, enabling quicker award disbursements. A new "administrative productivity measure" will be implemented beginning in FY 2010. This measure will replace the old "administrative efficiency" measure, which was intrinsically difficult to compute because it required allocating a share of organizational overhead to each program. The new program-level measure has two components:

- Cycle time from the date when applications are received to the date of award announcement; and
- Time from date of award announcement to date of disbursement.

These new administrative measures will be developed for each program administered by the CDFI Fund. These measures were first tested in deploying the CDFI Fund's Recovery Act programs. In FY 2009, the CDFI Fund, exactly two months after awards were announced for community development grants through the Recovery Act, completely disbursed all $98 million to 59 CDFIs and 10 Native CDFIs. In addition, The CDFI Fund entered into allocation agreements with CDEs for $1.5 billion in Recovery Act Tax Credit Authority within 60 days of providing them with a Notice of Award.

In fiscal year 2009, the following performance measures capture the administration efficiency of the CDFI Fund.

- CDFI Program administrative cost per financial assistance application processed was $3,283, less than half of the target of $6,920, largely due to improved cost accounting for the actual direct and imputed costs for processing applications and the higher volume of applications due to Recovery Act awards.
- Native American CDFI Assistance Program administrative cost per financial assistance application processed was $3,162, substantially below the target of $9,090, due largely to improved cost accounting for application processing and a higher volume of applications associated with Recovery Act awards.
- New Market Tax Credit Program administrative costs per application were $3,254, substantially below the target of $4,875. The improvement was largely due to improved cost accounting for application processing and a higher volume of applications as a result of Recovery Act awards.
- The Bank Enterprise Award Program administrative cost per application processed was $2,366, 61 percent higher than the target of $1,455, but significantly below the 2008 cost of $3,070. Higher costs were largely due to the procurement of additional services to assist in processing high volumes of applications.

3G – Healthy Food Financing Initiative *($25,000,000 from direct appropriations):* A component of the CDFI Program, HFFI will expand the financing of healthy food alternatives in low-income neighborhoods.

3.2.7 Healthy Food Financing Initiative Budget and Performance Plan

(Dollars in Thousands)

Healthy Food Financing Initiative Budget Activity						
Resource Level	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 ARRA**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Request**
Appropriated Resources	$0	$0	$0	$0	$0	$25,000
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$0**	**$0**	**$0**	**$25,000**
Budget Activity Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$25,000**

Measure	FY 2007	FY 2008	FY 2009			FY 2010	FY 2011
	Actual	Actual	Target	Actual	ARRA	Target	Target
Administrative cycle time from the date when applications are received to the date of award announcement in months (E)	N/A	N/A	N/A	N/A	N/A	N/A	6
Administrative time from date of award announcement to date of disbursement in months (E)	N/A	N/A	N/A	N/A	N/A	N/A	2
Additional performances measures are currently under development							

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

Description of Performance: Performance measures will be developed during FY 2010 and implemented in FY 2011.

3H – Bank on USA Initiative *($50,000,000 from direct appropriations):* To promote access to affordable and appropriate financial services and basic consumer credit products for households without access to such products and services. These households face a number of problems, including high fees for alternative financial services such as check-cashing; barriers to saving and building credit; and increased exposure to risks such as fraud and theft.

3.2.8 - Bank on USA Initiative Budget and Performance Plan

(Dollars in Thousands)

Bank on USA Initiative Budget Activity						
	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
Resource Level	Obligated	Obligated	ARRA	Obligated	Enacted	Request
Appropriated Resources	$0	$0	$0	$0	$0	$50,000
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$0**	**$0**	**$0**	**$50,000**
Budget Activity Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$50,000**

Measure	FY 2007	FY 2008	FY 2009			FY 2010	FY 2011
	Actual	Actual	Target	Actual	ARRA	Target	Target
Administrative cycle time from the date when applications are received to the date of award announcement in months (E)	N/A	N/A	N/A	N/A	N/A	N/A	6
Administrative time from date of award announcement to date of disbursement in months (E)	N/A	N/A	N/A	N/A	N/A	N/A	2
Additional performances measures are currently under development							

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

Description of Performance: Performance measures will be developed during FY 2010 and implemented in FY 2011.

3 I – Financial Education and Counseling *($0 from direct appropriations):* The CDFI Fund is not proposing to fund the Financial Education and Counseling Pilot Program in FY 2011. The Bank on USA initiative will employ an educational campaign to improve the financial awareness of the underbanked and unbanked.

3.2.9 – Financial Education and Counseling Budget and Performance Plan

(Dollars in Thousands)

Financial Education and Counseling Budget Activity						
Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 ARRA	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$0	$0	$0	$0	$1,000	$0
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$0**	**$0**	**$0**	**$10,000**
Budget Activity Total	**$0**	**$0**	**$0**	**$0**	**$1,000**	**$0**

Measure	FY 2007	FY 2008	FY 2009			FY 2010	FY 2011
	Actual	Actual	Target	Actual	ARRA	Target	Target
Administrative cycle time from the date when applications are received to the date of award announcement in months (E)	N/A	N/A	N/A	N/A	N/A	6	6
Administrative time from date of award announcement to date of disbursement in months (E)	N/A	N/A	N/A	N/A	N/A	2	2
Number of people receiving counseling (Oe)	N/A	N/A	N/A	N/A	N/A	B	N/A
Number of hours or training provided (Oe)	N/A	N/A	N/A	N/A	N/A	B	N/A

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

Description of Performance: The Financial Education and Counseling (FEC) Pilot Program has yet to issue any awards and the CDFI Fund is developing performance metrics based on number of clients provided critical financial literacy or for prospective homebuyers provided financial education and counseling services, and will develop outcome measures to track resulting impacts on the number who increased their credit score, and the number who were able to purchase a home at a good rate. The CDFI Fund staff will review data to be requested of awardees and set appropriate measures. The CDFI Fund will further develop these performance measures during FY 2010 and implement them in FY 2011.

3J – Hawaii Financial Education and Counseling *($0 from direct appropriations):* The CDFI Fund is not proposing to fund the Hawaii Financial Education and Counseling Program in FY 2011. The Bank on USA initiative will employ an educational campaign to improve the financial awareness of the underbanked and unbanked.

3.2.10 – Hawaii Financial Education and Counseling Budget and Performance Plan

(Dollars in Thousands)

Hawaii Financial Education and Counseling Budget Activity						
Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 ARRA	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$0	$0	$0	$0	$3,150	$0
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$0**	**$0**	**$3,150**	**$0**
Budget Activity Total	**$0**	**$0**	**$0**	**$0**	**$3,150**	**$0**

Measure	FY 2007	FY 2008	FY 2009			FY 2010	FY 2011
	Actual	Actual	Target	Actual	ARRA	Target	Target
Administrative cycle time from the date when applications are received to the date of award announcement in months (E)	N/A	N/A	N/A	N/A	N/A	6	6
Administrative time from date of award announcement to date of disbursement in months (E)	N/A	N/A	N/A	N/A	N/A	2	2
Number of people receiving counseling (Oe)	N/A	N/A	N/A	N/A	N/A	B	N/A
Number of hours or training provided (Oe)	N/A	N/A	N/A	N/A	N/A	B	N/A

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

Description of Performance: Performance measures will be consistent with the Financial Education and Counseling measures and will be implemented in FY 2011.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://treas.gov/offices/management/budget/

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The CDFI Fund's Human Capital and Operational strategy is to implement an operational structure and procedures to best further the mission and operations of the Fund through staff employment/retention, recognition, employee relations, and performance and development.

The CDFI Fund's Human Capital Strategic Plan has been developed to respond to three major strategic goals aligned with the CDFI Fund's mission: Organizational Effectiveness, Recruitment and Diversity, and Employee Retention and Satisfaction.

Organizational Effectiveness

During FY 2008 and FY 2009, the CDFI Fund underwent an evaluation of the efficiency and effectiveness of its operations through extensive internal assessments of every business unit within the CDFI Fund to determine what was working well, what areas needed improvement, and where the organization overall may be duplicating services and/or costs. During this process managers and line employees played an active role in working with various contractors and assessors to capture pertinent business processes.

Based on these assessments the CDFI Fund is on the path of streamlining its business processes so that the organization may focus on 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 Fund is accomplishing this through leveraging already established operational programs through Departmental Offices such as informational technology, financial management, human resources, and travel services.

In addition, the CDFI Fund realigned itself through reorganization during the last quarter of FY 2009 and the first quarter of FY 2010. The reorganization is intended to enhance mission accomplishment by allowing the CDFI Fund to focus fully on the core work – the awards programs, as well as eliminate duplication and reduce costs for essential (non-program) services. The reorganization will also result in increased efficiencies and greater accountability for managers.

During the second quarter of FY 2010, the CDFI Fund will be developing a three to five year strategic plan that coincides with the growing needs of the CDFI community. Through professional facilitation, employees at all levels will be fully involved in crafting ideas and approaches that will enhance the CDFI Fund's mission.

To also ensure mission success into the future, the CDFI Fund needs a diverse group of employees and leaders who are able to produce results and who are able to inspire, motivate and guide others to produce. During FY 2010 and the first quarter of FY 2011, the CDFI Fund will launch the *Fund Academy* which will be a key training and development and succession-planning tool designed to ensure that the CDFI Fund has the staff it needs to achieve mission success. The Fund Academy is intended to prepare staff to take on higher and broader roles and responsibilities in their area of technical responsibility; provide opportunities to obtain an understanding of customer and industry issues; enhance understanding, effectiveness and mobility across programs and business units; provide opportunities to participate and contribute while learning; and create a culture of current and future leaders who value people and understand and focus on achieving valuable results that matter to the community we serve.

Recruitment and Diversity

During FY 2009 the CDFI Fund aggressively staffed its vacant positions using its established formal recruitment strategies, policies and procedures intended to recruit the best candidates in the public and private sectors. The CDFI Fund continues to be dedicated to recruiting a diverse pool of employees to replicate the diverse constituents it serves. During FY 2010 and FY 2011, the CDFI Fund will continue the Director's initiative of reaching out to organizations such as the Hispanic National Internship Program, the Washington Internships for Native American Students (WINS), Historically Black Colleges and Universities, and to trade organizations that represent persons with disabilities. Given the current economic challenges in the CDFI community, the CDFI Fund will also target individuals from the community and economic development communities who share a common interest in the customers we serve. This will help bring professional depth and years of specialized experience to enhance the CDFI Fund's mission.

In addition, the CDFI Fund intends to continue to grow its Compliance Monitoring and Evaluation unit to emphasize increased monitoring of awardee and allocatee compliance with the terms of assistance agreements, including a adoption of a risk-based approach which will entail more site visits.

Employee Retention and Satisfaction

During FY 2009, the CDFI Fund began to survey its employees to identify opportunities for improvement. This initiative will continue with subsequent surveys throughout FY 2010 and FY 2011. The Director also fully intends to continue monthly "Brown Bag" lunches with line staff in order to stay connected to their needs and concerns. The lunches help employees with understanding the decisions that are made throughout the organization and provides them an opportunity to share their ideas with the Director. In order to promote a fully engaged workforce, senior management would like to ensure employee's ideas and recommendations are captured early through meetings, working groups, policy discussions and other productive methods.

Through the CDFI Fund Employee Recognition and Award Program, managers and line-staff will be able to continue to acknowledge employee contributions over and above what is expected with "Quality" performance. The Award Program is designed to promote continual improvement of the CDFI Fund's programs and operations through motivation and rewarding employees in keeping with its vision: an America in which all people have access to affordable credit, capital and financial services. Awards consist of Special Act Awards, On-the-Spot Awards, Time Off Awards, and non-monetary awards such as certificates and tours of historical landmarks in the Washington, D.C. area that also promote diversity.

4.1 – Summary of IT Resources Table

Information Technology Investments **Major IT Investments / Funding Source**	**Budget Activity**	**FY 2008** **Enacted**	**FY 2009** **Enacted**	% Change from FY08 to FY09	**FY 2010** **President's Budget**	% Change from FY09 to FY10	**FY 2011** **Requested**	% Change from FY10 to FY11
None		**$0**	**$0**		**$0**		**$0**	
Subtotal, Major IT Investments		**$0**	**$0**		**$0**		**$0**	
Community Investment Impact System (CIIS)	Community Development Financial Institutions and New Market Tax Credit Program	$414	$427	-3.1%	$450	-5.4%	$475	5.6%
Non-Major IT Investments		**$414**	**$427**	**3.1%**	**$450**	**5.4%**	**$475**	**5.6%**
CDFI Infrastructure (Office Automation)	Community Development Financial Institutions, New Market Tax Credit Program, Bank Enterprise Awards Program, and Native Initiatives Program	$1,966	$2,179	-10.8%	$2,584	-18.6%	$3,050	18.0%
CDFI Infrastructure (IT Security)	Community Development Financial Institutions,New Market Tax Credit Program, Bank Enterprise Awards Program, and Native Initiatives Program	$364	$0		$80		$100	25.0%
CDFI Infrastructure (Infrastructure)	Community Development Financial Institutions, New Market Tax Credit Program, Bank Enterprise Awards Program, and Native Initiatives Program	$335	$335		$355	-6.0%	$500	40.8%
Infrastructure Investments		**$2,665**	**$2,514**	**5.7%**	**$3,019**	**-20.1%**	**$3,650**	**20.9%**
None								
Enterprise Architecture								
Total IT Investments		**$3,079**	**$2,941**	**-4.5%**	**$3,469**	**18.0%**	**$4,125**	**18.9%**

4B – Information Technology Strategy

The CDFI Fund does not have any Major IT investments (using Department of the Treasury guidelines for defining Major IT investments) and, as such, is not required to submit an OMB 300. The CDFI Fund submits the Exhibit 53 for No Major IT investments. However, the CDFI Fund's Chief Operations Officer (COO) ensures all decision making is integrated into the organizations planning, operations and budgeting processes. The Lead IT Supervisor assists the COO to ensure the existing processes and structures supporting IT investments are tied to the organization's strategic plan, support the agency's mission and remain strictly within the approved budget.

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

4.2 – Program Assessment Table

Program Name: CDFI Fund—Finance and Technical Assistance

Assessment and Improvement Actions (Bureau Actions Planned of Underway)

- The Fund made disaggregated data available to the public in January 2005 and will continue to do so annually.
- A Contract to evaluate the CDFI Training and Certification Program was awarded in 2005 and completed in August 2007.
- The CDFI Fund intends to awards a competitive contract in FY 2011 for conducting an external evaluation of the long-term economic development impact of the Financial and Technical Assistance program.
- During fiscal year 2009, CDFI did not meet its goal of making Recovery Act awards within 120 days of the enactment of the Recovery Act. Awards were provided to awardees within 134 days of the law's enactment. However this marked an improvement of 121 days, or nearly 50 percent, over the fiscal year 2008 level.
- The CDFI Fund disbursed 100 percent of all Recovery Act awards within 60 days of the date of award notification, an improvement of 210 days (78 percent) over the fiscal year 2008 result of 270 days.
- During 2009, the CDFI Fund sought to make Recovery Act awards within 120 days of enactment of the Recovery Act. Although CDFI did not meet its target, the notice of award was provided to awardees within 133 days of enactment. This is an improvement of 167 days, nearly 50 percent faster than fiscal year 2008.
- During 2009, the CDFI Fund exceeded its goal to disburse 85 percent of all Recovery Act awards within 60 days of the date of award notification; 100 percent of awards were made in this time frame. This represents a 70 percent improvement from fiscal year 2008, going from 210 days to 60 days.

Program Name: New Markets Tax Credit (NMTC)

Assessment and Improvement Actions (Bureau Actions Planned of Underway)

- The Fund is not taking any action related to the duplication/redundancy finding because, in the Fund's opinion, the other available programs complement rather than duplicate the NMTC Program.
- NMTC Program allocates 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.
- The Fund conducted the analysis needed, set the baseline for the efficiency measure and began measuring progress in FY 2006.

- In FY 2005 the CDFI Fund awarded a contract for phase I of an independent evaluation of the New Markets Tax Credit Program which detailed the methodology for the large-scale, long –term evaluation. The work was conducted between July 2006 and July 2007.
- In October 2007 the CDFI Fund contracted to conduct a four-year program evaluation of the New Markets Tax Credit Program which is scheduled to be completed in September 2011.

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 2009	FY 2010	FY 2011		
	Enacted	Enacted	Request	$ Change	% Change
BSA Administration and Analysis	$82,287	$101,694	$91,151	($10,543)	(10.4%)
Regulatory Support Programs	$9,178	$9,316	$9,268	($48)	(0.5%)
Total Appropriated Resources	**$91,465**	**$111,010**	**$100,419**	**($10,591)**	**(9.5%)**
Total FTE	**330**	**331**	**327**	**(4)**	**(1.2%)**

FY 2011 Priorities

FinCEN's efforts clearly support the Treasury Secretary's priority to restore confidence in the financial system by harnessing all of its authorities to support domestic and global efforts in the fight against financial fraud. Specifically, FinCEN's activities to safeguard the financial system result in improved market integrity and heightened confidence in the financial system. FinCEN's mission components continually enhance the Secretary's priority in unique and complimentary ways. The regulatory component identifies financial industries and new payment methods vulnerable to money laundering, and develops corresponding policy and guidance to strengthen financial stability. The analytic component examines the Bank Secrecy Act (BSA) data filed by financial industries to identify vulnerabilities and financial fraud that undermine economic growth if left undetected. FinCEN has begun modernization of its BSA information technology system to ensure the effective management, accessibility, dissemination, and use of the highly sensitive confidential information collected under the BSA. This modernization will provide law enforcement and financial industry regulators better decision-making capabilities and increase the value of BSA information through increased data integrity and analytical tools. This effort will improve government-wide efforts to detect criminal activity, including tax and financial fraud.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Financial Crimes Enforcement Network (FinCEN), a Treasury Department bureau within the Office of Terrorism and Financial Intelligence, plays a key role in supporting the Department's strategic goal to prevent terrorism and promote the nation's security through strengthened international financial systems. FinCEN supports Treasury's national security goal by identifying attempts to utilize the financial system for illicit dealings and by ensuring safer and more transparent U.S. and international financial systems through the administration of the Bank Secrecy Act (BSA). The bureau also supports Treasury's other strategic goals by deterring noncompliance with tax laws promoting investigation of fraud and abuse/asset recovery, strengthening financial institutions and markets, and promoting compliance with laws and regulations.

The BSA requires financial institutions to file reports and maintain records on certain types of financial activity and to establish appropriate internal controls to guard against financial fraud, money laundering, terrorist financing, and other types of illicit finance. These reports and records have a high degree of usefulness in criminal, tax, and regulatory matters. Law enforcement agencies use BSA information, domestically and through exchanges with international counterparts, to identify, detect and deter financial fraud and money laundering. Acts of fraud and money-laundering are interconnected as the proceeds of these fraudulent activities are ultimately integrated into the financial system. Regulatory authorities use BSA information in promoting safety and soundness of financial institutions and markets in carrying out prudential supervision, including to ensure compliance with BSA requirements.

FinCEN also serves as the nation's Financial Intelligence Unit (FIU). An FIU serves as a national center to collect, analyze, disseminate, and exchange information pursuant to a country's anti-money laundering/counter-terrorist financing (AML/CFT) legislation and regulations. This includes information about suspicious or unusual financial activity reported by the financial sector. FinCEN has a unique authority to facilitate law enforcement investigations involving transnational criminal activity and financial flows, by exchanging lead information with FIU counterparts in over 100 countries around the world.

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

- 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, terrorism financing, and other illicit activity; and
- Efficient management, safeguarding, and use of BSA information.

The total resources required to support FinCEN for FY 2011 are $120,419,000 including $100,419,000 for direct appropriation and $20,000,000 from offsetting collections.

1B – Program History and Future Outlook

FinCEN fulfills its mission, goals and priorities by: administering the BSA; supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; enhancing financial anti-fraud efforts; enhancing international anti-money laundering and counter terrorist financing efforts and cooperation; and networking people, entities, ideas, and information. These activities to safeguard the financial system support the Secretary's priorities to restore confidence in the financial system by improving market integrity and promoting confidence in the financial system.

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

In FY 2009, FinCEN:

- Issued an advisory to assist financial institutions in identifying questionable loan modification schemes and reporting that information to law enforcement, in support of a major Administration effort to combat foreclosure rescue scams. The advisory provided "red flags" for financial institutions that may indicate a loan modification or foreclosure rescue scam;
- Released updated mortgage fraud analysis that demonstrates Suspicious Activity Reports (SARs) filed on suspected mortgage fraud increased 44 percent in the 12 months ending in June 2008 compared with the prior year. The continued rate of growth in mortgage fraud SAR filings underscores the increased vigilance and awareness of financial institutions;
- Issued a Notice of Proposed Rulemaking (NPRM) to re-designate and reorganize the BSA regulations in a new chapter within the Code of Federal Regulations. The re-designation and reorganization of the regulations in a new chapter is not intended to alter regulatory requirements. The regulations will be organized in a more consistent and intuitive structure that more easily allows financial institutions to identify their specific regulatory requirements under the BSA. The new chapter will replace 31 CFR Part 103;
- Published a final rule that simplifies the current requirements for depository institutions to exempt their eligible customers from currency transaction reporting. The final rule was developed in accordance with the Government Accountability Office's recommendations, FinCEN's independent research, and with consideration of valuable industry feedback received during the public comment process;
- Issued a BSA examination manual for money services businesses (MSBs), in collaboration with the Internal Revenue Service (IRS), state agencies responsible for MSB regulation, the Money Transmitter Regulators Association (MTRA), and the Conference of State Bank Supervisors (CSBS). The manual's risk-based approach empowers the examiner to decide what examination procedures are necessary to evaluate the MSB's AML program; and
- Proposed revised rules and guidance that would permit certain affiliates of depository institutions as well as broker-dealers in securities, mutual funds, futures

commission merchants, and introducing brokers in commodities, to share SARs within a corporate organizational structure for purposes consistent with Title II of the BSA. The revised rules will help financial institutions better facilitate compliance with the applicable BSA requirements and more effectively implement enterprise-wide risk management.

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

- Clarify the scope of the MSB definitions to the extent consistent with appropriately managing money laundering risks in this industry, and continue to review the appropriate regulatory treatment of stored value providers within the MSB framework, consistent with the requirements of the Credit Card Accountability, Responsibility, and Disclosure Act;
- Continue the outreach initiative to the financial services industry, which expanded from visits to the largest fifteen depository institutions in the U.S. to large MSBs, and will continue to expand to additional financial service industries;
- Implement a simplified, revised regulatory structure, proposed in FY 2009, to reorganize BSA regulations under Chapter 10 of the Code of Federal Regulations;
- Conduct analysis in support of efforts to combat mortgage loan fraud, building off prior analysis efforts to identify emerging trends, and continue to consider appropriate regulatory options; and
- Strengthen oversight of recently-covered industries under the BSA, by beginning to sign information sharing agreements with state insurance regulators and working cooperatively with the IRS and state regulators on consistent, risk-based examination procedures.

FinCEN's efforts in the analytical area focus on developing products and services to enhance law enforcement's detection and deterrence of domestic and international financial fraud, money laundering, terrorism financing, and other illicit activity. FinCEN intends to improve its expert analysis of BSA data to provide early warning of emerging trends of fraud and other criminal abuse. This includes information exchange with counterpart FIUs in 116 countries that are members of the Egmont Group.

In FY 2009, FinCEN:

- Continued to support efforts to combat mortgage fraud by publishing a report entitled *Mortgage Loan Fraud Connections with other Financial Crime* that examined a range of BSA reports to identify, evaluate and document interconnections between individuals involved in mortgage loan fraud and other financial crimes;
- As part of the larger U.S. Government efforts to bring relief to America's housing market and homeowners, FinCEN initiated an advanced targeting process to identify potential loan modification fraud perpetrators and to provide analytical support to investigations and prosecutions. FinCEN issued an advisory to financial institutions to help them identify and report questionable foreclosure rescue and mortgage modification schemes. Finally, FinCEN worked with Federal, state, and local agencies to combat the increase in mortgage foreclosure scams by networking agencies with common subjects to avoid overlapping investigations;
- Participated in a multi-agency task force headed by the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) to deter, detect, and investigate instances of fraud in the Term Asset-Backed Securities Loan Facility (TALF);
- Held several inter-agency information sharing events to discuss sensitive data with the private sector. These events combined analytical findings and related law enforcement presentations for financial industry personnel, and provided an opportunity for industry personnel to share information on vulnerabilities and suspicious activities identified through their operations. A recent event included information sharing on money laundering and other financial crimes in Mexico and on the Southwest Border with representatives from banks that provide financial services to Mexico and the Southwest border region;
- Produced a series of strategic international studies addressing complex money laundering schemes and examining money flows related to illicit activities;
- Composed and disseminated 1,027 tactical reports to the other Egmont FIUs. These intelligence products are integral to investigations of money laundering and terrorist financing around the world; and
- Continued outreach and liaison activities that enhance the quality and quantity of financial intelligence exchanged between FinCEN and foreign FIUs. These efforts included training and technical assistance programs that strengthen the global network of FIUs.

FinCEN's future plans in the <u>analytical area</u> will improve its ability to strengthen financial system security and enhance U.S. national security. To detect and deter financial fraud, money laundering, terrorism financing, and other illicit activity, FinCEN will:

- Implement a process to capture and gauge analytic product relevance to support law enforcement;
- Advance collaborative relationships with investigative and intelligence agencies to exploit SARs for proactive evaluation;

- Expand working agreements with the government agency customer community within the provisions of 31 USC 5311 and financial institution AML compliance personnel on issues of strategic importance to FinCEN's analytical objectives;
- Improve analytical products and responsiveness to foreign government counterparts to strengthen the effectiveness of international AML/CFT efforts; and
- Increase joint analytical projects with foreign FIU counterparts through intensified operational engagements with key strategic partner FIUs.

FinCEN's efforts related to the efficient management, safeguarding, and use of BSA information focus on maximizing utilization by improving the overall information infrastructure and enhancing information technology management capabilities. Improving data quality and access remains a priority for FinCEN.

In FY 2009, FinCEN:

- Retired magnetic media filing as a means to provide BSA information, enabling FinCEN to continue increasing the number of electronic filers. By the fourth quarter of FY 2009, 82 percent of all customers used E-Filing;
- Introduced additional field and business rule validations to batch data at E-Filing submission to improve data quality and provide faster error notification. This validation process currently applies to Currency Transaction Report (CTR) forms and the Designation of Exempt Person form. Filers receive e-mail that their submitted file has errors and may access a designated error page to view batch validation error details;
- Transitioned to Adobe LiveCycle from IBM WorkPlace forms during the third quarter of FY 2009. Moving to a widely used industry standard, Adobe LiveCycle brings E-filing in line with industry standards and offers improved forms usability for financial institutions;
- Implemented functionality to provide the BSA E-filing community with SAR acknowledgement files that contains the unique identifier for each submitted form or batch of forms. This feedback will alert filers about errors contained in filings with the goal of increasing BSA data quality; ;
- Implemented a collaboration and communities portal under the auspices of the Egmont Secure Web. This initiative leverages Web 2.0 Technologies and enables Egmont members to use secure communities for collaboration on sensitive special projects, as well as improve how each working group manages and shares documents and their contents; and
- Completed all of the program/enterprise-level documentation defined in FinCEN's System Development Life Cycle for the BSA Information Technology (IT) Modernization initiative. This documentation sets the foundation for the rest of the program and includes program management, business, and IT solution development documents, such as the Business System Requirements Report, the System Validation and Verification Plan, and the Transition Management Plan.

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

- Modernize BSA information management and analysis to equip law enforcement and financial industry regulators with better decision-making abilities and increase the value of BSA information through increased data integrity and analytical tools. This multi-year program will:
  - Deploy advanced analytical and BSA data storage technologies;
  - Implement innovative Web-services and E-Filing technologies;
  - Enrich and standardize BSA data to maximize value for state and federal partners;
  - Integrate BSA data with other state and federal sources;
  - Deploy proven customer relationship technologies to capture data usage and access patterns and solicit/provide feedback to partners;
  - Establish effective data security and audit technologies to maximize BSA data confidentiality and integrity; and
  - Retire the current system of record (WebCBRS).

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Financial Crimes Enforcement Network	FTE	Amount
FY 2010 Enacted	331	111,010
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$1,656
FERS % Change	-	104
Non-Pay Inflation Adjustment	-	804
Pay Annualization	-	192
Pay Inflation Adjustment	-	556
Non-Recurring Costs:	-	($8,250)
Non-Recur Funding	-	(8,250)
Efficiencies Savings:	(4)	($3,997)
Efficiency Savings	(4)	(2,083)
IT and Procurement Savings	-	(1,914)
Subtotal FY 2011 Changes to Base	(4)	($10,591)
Total FY 2011 Base	327	100,419
Total FY 2011 Budget Request	**327**	**100,419**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$1,656,000 / +0 FTE

FERS % Change +$104,000 / +0 FTE

Funds are requested for the increase in agency retirement contribution percentages for GS employees from 11.2% to 11.5% for FY 2011 as required by OPM.

Non-Pay Inflation Adjustment +$804,000 / +0 FTE

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

Pay Annualization +$192,000 / +0 FTE

Funds are requested for the FY 2011 cost of the January 2010 pay raise.

Pay Inflation Adjustment +$556,000 / +0 FTE

Funds are requested for the January 2011 pay raise.

Non-Recurring Costs ....-$8,250,000 / +0 FTE

Non-Recur Funding -$8,250,000 / +0 FTE

Non-recur funding received in FY 2010 for the Information Technology (IT) Modernization initiative. FinCEN will seek alternate funding from the Treasury Forfeiture Fund to fully implement the planned IT Modernization.

Efficiencies Savings ....-$3,997,000 / -4 FTE

Efficiency Savings -$2,083,000 / -4 FTE

Reductions were identified as a result of business process efficiencies from consolidation of IT Infrastructure; expansion of shared services for administrative functions; reduction of discretionary travel and training; employee attrition savings; and other related savings.

IT and Procurement Savings -$1,914,000 / +0 FTE
Savings were identified from a consolidation of commercial database contracts; spreading out investments for non-critical IT systems over a longer period; and reduction of other non-critical contractual services.

2.2 – Operating Levels Table

Financial Crimes Enforcement Network	FY 2009 Enacted	FY 2010 President's Budget	Congressional Action Including Rescission	FY 2010 Enacted Level	Proposed Reprogrammings	FY 2010 Proposed Operating Level	FY 2011 Requested Level
FTE	**330**	**331**	**0**	**331**	**0**	**331**	**327**
Object Classification:							
11.1 - Full-time permanent	33,092	34,453	0	36,108	0	36,108	37,130
11.3 - Other than full-time permanent	284	294	0	294	0	294	304
11.5 - Other personnel compensation	526	545	0	545	0	545	564
12 - Personnel benefits	9,030	9,075	0	9,420	0	9,420	9,597
21 - Travel and transportation of persons	1,216	1,153	0	1,153	0	1,153	844
23.1 - Rental payments to GSA	5,343	5,380	0	5,380	0	5,380	5,379
23.2 - Rental payments to others	70	71	0	71	0	71	71
23.3 - Comm, utilities, and misc charges	1,364	1,399	0	1,399	0	1,399	1,415
24 - Printing and reproduction	450	454	0	454	0	454	459
25.1 - Advisory and assistance services	1,815	1,830	0	1,829	0	1,829	1,849
25.2 - Other services	13,266	13,178	0	13,178	0	13,178	10,723
25.3 - Other purchases of goods and services from Govt. accounts	14,198	14,445	0	14,545	0	14,545	14,595
25.4 - Operation and maintenance of facilities	960	968	0	968	0	968	737
25.6 - Medical care	153	155	0	155	0	155	156
25.7 - Operation and maintenance of equip	5,003	5,056	0	5,056	0	5,056	5,118
26 - Supplies and materials	444	449	0	449	0	449	450
31 - Equipment	4,251	13,855	0	20,006	0	20,006	11,028
Total Budget Authority	**$91,465**	**$102,760**	**$0**	**$111,010**	**$0**	**$111,010**	**$100,419**
Budget Activities:							
BSA Administration and Analysis	82,287	93,444	0	101,694	0	101,694	91,112
Regulatory Support Programs	9,178	9,316	0	9,316	0	9,316	9,307
Total Budget Authority	**$91,465**	**$102,760**	**$0**	**$111,010**	**$0**	**$111,010**	**$100,419**

2.3 – Appropriations Detail Table

Dollars in Thousands

Appropriation Detail Table

(Dollars in Thousands)

Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
BSA Administration and Analys	311	71,952	330	$82,287	331	$101,694	327	$91,151	-1.21%	-10.37%
Regulatory Support Programs		8,647		9,178		9,316		9,268		-0.52%
Subtotal New Appropriated Resources	311	$80,599	330	$91,465	331	$111,010	327	$100,419	-1.21%	-9.54%
Other Resources:										
Recoveries		500		407		500		500		
Offsetting Collections - Reimbursable	2	7,066	1	6,000	1	20,000	1	20,000	0.00%	0.00%
Available multi-year/no-year funds		14,330		14,300		20,526		18,138		
Transfers In/Out		250		225		250		250		
Subtotal Other Resources	2	$22,146	1	$20,932	1	$41,276	1	$38,888	0.00%	-5.79%
Total Resources Available for Obligation	313	$102,745	331	$112,397	332	$152,286	328	$139,307	-1.20%	-8.52%

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY FINANCIAL CRIMES ENFORCEMENT NETWORK Federal Funds **SALARIES AND EXPENSES:** For necessary expenses of the Financial Crimes Enforcement Network, including hire of passenger motor vehicles; travel and training expenses, including for course development, of non-Federal and foreign government personnel to attend meetings and training concerned with domestic and foreign financial intelligence activities, law enforcement, and financial regulation; not to exceed $14,000 for official reception and representation expenses; and for assistance to Federal law enforcement agencies, with or without reimbursement, [$111,010,000] *$100,419,000* of which not to exceed $26,085,000 shall remain available until September 30, [2012] *2013*; and of which [$9,316,000] *$9,268,000* shall remain available until September 30, [2011] *2012*: Provided, that funds appropriated in this account may be used to procure personal services contracts.	

2C – Legislative Proposals

FinCEN has no legislative proposals.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 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 2010 Enacted	FY 2011 Request	Percent Change
U.S. & International Financial Systems	131,010	120,419	**-8.08%**
Total	**$131,010**	**$120,419**	**-8.08%**

3A – BSA Administration and Analysis *($91,151,000 from direct appropriations and $20,000,000 from reimbursable programs):* This activity comprises FinCEN's efforts to administer the BSA, including promulgating regulations, providing outreach and issuing guidance to the regulated industries, providing oversight of BSA compliance, initiating enforcement actions, and, with the IRS, managing the information filed by the regulated industries, as well as analytic activities. Internationally, FinCEN promotes the development of AML regimes through training and technical assistance. Analytical programs include support to U.S. law enforcement and international FIUs in combating financial fraud and crime by facilitating the exchange of investigative information; identifying foreign and domestic financial fraud, money laundering, and terrorist financing trends, patterns, and techniques; and liaison with and support of intelligence initiatives within the intelligence community and within Treasury. This activity also incorporates efforts to support large-scale, complex law enforcement investigations involving financial fraud, terrorist financing, money laundering, and other financial crimes.

FinCEN works closely with federal and state regulatory agencies that examine financial institutions for BSA compliance to ensure consistency across regulated industries. Through these efforts and direct outreach, FinCEN also assists regulated financial institutions in establishing risk-based AML programs with appropriate policies, procedures, internal controls, and maintaining records and filing reports on certain types of financial activity pursuant to the BSA. As appropriate, FinCEN investigates alleged violations by financial institutions, issues letters of caution or warning, and seeks injunctions; additionally, when required, FinCEN imposes civil monetary penalties for egregious BSA violations, typically in conjunction with partner federal and state agencies.

In the global arena, FinCEN's activities include: supporting international initiatives to educate other jurisdictions about the BSA regulatory regime; working to establish international

AML/CFT regulatory standards and norms; and improving the expertise and capabilities of personnel with AML/CFT missions.

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

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 modernize the BSA information management and analysis to equip law enforcement and financial industry regulators with better decision-making abilities and increase the value of BSA information through increased data integrity and analytical tools.

Other Resources: Offsetting collections and reimbursements totaling $20,000,000 are collected to support joint activities with other agencies such as the Department of State for technical assistance provided to international partners, and the Treasury Executive Office of Asset Forfeiture for projects to better support law enforcement.

3.2.1 – BSA Administration and Analysis Budget and Performance Plan

BSA Administration and Analysis Budget Activity					
Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$64,780	$68,606	$82,287	$101,694	$91,151
Reimbursable Resources	$0	$4,310	$6,000	$20,000	$20,000
Total Resources	**$64,780**	**$72,916**	**$88,287**	**$121,694**	**$111,151**
Budget Activity Total	**$64,780**	**$72,916**	**$88,287**	**$121,694**	**$111,151**

BSA Administration and Analysis Budget Activity					
Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Average time to process enforcement matters (in Years) (E)	1.1	0.7	1	1	1
Median time taken from date of receipt of Financial Institution Hotline Tip SARs to transmittal of the information to law enforcement or the intelligence community (E)	7	3	3	5	5
Percentage of FinCEN's Regulatory Resource Center Customers rating the guidance received as understandable (Oe)	91	94	94	90	90
Percentage of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system (Oe)	NA	64	82	68	70
Percentage of customers satisfied with the BSA E-Filing (Oe)	94	93	94	90	90
Percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable (Oe)	82	83	81	81	82
Percentage of federal and state regulatory agencies with memoranda of understanding/information sharing agreements (Ot)	NA	41	43	46	50

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

In the regulatory area, FinCEN continues to increase activities to monitor financial institutions examined for BSA compliance by state and federal regulators through the establishment of Memorandums of Understanding (MOUs) to exchange compliance information with regulators. In 2009, FinCEN reached a level 43 percent of federal and state regulatory agencies with MOU/information sharing agreements, but did not meet its target of 45 percent. FinCEN finalized an MOU with the Commodity Futures Trading Commission, the last remaining federal regulator with BSA examination authority to sign an agreement and the Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico. However, FinCEN was not able to execute three additional agreements at the state regulators. FinCEN will continue collaborating with state insurance agencies and other regulatory agencies to sign additional agreements to meet future targets. In FY 2009, FinCEN exceeded its target of 66 percent of MOU holders rating the information exchange valuable with 82 percent. FinCEN’s goal to provide financial institutions with understandable guidance is critical to institutions establishing AML programs that comply with the BSA. FinCEN exceeded its goal of 90 percent with 94 percent of its customers rating the guidance received as understandable. FinCEN also works closely with its regulatory partners to take enforcement action against financial institutions that systemically and egregiously violate the provisions of the BSA, including imposing civil money penalties when appropriate. Timely enforcement action is essential to deter non-compliance with the BSA. In FY 2009, FinCEN met its target to process enforcement matters within 1 year.

In the analytical area, FinCEN supports domestic law enforcement and international Financial Intelligence Unit (FIU) partners by providing analyses of BSA information, and measures the percentage of customers finding FinCEN's analytic reports highly valuable. The measure closely ties to how BSA information is used by law enforcement and international FIUs to identify, investigate, and prevent abuse of the financial system. In FY 2009, FinCEN met its target of 80 percent with 81 percent.

To ensure the efficient management, safeguarding, and use of BSA information, FinCEN conducts a survey of the users of the BSA E-Filing system to determine the overall satisfaction level and to identify where improvements are needed. The FY 2009 target was to maintain at least a 90 percent satisfaction level, and FinCEN surpassed its target with 94 percent.

3B – Regulatory Support Programs *($9,268,000 from direct appropriations):* This activity supports implementation, strengthening and clarification of the AML program, recordkeeping, and reporting requirements of the BSA for financial institutions subject to those requirements. FinCEN will also continue efforts with the IRS, especially related to the MSB industry, to ensure compliance, respond to public inquiries, distribute forms and publications, and support collection and maintenance of the BSA data. These resources support IRS BSA compliance activities for non-banking financial institutions, especially related to the MSB industry.

3.2.2 – Regulatory Support Programs Budget and Performance Plan

Regulatory Support Programs Budget Activity					
Resource Level	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Request**
Appropriated Resources	$8,436	$8,941	$9,178	$9,316	$9,268
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$8,436**	**$8,941**	**$9,178**	**$9,316**	**$9,268**
Budget Activity Total	**$8,436**	**$8,941**	**$9,178**	**$9,316**	**$9,268**

As of November 17, 2009 the number of registered MSBs is 39,133. FinCEN expects to maintain or exceed this level by FY 2011 as a result of ongoing outreach efforts.

FinCEN also continued to analyze SARs on a monthly basis for indications of possible unregistered MSBs, coordinate with law enforcement and state regulatory agencies on appropriate outreach, and educate MSBs on registration requirements by publishing guidance and participating in industry outreach events.

Additionally FinCEN continued to work to improve the effectiveness and consistency of MSB examinations conducted by IRS and state examiners, by working on the development and delivery of MSB BSA/AML Examination Manual training, participating in a working group to develop joint examination procedures for IRS and state examiners, and participating in the development of a template for states to report quarterly examination data consistently to the IRS.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://treas.gov/offices/management/budget/

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

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

Organizational Effectiveness

The role of FinCEN as the nation's FIU provides the bureau a unique view of the global economy. FinCEN recently completed an organizational realignment to elevate the international efforts to a division-level and demonstrate the emphasis the bureau places on safeguarding U.S. and international financial systems from abuse.

FinCEN continues to rely upon the private sector to perform certain activities, primarily in the information technology environment. The FY 2009 FAIR Act Inventory was submitted to the Department in April 2009.

Employee Retention and Satisfaction

In FY 2009, FinCEN implemented and invigorated several programs to improve employee morale. The Fitness Center Reimbursement Program and the Student Loan Repayment Program were introduced. FinCEN updated its Alternate Work Schedule Program and reinvigorated its Telework Program.

Results from the 2008 Federal Human Capital Survey indicated that 81 percent of FinCEN employees know how their work relates to the agency's goals and priorities, and 82 percent feel that they are held accountable for achieving results.

FinCEN continues to build a results-oriented, high performing workforce. FinCEN's five tier performance management system requires that each employee be placed on performance standards that include three individual commitments linked directly to the strategic plan. This performance management system allows managers to differentiate performance levels among employees and hold employees accountable for meeting specified performance goals and targets. Additionally, each employee works with his or her manager to agree upon an annual individual development plan to identify areas for career growth and development.

FinCEN continues to maintain a robust Awards and Recognition Program, including an Annual Director's Awards and Recognition Program. In FY 2008, 83 percent of the workforce was rated above the fully successful level and were appropriately recognized, while less than 1 percent was rated below fully successful and appropriate remedial actions were taken.

Leadership and Workforce Planning

FinCEN leaders manage people and sustain an environment that drives continuous improvement in performance. FinCEN must also develop future leaders to prepare for the estimated 38 percent of the workforce eligible to retire by 2013.

In FY 2009, FinCEN launched an aggressive leadership development plan to strengthen the skills of its current leaders and promote leadership skills at all levels. Implementation included 360 assessments for executives and supervisors, mandatory training for new supervisors, and annual completion of 24 hours of supervisory or leadership-focused continuing education. To meet these goals, FinCEN conducted in-house training for supervisors that included coaching and mentoring skills, relationship building, performance management, and change management.

To serve both supervisors and potential leaders, FinCEN's new Leadership Webinar Series made a range of topics available to all employees on a biweekly basis. Additionally, FinCEN sponsored five competitively-selected employees in long-term leadership development programs for grades 9-15, an annual opportunity. FinCEN also delivered in-house instruction to develop leadership skills in non-supervisors, and to empower all employees in accomplishing the bureau's mission.

FinCEN continues to assess skills for its mission critical occupations: Intelligence Research Specialists, Regulatory Specialists and Law Enforcement Liaison Specialists. In FY 2009, results of those skills gap assessments prompted revisions to the corresponding training development plans, identified and prompted delivery of essential in-house training to close skill gaps, and accelerated the frequency at which FinCEN's BSA Training Program is offered.

FinCEN's Rotational Assignment Program is another important method for skills enhancement and sharing expertise within and outside the bureau. In FY 2009, twelve highly qualified and motivated employees furthered their own learning and career development, while elevating communication and knowledge in their own rotational destinations.

Recruitment and Diversity

FinCEN utilizes various hiring authorities and flexibilities. In 2009, 13 students were hired under the Student Temporary Employment Program (STEP). FinCEN utilized the Veterans Employment Opportunity Act (VEOA) and Schedule A Disability Appointment authority to make two appointments over the past two years.

FinCEN reduced the amount of time it takes to hire employees from 45 days to 32 days during the last four quarters.

FinCEN continued to take a number of steps to ensure a diverse workforce is maintained. It maintained its Diversity Advisory Committee, conducted a Diversity Day Training Conference for all employees, partnered with diverse academic groups to attract student interns of diverse background, and established contacts with special interest groups to attract applicants from diverse populations. FinCEN continued a mandatory Equal Employment Opportunity

(EEO)/Diversity element in all supervisory performance plans to address EEO principles, workplace conflict, supporting EEO plans and diversity hiring requirements.

Employee Satisfaction and Wellness

FinCEN is in the process of developing an action plan in response to the 2008 Federal Human Capital Survey to improve communications, enhance a climate of support and trust, create a more positively engaged workforce, and improve working relations within each employee level and across the organization. The plan will include specific actions to be taken, timeframes for completion, and resource needs for implementation, including an evaluation component to determine whether the plan is effective in reaching target outcomes.

FinCEN has already started gathering data in order to respond to the Office of Personnel Management's call for an inventory of current wellness activities, cafeteria and fitness facilities, and health clinics. FinCEN's D.C. and Vienna locations both have access to Health units with onsite nursing staff, and Vienna has an onsite fitness center (employees pay fitness center fee). In January 2009, FinCEN implemented a Fitness Center Reimbursement Program; 70 employees (22 percent) are participating in the reimbursement program for a total cost of $18,630 in support of employee health and wellness. FinCEN also has a Worklife Coordinator to promote the Employee Assistance Program and Resources and Referral Service, WorkLife4You, which provide free services to employees. FinCEN also provides informational emails and seminars to employees on physical and mental health and wellness issues.

FinCEN offers employees both Alternate Work Schedules (AWS) and Telework programs. Results from the 2008 Federal Human Capital Survey indicated that 77 percent of FinCEN employees are satisfied with AWS and 84 percent feel that their manager supports their needs to balance work and other worklife issues. In addition, 51 percent are satisfied with FinCEN worklife programs, which is an increase from 35 percent in 2006.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Major IT Investments / Funding Source	Budget Activity	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Request	FY 2010 Enacted	FY 2011 Budget Request
BSA Information Technology Modernization					31,487	31,487
Total Major IT Investments	**BSA Administration and Analysis**	**0**	**0**	**0**	**31,487**	**31,487**
Total Non-Major IT Investments	**BSA Administration and Analysis**	**11,424**	**17,273**	**18,108**	**12,535**	**12,060**
Total Infrastructure Investments	**BSA Administration and Analysis**	**8,474**	**9,711**	**9,800**	**11,375**	**10,931**
Total Enterprise Architecture	**BSA Administration and Analysis**	**203**	**385**	**385**	**250**	**250**
Total IT Investments	**BSA Administration and Analysis**	**20,101**	**27,369**	**28,293**	**55,647**	**54,728**

4B – Information Technology Strategy

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

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

A major component of FinCEN's IT Strategy is the bureau's information technology modernization vision and strategy (IT MV&S) and resulting Enterprise Transition Strategy, which serves as the roadmap for aligning its IT portfolio with its business objectives and processes and has resulted in the multi-year BSA IT Modernization program. By establishing an enterprise-wide information management and analysis framework, law enforcement and financial industry regulators will be equipped with better decision-making abilities and increased value of BSA information through enhanced data integrity and analytical tools. This will allow law enforcement and regulators to focus their limited resources on the areas of shifting illicit criminal activities and vulnerabilities effecting the soundness and stability of the U.S. financial system. The Modernization Program also focuses on simplifying stakeholder interaction for filing and information dissemination, as well as reducing operation and maintenance costs by employing best-in-class technology solutions to connect people, processes, and information.

Treasury is currently developing the plan for developing the modernized system, retiring the legacy system, and providing an overview of the detailed technical alternatives being considered to stakeholders. Also, in FY2009, FinCEN completed the program initiation work, which included documenting program management processes, business needs, and IT solution development direction for the full BSA IT Modernization program.

4.2 – Program Evaluation

Program Name: Bank Secrecy Act Data Collection, Retrieval and Sharing

Assessment and Improvement Actions

- 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 and published by FinCEN. In Q3 FY 2009 FinCEN implemented Adobe Forms for E-Filing and in Q4 FY 2009 FinCEN implemented the SAR acknowledgment functionality; these actions also support Treasury's paperless initiative.

- 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 Q4 FY 2009 there were 203 closed data quality issues.

- 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. In Q2 FY 2009 FinCEN developed a MSB page on the current FinCEN public web site intended to replace MSB.gov. In Q3 and Q4 FY 2009 FinCEN is researching technical web-based alternatives. In Q4 FY 2009 a web based presentation tool was tested and purchased that met FinCEN's requirement for internal and external web based presentation needs without requiring the IT forums.

Program Name: Bank Secrecy Act (BSA) Analysis

Assessment and Improvement Actions

- Working to provide better understanding of FinCEN's analytical products and services to law enforcement customers, to better meet its customer's needs, and create a process for assessing and prioritizing requested products and services. FinCEN has drafted a concept of operations document that outlines this process and has begun internal meetings to solicit feedback on the proposal. In FY 2009, FinCEN continued an ongoing management review on this process.

Program Name: Bank Secrecy Act (BSA) Administration

Assessment and Improvement Actions

- Streamline regulatory requirements and other modifications relating to money services businesses subsequent to a review of existing regulatory framework and current issues. For FY 2009, FinCEN published a Notice of Proposed Rulemaking (NPRM) to revise the money services business rules.

- Expand information sharing agreements with federal and state regulators, with a focus on insurance commissioners. The MOU is an essential step to obtaining the data to monitor compliance and examination of covered industries. FinCEN uses this information to help its efforts to better ensure consistent examination procedures and standards. The MOUs also must be expanded to state regulators covering the banking, securities, insurance, money services business, and gaming industries to provide consistency of application across these financial sectors. For FY 2009, FinCEN developed a strategy that outlines the steps needed to begin the implementation of information sharing agreements with state insurance departments. The strategy includes the drafting of a template for MOUs, obtaining information from state/territory insurance commissioners, and gaining a better understanding of the state insurance examination process. In Q2 FY 2009 FinCEN determined that 129 regulatory bodies examine for BSA compliance in the insurance industry and a Memoranda of Understanding was signed with the Commodity and Futures Trading Commission. In Q4 FY 2009 FinCEN identified additional companies for outreach and visits are being arranged.

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 consumer of alcohol beverages through compliance programs that are based upon education and enforcement of the industry to ensure an effectively regulated marketplace; and to assist industry members to understand and comply with Federal tax, product, and marketing requirements associated with the commodities we regulate.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2009	FY 2010	FY 2011		
	Enacted	Enacted	Request	$ Change	% Change
Collect the Revenue	$50,524	$51,500	$53,084	$1,584	3.1%
Protect the Public	$48,541	$51,500	$53,084	$1,584	3.1%
Total Appropriated Resources	**$99,065**	**$103,000**	**$106,168**	**$3,168**	**3.1%**
Total FTE	**511**	**535**	**547**	**12**	**2.2%**

Note: FY 2011 Total Appropriated Resources includes $106,168 (dollars in thousands) in offsetting receipts collections from licensing and registration fee revenues. TTB's entire budget for FY 2011 is to be funded from licensing and registration fees, to cover both the Collect the Revenue and Protect the Public Budget Activities. The 547 FTE for FY 2011 excludes 15 FTE from the Puerto Rico reimbursable.

FY 2011 Priorities

- Collect roughly $21 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 Certificates of Label Approval (COLAs) required to introduce alcohol beverage products into the marketplace;
- Conduct investigations to effectively administer the Internal Revenue Code (IRC) and Federal Alcohol Administration (FAA) Act provisions with the objective to minimize tax fraud and diversion risks;
- Conduct statistically valid sampling programs to determine industry-wide compliance with advertising, labeling, and formulation regulations;
- Complete audits of large and at-risk taxpayers who pay federal excise taxes;
- Promote e-filing of industry member data, including taxpayer operational reports and tax returns, alcohol beverage formula submissions, and COLA applications;
- Detect counterfeit alcohol and tobacco products, and those industry products diverted from lawful channels, and collect the taxes rightfully due;
- Enhance food safety programs focusing on the integrity and safety of domestic and imported beverage alcohol products;
- Implement licensing and registration fee program contingent upon passage of legislation.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Alcohol and Tobacco Tax and Trade Bureau (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 the alcohol beverage industry and the protection of consumers of alcohol beverages.

In Fiscal Year (FY) 2011, TTB will continue to focus its efforts on helping industry members comply with federal alcohol, tobacco, firearms, and ammunition laws and regulations, in the interest of collecting all appropriate excise taxes and promoting a marketplace for alcoholic beverages that complies fully with federal production, labeling, advertising, and marketing requirements.

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

- ***Collect all Revenue that is rightfully due***:
    - Through partnerships with industry, states, and other federal agencies, develop methods of promoting voluntary tax compliance;
    - Ensure correct payment of taxes focusing on audits of "major" and "at-risk" taxpayers;
    - Account accurately for the tax assessed and collected;
    - Reduce the taxpayer paperwork burden associated with collection of revenue by creating alternative electronic filing methods;
    - Ensure consistent tax administration;
    - 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 alcohol beverage products in the marketplace, and that only qualified permit applicants operate in the alcohol beverage industry;
    - Enforce compliance with federal laws related to the production, labeling, advertising, and marketing of alcohol products;
    - Utilize electronic government solutions to reduce taxpayer burden and improve service with online filing for permit applications and formula submissions, business activity reports, claims, COLA and formula applications, and other required forms;
    - Perform appropriate testing, laboratory analyses, and evaluation of regulated commodities to ensure product safety and integrity;
    - Review and act on labels, formulas, and advertising for domestic and imported beverage alcohol products and maintain public access to approved COLAs;
    - Respond to industry and consumer complaints regarding the regulated commodities;
    - Investigate product contamination and adulteration incidents and allegations;
    - Investigate suspected cases of unfair trade practices and violations of labeling and advertising standards in the beverage alcohol industry;
    - Regulate the international import/export trade in beverage and industrial alcohol.

The total resources required to support TTB activities for FY 2011 are $106,168,000 from annual licensing and registration fees (offsetting receipts) and $3,050,000 from reimbursables (offsetting collections), mainly from the Puerto Rico cover over program.

1B – Program History and Future Outlook

TTB has two budget activities that focus on collecting all the revenue rightfully due the federal government and ensuring products meet regulatory standards.

Collect the Revenue - This activity collects alcohol, tobacco, firearms, and ammunition excise taxes. These products generate nearly $21 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 6,800 businesses that had operations that resulted in tax payments in a given year. Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette papers and tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. Approximately 200 of the largest taxpayers account for about 98 percent of the annual excise tax collected. In FY 2009, the majority of taxes collected were from tobacco (62 percent) and alcohol (36 percent), with the remainder from firearms and ammunition (2 percent).

Strategies used to collect the revenue rightfully due the federal government focus on identifying any gaps in tax payment, illegal entities, and individuals operating outside the excise tax system; developing a balanced field approach of audits and investigations that targets non-compliant industry members; and establishing an identifiable presence within the industry that encourages voluntary compliance.

Alcohol and tobacco taxes collected by the bureau 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 2009:

- Collected approximately $21 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries. The bureau collected $427 for every $1 expended on collection activities;
- 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. The total number of Pay.gov registrants increased by 36 percent in FY 2009, bringing the total to over 4,900;
- Achieved voluntary compliance among taxpayers with greater than $50,000 in annual excise tax obligations to a compliance rate of 94 percent in FY 2009, measured in terms of timely remittance of tax payments. TTB’s educational outreach efforts at industry seminars and premises, and improvements in online filing options, assisted in this effort;
- Processed $481 million in cover-over payments to Puerto Rico and the U.S. Virgin Islands. Federal excise taxes collected on all imported rum, and on rum produced in Puerto Rico and

the Virgin Islands and subsequently brought into the United States, are "covered-over" (or paid into) the treasuries of Puerto Rico and the Virgin Islands;

- Processed $269 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. Analyzed beverage alcohol and tobacco product samples to assign or verify a tax classification. For this purpose, TTB analyzed 1,021 beverage alcohol samples associated with pre-import evaluations, the 5010 tax credit, and enforcement activities. Another 265 tobacco product samples were analyzed to ensure products were appropriately classified for tax purposes;
- Completed 171 audits and roughly 400 investigations that recovered $12.2 million in additional tax, penalties, and interest from industry members.

This table displays the amount of federal excise tax collections at the bureau from FY 2005 – 2009 by revenue type:

REGISTRY TYPE	2005	2006	2007	2008	2009
Tobacco	$7,409,749,000	$7,350,204,000	$7,194,113,000	$6,851,705,000	$11,548,504,000
Alcohol	$7,074,076,000	$7,182,940,000	$7,232,138,000	$7,420,576,000	$7,424,292,000
Firearms Ammunition Mfg	$225,818,000	$249,578,000	$287,835,000	$312,622,000	$452,693,000
Special Occupational Taxes	$10,190,000	$2,895,000	$2,808,000	$1,082,000	$272,000
Floor Stocks Tax (Tobacco)	$9,000	$638,000	$0	$0	$1,193,345,000
Grand Total	$14,719,833,000	$14,785,617,000	$14,716,894,000	$14,585,985,000	$20,619,106,000

Note: Tobacco revenue increased in 2009 as a result of the passage of the Children's Health Insurance Program Reauthorization Act (CHIPRA) legislation which increased the tax rate on tobacco products.

Tax Collections from the Alcohol Industry

The beverage alcohol 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 of FY 2010 – FY 2011. TTB envisions that in the next few years the increase in new alcohol businesses will be most prominent in the number of wineries, craft breweries, and craft distilleries.

Tobacco Product Floor Stocks Tax

In FY 2009, TTB collected federal excise taxes on alcohol and tobacco products and also implemented a floor stocks tax on tobacco products in accordance with the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA). This legislation provided for a tax increase on all tobacco products (except large cigars), and cigarette papers and cigarette tubes, effective April 1, 2009. The floor stocks tax is a one-time excise tax placed on commodities subject to a tax increase and it is equal to the difference between the new tax rate and the previous rate. The last floor stocks tax enacted was in 2002. Floor stocks tax collections for FY 2009 were $1.2 billion and represent collections from hundreds of thousands of wholesaler and retailer dealers (who do not hold a permit with TTB) and manufacturers and importers (who are required to hold a TTB permit).

Firearms and Ammunition Excise Tax (FAET) Collections
Firearms and ammunition excise taxes are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937. Federal excise tax collections on firearms and ammunition have increased from $193 million in FY 2003 to more than $452 million, an increase of roughly $259 million over the past 6 years, or a 134 percent growth in federal FAET revenues. The increase in reported tax revenue can be attributed to industry growth, effective outreach and collection initiatives at the bureau, and the field presence of our auditors, which continues to promote voluntary taxpayer compliance.

Protect the Public **-** This activity ensures the integrity of the alcohol and tobacco industries and of beverage alcohol products found in the marketplace, and regulates roughly 50,000 alcohol and tobacco businesses. TTB enforces federal laws related to the issuance of permits to industry members and the production, importation, exportation, labeling, advertising, and marketing of alcohol products. These activities are conducted through investigations, application reviews, laboratory testing, and educational programs. TTB works with industry, foreign and state governments, and other interested parties to reduce the burden of compliance with regulatory requirements and to maintain the appropriate level of oversight to ensure public safety. 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 2009:

- Approved 99,320 of the 124,966 COLA applications received; the remaining 25,646 (21 percent) were either rejected, returned for correction, withdrawn, expired, or surrendered. About 74 percent of COLA applications were filed electronically through COLAs Online. This proprietary TTB system has been in operation since 2003;
- Processed 5,533 original and 17,755 amended permits. TTB averaged 64 days to process perfected permit applications. TTB protects consumers by screening permit applicants, analyzing market samples, reviewing labels for accuracy, and investigating unfair trade practices;
- Evaluated about 6,300 beverage alcohol formulas and analyzed about 2,600 beverage alcohol samples in support of audits and investigations, and the product integrity, pre-import, Alcohol Beverage Sampling Program, 5010 tax credit, and consumer complaints programs;
- Issued cease and desist letters to tobacco importers operating without permits. Through its effective information sharing relationship with U.S. Customs and Border Protection, TTB was able to compare import data in the customs International Trade Data System with permit information in TTB's Integrated Revenue Information System (IRIS) and determined that 15 percent of entities importing tobacco products had done so without a permit. TTB's issuance of cease and desist letters, and appropriate follow up activities, ensured that the responsible parties ended operations or obtained a permit;
- Initiated about 1,300 field investigations of industry members regarding applications, consumer complaints, trade practice violations, product and labeling integrity verifications, tax fraud and related revenue investigations. Included in these investigations are high-risk permit applications to meet TTB's public protection objectives.

Specific Challenges in FY 2011

Tobacco and Alcohol Smuggling and Diversion

The enforcement challenges on the alcohol and tobacco industries revolve principally around tax fraud and label fraud. Tax fraud in these industries, through unlawful diversion or other means, represents an extremely high risk to federal revenue while at the same time presents a lucrative funding source for organized crime and terrorists. This not only threatens our national security, but is detrimental to the Nation's economic stability, as the Government does not realize the revenue collections lawfully due. In addition, counterfeit alcohol beverages masquerading under legitimate domestic brand or trade names jeopardize domestic alcohol beverage commerce by trading on the brand reputation of authentic domestic producers. Likewise, label fraud deceives consumers as to the identity of the product offered for sale. Typically, the consumer deception involves counterfeit high-end products.

TTB was directed by Congress under the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA) to conduct a study to determine the magnitude of tobacco smuggling in the United States and to make recommendations on how to reduce tobacco smuggling. The findings will become a cornerstone of TTB's law enforcement efforts on diversion and tobacco smuggling operations. The study, due to Congress in February 2010, will provide an estimate of the loss in Federal tax receipts from the illicit tobacco trade by using a gap analysis modeled after a study conducted in Great Britain. This method compares total tobacco consumption levels to the excise taxes paid to arrive at net revenue loss. The FY 2010 budget included a provision that directed $3 million of TTB appropriations, available until September 30, 2011, to be used for the hiring, training, and equipping of special agents and related support personnel to address both the diversion of tobacco and alcohol products. This investment directs the bureau to launch an enforcement program to include criminal investigations, and to conduct seizures of counterfeit or smuggled alcohol and tobacco products.

Alcohol Fuel Plants (AFPs)

TTB has issued approximately 1,638 alcohol fuel plant permits, which are regulated by TTB as Distilled Spirits Plants. The establishment of these new plants creates new challenges because of the possibility for significant revenue losses that would result from unlawful diversion of alcohol. The Energy Independence and Security Act of 2007 mandates the use of 36 billion gallons of renewable fuel per year by 2022. In comparison, total U.S. consumption of beverage distilled spirits is about 420 million gallons per year – and beverage spirits contain less than half the ethanol that is in alcohol fuel. Most alcohol fuel production comes from fewer than 150 large plants, but hundreds of smaller plants have applied for TTB permits in each of the last few years.

Succession Planning

Succession planning is high on the list of TTB's strategic priorities, especially regarding its investigative forces. TTB expects to lose 40 percent of its workforce by 2011 due to retirements and other attrition. To mitigate these losses, TTB continues to use the personnel interventions identified in the Pay Demonstration Project to enable the bureau to improve its capacity to recruit, develop, and retain high-caliber employees. TTB uses tailored approaches designed, developed, and implemented specifically for the bureau's continuing and evolving needs in order to meet mission requirements and remain competitive for highly skilled talent. Continuation of the Pay Demonstration authority is key to closing skill gaps in mission critical occupations. The FY 2011 budget proposes to continue this program for an additional year.

Rulemaking

TTB's regulatory actions will support its mission objectives to collect the revenue and protect the public. The bureau will work on a number of regulatory projects in FY 2011, and several key regulatory initiatives are detailed below. Over the next few years, Congress may enact legislation changing excise taxes on commodities that TTB regulates, and the bureau anticipates continued industry and interest group petitions, inquiries, and other expressions of interest in more detailed alcohol beverage labeling which will result in regulatory action to protect the public. TTB's regulatory activity will be sufficiently flexible to adjust to any changes in agency priorities.

<u>Key Regulatory Initiatives</u>

Collect the Revenue and Protect the Public - Modernization of Title 27, Code of Federal Regulations. In FY 2011, TTB will continue to pursue its multi-year program of modernizing its regulations in title 27 of the Code of Federal Regulations. This program involves updating and revising the regulations to be more clear, current, and concise, with an emphasis on the application of plain language principles. Modernizing the regulations will ultimately result in greater compliance by industry members, thus protecting both the revenue and the public, as well as cost savings to TTB through the use of more efficient regulatory processes. To date, TTB has published notices of proposed rulemaking to revise Part 19 and to amend Part 9 and has reviewed the public comments received in response to those notices.

Collect the Revenue--Alcohol Fuel Plants. In FY 2011, TTB intends to prepare proposed amendments to the alcohol fuel plant regulations, in recognition of the significant growth in this industry segment. The proposed changes would include updated procedures for producers of distilled spirits intended for fuel use that will enhance their operations consistent with TTB's responsibility to protect the revenue.

Protect the Public--Serving Facts Labeling. 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 beverage alcohol 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 the alcohol content statement. 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 beverage alcohol labels provide consumers with adequate information about the products they are consuming. TTB will continue its rulemaking on this issue in FY 2011 if a final rule on this matter has been not published by that time.

Protect the Public--Allergen Labeling. 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 2010, TTB will consider the feasibility of adopting mandatory allergen labeling requirements and, in FY 2011, TTB will continue rulemaking action on this issue, if necessary.

Electronic Permit Application Process (E-Government)
TTB's vision for the Permits Online investment is to provide a secure, web-based E-Government solution that will allow members of TTB's regulated industry to electronically submit amendments and applications for original establishment of operations. Applicants who plan to produce finished distilled spirits, wines, malt beverages, and tobacco products, as well as persons wishing to operate businesses such as alcohol wholesalers, alcohol importers, tobacco importers, specially denatured spirits users and dealers, tax-free alcohol users, alcohol fuel plants, tobacco processors, and tobacco export warehouses, must submit original and amended permit applications. The National Revenue Center (NRC) currently processes original application packets for 23 types of permits/registrations. New or existing customers file these packets to request permission to commence a new regulated industry operation, or to update critical industry member information such as trade names.

Over the past several years, the volume of paper applications has increased making it difficult to maintain current service levels. The bureau has purchased a commercial off-the-shelf software package that will be the core of the electronic submission system for new and amended permit applications. Plans are to implement this system in stages, with the initial deployment scheduled for late FY 2010 and all permit applications automated by late FY 2011.

By shifting the current paper-intensive, repetitive, and often varied permit application process to a simplified, streamlined Web-based system, the bureau expects to achieve efficiencies and performance improvements of measurable value to industry applicants. Once the commercial product is fully implemented, industry can expect reduced processing time, electronically guided assistance through the application process, improved communications with TTB, and an overall reduction in mailing and materials costs. Applicants wishing to enter these regulated industries will be able to commence operations sooner and supply their customers more quickly.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Alcohol and Tobacco Tax and Trade Bureau	FTE	Amount
FY 2010 Enacted	535	103,000
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$1,790
FERS % Change	-	128
Non-Pay Inflation Adjustment	-	500
Pay Annualization	-	325
Pay Inflation Adjustment	-	837
Non-Recurring Costs:	-	($3,500)
Two Year Funding for Special Agents	-	(3,500)
Efficiencies Savings:	-	($622)
Business Process Reengineering	-	(213)
Reconfiguration of Field Offices	-	(112)
Procurement Savings (VOIP)	-	(297)
Subtotal FY 2011 Changes to Base	-	($2,332)
Total FY 2011 Base	535	100,668
Program Changes:		
Program Increases:	12	$5,500
Implement Annual Licensing & Registration Fee	12	5,500
Subtotal FY 2011 Program Changes	12	$5,500
Total FY 2011 Budget Request	**547**	**106,168**
Annual Licensing and Registration Fees	(547)	(106,168)
Total FY 2011 Budget Request (Net)	**-**	**-**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$1,790,000 / +0 FTE

FERS % Change +$128,000 / +0 FTE

Funds are requested for the increase in agency retirement contribution percentages for GS employees from 11.2% to 11.5% for FY 2011 as required by OPM.

Non-Pay Inflation Adjustment +$500,000 / +0 FTE

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

Pay Annualization +$325,000 / +0 FTE

Funds are requested for the FY 2011 cost of the January 2010 pay raise.

Pay Inflation Adjustment +$837,000 / +0 FTE

Funds are requested for the January 2011 pay raise.

Non-Recurring Costs ....-$3,500,000 / +0 FTE

Two Year Funding for Special Agents -$3,500,000 / +0 FTE

Under the FY 2010 appropriation, two-year funding was designated for law enforcement agents and related support staff to target tobacco smuggling and diversion criminal activities. The FY 2010 carry forward balance from this multi-year account will be used to cover this activity in FY 2011.

Efficiencies Savings ....-$622,000 / +0 FTE
Business Process Reengineering -$213,000 / +0 FTE
Savings realized by the introduction of automation and redesigned business processes to ensure bureau operations are efficiently and effectively managed.

Reconfiguration of Field Offices -$112,000 / +0 FTE
Savings from the reconfiguration of bureau field offices.

Procurement Savings (VOIP) -$297,000 / +0 FTE
Savings from the implementation of new technology (Voice Over Internet Protocol) that will lower the cost of communication services as compared to traditional phone services.

Program Increases ....+$5,500,000 / +12 FTE
Implement Annual Licensing & Registration Fee +$5,500,000 / +12 FTE
Legislation will be proposed to establish a permanent program for FY 2011 continuing each fiscal year thereafter, requiring resources to support labor and operating costs. TTB will be responsible for establishing and administering an annual fee proposal, including the collection of roughly $111 million in annual fee revenues from approximately 400,000 businesses. A $5.5 million investment is needed to set up this program. Much if not all of the initial investment costs are expected to be recurring to administer the program. The successful management of this activity will necessitate the long-term investment in both government staff (12 FTE), contractor support, and other general and administrative costs, including information technology. Following are key business activities and details of the amount requested: 1) Mailing and processing roughly 400,000 annual fee bills; 2) Processing approximately 60,000 to 80,000 non-compliance letters; 3) Maintaining the registry of the client database for 400,000 businesses; 4) Responding to customer inquiries (e.g., claims, waiver requests, etc.); 5) Accounting for the annual fee collections and processing of the revenues. The roughly 400,000 annual fee payers include retailers and wholesale dealers in liquors and beer; every proprietor of distilled spirits plants, bonded wine cellars, bonded wine warehouses, and tax-paid wine bottling houses; every brewer; denatured spirits, recovery, and tax-free users (industrial alcohol); and non-beverage domestic drawback claimants. Tobacco importers, retailers, and wholesalers are also included. Annual Licensing and Registration Fees — Regulatory Implementation: Amendments to TTB regulations would be necessary to implement this statutory program. At a minimum, this would cover payment procedures, including the use of a specified form to accompany the payment, and probably related registration, reporting, and recordkeeping requirements.

Adjustments to Request Annual Fees ....-$106,168,000 / -547 FTE
Annual Licensing and Registration Fees -$106,168,000 / -547 FTE
Annual special receipts (annual fees) will reduce direct funding. The receipts from the annual fee program will be budgeted and accounted for as offsetting collections.

2.2 – Operating Levels Table

Alcohol and Tobacco Tax and Trade Bureau	FY 2009 Enacted	FY 2010 President's Budget	Congressional Action Including Rescission	FY 2010 Enacted Level	Proposed Reprogrammings	FY 2010 Proposed Operating Level	FY 2011 Requested Level
FTE	**525**	**525**	**0**	**535**	**0**	**535**	**547**
Object Classification:							
11.1 - Full-time permanent	44,940	46,048	1,327	47,375	0	47,375	48,170
11.5 - Other personnel compensation	778	794	0	794	0	794	794
12 - Personnel benefits	11,235	11,464	242	11,706	0	11,706	11,832
21 - Travel and transportation of persons	3,000	3,015	493	3,508	0	3,508	3,066
22 - Transportation of things	101	102	0	102	0	102	103
23.1 - Rental payments to GSA	5,219	4,796	0	4,796	0	4,796	4,754
23.3 - Comm, utilities, and misc charges	5,050	5,073	59	5,132	0	5,132	5,372
24 - Printing and reproduction	386	388	0	388	0	388	567
25.2 - Other services	22,296	15,586	1,042	16,628	0	16,628	19,759
25.3 - Other purchases of goods and services from Govt. accounts	0	7,159	0	7,159	0	7,159	6,600
26 - Supplies and materials	670	673	67	740	0	740	684
31 - Equipment	5,390	4,402	243	4,645	0	4,645	4,467
42 - Insurance claims and indemnities	0	0	27	27	0	27	0
Total Budget Authority	**$99,065**	**$99,500**	**$3,500**	**$103,000**	**$0**	**$103,000**	**$106,168**
Budget Activities:							
Collect the Revenue	50,523	49,750	1,750	51,500	0	51,500	53,084
Protect the Public	48,542	49,750	1,750	51,500	0	51,500	53,084
Total Budget Authority	**$99,065**	**$99,500**	**$3,500**	**$103,000**	**$0**	**$103,000**	**$106,168**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available	FY 2009 Obligations		FY 2009 Enacted		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budget Activity										
Collect the Revenue	268	50,523	268	50,523	268	51,500	274	53,084	2.24%	3.08%
Protect the Public	257	48,542	257	48,542	267	51,500	273	53,084	2.25%	3.08%
Subtotal by Budget Activity	525	$99,065	525	$99,065	535	$103,000	547	$106,168	2.25%	3.08%
Appropriated Resources and Special Receipts										
Appropriated Resources	525	99,065	525	99,065	535	103,000	0	0	-100.00%	-100.00%
Special Receipts (Annual Fees)	0	0	0	0	0	0	547	106,168	100.00%	100.00%
Total by Appropriated and Special Receipts	525	$99,065	525	$99,065	535	$103,000	547	$106,168	2.25%	3.08%
Other Resources:										
Offsetting Collections - Reimbursable	15	5,154	15	5,154	15	4,234	15	3,050	0.00%	-27.96%
Available multi-year/no-year funds										
Recoveries										
Subtotal Other Resources	15	$5,154	15	$5,154	15	$4,234	15	$3,050	0.00%	-27.96%
Total Resources Available for Obligation	540	$104,219	540	$104,219	550	$107,234	562	$109,218	2.18%	1.85%

2B – Appropriations Language and Explanation of Changes

<table>
<tr><td>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, [$105,000,000] $106,168,000; of which not to exceed $5,500,000 for administrative expenses related to implementation of the fees authorized by 27 U.S.C. Section 202, as amended by this Act, to remain available until [September 30, 2011] September 30, 2012; 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: Provided, That the sum herein appropriated from the general fund shall be reduced as offsetting collections assessed and collected pursuant to the Federal Alcohol Administration Act (27 U.S.C. 201 et seq.), as amended by this Act, are received during fiscal year [2010] 2011, so as to result in a fiscal year [2010] 2011 appropriation from the general fund estimated at [$25,000,000] $0: Provided further, That any amount received in excess of [$80,000,000 in fiscal year 2010] $106,424,000 in fiscal year 2011 shall be available only to the extent provided in subsequent appropriations acts. (Department of the Treasury Appropriations Act, 2009.)

<u>Treasury General Provisions:</u>
Sec. 113. Section 122(g) (1) of Public Law 105-119 as amended (5 U.S.C. 3104 note), is further amended by striking [“12 years”] “13 years” and inserting [“12 years”] “13 years”.</td>
<td>Legislation will be proposed to establish a permanent program for fiscal year 2011 and each fiscal year thereafter, requiring the payment of annual licensing and registration fees

TTB proposes to continue the Pay Demonstration Project by amending the language to extend the program for one additional year.</td></tr>
</table>

SEC. 617 The Federal Alcohol Administration Act (27 U.S.C. 201 et seq.) is amended by inserting immediately after "Title II—Alcoholic Beverage Labeling" a new Title III that provides as follows:

"Title III—ANNUAL FEES, ETC.

"Section 301 - Authority to Collect Fees.
"Section 302 - Reduced fees.
"Section 303 - Exemptions and exceptions.
"Section 304 - Administrative provisions.
"Section 305 - Definitions.
"* * * * *
"Annual Fees, Etc.

"§ 301 Authority to Collect Fees.
"(a) General rule.—The Secretary of the Treasury is authorized to collect a fee for services
rendered to the regulated community at levels not lower than those
provided in subsections (b), (c), and (d), to the extent provided in advance
by an appropriations act, to be credited as offsetting collections to the
Alcohol and Tobacco Tax and Trade Bureau Salaries and Expenses account,
to fund the operations of the Alcohol and Tobacco Tax and Trade
Bureau as authorized by 6 U.S.C. §531.
"(b) Fee Category 1.—Each of the following shall pay a fee of $1,000
per year in respect of each such premises under his control—
"(1) proprietors of a distilled spirits plant;
"(2) proprietors of a bonded wine cellar;
"(3) proprietors of a bonded wine warehouse;
"(4) proprietors of a taxpaid wine bottling house; or
"(5) proprietors of a brewery;
"(6) manufacturers of processed tobacco.
"(c) Fee Category 2.—Each of the following shall pay a fee of $500 per
year—
"(1) wholesale dealers in liquor;
"(2) wholesale dealers in beer;
"(3) wholesale dealers in tobacco products;
"(4) wholesale dealers in processed tobacco;
"(5) importers of tobacco products;
"(6) importers of processed tobacco;
"(7) every person intending to claim eligibility for drawback under
section 5131 of the Internal Revenue Code of 1986;
"(d) Fee Category 3.—Each of the following shall pay a fee of $350 per
year—
"(1) retail dealers in liquors;
"(2) retail dealers in beer;
"(3) retail dealers in tobacco products;
"(4) except that every holder of a permit issued under section 5271 of the Internal Revenue Code of 1986, shall be subject to a fee of $300.
"(e) Fee adjustment.—The Secretary shall provide for automatic annual
fee increases in accordance with the Consumer Price Index, and shall
publish a notice of the fee increases in the Federal Register 60 days prior
to their effective date.
"§ 302 Reduced fees.—
"(a) In general.—Section 301(b) shall be applied by substituting "$500"
for "$1,000" with respect to any person (other than one described in section
303(a)) the gross receipts of which (for the most recent taxable year
ending before the 1st day of the taxable period to which the fee imposed
by section 301(b) relates) are less than $500,000.
"(b) Controlled group rules.—All persons treated as 1 taxpayer under
section 5061(e)(3) of the Internal Revenue Code of 1986 shall be treated
as 1 fee payer for purposes of subsection (a).
"(c) Certain rules to apply.—For purposes of determining gross receipts
under subsection (a), the rules contained in subparagraphs (B) and (C)
of section 448(c)(3) of the Internal Revenue Code of 1986 shall apply.
"§ 303. Exemptions and Exceptions.
"(a) Exemption for small producers.—Section 301(b) shall not apply
with respect to any person who is a proprietor of an eligible distilled
spirits plant.
"(b) Sales by proprietors of controlled premises.—No proprietor of a
distilled spirits plant, bonded wine cellar, taxpaid wine bottling house,
or brewery, shall be required to pay the fee under section 301(c) on account

of the sale at his principal business office as designated in writing
to the Secretary, or at his distilled spirits plant, bonded wine cellar,
taxpaid wine bottling house, or brewery, as the case may be, of distilled
spirits, wines, or beer, which, at the time of sale, are stored at his distilled
spirits plant, bonded wine cellar, taxpaid wine bottling house, or brewery,
as the case may be, or had been removed from such premises to a taxpaid
storeroom operated in connection therewith and are stored therein.
However, no such proprietor shall have more than one place of sale, as
to each distilled spirits plant, bonded wine cellar, taxpaid wine bottling
house, or brewery, that shall be exempt from fee by reason of the sale of
distilled spirits, wines, or beer stored at such premises (or removed
therefrom and stored as provided in this section), by reason of this subsection.
"(c) Sales by liquor stores operated by States, political subdivisions,
etc.—No liquor store engaged in the business of selling to persons other
than dealers, which is operated by a State, by a political subdivision of
a State or by the District of Columbia, shall be required to pay any fee
under this section 301(c), by reason of selling distilled spirits, wines, or
beer to dealers qualified to do business as such in such State, subdivision,
or District, if such State, political subdivision, or District has paid the applicable fee under section 301(d)(1) and 301(d)(2) as appropriate, and
if such State, political subdivision, or District has paid fee under section 301(c)(1) and 301(c)(2) as appropriate, at its principal place of business.
"(d) Casual sales.—
"(1) Sales by creditors, fiduciaries, and officers of court.—No person
shall be deemed to be a dealer by reason of the sale of distilled spirits,
wines, beer or tobacco products which have been received by him as security for or in payment of a debt, or as an executor, administrator, or other fiduciary,
or which have been levied on by any officer under order or process of
any court or magistrate, if such distilled spirits, wines, or beer are sold
by such person in one parcel only or at public auction in parcels of not
less than 20 wine gallons, or in the case of tobacco products parcels of
not less than 50 cartons.
"(2) Sales by retiring partners or representatives of deceased partners
to incoming or remaining partners.—No person shall be deemed to be
a dealer by reason of a sale of distilled spirits, wines, beer or tobacco products
made by such person as a retiring partner or the representative of a deceased
partner to the incoming, remaining, or surviving partner or partners of
a firm.
"(3) Return of liquors or tobacco products for credit, refund, or exchange.—
No person shall be deemed to be a dealer by reason of the bona fide return of distilled spirits, wines, beer or tobacco products to the dealer from whom purchased (or to the successor of the vendor's business or line of merchandise) for credit, refund,
or exchange.
"(e) Dealers making sales on purchaser dealer's premises.—
"(1) Wholesale dealers in liquors.—No wholesale dealer in liquors who
has paid the fee as such dealer shall again be required to pay a fee as such
dealer on account of sales of wines or beer to wholesale or retail dealers

in liquors, or to limited retail dealers, or of beer to wholesale or retail dealers in beer, consummated at the purchaser's place of business.

"(2) Wholesale dealers in beer.—No wholesale dealer in beer who has paid the fee as such a dealer shall again be required to pay a fee as such dealer on account of sales of beer to wholesale or retail dealers in liquors or beer, or to limited retail dealers, consummated at the purchaser's place of business.

"(f) Sales by retail dealers in liquidation.—No retail dealer in liquors, retail dealer in beer or retail dealer in tobacco products, selling in liquidation his entire stock of liquors or tobacco products in one parcel or in parcels embracing not less than his entire stock of distilled spirits, of wines, of beer or of tobacco products to any other dealer, shall be deemed to be a wholesale dealer in liquors, a wholesale dealer in beer, or a wholesaler dealer in tobacco products, as the case may be, by reason of such sale or sales.

"(g) Sales to limited retail dealers and sales by retail dealers of tobacco products.—

"(1) Retail dealers in liquors.—No retail dealer in liquors who has paid the fee as such dealer under section 301(d) shall be required to pay additional fee under section 301(c) on account of the sale at his place of business of distilled spirits, wines, or beer to limited retail dealers as defined in section 305(d).

"(2) Retail dealers in beer.—No retail dealer in beer who has paid the fee as such dealer under section 301(d) shall be required to pay additional fee under section 301(c) on account of the sale at his place of business of beer to limited retail dealers as defined in section 305(d).

"(3) Retail dealers in tobacco products.-No retail dealer in tobacco products who has paid the fee under section 301(d) shall be required to an additional fee as a retail dealer in liquors or a retail dealer in beer under section 301(d).

"(h) Coordination of fees under sections 301(c).—No fee as a wholesale dealer in liquor shall be charged with respect to a person's activities at any place during a year if such person has paid the fee as a wholesale dealer in beer with respect to such place for such year.

"(i) Wholesale dealers in liquors, beer, tobacco products and processed tobacco and importers of tobacco products and processed tobacco.—

"(1) Wholesale dealers in liquors.—No fee shall be charged as a retail dealer in liquor or a retailer dealer in beer on any dealer by reason of the selling, or offering for sale, of distilled spirits, wines, or beer at any location where such dealer is required to pay the fee as a wholesale dealer in liquors.

"(2) Wholesale dealers in beer.—No fee shall be charged as a retail dealer in beer on any dealer by reason of the selling, or offering for sale, of beer at any location where such dealer is required to pay the fee as a wholesale dealer in beer.

"(3) Wholesale dealers in tobacco products and importer of tobacco products.-No fee shall be charged as a retail dealer in tobacco products on any dealer by reason of the selling or offering for sale of tobacco products at any location where such dealer is required to pay the fee as a wholesale dealer in tobacco products or as an importer of tobacco products.

“(4) Importers of tobacco products and processed tobacco – No fee shall be charged as an importer of processed tobacco at any location where such person is required to pay the fee as an importer of tobacco products.

“(5) Manufacturers of processed tobacco and importers of processed tobacco - No fee shall be charted as an importer of processed tobacco at any location where such person is required to pay the fee as a manufacturer of processed tobacco or pay the special tax as a manufacturer of tobacco products under section 5731of the Internal Revenue Code of 1986.

"(j) Business conducted in more than one location.—

"(1) Retail dealers at large.—Any retail dealer in liquors or retailer dealer in beer whose business is such as to require him to travel from place to place in different States of the United States may, under regulations prescribed by the Secretary, cover his activities throughout the United States with the payment of but one fee as a retail dealer in liquors or as a retail dealer in beer, as the case may be.

"(2) Dealers on trains, aircraft, and boats.—Nothing contained in this chapter shall prevent the payment, under such regulations as the Secretary may prescribe, of the fee by—

"(A) persons carrying on the business of retail dealers in liquors, retail dealers in beer or retail dealer in tobacco products on trains, aircraft, boats or other vessels, engaged in the business of carrying passengers; or

"(B) persons carrying on the business of retail dealers in liquors, retail dealers in beer or retail dealers in tobacco products on boats or other vessels operated by them, when such persons operate from a fixed address in a port or harbor and supply exclusively boats or other vessels, or persons thereon, at such port or harbor.

"(3) Liquor stores operated by States, political subdivisions, etc.—A State, a political subdivision of a State, or the District of Columbia shall not be required to pay more than one fee as a retail dealer in liquors under section 301(d) regardless of the number of locations at which such State, political subdivision, or District carries on business as a retail dealer in liquors.

"(k) Exception for the United States—Section 301(d)(4) shall not apply to any permit issued to any agency or instrumentality of the United States.

"(l) Exception for certain educational institutions—Section 301(d)(4) shall not apply with respect to any scientific university, college of learning, or institution of scientific research which is issued a permit under section 5271 of the Internal Revenue Code of 1986 and, with respect to any calendar year during which such permit is in effect, procures less than 25 gallons of distilled spirits free of tax for experimental or research use but not for consumption (other than organoleptic tests) or sale.

"§ 304. Administrative provisions.

"(a) Computation and Payment of the Fees.—All fees charged under this part shall be paid no later than the first day of July in each year, or on commencing any trade or business on which such fee is charged.

In the former case, the fee shall be computed for 1 year, and in the latter case it shall be computed from the first day of the month in which the trade or business commenced, to and include the 30th day of June following. The fee shall be paid in the mode and manner that the Secretary shall by regulation prescribe.
"(b) Condition precedent to carry on business.—No person shall be engaged in or carry on any trade or business subject to the fee under this section until he has paid the fee.
"(c) Procedures.—Unless otherwise specified by the Secretary, rules similar to those in section 5733 of the Internal Revenue Code of 1986 shall apply with respect to fees assessed under this part.
"(d) Applicable Rules.—The fees imposed by section 301(b) shall be assessed, collected, and paid in the same manner as taxes, as provided in section 6665(a) of the Internal Revenue Code of 1986.
"(e) Claims Collection.—In addition to the authority in section 304(d), the unpaid fees that are due and owing may be collected pursuant to the Federal Claims Collection Act, 31 U.S.C. Chapter 37.
"(f) Regulations.—The Secretary may issue such regulations as are necessary to carry out this title.
"§ 305. Definitions
"(a) Brewer.—Every person who brews beer (except a person who produces only beer exempt from tax under section 5053(e) of the Internal Revenue Code of 1986) and every person who produces beer for sale shall be deemed a brewer.
"(b) Dealer.—When used in sections 301 to 305, the term "dealer" means any person who sells, or offers for sale, any distilled spirits, wines, beer, tobacco products or processed tobacco.
"(c) Eligible distilled spirits plant.—A plant which is used to produce distilled spirits exclusively for fuel use and the production from which does not exceed 10,000 proof gallons per year.
"(d) Limited retail dealer.—When used in sections 301 to 305, the term ‘limited retail dealer’ means any fraternal, civic, church, labor, charitable, benevolent, or ex-servicemen's organization making sales of distilled spirits, wine, or beer on the occasion of any kind of entertainment, dance, picnic, bazaar, or festival held by it, or any person making sales of distilled spirits, wine, or beer to the members, guests, or patrons of bona fide fairs, reunions, picnics, carnivals, or other similar outings, if such organization or person is not otherwise engaged in business as a dealer.
"(e) Retail dealer in liquors.—When used in sections 301 to 305, the term ‘retail dealer in liquors’ means any dealer, other than a retail dealer in beer or a limited retail dealer, who sells, or offers for sale, any distilled spirits, wines, or beer, to any person other than a dealer.
"(f) Retail dealer in beer.—When used in sections 301 to 305, the term ‘retail dealer in beer’ means any dealer, other than a limited retail dealer, who sells, or offers for sale, beer, but not distilled spirits or wines, to any person other than a dealer.
"(g) Wholesale dealer in liquors.—When used in sections 301 to 305, the term ‘wholesale dealer in liquors’ means any dealer, other than a wholesale dealer in beer, who sells, or offers for sale, distilled spirits, wines, or

beer, to another dealer.
"(h) Wholesale dealer in beer.—When used in sections 301 to 305, the term 'wholesale dealer in beer' means a dealer who sells, or offers for sale, beer, but not distilled spirits or wines, to another dealer.
"(i) Wholesale dealer in tobacco products.- When used in sections 301 to 305, the term 'wholesale dealer in tobacco products' means a dealer who sells, or offers for sale, tobacco products to another dealer.;
"(j) Wholesale dealer in processed tobacco- When used in sections 301 to 305, the term 'wholesale dealer in processed tobacco' means a dealer who sells, or offers for sale, processed tobacco to another dealer;
"(k) Importer of tobacco products.-When used in sections 301 to 305, the term 'importer of tobacco products' means an importer as defined within section 5702(k) of the Internal Revenue Code of 1986 who imports tobacco products;.
"(l) Retail dealer in tobacco products.- When used in sections 301 to 305, the term 'retail dealer in tobacco products' means any dealer who sells, or offers for sale, tobacco products to any person other than a dealer;
"(m) Manufacturer of processed tobacco.- When used in sections 301 to 305, the term 'manufacturer of processed tobacco' means a manufacturer as defined within section 5702(p) of the Internal Revenue Code of 1986;
"(n) Importer of processed tobacco.- When used in sections 301 to 305, the term 'importer of processed tobacco' means an importer defined within section 5702(k) who imports processed tobacco."

(Financial Services and General Government Appropriations Act, 2011.)

2C – Legislative Proposals

Extend Pay Demonstration Project

TTB proposes to continue the Pay Demonstration Project (Pay Demo) by amending the General Provision language to extend the project for one additional year. This project was established to enhance Treasury's ability to effectively recruit and retain highly qualified employees. It seeks to do so by implementing changes in personnel management practices for designated occupations. Pay Demo has been extended every year since it was first established in FY 1999, and has been a successful intervention tool in the recruitment and retention of critical staff positions.

- The continuation of the pay demonstration authority has proven to be an effective recruitment strategy that enables the bureau to timely fill its positions with the right people, with the right skills, minimizing loss and skill gaps caused by an aging workforce and employee turnover;
- The pay demonstration authority fosters a results-oriented organizational culture by maximizing performance and assuring accountability by focusing on results, therefore, improving the bureau's overall performance;
- The pay demonstration authority provides continuous focus on improving recruiting and hiring procedures, classification and compensation systems, incentive systems, and involves employees and labor organizations in personnel decisions, which are all important to managing the human capital needs of the bureau;
- The pay demonstration authority has improved targeted outreach for a more diverse workforce, increasing the participation rate of various groups (e.g., women, persons with disabilities, veterans, and persons from different age groups) across all occupations and band/grade groupings under the authority.

Annual Licensing and Registration Fees

The Budget proposes establishing a permanent program for FY 2011 and each fiscal year thereafter, requiring members of the alcohol and tobacco industries to pay annual licensing and registration fees. In general, these fees will support the bureau's core mission and the funds will be used to continue to provide benefits to members of the regulated community, including retailers, wholesalers, breweries, wineries, distilleries, importers, and industrial alcohol businesses.

Benefits to Industry: In general, regulation of the beverage alcohol and tobacco industries benefits retailers, wholesalers, breweries, wineries, distilleries, importers, and industrial alcohol businesses under this legislative proposal. These industries would pay a fee for the benefits they receive from the bureau's regulatory and tax collection efforts. In particular, TTB's efforts help ensure that alcohol and tobacco products are not contaminated, misbranded, or illegally marketed, and prevent dishonest persons from entering into the alcohol and tobacco distribution systems. This promotes fair competition among all industry members. Regulation of these industries also protects the public against adulterated alcohol and tobacco products, and misleading labels and advertisements.

Benefits to industry members include:

- Investigating applications and issuing permits or notices for the operation of distilleries, bonded wine premises, and breweries to ensure that only qualified persons operate in the industry;
- Regulating the operations of various industrial users of distilled spirits, including manufacturers of non-beverage products, and tax-free and denatured alcohol users to ensure that all taxes due on alcohol are collected;
- Regulating the production, packaging, and storage of alcohol and tobacco products;
- Regulating the labeling and bottling of alcohol beverages to both protect the revenue due and to ensure a safe, fair, and even market in the alcohol trade;
- Regulating the marketing and promotional practices concerning the sale of tobacco and alcohol beverages by producers, importers, and wholesalers primarily through the investigation of allegations of unfair trade practices to promote fair competition among the industry.

Legislative Proposal on Annual Licensing and Registration Fees

The Budget proposes to amend U.S.C. Title 27 to allow TTB to establish a permanent program to collect annual fees from alcohol producers, distributors, and retailers that will be classified as offsetting receipts. In the first year, TTB estimates the annual estimated offsetting receipt collections at $111 million.

Key provisions of this legislative proposal include:

(1) Collected annual fees are authorized to cover the budget activities of the Alcohol and Tobacco Tax and Trade Bureau to the extent provided in annual appropriations acts.

(2) The Secretary shall provide for increased annual fees consistent with the annual rate of inflation as defined by the Consumer Price Index, and shall publish any such changes in the Federal Register.

Annual Fee Requirement:

The annual fees to be charged under this program are as follows:

Retailer Dealers in Liquors, Beer, and Tobacco	$350
Wholesaler Dealers in Liquors and Beer	$500
Wholesaler Dealers in Tobacco and Processed Tobacco	$500
Importers of Tobacco and Processed Tobacco	$500
Manufacturers of Processed Tobacco 1/	$1000
Alcohol Producers: Distilled Spirits Plant 1/ Bonded Wine Cellar 1/ Bonded Wine Warehouse 1/ Tax paid Wine Bottling House 1/	$1000
Every Brewer 1/	$1000
1/ Reduced Fees by substituting "$500" for "$1,000" if gross receipts are less than $500,000 for the most recent taxable year before the 1st day of the taxable period.	$500
Denatured Spirits, Recovery and Tax-Free Users (Industrial Alcohol)	$300
Non-beverage Domestic Drawback Claimants	$500

The licensing and registration fee excludes tobacco businesses covered under the Special Occupational Tax (SOT) program, including tobacco export warehouses, manufacturers of tobacco products, and manufacturers of cigarettes papers and tubes. In addition, since many retailers of alcohol and tobacco products trade in both commodities, only one fee will be required for those entities. The legislative proposal includes the various exemptions and exceptions that applied under the SOT.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 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 2010 Enacted	FY 2011 Request	Percent Change
Economic competitiveness	53,617	54,609	**1.85%**
Revenue collected	53,617	54,609	**1.85%**
Total	**$107,234**	**$109,218**	**1.85%**

3A – Collect the Revenue *($53,084,000 from direct appropriations and $1,525,000 from reimbursable programs):* This 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 collect revenue that is rightfully due. The Tax Audit Division 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 2011 budget request enables the continuation of efforts to achieve the performance targets supporting the bureau's strategic goals 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 $1,525,000
Non-Federal Sources (Puerto Rico)……………………………………..$1,500,000
Federal Sources (Laboratory Services)………………………………….$25,000

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 $481 million in cover-over taxes collected in the United States. Also, the bureau collects a nominal amount of reimbursable funding for lab services performed to support criminal investigations at the Bureau of Alcohol, Tobacco, Firearms, and Explosives.

Special Receipts Fund (Annual Fees)………………………………………..$53,084,000
The annual licensing and registration fees are to cover the costs of TTB's operation to the extent provided in appropriation acts.

3.2.1 – Collect the Revenue Budget and Performance Plan

Collect the Revenue Budget Activity					
Resource Level	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Request**
Appropriated Resources	$46,215	$46,758	$50,524	$51,500	$53,084
Reimbursable Resources	$1,512	$1,878	$2,576	$2,117	$1,525
Total Resources	**$47,727**	**$48,636**	**$53,100**	**$53,617**	**$54,609**
Budget Activity Total	**$47,727**	**$48,636**	**$53,100**	**$53,617**	**$54,609**

Collect the Revenue Budget Activity						
Measure	**FY 2007**	**FY 2008**	**FY 2009**		**FY 2010**	**FY 2011**
	Actual	**Actual**	**Target**	**Actual**	**Target**	**Target**
Amount of revenue collected per program dollar (E)	N/A	313	300	427	400	400
Cumulative percentage of excise tax revenue audited over 3 years (%) (Ot)	16	DISC	DISC	DISC	DISC	DISC
Percent of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)(Oe)	86	94	92	94	92	92
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)(Oe)	75	DISC	DISC	DISC	DISC	DISC
Percentage of total tax receipts collected electronically (E)	98	DISC	DISC	DISC	DISC	DISC
Percentage of voluntary compliance in filing timely and accurate tax payments (in terms of revenue) (Oe)	86.37	DISC	DISC	DISC	DISC	DISC
Resources as a percentage of revenue (E)	0.31	DISC	DISC	DISC	DISC	DISC
Unit cost to process an excise tax return ($) (E)	61	DISC	DISC	DISC	DISC	DISC

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance: In FY 2009, TTB met all of its performance measures under the Collect the Revenue budget activity, while showing continued improvements in performance scores. TTB collected nearly $21 billion in federal excise taxes in a highly efficient manner. Key performance metrics show that 94 percent of industry members voluntarily file their tax and operational reports on or before the scheduled due date.

The amount of revenue collected per program dollar measure quantifies the efficiency of the tax collection program and, in FY 2009, TTB reported a return on investment of $427 for every dollar spent on collection activities. The actual ratio of collections to expenses far exceeded performance targets for FY 2009 due mainly to the passage of legislation that increased tax rates on certain tobacco products, effectively doubling the bureau's revenue collections for tobacco.

3B – Protect the Public *($53,084,000 from direct appropriations and $1,525,000 from reimbursable programs):* This activity ensures the integrity of products and industry members in the marketplace, promotes 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. The bureau 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, including our counterpart regulators in foreign countries, 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 are required to submit a formula to TTB's 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 laboratory 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. This is done by testing samples of beverage alcohol sold at the retail level and obtained directly from producers. The purpose of this testing is to ensure that beverage alcohol products 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 $1,525,000
Non-Federal Sources (Puerto Rico)…………………………………...$1,500,000
Federal Sources (Laboratory Services)………..………..……………..$25,000

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 $481 million in cover-over taxes collected in the United States. Also, the bureau collects a nominal amount of reimbursable funding for lab services performed to support criminal investigations being conducted at the Bureau of Alcohol, Tobacco, Firearms, and Explosives.

Special Receipts Fund (Fees)…………………………………………..$53,084,000
The annual licensing and registration fees are to cover the costs of TTB's operation to the extent provided in appropriation acts.

3.2.2 – Protect the Public Budget and Performance Plan

Protect the Public Budget Activity Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$44,403	$46,757	$48,541	$51,500	$53,084
Reimbursable Resources	$1,512	$1,877	$2,578	$2,117	$1,525
Total Resources	**$45,915**	**$48,634**	**$51,119**	**$53,617**	**$54,609**
Budget Activity Total	**$45,915**	**$48,634**	**$51,119**	**$53,617**	**$54,609**

Protect the Public Budget Activity Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Average number of days to process an original permit application at the National Revenue Center (E)	N/A	64	72	64	72	72
National Revenue Center (NRC) customer satisfaction survey results (%)(Oe)	N/A	90	85	89	85	85
Percent of electronically filed Certificate of Label Approval applications (%) (E)	51	62	53	74	78	85
Percentage of COLA approval applications processed within 9 calendar days of receipt (%) (E) (This measure will become inactive beginning in FY 2008.)	42	DISC	DISC	DISC	DISC	DISC
Percentage of Permit Applications (original and amended) Processed by the National Revenue Center within 60 Days (E)	85.09	DISC	DISC	DISC	DISC	DISC
Percentage of importers identified by TTB as illegally operating without a Federal permit (%)(Oe)	N/A	22	20	15	19	18
Percentage of instances where the utilization of International Trade Database System (ITDS) results in identifying importers without permits as a percentage of total permits on file at TTB's National Revenue Center (Oe)	N/A	15	DISC	DISC	DISC	DISC
Unit cost to process a Wine Certificate of Label Approval (E)	34	DISC	DISC	DISC	DISC	DISC

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance: In FY 2009, TTB met or exceeded its targeted performance for each of its Protect the Public measures.

The bureau reported increases in the percent of electronically filed COLA applications, which in FY 2009 reached 74 percent of all applications. The ongoing rise in electronic filing is due to successful outreach events for industry sponsored by the bureau, and system enhancements that simplify filing for industry members. With continued funding for these efforts, TTB expects usage rates to reach 85 percent in FY 2011.

The NRC customer survey measures satisfaction with processing times and the level of service provided to the industry. The survey solicits feedback on the level of service provided to applicants for an original or amended permit, or those industry members filing a claim to recover taxes paid on non-beverage alcohol or overpayments of tax. TTB continues to exceed its target of a sustained score of 85 percent on customer satisfaction for permits and claims processing, and achieved a composite score of 89 percent in FY 2009.

The NRC foresees continued growth in the number of original permits submitted by new applicants to the regulated industries. The bureau expects automation efforts that commenced in FY 2010 to expedite permit processing times, as described in Section 1B, Specific Challenges in FY 2011. With full system functionality slated for deployment in 2011, and considering the requisite transition and training period for industry members, TTB anticipates achieving significant improvements in processing times beginning in FY 2012. To improve processing times in the interim, TTB made a shift in internal business processes in FY 2009, whereby certain permit applications requiring a full investigation were sent to the field offices for review on a post-issuance basis. This process improvement enabled the bureau to maintain a 64-day turnaround time in permit processing for FY 2009 despite a four percent increase in workload.

TTB's monitoring of U.S. Customs and Border Protection's data through the International Trade Data System is yielding results. The percentage of entities illegally operating tobacco without a federal permit has declined since this measure was established in FY 2008. This measure gauges the effectiveness of the bureau's cease and desist letters to illicit operators and its follow up activities to ensure that illegally obtained or contraband products do not reach U.S. consumers.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://treas.gov/offices/management/budget/

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, the bureau has taken several steps to maintain and improve its current professional workforce. TTB's Human Capital Strategic Plan, which is aligned with the TTB 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, especially as it relates to the bureau's mission critical positions. The bureau expects to lose approximately 40 percent of its workforce between 2009 and 2013 due to retirements and other attrition. To mitigate these losses, it is vital that TTB continue to have the use of the personnel interventions identified in the Pay Demonstration Project (Pay Demo) to enable the bureau to improve its ability to recruit, develop, and retain high-caliber employees in mission critical positions. The bureau has 131 participants in the Pay Demo project that function in mission critical positions such as chemists, industry analysts, auditors, and information technology specialists.

<u>Wellness Programs</u>

TTB received a number one ranking among 216 sub-component agencies in the area of work-life programs. As part of its culture, the bureau promotes the use of telework and work schedule flexibilities. TTB also has gone beyond the standard protocol to maintain a Health Improvement Program which allows employees up to three hours per week to exercise during work hours. TTB has procured vending services to include "heart healthy" choices in snack machines. Finally, the bureau has extensive Employee Assistance Program services available to all employees, which include grief and stress management, family counseling, financial consultation services, mental health evaluations and referrals, eldercare services, parental skills training, legal assistance, and a host of video/literary resources.

During FY 2009, TTB:

- Received feedback from the joint Treasury/Office of Personnel Management (OPM) evaluation of its human resources program, which was positive and indicated an overall effective program rating;
- Underwent the Department of the Treasury's first audit of the Treasury Bureaus' Equal Employment Opportunity (EEO) programs. The feedback indicated positive results and an overall effective EEO/Diversity Program. EEO is implementing improvement strategies, such as a TTB Diversity Week, based on its five-year strategic plan;

- Implemented the Treasury Learning Management System and provided all mandatory training to employees in the system through online training modules. The system is the primary source of record for employee training histories, and provides thousands of online courses through a leading provider of Web-based training in professional development and technical training;
- Administered the FY 2008 Federal Human Capital Survey (FHCS) for TTB in coordination with Treasury and OPM, which showed an improvement above the FY 2006 scores. TTB was ranked 7th out of 216 federal organizations on the Partnership for Public Service, Best Places to Work 2009 overall index score ranking. This is an increase from the ranking of 10th out of 222 federal agencies in 2007. It is also significant to note that TTB ranked 1st out of the 216 federal organizations surveyed on the specific work index for Family-Friendly Culture and Benefits and 3rd for the Strategic Management index. TTB developed an FY 2009 – 2010 FHCS Action Plan using the FY 2008 survey results to target specific strategies to improve scores in the FHCS results areas of Leadership/Knowledge Management and Performance Culture;
- Completed the OPM 2009 Performance Appraisal Assessment Tool (PAAT) evaluation and reporting on the bureau's General Schedule performance management program and received an excellent rating on the overall evaluation. In its feedback to TTB, Treasury stated the following: "Your phenomenal score of 90 reflects not only TTB's hard work and dedication to the PAAT, but is also reflective of the tremendous progress TTB is making in ensuring its employees have an effective, results-oriented, performance appraisal program.…We commend you for taking performance management seriously! We are so very proud of the TTB 2009 PAAT score of 90 points;"
- Prepared for signature the TTB order on the Incentive Awards Program. As part of its employee recognition efforts, the bureau holds an annual award ceremony to honor the service and performance of its workforce;
- Continued to exceed the Treasury hiring goal of 45 days with an annual overall average of 33 days to hire.

Federal Human Capital Survey Response

In response to the government-wide survey to obtain employee feedback, TTB's Human Resources Division (HRD) developed a Federal Human Capital Survey (FHCS) Action Plan. TTB ranked 7th out of 216 sub-component agencies on this survey and had high scores in the area of recruitment, development, and retention. The areas where TTB scored lowest are the same areas identified as problematic throughout the Federal government – "Performance Culture" and "Leadership/Knowledge Management." The HRD staff conducted focus groups with supervisory and non-supervisory employees to identify specific actions that would address survey responses of TTB employees. During the remainder of FY 2009 and through FY 2010, various program offices will be taking action to:

- Continue to provide annual management and supervisory training on performance management, employee recognition, and dealing with problem employees;
- Update the Diversity Strategic Plan and post it on the Intraweb for access by all employees;
- Publicize the Tuition Reimbursement Program;
- Educate employees on performance management policies;

- Review, and revise as appropriate, guidance on detail assignments;
- Encourage career mapping through greater use of Individual Development Plans;
- Encourage targeted recruitment (e.g., the Presidential Management Fellows Program) and employee development (e.g., the Emerging Leaders Program) as a means of satisfying workforce planning/succession needs.

Implementing the action plan will increase communication with employees regarding the relationship between individual responsibilities and the bureau’s mission, ensure a highly talented and well-developed staff, and enhance succession planning activities.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments								
Major IT Investments / Funding Source	Budget Activity	FY 2008 Actual Funding	FY 2009 Enacted Funding	% Change from FY08 to FY09	FY 2010 Enacted Funding	% Change from FY09 to FY10	FY 2011 Requested Funding	% Change from FY10 to FY11
Subtotal, Major IT Investments		0	0	0.0%	0	0.0%	0	0.0%
Non-Major IT Investments	Collect the Revenue/Protect the Public	3,980	4,480	12.6%	4,480	0.0%	4,480	0.0%
Infrastructure Investments	Collect the Revenue/Protect the Public	14,915	17,258	15.7%	16,260	-5.8%	16,264	0.0%
EITIO		11,483	13,826		12,828		12,832	
WCF		3,432	3,432		3,432		3,432	
Enterprise Architecture	Collect the Revenue/Protect the Public	491	644	31.2%	644	0.0%	644	0.0%
Total IT Investments	Collect the Revenue/Protect the Public	19,386	22,382	15.5%	21,384	-4.5%	21,388	0.0%

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 all 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 the Treasury Department?
- Is there a balance of benefits against costs and risks?
- Is TTB eliminating duplication and stovepipe projects?

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

4.2 – Program Evaluation

Program Name: Collect the Revenue

Assessment and Improvement Actions

- TTB is updating its Web site to enhance search and navigation; improve content and format and employ plain language principles.
- TTB is analyzing the results of its comprehensive TTB-sponsored industry seminar and incorporating change and improvements to subsequent seminars.
- TTB is applying a custom survey and evaluation tool to determine the adequacy of the National Revenue Center's internal accounting and administrative control systems and ensure compliance with the Federal Financial Management Improvement Act and GAO standards.
- TTB is developing new releases of its Web-based "dashboard" that when fully deployed, will report to TTB management bureau service standards, relevant performance measure data, and other key bureau information such as workloads.

Financial Management Service (FMS)

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2009	FY 2010	FY 2011		
	Enacted	Enacted	Request	$ Change	% Change
Payments	$147,717	$150,395	$142,537	($7,858)	(5.2%)
Collections	$21,521	$21,911	$21,690	($221)	(1.0%)
Government-wide Accounting and Reporting	$70,547	$71,826	$71,026	($800)	(1.1%)
Total Appropriated Resources	**$239,785**	**$244,132**	**$235,253**	**($8,879)**	**(3.6%)**
Total FTE	**1,500**	**1,500**	**1,375**	**(125)**	**(8.3%)**

*The FY 2009 figure does not include $7 million dollars received from the American Recovery and Reinvestment Act.

FY 2011 Priorities

- Provide timely, accurate, and efficient disbursement of federal government payments.
- Provide timely, accurate, and efficient collection of federal government receipts.
- Maximize collection of delinquent debt owed to the government.
- Produce timely and accurate financial information that contributes to the improved quality of financial decision making.
- Be a great place to work.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Financial Management Service's (FMS) vision is to provide world class delivery of government financial management services.

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 agency for the federal government. In ensuring the restoration of confidence in the nation's financial system, FMS executes its role of managing the nation's finances by collecting money due to the United States, making its payments, and performing central accounting functions.

FMS Strategic Goals, as reflected in the FY 2011 priorities, are to:

- Provide timely, accurate, and efficient disbursement of federal government payments.
- Provide timely, accurate, and efficient collection of federal government receipts.
- Increase use of direct deposit and direct debit to move towards a paperless Treasury.
- Maximize collection of delinquent debt owed to the Government.
- Produce timely and accurate financial information that contributes to the improved quality of financial decision making.
- Be a great place to work.

The National Critical Infrastructure was established as a result of the Homeland Security Act of 2002. Critical Infrastructure are the assets, systems, and networks, whether physical or virtual, so vital to the United States that their incapacitation or destruction would have a debilitating effect on security, national economic security, public health or safety, or any combination thereof. Under the Homeland Security Presidential Directive 7, the Department of the Treasury was identified as a key sector-specific area for the Banking and Finance Sector.

FMS is responsible for a major element of the federal government's Financial Critical Infrastructure and certain key governmentally controlled resources which are essential to the operation of the economy and government. While 100 percent of FMS operational functionality comprises the processing and safeguarding of public funds, approximately 75 percent of its direct salary and expense funding, three programs – payments, collections, and cash reporting ensure the viability of the Critical Infrastructure. FMS is required to ensure these activities are fully operational at all times.

As part of the critical infrastructure, FMS provides critical services to millions of United States taxpayers, FPAs, and other customers. It embodies Treasury's leadership strategy to create value for the American people, provides responsible and effective stewardship over the government's finances, and focuses on quality service, results and innovation. FMS operates the largest tax collection system in the world and issues over one billion payments annually; therefore, the impact of its programs on the economy and the public is significant. These activities touch millions of people and virtually every FPA and state government across the country.

As the government's financial manager, FMS oversees a daily cash flow in excess of $60 billion, disbursing 85 percent of the federal government's payments. These payments include Internal Revenue Service (IRS) income tax refunds, Social Security benefits, veteran's benefits and other federal payments to individuals and businesses. FMS also administers the world's largest collection system, having collected $2.86 trillion in FY 2009. FMS provides cash management guidance to FPAs, maintains the government's accounts, and compiles and publishes government-wide financial information used to monitor the government's financial status, and serves as the government's central debt collection agency for delinquent debt.

1B – Program History and Future Outlook

The Department is committed to moving to paperless processing throughout its bureaus and programs, including increasing the number of payments and collections made electronically. FMS will play a critical role through an increasing use of electronic benefit payments and collections. This will help streamline intergovernmental processes and enhance service to the general public.

FMS continues to work on increasing operational efficiencies that streamline the four main activities of payments, collections, government-wide accounting and reporting, and debt collection. In keeping with the President's goal of putting "our fiscal house in order," FMS has, through its continued modernization efforts, identified several cost savings which can be found in section two of the budget. Modernization of these systems will help minimize/eliminate waste, save time and, ultimately, optimize the use of the taxpayers' dollars.

FMS strives to consistently look for ways to increase the number of payments and collections made electronically. The Paperless Treasury initiative will move FMS closer to an all-electronic organization. Two important components of this initiative include: the phasing in of government benefit check recipients to electronic deposit and requiring all businesses with $2,500 or more in quarterly tax liability to pay electronically. The use of electronics will allow FMS to improve the accuracy and efficiency of transactions and operations, eliminate paper-based processes, and contribute to increasing electronic transactions within government and with the public.

In addition, FMS continues to implement systems that reduce the use of paper. An example of this is the roll-out of the Judgment Fund Internet Claims System, which allows federal agencies to submit claims electronically to the Judgment Fund, thereby eliminating paper throughout the entire federal government.

In FY 2011, FMS will work with GSA to conduct a feasibility study to determine alternative space needs for FMS as the lease for the Hyattsville facility will expire in December 2012.

Payments

The Payments program, a component of the National Financial Critical Infrastructure, 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. In FY 2009, FMS issued over one billion non-Defense payments worth almost $2.27 trillion to a wide variety of recipients, such as those who receive IRS tax refunds, Social Security benefits, and veteran's benefits. Nearly eighty-one percent of all payments disbursed were issued via EFT.

In calendar year (CY) 2008, FMS issued 119 million Economic Stimulus Payments valued at over $96 billion. Over 36 percent of the FY 2008 Stimulus Payments were issued by direct deposit. In FY 2009, FMS disbursed over 54.9 million Economic Recovery Act Payments (ERP) totaling $13.7 billion with 85 percent of the payments made by EFT. FMS expects total ERP payments disbursed will be over 55 million valued at over $13.8 billion.

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. The Payment Application Modernization (PAM) Project is an effort to replace the current mainframe-based software applications that are used to disburse approximately one billion federal payments annually. Ultimately, PAM will be a single application that will generate check, wire transfer, and ACH payments for FPAs, including IRS, Social Security, Veterans Affairs, and others.

In FY 2011, FMS will continue to expand the use of electronic media to deliver federal payments by pursuing the continued implementation of the Debt Collection Improvement Act of 1996 (DCIA), as amended, which generally requires all federal agencies to make payments by EFT. Electronic media provides a safer, more secure and reliable method of payment for recipients. In addition, electronic payments decrease the number of paper checks issued, minimizing costs and inefficiencies associated with the delivery of non-electronic benefits.

Collections
The Collections program, also part of the National Financial Critical Infrastructure, collects revenues needed to operate the federal government through the effective management of the government's collections infrastructure. In FY 2009, FMS collected $2.86 trillion, of which 83 percent was collected electronically, through a network of more than 9,000 financial institutions. A major component supporting electronic collections is the Electronic Federal Tax Payment System (EFTPS). EFTPS is a tax payment system that offers all businesses and individuals the convenience of making their federal tax payments electronically 24 hours a day, seven days a week. Under the proposed Paperless Treasury initiative, all businesses with $2,500 or more in quarterly tax liability will be required to pay electronically.

FMS is undergoing a comprehensive effort to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. Collections and Cash Management Modernization (CCMM), will improve financial performance by enabling FMS and government agencies to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes.

In FY 2011, FMS will continue to expand the use of electronic collection mechanisms using the most advanced and secure collection technologies that are flexible enough to accommodate the varying needs and technical sophistication of all taxpayers and FPAs.

FMS will improve the collection channels and its interaction with the public. Currently, financial agents report collections information to many FPAs and multiple United States Treasury systems. To collect this information, the FPAs and Treasury systems interface with numerous 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 to FPAs via transaction brokering, data warehousing, and business intelligence. This will enable the standardization and consolidation of collections information and eliminate redundancies in the 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.

Government-wide Accounting and Reporting
The Government-wide Accounting and Reporting program maintains the federal government's account structure for its monetary assets and liabilities by operating and overseeing the government's central accounting and reporting system. This includes cash reporting which is part of the National Critical Infrastructure. FMS has consistently released the Financial Report of the United States Government (FR) 75 days after the fiscal year-end. However, for FY 2009, some agencies that were significantly impacted

by the substantial reporting requirements of the American Recovery and Reinvestment Act (ARRA) were granted reporting deadline extensions, which consequently impact the timing of the FR, now scheduled for February 16, 2010. The FR presents a picture of government-wide finances that complements the traditional federal government budget information. Treasury releases the Monthly Treasury Statement (the monthly public source of the federal government's budget surplus/deficit) 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 2011, FMS will continue to revamp and implement government-wide accounting processes to provide more useful and reliable financial information on a regular basis. Two major initiatives will modernize long standing federal accounting processes and provide agencies with methodologies and tools to improve the accuracy and consistency of their financial data.

Government-wide Accounting (GWA) Modernization Program is a new process and system intended to improve the exchange of financial information among FMS, FPAs, OMB, and the banking community. Once completed, it will replace current government-wide accounting functions and processes that are both internal and external to FMS. FMS will continue working with FPAs to implement the new process for the reporting of payments, collections, and intra-governmental transactions. The system 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 eliminate duplicate reporting and reconciliation burdens on 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. While FMS will realize modest savings from this program, the most significant savings will be government-wide as agencies will no longer have to prepare month-end reports classifying all of their disbursement and collection transactions or perform reconciliations on statements of differences associated with month-end reporting. FMS anticipates GWA Modernization Program will be implemented by 2014.

The Financial Information and Reporting Standardization (FIRST) 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 adjusted trial balances. It is also 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. FMS anticipates FIRST will be in production by 2013.

Debt Collection

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

In FY 2009, FMS collected $5.07 billion in delinquent debt. Debt referrals from creditor agencies were at 100 percent of eligible debt at the end of FY 2009. As a result of FMS continued program improvements, total debt collections since the enactment of the DCIA are over $42.5 billion through FY 2009.

In FY 2011, FMS will continue to enhance FedDebt, a comprehensive system that integrated FMS existing collection programs: Cross-Servicing and the Treasury Offset Program (TOP). TOP compares the names and Taxpayer Identifying Numbers (TINs) of debtors with the names and TINs on state and federal payment files. If there is a match, the federal payment is reduced, or "offset," to satisfy the overdue debt. Cross-Servicing includes use of various collection tools such as offset, demand letters to debtors, repayment agreements, administrative wage garnishment, referrals to the Department of Justice, credit bureau reporting, reporting discharged debts to the IRS, and use of private collection agencies.

In 2009, 1,020,892 offsets in the amount of $239,162,817 were collected from Economic Recovery Payments to satisfy delinquent Child Support, Federal Non Tax and State Debt. The United States Postal Service also began taking vendor payment offsets and levies in June 2009, as well as The Centers for Medicare and Medicaid Services who began offsetting debts in October 2009. 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.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Financial Management Service	FTE	Amount
FY 2010 Enacted	1,500	244,132
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$4,560
FERS % Change	-	369
Non-Pay Inflation Adjustment	-	843
Pay Annualization	-	933
Pay Inflation Adjustment	-	2,415
Efficiencies Savings:	(125)	($13,439)
Payment Modernization/Operational Efficiency	(60)	(3,020)
Realignment PM/DMS	(30)	(3,390)
Elimination of Paper-Based Process	(35)	(4,429)
IT Efficiency Savings	-	(2,600)
Subtotal FY 2011 Changes to Base	(125)	($8,879)
Total FY 2011 Base	1,375	235,253
Total FY 2011 Budget Request	**1,375**	**235,253**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$4,560,000 / +0 FTE

Non-Pay Inflation Adjustment +$843,000 / +0 FTE

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

Pay Annualization +$933,000 / +0 FTE

Funds are requested for the FY 2011 cost of the January 2010 pay raise.

Pay Inflation Adjustment +$2,415,000 / +0 FTE

Funds are requested for the January 2011 pay raise.

FERS % Change +$369,000 / +0 FTE

Funds are requested for the increase in agency retirement contribution percentages for GS employees from 11.2% to 11.5% for FY 2011 as required by OPM.

Efficiencies Savings ....-$13,439,000 / -125 FTE

Payment Modernization/Operational Efficiency -$3,020,000 / -60 FTE

The Payment Application Modernization (PAM) Project streamlines the FMS payments. PAM will replace the current mainframe-based software applications used to disburse approximately one billion federal payments annually, which along with other modernization efforts will result in operational efficiencies savings.

Realignment PM/DMS -$3,390,000 / -30 FTE

Consolidation of Debt Management and Payment Management business processes will allow FMS to assure operational continuity and maximize use of its call centers.

Elimination of Paper-Based Process -$4,429,000 / -35 FTE
The implementation of several IT systems will eliminate current paper processes. For example, the implementation of the Judgment Fund Internet Claims System (JFICS) allows federal agencies to submit their claims for payment electronically to the Judgment Fund. FMS is in the process of rolling out JFICS to federal agencies which will eliminate paper and result in savings to FMS. Additionally, FMS plans to analyze its administrative needs and redistribute resources to critical areas.

IT Efficiency Savings -$2,600,000 / +0 FTE
FMS will consolidate several software contracts and move applications from the Bureau of Public Debt server and expects to gain efficiency savings from its transition to broadband.

2.2 – Operating Levels Table

Financial Management Service	FY 2009 Enacted	FY 2010 President's Budget	Congressional Action Including Rescission	FY 2010 Enacted Level	Proposed Reprogrammings	FY 2010 Proposed Operating Level	FY 2011 Requested Level
FTE	**1,500**	**1,500**	**0**	**1,500**	**0**	**1,500**	**1,375**
Object Classification:							
11.1 - Full-time permanent	124,544	127,561	0	127,561	0	127,561	120,662
11.3 - Other than full-time permanent	1,500	1,540	0	1,540	0	1,540	1,540
11.5 - Other personnel compensation	3,000	3,081	0	3,081	0	3,081	5,081
11.8 - Special personal services payments	3,508	3,603	0	3,603	0	3,603	3,603
12 - Personnel benefits	30,975	31,703	0	31,703	0	31,703	29,763
13 - Benefits for former personnel	175	180	0	180	0	180	180
21 - Travel and transportation of persons	1,503	1,511	0	1,511	0	1,511	1,511
22 - Transportation of things	275	278	0	278	0	278	278
23.1 - Rental payments to GSA	13,500	13,635	0	13,635	0	13,635	14,708
23.2 - Rental payments to others	670	677	0	677	0	677	677
23.3 - Comm, utilities, and misc charges	10,351	10,455	0	10,455	0	10,455	9,942
24 - Printing and reproduction	500	505	0	505	0	505	505
25.1 - Advisory and assistance services	6,002	6,062	0	6,062	0	6,062	6,062
25.2 - Other services	18,759	18,574	0	18,574	0	18,574	15,974
25.3 - Other purchases of goods and services from Govt. accounts	2,768	2,795	0	2,795	0	2,795	2,795
25.4 - Operation and maintenance of facilities	500	505	0	505	0	505	505
25.7 - Operation and maintenance of equip	8,005	8,085	0	8,085	0	8,085	8,085
26 - Supplies and materials	3,600	3,636	0	3,636	0	3,636	3,636
31 - Equipment	9,100	9,191	0	9,191	0	9,191	9,191
32 - Land and structures	500	505	0	505	0	505	505
42 - Insurance claims and indemnities	50	50	0	50	0	50	50
Total Budget Authority	**$239,785**	**$244,132**	**$0**	**$244,132**	**$0**	**$244,132**	**$235,253**
Budget Activities:							
Payments	147,717	150,395	0	150,395	0	150,395	142,537
Collections	21,521	21,911	0	21,911	0	21,911	21,690
Government-wide Accounting and Reporting	70,547	71,826	0	71,826	0	71,826	71,026
Total Budget Authority	**$239,785**	**$244,132**	**$0**	**$244,132**	**$0**	**$244,132**	**$235,253**

2.3 – Appropriations Detail Table

Dollars in Thousands

(Dollars in Thousands)

Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Payments	922	$139,350	963	$147,717	963	$150,395	850	$142,537	-11.73%	-5.22%
Collections	129	23,804	135	21,521	135	$21,911	132	21,690	-2.22%	-1.01%
Gov. Accounting and Reporting	382	70,541	402	70,547	402	$71,826	393	71,026	-2.24%	-1.11%
Subtotal New Appropriated Resources	1,433	$233,695	1,500	$239,785	1,500	$244,132	1,375	$235,253	-8.33%	-3.64%
Other Resources:										
Recoveries										
Offsetting Collections - Reimbursable	464	225,109	441	228,010	483	234,690	460	216,730	-4.76%	-7.65%
Available multi-year/no-year funds										
Transfers In/Out										
Subtotal Other Resources	464	$225,109	441	$228,010	483	$234,690	460	$216,730	-4.76%	-7.65%
Total Resources Available for Obligation	1,897	$458,804	1,941	$467,795	1,983	$478,822	1,835	$451,983	-7.46%	-5.61%

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, [$244,132,000] *$235,253,000* of which not to exceed $9,220,000 shall remain available until September 30, [2012] 2013, 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, 2010]*	

Exhibit 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 United States Treasury. FMS estimates that the cost of FRB services for FY 2011 will be approximately $321 million.

Financial Agent Services Permanent, Indefinite Appropriation

Congress has given the Secretary of the Treasury broad discretion to deposit money in financial institutions and to obtain banking services by designating financial institutions to act/serve as Financial Agents (FA) of the United States. The services support many FMS programs such as EFTPS, the Lockbox Networks, plastic cards, e-commerce systems, and the deposit reporting and cash concentration system called CA$HLINK II. These and other programs are vital to FMS strategic goals, the Government's financial critical infrastructure, and the expanding E-Government. The services provided by the FAs are authorized under numerous statutes including, but not limited to, 12U.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 2011 will be approximately $625 million, which includes $25 million for Government Sponsored Enterprise - Mortgage Backed Securities (GSE-MBS) administrative costs. Approximately $60 million will be reimbursed from other government agencies and deposited into the General Fund.

Table 2.4 – Permanent, Indefinite Appropriations

(Dollars in Thousands)

Permanent, Indefinite Appropriation	2009 Enacted	2010 Request	2011 Request
Federal Reserve Bank	$305,000	$321,000	$321,000
Financial Agent Services*	$593,000	$633,000	$625,000

* FY 2010 & FY 2011 include costs for the Government Sponsored Enterprise - Mortgage Backed Securities administrative costs of $36M and $25M, respectively.

Note: Approximately $60 million is reimbursed from other government agencies and deposited into the General Fund.

2C – Legislative Proposals

Debt Collection

Authorize Post-Levy Due Process

This proposed amendment to 26 U.S.C. § 6330 would allow the IRS to levy the payment of a federal contractor who owes delinquent taxes, and provide the taxpayer with notice and an opportunity for an administrative collection due process (CDP) hearing, and for judicial review, within a reasonable time after the levy. The IRS currently has this authority for levies against state tax refunds and to collect federal employment taxes.

Under the automated Federal Payment Levy Program, Treasury matches federal tax liabilities against federal payments to contractors. When a match occurs, IRS issues the CDP notice but cannot levy the payment until the CDP requirements are complete. By this time the payment has already been made and the opportunity for levy is lost. This proposal would remedy this situation by allowing the IRS to levy the payment at the time the payment is identified.

Allow IRS to Levy 100 Percent of All Vendor Payments
This proposed amendment to 26 U.S.C. § 6331(h)(3) would allow IRS to continuously levy up to 100% of federal payments made to all federal vendors who owe delinquent taxes, not only vendors of "goods or services." Currently, continuous levies of payments made to vendors of "goods or services" allow for collection from up to 100% of the levied payment, whereas continuous levies of other payments attach to no more than 15% of the payment.

The current law excludes from the 100 percent continuous levy authority a sizable number of federal vendor payments, most notably payments related to the purchase or lease of real estate by the Federal Government, but also payments for other purchases such as intellectual property or software. As an operational matter, without this legislative change, it is not feasible for FMS to automate the continuous levy of vendor payments because of the significant changes to systems and accounting practices required across a wide array of agencies to allow for the differentiation between payments to vendors of "goods or services" versus other vendor payments. To identify vendor real estate payments, for example, would require more than 30 agencies to change the manner in which they code payments certified to FMS, as well as months of testing and verification of agency compliance. In addition, IRS would be relying upon the ability of agencies to accurately classify vendor payments in order to avoid improper seizure.

Authorize FMS to Deduct Fees from Amounts Collected from Levies of Federal Payments Rather Than Have Fees Paid Out of IRS's Appropriation
This proposal improves the way FMS collects fees from IRS to cover FMS's costs in developing and operating the Federal Payment Levy Program (FPLP), which utilizes the Treasury Offset Program (TOP) to process levies of federal payments to collect delinquent tax debts. Rather than IRS paying fees from its annual discretionary appropriation pursuant to the Economy Act, this proposal would allow FMS to retain directly a portion of the levied funds. The proposal would ensure that sufficient funds are available to cover the costs of the program, and it is consistent with how other federal agencies reimburse FMS for collecting nontax debts through TOP. The proposal would modify the way that FMS recovers its transaction fees for processing IRS levies by permitting FMS to add the fee to the liability being recovered, thereby shifting the cost of collection to the delinquent taxpayer. The offset amount would be included within the 15-percent limit on continuous levies against income.

Allow The Offset of Certain Federal Benefit Payments to Collect Delinquent Child Support Debts.
This proposal would authorize the collection of delinquent, state-enforced child support debts from Social Security, Black Lung, and Railroad Retirement benefit payments in the same way that such payments are currently offset to collect federal nontax debts. Under current law, FMS offsets up to 15% of a benefit payment to collect nontax debts, and the amount of $750 per month is exempt from offset. Although States may directly request a benefit agency to garnish benefit payments to collect delinquent child support debts, this proposal provides a cost-efficient way for States to collect support from payments that

States have been unable to identify as a source of funding from the delinquent child support obligor.

While many federal benefit payments are statutorily protected from collection actions, the Debt Collection Improvement Act of 1996, as codified at 31 U.S.C. § 3716(c)(3)(A)(i), expressly waived any statutory limitation for purposes of offset under section 3716 to collect federal nontax debts. Section 3716(h)(3), however, provides that the statutory waiver does not apply to collection of debts owed to States, which includes child support. The proposed language amends 3716(h)(3) to include child support debts in the waiver.

Allow Offset of Federal Income Tax Refunds to Collect Delinquent State Income Taxes for Debtors Who Currently Reside in Other States

Under current law, federal tax refunds may be offset to collect delinquent state income tax obligations only if the delinquent taxpayer resides in the state collecting the tax. This proposal will allow FMS to offset federal income tax refunds to collect delinquent state tax obligations regardless of where the debtor resides.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 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 2010 Request	FY 2011 Request	Percent Change
Financial information	75,403	75,241	**-0.2%**
Payments	293,048	273,597	**-6.6%**
Revenue collected	110,371	103,145	**-6.5%**
Total	**$478,822**	**$451,983**	**-5.61%**

3A – Payments *($142,537,000 from direct appropriations and $131,060,000 from reimbursable programs):* FMS 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 includes controlling and providing financial integrity to the payments process through reconciliation, accounting, and claims activities. Also included 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. 100 percent of funds devoted to the payments activity supports the National Financial Critical Infrastructure.

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 minimizes costs associated with postage, the re-issuance of lost, stolen and misplaced checks, and non-electronic delivery of benefits inefficiencies.

Direct deposit offers federal benefit payment recipients ease and convenience, and protects against fraud and identity theft. This also generates significant cost savings to the government over paper checks. This is attributable to consumable inventory and postage costs which are mitigated with each EFT payment. However, FMS faces challenges to 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 help with this endeavor, a nationwide campaign called “Go Direct” encourages current check recipients to switch to direct deposit. In its extremely successful fourth year, over 1.1 million conversions were attributed to Go Direct, saving millions of dollars for the United

States Treasury in the years to come. As of December 2009, the total number of conversions obtained since the inception of the campaign is estimated to be over 3.8 million.

In April FY 2008, FMS implemented Direct Express, a branded debit card program, which provides an electronic option for those federal check recipients who do not have bank accounts to receive their federal benefit payments. The card is currently available to Social Security and SSI recipients, and FMS is optimistic that other benefit payments will be implemented in CY 2010. As of January 10, 2010 , approximately 866,000 beneficiaries had signed up for Direct Express.

FMS has undertaken considerable effort to modernize its payment systems, incorporating new technologies and the internet. Some of the programs are:

- *Stored Value Card (SVC)*: This smartcard is similar to a credit/debit card, using an encrypted computer chip to process "electronic money" stored on the card. This program is aimed at reducing the float-loss and reducing risk associated with the more than $2 billion in coin and currency in circulation at military bases, ships at sea, and other closed government locations around the world. From 1997 through September 2009, over 20.5 million EFT transactions with a dollar value in excess of $3 billion were processed via the SVC programs. In fiscal year 2009 alone, the SVC programs collected over $1 billion through the processing of over 7 million EFT transactions.

- *Print and Check Enclosing (PrinCE)*: This project is the ongoing replacement and modernization of Regional Financial Center (RFC) manual check wrapping equipment and the legacy software sub-system with intelligent mail piece inserter equipment. FMS produces approximately 197 million Treasury checks annually, including IRS income tax refunds Social Security Administration benefits, Veterans Affairs benefits and others. In addition to check production, specialized jobs are also performed where documents are printed and inserted with or without checks. Treasury checks and payment related documents are currently handled by the Check Wrapper Systems at the RFCs, some of which are 40 years old. PrinCE will produce upgraded check processing software and hardware components, which will provide improved accountability for each mail piece that is received from the mainframe payment systems. Check payment mail pieces will be tracked through the check enclosing process until each mail piece is successfully enclosed for mailing. The upgraded check enclosing process will improve internal controls and reduce the opportunity for human error and fraud. The Automated Document Factory (ADF) function of PrinCE will automatically track and account for each check processed through a network interface, and enhance accountability in a seamless and transparent manner. ADF will position FMS to better react in the event it needs to deploy its Business Continuity Plan.

- *Payment Application Modernization (PAM):* PAM is an effort to replace the current mainframe-based software applications that are used to disburse over one billion federal payments annually with a total dollar value of almost $2.27 trillion. This single application will generate check, wire transfer, and ACH payments for FPAs, including IRS, Social Security Administration, Veterans Affairs, and others. In addition to standardization, FMS is modernizing the technologies employed in the development of the system, using commercial software products where feasible, that incorporate new and enhanced functionality that supports improvements in the payment process. PAM currently processes Social Security Supplemental Income, (SSI) ACH monthly payments, SSI monthly check, and SSI Daily ACH/Check payments.

3.2.1 – Payments Budget and Performance Plan

Payments Budget Activity Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$147,055	$171,686	$147,717	$150,395	$142,537
Reimbursable Resources	$132,712	$130,853	$138,584	$137,057	$131,060
Total Resources	**$279,767**	**$302,539**	**$286,301**	**$287,452**	**$273,597**
Budget Activity Total	**$279,767**	**$302,539**	**$286,301**	**$287,452**	**$273,597**

Payments Budget Activity Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Number of check payments (millions) [WORKLOAD STATISTIC]	214.777	205.604		196.686	0	186.442
Number of electronic payments (millions) [WORKLOAD STATISTIC]	767.172	793.832		827.643	0	867.215
Percentage of Treasury Payments and associated information made electronically (Oe)	78	79	80	81	81	82
Percentage of paper check and Electronic Funds Transfer (EFT) payments made accurately and on time (Oe)	100	100	100	100	100	100
Unit cost for Federal Government payments ($) (E)	0.39	0.394	0.4	0.37	0.4	0.4

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance: FMS disburses payments to a wide variety of recipients, such as those who receive Internal Revenue Service tax refunds, Social Security Administration benefits, and the Department of Veterans Affairs benefits. In FY 2009 FMS issued over 1 billion non-Defense payments, with a dollar value of approximately $2.3 trillion. Nearly 81 percent of these transactions were issued by Electronic Funds Transfer. In FY 2011, FMS is projecting the percentage of electronic payments to be 83 percent.

3B – Collections *($21,690,000 from direct appropriations and $1,419,000 from reimbursable programs):* FMS collects revenue needed to operate the federal government through the management of the federal government's collections infrastructure. The collections activity is also part of the National Critical Infrastructure. In FY 2009, $2.86 trillion was collected through a network of more than 9,000 financial institutions. FMS 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, 83 percent in FY 2009. While 83 percent of federal revenue was collected electronically in FY 2009, the proposed Paperless Treasury initiative will help FMS improve the percentage of tax revenue collected electronically by requiring all businesses with $2,500 or more in quarterly tax liability to pay electronically.

FMS develops and operates a variety of collection mechanisms and systems and has initiated a comprehensive effort, Collections and Cash Management Modernization (CCMM), to streamline, modernize and improve the processes and systems for this program. This 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. It will improve timeliness by providing FPAs with the ability to predefine accounting rules to facilitate timely processing of financial transactions through the re-engineering of reporting processes. It will also reduce the number of collections and cash management systems and processes and eliminate the duplication of data, products, interfaces, and technologies. This effort will simplify and standardize systems and processes that have accumulated over 30 years.

FMS continues to promote the use of electronic systems in the collections process and assists agencies in converting collections from paper to electronic media with programs such as:

- *Electronic Federal Tax Payment System (EFTPS):* This system provides an accurate, secure and convenient way to collect all federal tax payments, including corporate, excise and employment taxes and 1040 quarterly estimated taxes. The collections are made via the internet or a telephone voice response system. Currently, EFTPS collects 82 percent of U.S. tax dollars and is required for businesses with annual federal tax obligations above $200,000. Under the proposed Paperless Treasury initiative, however, all businesses with $2,500 or more in quarterly tax liability will be required to pay electronically. FMS has been working to communicate the benefits of EFTPS – accuracy, security, simplicity and flexibility – to financial institutions, small businesses and tax practitioners. The goal is to encourage businesses and individuals to pay their federal taxes electronically through EFTPS rather than by using paper Federal Tax Deposit coupons, which numbered approximately 26.1 million in FY 2009, a reduction of 14.4 percent from FY 2008. FMS will direct its EFTPS efforts to financial institutions that process paper tax coupons as well as the tax practitioner community and small businesses to further expand the use of EFTPS. Additionally, FMS has implemented a new program that will allow financial institutions and other third parties to remit tax payments to EFTPS on behalf of their customers. In FY 2009, more than 97.9 million payments with a total value of $1.91 trillion were processed through EFTPS, a volume increase of 2.45 percent over FY 2008.

- *Pay.gov*: Pay.gov allows individuals and businesses to make non-tax payments to federal agencies over the internet. It provides collections, form submittal, bill presentment, and agency financial reporting services. Since inception in FY 2000, Pay.gov has processed 57.5 million transactions with an approximate value of $204.2 billion. In FY 2009, Pay.Gov processed nearly 18.7 million items totaling $68.9 billion. Pay.gov meets the increasing demands of consumers and businesses for electronic alternatives by providing the opportunity to complete forms and applications, make payments, and submit queries on-line 24 hours a day, seven days a week. Pay.gov, which has been implemented with 134 federal agencies representing 565 cash flows. New development will focus on interfaces with new systems within the new Collections Business Line Enterprise Architecture, and improved interfaces with federal agencies.

- *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 key in realizing the goal of increasing electronic collections and reducing collection costs. In FY 2009, more than 8.3 million items received over the counter, representing more than $15.7 billion, were processed through check conversion or truncation. Through FY 2009 more than 40.1 million items received through the mail at lockboxes, representing more than $17.9 billion, were similarly processed. The goal is that all paper checks remitted to the IRS and General Lockbox Networks will be converted or truncated and processed electronically by the end of FY 2011.

3.2.2 – Collections Budget and Performance Plan

Collections Budget Activity					
Resource Level	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Request**
Appropriated Resources	$19,649	$23,103	$21,521	$21,911	$21,690
Reimbursable Resources	$0	$141	$0	$113	$1,419
Total Resources	**$19,649**	**$23,244**	**$21,521**	**$22,024**	**$23,109**
Budget Activity Total	**$19,649**	**$23,244**	**$21,521**	**$22,024**	**$23,109**

Collections Budget Activity						
Measure	**FY 2007**	**FY 2008**	**FY 2009**		**FY 2010**	**FY 2011**
	Actual	**Actual**	**Target**	**Actual**	**Target**	**Target**
Percentage collected electronically of total dollar amount of Federal government receipts (Oe)	79	80	80	83	80	81
Unit cost to process a Federal revenue collection transaction ($) (E)	1.19	1.195	1.27	1.49	1.25	1.7

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance: In FY 2009, although the dollars collected decreased due to a downturn in the economy, the percentage of dollars collected electronically increased. While FMS continued to promote and convert collections from paper to the more efficient electronic media in FY 2009, there are a number of factors that will cause the projected unit cost for collections to increase over the next few years, including the downturn in the economy and the increased expenses to fully implement the Collections and Cash Management Modernization initiative.

The economic recession has had a major influence on the unit cost for collections. Recessionary business failures and job losses have caused fewer employers to report withholding transactions to EFTPS, and small business failures and job losses reduced the number of tax filers using the IRS Lockbox Network. During the Spring, 2009 tax season, tax transaction receipts were down by 22 percent. Since some of the costs of EFTPS and the IRS Lockbox Network are fixed, the unit cost per item has increased.

3C – Debt Collection *($80,036,000 from reimbursable programs):* FMS collects delinquent government and child support debt by providing centralized debt collection, oversight and operational services to Federal Program Agencies (FPA) and states pursuant to the Debt Collection Improvement Act of 1996, as amended and related legislation. This includes, but is not limited to, collecting delinquent debts through Cross-Servicing and offsetting federal payments, providing a database for use as a tool for barring delinquent debtors, providing post-judgment collection, advising and educating agencies on improving debt management, and referrals to the Department of Justice.

In FY 2011, FMS will continue to enhance FedDebt, a comprehensive system that integrates existing collection programs Cross-Servicing and the TOP. TOP compares the names and Taxpayer Identifying Numbers (TINs) of debtors with the names and TINs on state and federal payment files. If there is a match, the federal payment is reduced, or "offset," to satisfy the overdue debt. Cross-Servicing includes use of various collection tools such as offset, demand letters to debtors, repayment agreements, administrative wage garnishment, referrals to the Department of Justice, credit bureau reporting, reporting discharged debts to the Internal Revenue Service (IRS), and use of private collection agencies.

FedDebt 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 debts to either Cross-Servicing or Treasury Offset Program (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 and state agency customers and service partners.

FMS is currently working to incorporate additional payment types into the payment offset and levy programs. This effort is directed primarily at increasing collections of debt, especially tax debt owed by contractors and vendors. The Defense Finance and Accounting Service is also currently in the process of levying civilian salaries. In addition, the State Reciprocal Program will be expanded to include the State of New York in January 2010 and Kentucky in 2011. The following debt collection activities will also increase collections. The offset of medicare payments was implemented in

October 2009. The final rule removing the restriction on the collection of federal non-tax debts that are over 10 years delinquent by offset of federal payments was implemented in January 2010. The Department of Education will begin to participate in the Federal Salary Offset program with a limited number of debts in April 2010.

3.2.3 – Debt Collection Budget and Performance Plan

Debt Collection Budget Activity					
Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$67,611	$74,705	$86,247	$93,397	$80,036
Total Resources	**$67,611**	**$74,705**	**$86,247**	**$93,397**	**$80,036**
Budget Activity Total	**$67,611**	**$74,705**	**$86,247**	**$93,397**	**$80,036**

Debt Collection Budget Activity						
Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Amount of delinquent debt collected per $1 spent ($) (E)	53.55	54.76	43	53.76	43	43
Amount of delinquent debt collected through all available tools ($ billions) (Ot)	3.76	4.41	3.9	5.03	4	4
Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral (Ot)	100	99	97	100	97	97

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance: In FY 2009, FMS collected $5.07 billion in delinquent debt, including $44.2 million from Economic Stimulus payments, and $235.8 million from Economic Recovery payments. The amount collected includes $2.07 billion in past due child support, $2.14 billion in federal non-tax debt, and $865 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 2009. As a result of the continued program improvements, collections have steadily increased to more than $42.5 billion since the enactment of the DCIA. In calendar year 2009, the Internal Revenue Service referred an additional $56.5 billion of tax debts for continuous levy, an 18 percent increase over calendar year 2008.

3D – Government-wide Accounting and Reporting *($71,026,000 from direct appropriations and $4,215,000 from reimbursable programs):* FMS 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. 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). The cash reporting function of GWA supports the nation's financial critical infrastructure.

FMS plays a key role in establishing and providing guidance to agencies on their core financial systems. It also builds integrated financial systems for these agencies. In partnership with OMB, FMS efforts to bring standardization in financial management have been a key objective. These efforts include establishing standard business processes, where feasible, and standardizing data elements throughout the federal financial management and systems. The goal has been to identify, standardize, and harmonize government-wide commonly used financial data elements. By standardizing these data elements into standard XML schemas, it will support their use in data exchange between central agencies and agencies for accounting and reporting.

FMS is building and implementing a system to improve the exchange of financial information among FMS, FPAs, OMB and the banking community. Once completed, the Government-wide Accounting Modernization Program will comprehensively replace current government-wide accounting functions and processes that are both internal and external to FMS. In FY 2011 and beyond, FMS will continue working with FPAs to roll-out the new GWA system for the reporting of payments, collections and intra-governmental collection and payment transactions.

FMS is taking significant steps to address the material weaknesses found in the compilation process of the FR including:

- Requiring comprehensive accounting data from agencies on a quarterly basis that will allow FMS to better analyze the data for consistency and completeness.

- Providing agencies with authoritative data to reconcile inter-agency transfers and other transactions that agencies report to the central accounting system.

- Using the Chief Financial Officers (CFO) Council, Central Reporting Team as a forum to discuss accounting and reporting issues that affect the FR.

- Working with the CFO Council and OMB to develop more consistent business rules for intra-governmental transactions.

- Organizing a General Fund Team to analyze intra-governmental activity that must be reported to offset agency reporting with the General Fund of the US Treasury.

- Improving the two Reconciliation Statements in the FR that reconcile Net Operating Cost to Cash.

- Strengthening internal controls over the process for preparing the FR.

The goal of these actions is to remove the compilation process as a barrier to a clean audit opinion for the FR.

In FY 2011, FMS will continue moving forward on the Financial Information and Reporting Standardization (FIRST) initiative. FIRST integrates budget and financial reporting from FPAs by collecting United States Standard General Ledger based trial balances. These trial balances will be carefully edited each quarter through a highly automated process that provides instant and actionable feedback to agencies. It will ensure consistency among agency budgetary and financial data and the central accounting system and provide accounting support for the FR.

3.2.4 – Government-wide Accounting and Reporting Budget and Performance Plan

Government-wide Accounting and Reporting Budget Activity					
Resource Level	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Request**
Appropriated Resources	$64,954	$72,420	$70,547	$71,826	$71,026
Reimbursable Resources	$1,122	$726	$3,179	$4,123	$4,215
Total Resources	**$66,076**	**$73,146**	**$73,726**	**$75,949**	**$75,241**
Budget Activity Total	**$66,076**	**$73,146**	**$73,726**	**$75,949**	**$75,241**

Government-wide Accounting and Reporting Budget Activity						
Measure	**FY 2007**	**FY 2008**	**FY 2009**		**FY 2010**	**FY 2011**
	Actual	**Actual**	**Target**	**Actual**	**Target**	**Target**
Percentage of Government-wide accounting reports issued accurately (Oe)	100	100	100	100	100	100
Percentage of Government-wide accounting reports issued timely (E)	100	100	100	100	100	100
Unit Cost to Manage $1 Million Dollars of Cash Flow (E)	10.36	8.958	12.38	7.08	11.77	10.15

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance: FMS issues 100 percent of its government-wide accounting reports accurately and timely. It consistently releases the *Financial Report of the United States Government* 75 days after the fiscal year-end. However, for FY 2009, some agencies that were significantly impacted by the substantial reporting requirements of the American Recovery and Reinvestment Act (ARRA) were granted reporting deadline extensions, which consequently impact the timing of the FR, now scheduled for February 16, 2010. In FY 2008, the Government Accountability Office (GAO) issued an unqualified opinion on the 2007 and 2008 Statements of Social Insurance and acknowledged and noted improvements with regard to consistency with agency information in the Balance Sheets, the Statements of Net Cost and in the note disclosures that are directly linked to the amounts on these principal financial statements. GAO also acknowledged the progress made in conforming with Generally Accepted Accounting Principles, in the development and implementation of corrective action plans, and in addressing certain internal control weaknesses.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://treas.gov/offices/management/budget/

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 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. The benefits of some of FMS' modernization and technological efforts are being realized through more efficient work processes. At the same time, FMS is taking a proactive approach at looking at redundant activities and functions in an effort to be more efficient while delivering the same level of service to our customers. The result is that FMS is requesting over 3.6% fewer resources in FY 2011 when compared to the FY 2010. In order to do this FMS must 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 the FMS mission, goals, organizational objectives, and is integrated into the strategic plan, performance plans and budgets.

- *Workforce Planning & Deployment:* FMS is citizen-centered and mission-focused. It leverages E-Government and competitive sourcing.

- *Leadership & Knowledge Management:* Leaders and managers effectively manage people, ensure continuity of leadership, and sustain a learning environment that drives continuous improvement in performance. Succession strategies result in a diverse leadership talent pool that is continually updated.

- *Results-Oriented Performance Culture:* FMS has a diverse, results-oriented, high performance workforce. It has a performance management system and awards program that effectively holds employees accountable, links individual/team/unit performance to organizational goals and desired results.

- *Diversity:* FMS demonstrates its commitment to diversity by recognizing the contributions of all employees and by understanding the strengths that arise from the broad range of backgrounds, cultures, customs, and beliefs. Processes are in place to sustain diversity and to address under-representation particularly in mission-critical occupations and leadership positions.

- *Talent:* FMS has significantly reduced gaps in mission-critical skills, knowledge and competency. It is also 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.

- *Improving Employee Satisfaction and Wellness:* FMS promotes healthy activities and choices for all of its employees with on-site fitness facilities, health clinics, health fairs and health screenings. In addition, FMS sponsors an annual Walk/Run and Wellness Expo which is always well attended.

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. Student intern program authorities are used extensively to attract talent from some of the best colleges and universities.

Action plans are in place to obtain and maintain the right number of people with the right skills to accomplish the mission. FMS 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 position be redirected as appropriate, or eliminated. This is one way FMS manages the possibility of surplus or deficiency of staff in certain job occupations.

Through FY 2010, 22 percent of FMS current employees are eligible for retirement and 41 percent are potentially 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 specialized employee development programs such as the: SES Candidate Development, Project Management Certification, Management Preparatory Development, Federal Career Intern Program, Leadership, and Mentoring.

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 ensure a diverse workforce:

- SES candidate program to create a diverse group of future senior executives.
- Special emphasis programs expanded and Equal Employment Opportunity and diversity awareness training instituted.
- Hispanic recruitment enhanced through the increased use of Hispanic Associations of Colleges and Universities interns, which create a gateway for new Hispanic employees. Increased participation in the Washington Internship for Native Students program and the Department of Labor’s Workforce Recruitment Program for students with disabilities.
- Use of the Federal Career Internship Program to facilitate and accelerate general hiring of qualified and talented minority student interns.

4.1 – Summary of IT Resources Table

(in $ Thousands)

Major IT Investments / Funding Source	Budget Activity	FY 2008 Enacted	FY 2009 Enacted	% Change from FY08 to FY09	FY 2010 President's Budget	% Change from FY09 to FY10	FY 2011 Requested	% Change from FY10 to FY11
Automated Standard Application for Payments (ASAP)	Payments	2,234	2,422	8.4%	625	-74.2%	647	3.5%
Debit Gateway	Collections	0	0	0.0%	500	0.0%	0	-100.0%
Deposit and Data Management (DDM)	Collections	1,226	1,276	0.0%	1,310	0.0%	578	-55.9%
FMS EFTPS (Electronic Federal Tax Payment System)	Collections	638	659	N/A	682	3.5%	705	3.4%
FedDebt	Debt Collection	0	0	0.0%	0	0.0%	0	0.0%
Financial Information and Reporting Standardization (FIRST)	Government-wide Accounting	6,039	7,342	21.6%	8,297	13.0%	8,884	7.1%
Government-Wide Accounting and Reporting Modernization (GWA)	Government-wide Accounting	10,011	9,787	-2.2%	9,983	2.0%	10,186	2.0%
International Treasury Services (ITS.gov)	Payments	1,650	341	0.0%	351	2.9%	362	3.1%
Internet Payment Platform (IPP)	Payments	300	308	0.0%	320	3.9%	329	2.8%
Intra-Governmental Payment and Collection (IPAC)	Government-wide Accounting	500	552	10.4%	625	13.2%	647	3.5%
PACER	Payments	2,489	2,631	5.7%	2,714	3.2%	2,800	3.2%
Pay.gov	Collections	545	569	4.4%	573	0.7%	590	3.0%
Payment Application Modernization (PAM)	Payments	12,167	12,123	-0.4%	13,406	10.6%	13,751	2.6%
Secure Payment System (SPS)	Payments	20,332	3,901	-80.8%	3,988	2.2%	4,080	2.3%
Treasury Check Information System (TCIS)	Payments	836	854	2.2%	1,154	35.1%	1,442	25.0%
Subtotal, Major IT Investments		58,967	42,765	-27.5%	44,528	4.1%	45,001	1.1%
Non-Major IT Investments [2/]		7,286	5,912	-18.9%	6,466	9.4%	3,037	-53.0%
Infrastructure Investments [3/]		20,056	23,200	15.7%	143,151	517.0%	146,347	2.2%
Enterprise Architecture		1,400	5,493	292.4%	5,729	4.3%	5,977	4.3%
Total IT Investments [4/]		87,709	77,370	-11.8%	199,874	158.3%	200,362	0.2%

1/ ITS.gov was changed from a non-major to a major investment in FY 2009.

2/ PRINCE was changed from a Non-Major to a Mojor in FY2009.

3/ In FY 2009, the number of Non-Majors reporting increased to 17 investments.

4/ Figures provided for FY 2009 include funding amounts for the Treasury Web Application Infrastructure (TWAI) platform that were not included in previous years.

5/ Infrastructure reporting requirements changed in FY 2009, which resulted in changes to FY 2010 and FY 2011 figures.

4B – Information Technology Strategy

The FMS IT Strategy addresses all bureau information resource management. It focuses on technology and how it supports the FMS Strategic Plan 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. The IT Governance Process complies with Department of the Treasury and OMB requirements for Capital Planning and Investment Control, and Enterprise Architecture. In order to enhance its IT Governance Process FMS has implemented an IT Governance Board (ITGB) comprised of its Assistant Commissioners. Before projects are started or a major change implemented, there is a formal approval process beginning with the ITGB. After initial approval the 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 ITGB, DIO Council and Architecture Review Board, 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. This includes the current cost, schedule, and performance goals status for the project. Any project that is not within acceptable cost, schedule, and performance goals must provide the DIO Council with a project remediation plan detailing the steps it plans to implement to get the investment back within acceptable ranges. The project is also required to provide the DIO Council with quarterly cost, schedule, and performance updates.

The FMS governance process includes recommendations by the DIO Council for approval/disapproval of all IT investments and major enhancements. The FMS executive board must also approve all large scale IT projects and it conducts quarterly reviews of all its major investments.

4.2 – Program Evaluation

Program Name: Debt Collection

Assessment & Improvement Actions

- The debt collection long-term measure was evaluated and updated as part of FMS' update to its Strategic Plan. The Strategic Plan set a target of collecting $8 billion per year by 2018. In FY 2009, FMS collected almost $4.80 billion, an increase of $390 million over FY 2008.

- In calendar year 2009, the Internal Revenue Service referred an additional $56.5 billion of tax debts for continuous levy, an 18 percent increase over calendar year 2008.

- FMS is currently 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 that do business with the federal government.

    - The Defense Finance and Accounting Service is in the process of levying civilian salaries.

    - The State Reciprocal Program will be expanded to include New York in January and Kentucky in June 2010.

- FMS will continue to enhance FedDebt, a comprehensive system that integrates the payment offset and cross-servicing applications, provides Federal Program Agencies with batch and online capabilities for all users, via a single sign-on interface and will employ a common file format for submitting debts to either Cross-Servicing or Treasury Offset Program (TOP) debts.

Program Name: Collections

Assessment & Improvement Actions

- In FY 2009, FMS collected nearly $2.9 trillion through a network of more than 9,000 financial institutions with 83 percent of the dollars collected electronically compared to 80 percent collected electronically in FY 2008.

- The Electronic Federal Tax Payment System (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, EFTPS collected more than $1.89 trillion through more than 97.9 million transactions, increasing the percentage of total taxes collected electronically despite an overall net reduction in tax revenue related to economic conditions.

- Pay.gov provides consumers and business the opportunity to complete forms and applications, make payments, and submit queries online 24 hours a day, seven days a week. Pay.gov has been implemented with 134 federal agencies representing 565 cash flows, and collected $68.91 billion and processed 18.69 million transactions for FY 2009.

- FMS will 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 to detect and deter fraud, waste, theft and unauthorized access associated with the collection of government remittances and protection of sensitive information.

- FMS is implementing a comprehensive effort to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. 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.

Program Name: Payments

Assessment & Improvement Actions

- In FY 2009 FMS issued over 1 billion non-Defense payments, with a dollar value of approximately $2.3 trillion. Overall, 81 percent of Treasury payments and associated information were made electronically, an increase of two percent from FY 2008.

- Treasury's Go Direct campaign which encourages current federal benefit check recipients to switch to direct deposit concluded an extremely successful fourth year, in which over one million conversions were attributed to the Go Direct campaign. The current number of total conversions obtained since the inception of the campaign is over three million.

- In April 2008, FMS implemented Direct Express, a branded debit card program, which provides an electronic option for those federal check recipients who do not have bank accounts to receive their federal benefit payments. The card is currently available to Social Security and Supplemental Security Income recipients, and FMS is optimistic that other benefit payments will be implemented in CY 2010. As of December 31, 2009, over 851,000 beneficiaries had signed up for Direct Express.

- In FY 2011, FMS is projecting the percentage of electronic payments to be 83 percent. While electronic payments are expected to increase, the on-set of the baby boomer retirements, will not necessarily result in the equivalent decrease in check payments.

- FMS has also undertaken considerable efforts to modernize its payment systems, incorporating new technologies and the internet. Some of the programs are:

- *Stored Value Card (SVC)*: This smartcard is similar to a credit/debit card, using an encrypted computer chip to process "electronic money" stored on the card. This program is aimed at reducing the float-loss and reducing risk associated with the more than $2 billion in coin and currency in circulation at military bases, ships at sea, and other closed government locations around the world. From 1997 through September 2009, over 20.5 million EFT transactions with a dollar value in excess of $3 billion were processed via the SVC programs. In FY 2009 alone, the SVC programs collected over $1 billion through the processing of over 7 million EFT transactions.

- *Print and Check Enclosing (PrinCE)*: This project is the ongoing replacement and modernization of Regional Financial Center (RFC) manual check wrapping equipment and the legacy software sub-system with intelligent mail piece inserter equipment. FMS produces approximately 197 million Treasury checks annually, including IRS income tax refunds, Social Security Administration benefits, Veterans Affairs benefits and others. In addition to check production, specialized jobs are performed where documents are printed and inserted with or without checks.

Treasury checks and payment related documents are currently handled by the Check Wrapper Systems at the RFCs, some of which are 40 years old. PrinCE will produce upgraded check processing software and hardware components, which will provide improved accountability for each mail piece that is received from the mainframe payment systems. Check payment mail pieces will be tracked through the check enclosing process until each mail piece is successfully enclosed for mailing. The upgraded check enclosing process will improve internal controls and reduce the opportunity for human error and fraud. The Automated Document Factory (ADF) function of PrinCE will automatically track and account for each check processed through a network interface, and enhance accountability in a seamless and transparent manner. ADF will position FMS to better react in the event it needs to deploy its Business Continuity Plan.

- *Payment Application Modernization (PAM):* PAM is an effort to replace the current mainframe-based software applications that are used to disburse over one billion federal payments annually with a total dollar value of almost $2.7 trillion. This single application will generate check, wire transfer, and ACH payments for FPAs, including IRS, Social Security Administration, Veterans Affairs, and others. In addition to standardization, FMS is modernizing the technologies employed in the development of the system, using commercial software products where feasible, that incorporate new and enhanced functionality that supports improvements in the payment process. PAM currently processes Supplemental Security Income (SSI) monthly ACH payments, SSI monthly checks, and SSI Daily ACH/Check payments.

Program Name: Government-wide Accounting and Reporting

Assessment & Improvement Actions

- FMS met the 45-day reporting deadline for the FY 2008 Consolidated Financial Report (FR) of the United States Government. 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.

- FMS continues to make improvements to its policies, procedures, information systems, and internal controls associated with compiling and issuing the FR which resulted in the elimination of 16 of 56 open Government Accountability Office findings and recommendations in the FY 2008 Audit Report. FMS will continue to resolve the preparation issues that are within its realm of control. However, there are other preparation data integrity issues that depend on accurate and consistent data being submitted by the agencies.

- 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 which allows Treasury to provide agency financial managers complete and accurate financial data on a timelier basis for use in the preparation of their financial statements.

- FMS performs the accounting for the federal government's operating cash, and provides critical support related to government-wide cash forecasting and cash management functions.

- One of FMS' 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, is the Government-wide Accounting (GWA) Modernization Program. This multi-year effort will improve the reliability, usefulness, and timeliness of the government's financial information, provide agencies and other users with better access to that information, and eliminate duplicate reporting and reconciliation burdens by agencies, resulting in significant government-wide savings. It will also improve the budgetary information being collected from the agencies at the transaction level. In 2009, the Provisional Account Statement was implemented to provide agencies the ability to view their transactions on a daily basis. The ability to reclassify these transactions daily was implemented in November 2009. The program has scheduled implementation of Common Government-wide Accounting Code Treasury Account Symbol for late 2010.

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 2009	FY 2010	FY 2011		
	Enacted	Enacted	Request	$ Change	% Change
Wholesale Securities Services	$23,438	$24,492	$24,234	($258)	(1.1%)
Government Agency Investment Services	$17,723	$16,264	$16,162	($102)	(0.6%)
Retail Securities Services	$139,109	$142,645	$136,327	($6,318)	(4.4%)
Summary Debt Accounting	$7,082	$8,843	$9,262	$419	4.7%
Total Appropriated Resources	**$187,352**	**$192,244**	**$185,985**	**($6,259)**	**(3.3%)**
Total FTE	**1,042**	**1,042**	**1,009**	**(33)**	**(3.2%)**

Note: Total Appropriated Resources include $10,000,000 in projected user fee collections.

FY 2011 Priorities

- Continue to protect and strengthen Treasury's borrowing capabilities.
- Continue to educate and enhance communication with our significant investors.
- Position Treasury to eliminate new issues of paper savings bonds to move towards a paperless Treasury.
- Improve the quality and efficiency of service to retail customers.
- Continually demonstrate accounting excellence by producing daily financial statements and receiving unqualified opinions on the annual audits of the *Schedules of Federal Debt*.
- Gain efficiencies and strengthen controls by reducing the number of common business processes that serve federal investments, special purpose securities and federal borrowings from eighteen to six.
- Continue to adopt technological advances to ensure Public Debt's various information technology systems remain secure.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Bureau of the Public Debt's (Public Debt) vision is to lead the way for responsible, effective government through commitment to service, efficient operations, openness to change and values-based behavior. In carrying out its mission and vision, Public Debt annually auctions and issues approximately $8 trillion in Treasury bills, notes, bonds and Treasury Inflation-Protected Securities (TIPS); administers on Treasury's behalf its regulatory responsibilities for the government securities market; ensures reliable systems and processes are in place for issuing, transferring, paying interest on and redeeming Treasury securities; issues and redeems more than 70 million paper savings bonds each year; administers in excess of $4 trillion in investments for more than 250 federal trust funds; and provides timely and accurate information on the public debt.

In support of Treasury's strategic outcome of government financing at the lowest possible cost over time, Public Debt's top priority is to guarantee operational readiness to meet the government's critical financing needs by ensuring the most efficient systems are in place to conduct borrowing operations and deliver securities services to investors. To that end, the bureau continues to enhance its auction process. The Treasury Automated Auction Processing System (TAAPS) provides simple bid-entry, quick and easy access to data and superior reliability and security.

A major operational initiative for Public Debt is to consolidate all Government Agency Investment Services (GAIS) functions into a single integrated control environment by FY 2012. This will result in lower operational risks, more timely and accurate data and standardized system, business and data elements. To date, the federal investments, federal borrowings and Special Purpose Securities functions are operating from the same automated platform.

Positioning Treasury to eliminate new issues of paper savings bonds is a goal for Public Debt's retail program and part of the overall Paperless Treasury initiative. The strategy to accomplish this goal centers on TreasuryDirect and electronic bonds, which are more efficient to issue and service over the long term than paper savings bonds. In the next few years, the bureau will enhance its system and processes to attract investors to TreasuryDirect as their preferred way to buy and hold savings bonds, and gradually phase out the issuance of paper savings bonds in the payroll market.

The retail program places a high priority on improving the quality and efficiency of its customer service. A multi-year vision is to create a new service environment known as Treasury Retail E-Services (TRES). TRES is an initiative to provide Public Debt and the Treasury Retail Securities (TRS) sites at the Minneapolis and Pittsburgh Federal Reserve Banks with a fully integrated view of customer interactions that will allow customer service representatives to quickly identify customers and evaluate their needs. TRES will include a central point for sharing customer information and history, central portals for accessing procedures and standardized language for correspondence and generating correspondence and forms. It will also provide shared systems and databases, mechanisms to distribute work and route customer contacts, and new features such as e-mail routing, web chat, automated responses and fax capabilities.

With its resources, Public Debt:

- Conducts more than 280 marketable securities auctions annually, resulting in the issuance of approximately $8 trillion in Treasury bills, notes, bonds and TIPS;
- Administers 253 funds in excess of $4 trillion in Government Account Series (GAS) investments, which amounts to approximately 37 percent of the public debt;
- Manages some 5,100 active SLGS securities accounts valued at nearly $213 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 $845 billion in federal agency borrowings from Treasury in 85 funds;
- Accounts for and reports on the balance and composition of more than $12 trillion in public debt, the single largest liability on the federal government's balance sheet, and reconciles more than $107 trillion annually in securities transactions reported from numerous systems to cash flowing in and out of the federal government each year; and
- Receives unqualified audit opinions on the *Schedules of Federal Debt* annually.

The total resources required to support Public Debt activities in FY 2011 are $208,758,000, including $185,985,000 from direct appropriations, of which $10,000,000 are user fees, and $22,773,000 are from offsetting collections.

1B – Program History and Future Outlook

Public Debt continues to enhance the mechanisms for participation by a wide range of investors in its wholesale, government agency investment services and retail programs.

Over the years, the bureau has dramatically reduced the time required to complete marketable securities auctions. Results are consistently released within two minutes, plus or minus 30 seconds, of the closing of the competitive auction. In addition, non-competitive results are released 15 minutes prior to competitive close. By enhancing information availability and 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.

TAAPS fully automates the announcement, auction and issuance of marketable securities. At the same time, TAAPS provides speed and flexibility to Treasury debt managers in bringing new types of securities to market and implementing policy changes, such as offering 7-year Treasury notes. By eliminating manual processes, the system supports error-free auction results.
Public Debt continues to upgrade TAAPS to keep pace with changes in technology and security, which ensures financing operations are conducted timely and with 100 percent accuracy.

Public Debt continues its commitment to provide efficient mechanisms for federal investments, special purpose securities and federal borrowings. As part of this effort, the number of common business processes will be reduced from eighteen to six thus avoiding duplication. Common business processes are functions that support the GAIS line of business. They include funds management, investment accounting, standard reporting, customer interface, enhanced reporting and account maintenance. Ultimately, with standardized system, business and data elements, the bureau can introduce stronger internal controls and reduce operational risks.

Public Debt will provide its customers with the assistance they need to manage their federal investments, special purpose securities and federal borrowings effectively and efficiently as possible. One of the ways this will be accomplished is through education, periodic seminars and orientation for new customers to ensure they understand and can take full advantage of Public Debt's systems and services. Also, more extensive reporting capabilities will be made available to customers, which will better meet their needs.

When Treasury introduces new instruments or changes existing instruments available for federal agency investment, Public Debt will assist its customer agencies in understanding these changes and the implications for their investment operations. As new legislation is enacted or business processes change, the bureau will support federal agencies' implementation of these modifications. For example, Public Debt will work with its customers to implement Treasury's major initiative to improve and streamline government-wide accounting through the capture of all necessary financial information at the first point of reporting.

When legislation establishing investment authority for a new fund is vague or inconsistent, Public Debt experiences significant operational challenges, as do its customers, in trying to implement this new authority. Public Debt will support Treasury's initiative to standardize legislation for all new investment funds by actively promoting Treasury's preferred language to drafters of proposed investment legislation.

Providing quality customer service through efficient and effective business processes remains a key goal for the retail program. In FY 2011, the TRES project will allow Public Debt and the two TRS sites to share common systems, databases and a multi-channel customer relationship desktop tool to manage telephone, e-mail and paper requests and create a fully integrated view of customer interactions across the three customer service sites.

Public Debt continues to work to improve the clarity, usefulness and availability of federal debt information. Public Debt produces daily unaudited financial statements. Going forward, the bureau will work to modernize its system used for public debt accounting by migrating common financial information to a shared service solution, an environment where similar processing occurs, rather than developing a proprietary system as was done in the past. Public Debt will begin defining requirements to reengineer business processes that best support the needs of the Summary Debt Accounting program. This approach will offer many benefits in terms of a faster migration and reduced operational risks, while standardizing system, business and data elements.

Although not supported by appropriated funding, Public Debt's franchise program represents a significant part of the business and staff resources of the organization. As a recognized Shared Service Provider (SSP) in several business lines, the Administrative Resource Center (ARC) provides financial management, administrative support and information technology services to federal agencies, generating revenue to pay all organizational expenses. Because of the quality of the services provided, the depth and breadth of services provided to customers has grown.

The vision of allowing agencies to focus on mission-related activities, while gaining efficiencies and increasing standardization through the use of SSPs is being realized. During FY 2010, ARC expects to use 1,003 FTE to service more than 70 customers and generate $172 million in revenue. In FY 2011, ARC projects revenue of $179 million.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Bureau of the Public Debt	FTE	Amount
FY 2010 Enacted	1,042	192,244
Changes to Base:		
Base Realignment:	(21)	$0
FTE Adjustment	(21)	-
Maintaining Current Levels (MCLs):	-	$3,171
FERS Percentage Change	-	188
Non-Pay Inflation Adjustment	-	1,005
Pay Annualization	-	651
Pay Inflation Adjustment	-	1,327
Efficiencies Savings:	(12)	($9,430)
Revise Issuing Agent Fee Structure	-	(1,900)
Reduce Paying Agent Fees	-	(2,500)
Consolidate Parkersburg Facilities	-	(1,800)
Program Efficiencies	(12)	(1,000)
Procurement Savings	-	(1,630)
Reduce Travel	-	(200)
Non-Salary Program Efficiencies	-	(400)
Subtotal FY 2011 Changes to Base	(33)	($6,259)
Total FY 2011 Base	1,009	185,985
Total FY 2011 Budget Request	**1,009**	**185,985**
User Fees	-	(10,000)
Total FY 2011 Budget Request (Net)	**1,009**	**175,985**

2A – Budget Increases and Decreases Description

Base Realignment ....+$0 / -21 FTE

FTE Adjustment +$0 / -21 FTE

Upon review of its FY 2010 proposed financial plan, BPD identified 21 unfunded base FTE which are reflected in this adjustment.

Maintaining Current Levels (MCLs) ....+$3,171,000 / +0 FTE

FERS Percentage Change +$188,000 / +0 FTE

Funds are requested for the increase in agency retirement contribution percentages for GS employees from 11.2% to 11.5% for FY 2011 as required by OPM.

Non-Pay Inflation Adjustment +$1,005,000 / +0 FTE

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

Pay Annualization +$651,000 / +0 FTE

Funds are requested for the FY 2011 cost of the January 2010 pay raise.

Pay Inflation Adjustment +$1,327,000 / +0 FTE

Funds are requested for the January 2011 pay raise.

Efficiencies Savings ....-$9,430,000 / -12 FTE
Revise Issuing Agent Fee Structure -$1,900,000 / +0 FTE
Savings due to eliminating the differential paid to paper savings bond issuing agents who submit customer orders electronically rather than by paper applications.

Reduce Paying Agent Fees -$2,500,000 / +0 FTE
Due to an anticipated decrease in the number of savings bonds redeemed, Public Debt is reducing its paying agent fees.

Consolidate Parkersburg Facilities -$1,800,000 / +0 FTE
Public Debt realizes savings by consolidating its facilities in Parkersburg.

Program Efficiencies -$1,000,000 / -12 FTE
Savings realized from the reduction of funded staff, across all BPD programs.

Procurement Savings -$1,630,000 / +0 FTE
Cost savings by streamlining Department-wide procurement operations and reducing external procurement spending.

Reduce Travel -$200,000 / +0 FTE
Public Debt realizes savings from a reduction in travel.

Non-Salary Program Efficiencies -$400,000 / +0 FTE
Public Debt realizes savings from non-salary program efficiencies.

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 of the Public Debt			Congression			FY 2010	
FTE	**1,042**	**1,042**	**0**	**1,042**	**0**	**1,042**	**1,009**
Object Classification:							
11.1 - Full-time permanent	63,850	65,422	0	65,422	6,552	71,974	65,981
11.3 - Other than full-time permanent	515	528	0	528	(3)	525	533
11.5 - Other personnel compensation	2,082	2,133	0	2,133	341	2,474	2,151
11.8 - Special personal services payments	31,891	32,676	0	32,676	(32,676)	0	32,956
12 - Personnel benefits	18,471	19,680	0	19,680	(806)	18,874	19,984
13 - Benefits for former personnel	30	40	0	40	0	40	30
21 - Travel and transportation of persons	1,300	1,338	0	1,338	(60)	1,278	1,017
22 - Transportation of things	81	85	0	85	(6)	79	86
23.1 - Rental payments to GSA	10,078	10,705	0	10,705	(100)	10,605	9,452
23.2 - Rental payments to others	2	2	0	2	5	7	2
23.3 - Comm, utilities, and misc charges	10,537	10,502	0	10,502	(556)	9,946	10,010
24 - Printing and reproduction	1,450	1,573	0	1,573	(65)	1,508	1,859
25.1 - Advisory and assistance services	348	362	0	362	(268)	94	95
25.2 - Other services	26,401	27,490	0	27,490	(12,337)	15,153	15,332
25.3 - Other purchases of goods and services from Govt. accounts	11,384	11,853	0	11,853	44,088	55,941	22,350
25.4 - Operation and maintenance of facilities	892	929	0	929	50	979	991
25.6 - Medical care	22	23	0	23	(8)	15	15
25.7 - Operation and maintenance of equip	3,939	4,101	0	4,101	(3,746)	355	360
26 - Supplies and materials	1,456	1,830	0	1,830	(147)	1,683	1,818
31 - Equipment	2,498	862	0	862	(286)	576	813
32 - Land and structures	123	108	0	108	30	138	148
42 - Insurance claims and indemnities	2	2	0	2	(2)	0	2
Total Budget Authority	**$187,352**	**$192,244**	**$0**	**$192,244**	**$0**	**$192,244**	**$185,985**
Budget Activities:							
Wholesale Securities Services	23,438	24,492	0	24,492	0	24,492	24,234
Government Agency Investment Services	17,723	16,264	0	16,264	0	16,264	16,162
Retail Securities Services	139,109	142,645	0	142,645	0	142,645	136,327
Summary Debt Accounting	7,082	8,843	0	8,843	0	8,843	9,262
Total Budget Authority	**$187,352**	**$192,244**	**$0**	**$192,244**	**$0**	**$192,244**	**$185,985**

2.3 – Appropriations Detail Table

Dollars in Thousands

	FY 2009 Obligations		FY 2009 Enacted		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Wholesale Securities Services	134	$23,444	130	$23,438	133	$24,492	131	$24,234	-1.50%	-1.05%
Government Agency Investment Services	101	17,702	99	17,723	88	16,264	88	16,162	0.00%	-0.63%
Retail Securities Services	731	127,909	774	139,109	773	142,645	740	136,327	-4.27%	-4.43%
Summary Debt Accounting	40	7,081	39	7,082	48	8,843	50	9,262	4.17%	4.74%
Subtotal New Appropriated Resources	1,006	$176,136	1,042	$187,352	1,042	$192,244	1,009	$185,985	-3.17%	-3.26%
Other Resources:										
Offsetting Collections - Reimbursable		21,196		21,196		22,110		22,773	0.00%	3.00%
Available multi-year/no-year funds		2,727		2,972		2,988		2,000		
User Fees		7,879								
Recoveries				11						
Subtotal Other Resources	0	$31,802	0	$24,179	0	$25,098	0	$24,773	0.00%	-1.29%
Total Resources Available for Obligation	1,006	$207,938	1,042	$211,531	1,042	$217,342	1,009	$210,758	-3.17%	-3.03%

Note: 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, [$192,244,000] *$185,985,000*, 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, [2012]*2013*, for systems modernization: Provided, That the sum appropriated herein from the general fund for fiscal year [2010]*2011* 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 [2010]*2011* appropriation from the general fund estimated at [$182,244,000] *$175,985,000*. In addition, [$90,000] *$110,000* 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. (*Consolidated Appropriations Act, 2010*.)	

2B – Permanent, Indefinite Appropriations

Reimbursements to the Federal Reserve Banks

Public Law 101-509, 104 Stat. 1389, 1394 (1990), established a permanent indefinite appropriation to pay such sums as necessary to reimburse the Federal Reserve Banks for acting as fiscal agents. A permanent indefinite account was established in FY 1992. Claims for reimbursements are closely monitored for compliance with the Instructions for Filing Reimbursement Claims for Fiscal Agency Services Provided to the Bureau of the Public Debt (current edition). Funding for FY 2011 is estimated at $136,000,000.

Government Losses in Shipment

Public Law 103-329 established a permanent indefinite appropriation to pay such sums as necessary to make payments for the replacement of valuables, or the value thereof, lost, destroyed, or damaged in the course of United States government shipments. The Government Losses in Shipment Act was approved July 8, 1937, to dispense with the necessity for insurance by the government against loss or damage to valuables in shipment and for other purposes. The Act was amended in 1943 to cover losses resulting from the redemption of savings bonds (for example, stolen bonds which were fraudulently negotiated even though the paying agent followed identification guidelines established by the Treasury). All authority of the Treasury under the Act has been delegated to the Commissioner of the Bureau of the Public Debt. In FY 2011, 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 2011.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 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 2010 Enacted	FY 2011 Request	Percent Change
Financial information	9,860	10,396	**5.44%**
Government financing	204,494	198,362	**-3.00%**
Total	**$214,354**	**$208,758**	**-2.61%**

3A – Wholesale Securities Services *($24,234,000 from direct appropriations and $2,967,000 from reimbursable programs):* The Wholesale Securities Services program is responsible for the announcement, auction, issuance and settlement of marketable Treasury bills, notes, bonds and TIPS. It also oversees an infrastructure that provides for the transfer, custody and redemption of these securities, which are purchased mostly by large market participants.

As one of the federal government's Primary Mission Essential Functions, Wholesale Securities Services ensures communications, systems, processes and contingency plans provide for continuous performance and operability for wholesale auction operations. The program is critical to the federal government's ability to finance government operations and programs, including the Financial Stability Plan.

Prior to the global economic recession in late 2008, Public Debt conducted approximately 220 auctions annually. In FY 2008, the bureau conducted 238 auctions resulting in the issuance of $6.7 trillion in securities. During FY 2009, Public Debt conducted over 290 auctions, resulting in the issuance of over $8 trillion dollars in marketable securities.

Public Debt began debt issuance for the Supplementary Financing Program, one of the programs developed in the midst of the economic disruption, in September 2008. Designed to support Federal Reserve initiatives to address liquidity pressures in the financial market, the program consists of a series of Treasury bills, in addition to Treasury's borrowing program.

Another major component of this program is the commercial book entry system, which holds approximately $6.2 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 $1.34 trillion per day in Treasury securities are transferred among account holders in the commercial book-entry system.

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. The bureau also administers and monitors for compliance the rules for Treasury's securities auctions and buybacks, and prescribes provisions for Treasury's Fiscal Service collateral programs, including collateral eligibility and valuation. The Fiscal Service collateral programs ensure that government funds on deposit or invested at commercial banks are secured.

Public Debt continually evaluates its business processes for ways to enhance reporting capabilities, strengthen system security and contingency plans and mitigate risk, while guaranteeing operational readiness in order to meet its primary objective of borrowing at the lowest cost over time. Treasury will continue to seek opportunities in U.S. and global markets, to better serve holders of its securities and share information to enhance the understanding of the Treasury auction process, debt financing policies and securities.

Other Resources:
Reimbursements totaling $2,967,000 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 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Enacted**	**FY 2011 Request**
Appropriated Resources	$19,475	$21,350	$23,444	$24,492	$24,234
Reimbursable Resources	$1,301	$1,494	$2,821	$2,817	$2,967
Total Resources	**$20,776**	**$22,844**	**$26,265**	**$27,309**	**$27,201**
Budget Activity Total	**$20,776**	**$22,844**	**$26,265**	**$27,309**	**$27,201**

Wholesale Securities Services Budget Activity						
Measure	**FY 2007**	**FY 2008**	**FY 2009**		**FY 2010**	**FY 2011**
	Actual	**Actual**	**Target**	**Actual**	**Target**	**Target**
Cost per debt financing operation ($) (E)	235,172	220,732	256,336	170,214	193,962	228,709
Percent of Primary Dealers that submit live bids from their disaster recovery site on two separate auction dates. (%) (Ot)	N/A	N/A	N/A	N/A	50 (B)	70
Percent of auction results released in 2 minutes +/- 30 seconds (%) (Oe)	99.1	100	95	100	95	100
Percent of primary dealers that are able to participate in a live auction from their disaster recovery site (%) (Ot)	N/A	N/A	10 (B)	78	DISC	DISC

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B-baseline

Description of Performance: The cost per debt financing operation is estimated at $193,962 in FY 2010 and $228,709 in FY 2011. Increases in the cost per debt financing operation for FY 2010 and FY 2011 are primarily due to moderate decreases in volume projections and upgrades to the TAAPS system. Volumes fluctuate with Treasury's need for financing and market conditions. The upgrades to TAAPS are planned to keep pace with changes in technology that will ensure financing operations are conducted timely and with 100 percent accuracy.

Public Debt continues to achieve its efficiency target of releasing auction results within two minutes, plus or minus 30 seconds, 95 percent of the time.

Public Debt has implemented a strategic plan with primary dealers for contingency auction processing. The plan outlines various operational tests and events that strengthen overall readiness to deal with contingencies and ensure the continuity of the auction process. In FY 2009, the bureau exceeded its target of 10 percent of all primary dealers participating in a live auction from their disaster recovery sites. To further improve performance, Public Debt has developed a new long-term goal to ensure that 90 percent of primary dealers submit bids from their disaster recovery site on two separate auction dates in FY 2012. Public Debt is on target to achieve its intermediate milestone of 50 percent participation in FY 2010.

3B – Government Agency Investment Services *($16,162,000 from direct appropriations and $1,979,000 from reimbursable programs):* The Government Agency Investment Services (GAIS) program includes the offering of specialized investments for government entities at the federal, state and local levels, as well as borrowings by federal agencies. This program consists of three distinct components: Federal Investments, Special Purpose Securities and Federal Borrowings.

The Federal Investments component includes issuing, servicing and redeeming Government Account Series (GAS) securities for federal agencies that have specific statutory authority to invest. Federal agencies hold 253 trust and investment funds that total more than $4 trillion in investments, which is over one third of the total public debt outstanding. These special, nonmarketable Treasury securities include such items as the 18 trust funds in which the Secretary of the Treasury, designated by statute, is the managing trustee. Some of the more recognizable federal trust funds are the four Social Security and Medicare Funds, as well as the Unemployment and Highway Trust Funds.

The Special Purpose Securities component includes issuing, servicing and redeeming a variety of special purpose securities including Treasury's State and Local Government Series (SLGS) securities, which offer a flexible investment alternative for state and local governments to refinance their outstanding, tax-exempt debt. At nearly $213 billion, the SLGS program is critical for the more than 5,100 state and local government entities that use these securities to help comply with provisions of the Internal Revenue Code.

The Federal Borrowings component accounts for and reports on the principal borrowings from and repayments to Treasury for 85 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 $845 billion in loans and loan guarantees.

Public Debt's services in the GAIS program 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 $1,979,000 are allocated to this program for providing administrative support to Public Debt's franchise operation.

3.2.2 – Government Agency Investment Services Budget and Performance Plan

Government Agency Investment Services Budget Activity					
Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$13,903	$15,445	$17,702	$16,264	$16,162
Reimbursable Resources	$3,170	$4,279	$2,130	$1,871	$1,979
Total Resources	**$17,073**	**$19,724**	**$19,832**	**$18,135**	**$18,141**
Budget Activity Total	**$17,073**	**$19,724**	**$19,832**	**$18,135**	**$18,141**

Government Agency Investment Services Budget Activity						
Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Cost per federal funds investment transaction ($) (E)	68.53	64.98	69.11	41.71	45.70	44.92
Number of Government Agency Investment Services control processes consolidated (Oe)	3	2	0	0	5	0
Percent of overall customer satisfaction with Government Agency Investment Services (%) (Oe)	N/A	N/A	N/A	N/A	B	TBD

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance: Public Debt established a long-term goal to reduce the number of systems used to support GAIS. This will streamline the diversity of technology involved in supporting this business line and will allow the bureau to consolidate and standardize the internal controls over processes common to all GAIS programs. The control environment originally consisted of 18 processes in 2006 that will be transformed into six standardized processes by FY 2012. Consolidating the systems that house GAIS data into a single, integrated control environment will provide one location for all investment activities, which will reduce operational risks, while standardizing system, business and data elements. In FY 2009, system development continued, but the number of processes remained at 13. In FY 2010, five common processes will be consolidated leaving eight processes at the end of the fiscal year. FY 2011 will be a year of assessment, and the number of processes will remain the same.

The cost per federal funds investment transaction is projected to be $45.70 for FY 2010 and $44.92 for FY 2011. The projected cost per federal funds investment transaction is increasing for FY 2010 due to an increase in support charges and projected constant transaction volumes. The FY 2011 target reflects constant transaction volumes and a reduction in overall general expenditures.

Public Debt established a goal to provide high quality customer satisfaction for GAIS. Beginning in FY 2010, the bureau will conduct customer satisfaction surveys that focus on program and system satisfaction. This GAIS measurement supports an objective to provide quality customer service, transaction processing, and accurate and timely payments to investors.

3C – Retail Securities Services *($136,327,000 from direct appropriations, including $10,000,000 from user fee collections, and $16,693,000 from reimbursable programs):*
Public Debt's Retail Securities program serves more than 50 million retail customers who have invested in marketable and savings securities directly with Treasury. Investors may hold these securities in book-entry or paper form.

The retail program is positioning Treasury to eliminate new issues of paper savings bonds. While there has been no date set for withdrawing paper bonds from sale, the bureau will continue to encourage investors to move to TreasuryDirect as their preferred way of buying and holding savings bonds. Efforts to transition customers will be educational, such as financial literacy programs that target customers not yet accustomed to conducting financial transactions online.

In FY 2011, the retail program will continue focusing on improving the quality and efficiency of customer service by formulating and providing recommendations to support skill-based routing, web chat and the use of images in the Treasury Retail E-Services environment. By supporting its full range of products in an integrated system and optimizing communication, Public Debt will be able to respond to Retail securities customers more quickly and thoroughly.

Other Resources:
Offsetting collections totaling $10,000,000 are collected for Legacy Treasury Direct Investor Account maintenance fees. In addition, $16,693,000 in reimbursements are allocated to this program for providing administrative support to Public Debt's franchise operation.

3.2.3 – Retail Securities Services Budget and Performance Plan

Retail Securities Services Budget Activity					
Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$133,425	$127,079	$127,909	$142,645	$136,327
Reimbursable Resources	$9,047	$9,006	$15,393	$16,405	$16,693
Total Resources	**$142,472**	**$136,085**	**$143,302**	**$159,050**	**$153,020**
Budget Activity Total	**$142,472**	**$136,085**	**$143,302**	**$159,050**	**$153,020**

Retail Securities Services Budget Activity						
Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Cost per TreasuryDirect assisted transaction ($) (E)	6.65	8.19	9.34	8.72	8.57	8.41
Cost per TreasuryDirect online transaction ($) (E)	3.24	4.34	4.34	5.21	5.69	5.20
Percentage of Retail Customer Service Transactions Completed within 5 Business Days (%) (Ot)	N/A	N/A	N/A	86 (B)	86	87
Percentage of retail customer service transactions completed within 11 business days (%) (Ot)	99.43	99.86	90	99.83	DISC	DISC

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance: The cost per TreasuryDirect assisted transaction is projected at $8.57 in FY 2010 and $8.41 in FY 2011, primarily as a result of an increase in projected volumes. While workload should increase slightly, it 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.

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. Providing adequate assistance to TreasuryDirect customers and meeting customer expectations is critical to fulfilling Public Debt's goal of positioning Treasury to eliminate new issues of paper savings bonds.

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, the bureau tracks the cost of online transactions, including establishing accounts, purchasing and redeeming securities and changing account information online. The cost per TreasuryDirect online transaction is projected at $5.69 in FY 2010, but is expected to drop to $5.20 in FY 2011, because of a reduction in overall general expenditures. Volumes are projected to remain steady or increase slightly, while costs to operate TreasuryDirect are projected to increase in FY 2010 due to higher support costs and to refinements in cost allocations.

The TreasuryDirect application achieved full functionality with the implementation of entity accounts in FY 2009. In an ongoing effort to introduce additional cost savings initiatives, some of the original functionality is being upgraded to better align Public Debt to achieve some of its long range goals, such as improving system usability, streamlining online processing and encouraging more customers to convert their securities from our legacy systems. As a result, some design and development costs are shifting from assisted to online activities as more online features are made available to customers. In addition, in FY 2009 the Federal Reserve took on the task of regression testing, causing costs to increase slightly. Without the requested funding, Public Debt would not be able to support TreasuryDirect, the center of its strategy to offer retail securities to the public as efficiently as possible.

The percent of retail customer service transactions completed within five business days 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. A baseline for this measure was established in FY 2009.

3D – Summary Debt Accounting *($9,262,000 from direct appropriations and $1,134,000 from reimbursable programs):* The Summary Debt Accounting program is key to meeting Public Debt's responsibility to annually account for more than $12 trillion of public debt and nearly $400 billion in related interest expense incurred to finance the operations of the federal government. This program provides the overarching control structure for dozens of subordinate securities systems and reconciles more than $107 trillion annually of securities transactions and related cash flows handled by these subsystems. These cash flows represent funds received from the sale of securities and funds disbursed as interest and principal payments.

The program produces daily reports on the balances and composition of the public debt, the *Monthly Statement of the Public Debt*, and the annual, audited *Schedules of Federal Debt*, which reports on the single largest liability in the annual *Financial Report of the United States Government.* For each year an audit has been conducted, Public Debt has received an unqualified opinion on the *Schedules of Federal Debt.*

The Public Debt Accounting and Reporting System accounts for the public debt of the United States. The investment is nearing the end of its useful life, so rather than develop a proprietary system, the bureau will seek a shared-service solution to meet its accounting responsibilities for the Summary Debt Accounting program. This approach offers many benefits including a faster migration and reduced operational risks.

Before seeking a desired technology solution however, Public Debt will engage in a thorough reengineering of the business processes to best support the future needs of Summary Debt Accounting. This effort will redefine many reporting requirements, responsibilities and informational needs, produce more consistent processes across the board, drive improvements in the subsidiary reporting systems and ultimately create greater efficiency within the debt accounting programs at the summary and subsidiary levels.

Other Resources:
Reimbursements totaling $1,134,000 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 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$6,769	$6,793	$7,081	$8,843	$9,262
Reimbursable Resources	$452	$475	$852	$1,017	$1,134
Total Resources	**$7,221**	**$7,268**	**$7,933**	**$9,860**	**$10,396**
Budget Activity Total	**$7,221**	**$7,268**	**$7,933**	**$9,860**	**$10,396**

Summary Debt Accounting Budget Activity						
Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Cost per summary debt accounting transaction ($) (E	9.29	9.11	10.01	8.66	11.81	11.55
Percent of Summary Debt Accounting business processes restructured or eliminated. (%) (Oe)	N/A	N/A	N/A	N/A	6 (B)	6

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance: Public Debt tracks the cost per transaction of performing summary debt accounting, which includes reporting all financial activity related to the public debt of the United States. Issues, redemptions and interest payments on the public debt must be accounted for to calculate the amount of debt outstanding and interest paid. The bureau projects the cost per summary debt accounting transaction to be $11.81 in FY 2010 and $11.55 in FY 2011. The projected cost per summary debt accounting transaction is increasing because of statutory requirements beginning in FY 2010 to reimburse GAO for the *Schedules of the Federal Debt* audit, as well as an increase in support charges. However, costs are expected to drop slightly in FY 2011 because of an overall reduction in general expenditures. Transaction volumes are projected to remain constant for FY 2010 and FY 2011.

Public Debt established the long term goal to migrate Summary Debt Accounting to a shared service solution by FY 2013. The measurement of this goal is the percent of Summary Debt Accounting business processes restructured or eliminated. In FY 2010, the bureau will restructure or eliminate six percent of the business processes that support Summary Debt Accounting and will restructure or eliminate an additional six percent in FY 2011.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://treas.gov/offices/management/budget/

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The key to achieving Public Debt's mission is the strategic management of human capital. Employees are its greatest asset and investment in the workforce is critical. Public Debt is known as a values-based organization where candidates want to work and employees want to stay. According to the report, *Best Places to Work in the Federal Government 2009*, the bureau ranked in the top two percent of federal agency subcomponents. This ranking is based on results from the Office of Personnel Management's 2008 Federal Human Capital Survey. Public Debt's status as an employer of choice is enhanced by its efforts to improve employee health and well-being by providing access to fitness centers, health units offering a variety of health screenings and free flu shots, and a cafeteria offering healthy meal and snack options.

Not content to rest on it accomplishments, Public Debt develops and adopts action plans to address issues identified in the Federal Human Capital Survey. The current action plan for FY 2010 calls for enhancing the existing Telework Program, improving the performance culture, and continuing to improve communications.

A crucial part of workforce planning and deployment is the statistical analysis of the workforce. By 2012, 22 percent of the bureau's permanent employees will be eligible for retirement. A closer analysis of this data reveals that 50 percent of Senior Executive Service (SES) level employees will be eligible to retire.

Workforce recruitment and retention decisions are based on mission needs to offset the effect of retirements. Public Debt has developed a comprehensive recruitment program to attract candidates with the necessary competencies to minimize skill gaps. In addition, Public Debt relies on a full range of staffing and compensation authorities and flexibilities to recruit and retain high quality candidates. Extended efforts to target recruitment, streamline the hiring process, and shorten the hiring timeframes will ensure the bureau continues to successfully fill vacancies with well qualified employees.

Another vital element of Public Debt's human capital strategy is training. Annual training and development for employees addresses new skill requirements and manages the loss of institutional knowledge through retirements and internal movements. In addition, management development and supervisory excellence training programs have been developed and rotational assignments are encouraged for sharing and transferring institutional knowledge.

Succession planning is another important part of the human capital strategy. Because of the significant number of potential retirements within the SES, Public Debt implemented a Senior Executive Service Candidate Development Program in FY 2008. This program, scheduled for completion in 2010, will enable Public Debt to meet succession planning goals by establishing a pool of qualified candidates to quickly fill SES vacancies.

Public Debt continues to move forward on improving links between employee performance expectations and mission accomplishment. Performance plans are aligned with organizational goals and mission. Links are clearly identified between the strategic plan and the performance plans.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments 1/ Major IT Investments / Funding Source	Budget Activity	FY 2008 Enacted	FY 2009 Enacted	% Change from FY08 to FY09	FY 2010 President's Budget	% Change from FY09 to FY10	FY 2011 Requested	% Change from FY10 to FY11
Government Agency Investment Services System (GAISS)	Government Agency Investment Services	$4,511	$5,493	21.8%	$3,759	-31.6%	$3,842	2.2%
Public Debt Accounting and Reporting System (PARS)	Summary Debt Accounting	$1,971	$2,030	3.0%	$2,091	3.0%	$2,154	3.0%
SaBRe	Retail Securities Services	$4,640	$4,795	3.3%	$4,957	3.4%	$5,125	3.4%
Treasury Automated Auction Processing System (TAAPS)	Wholesale Securities Services	$29,521	$31,725	7.5%	$34,664	9.3%	$34,445	-0.6%
Subtotal: TAAPS Appropriated Funding		$11,281	$11,562	2.5%	$12,252	6.0%	$12,264	0.1%
Subtotal: TAAPS Permanent & Indefinite		$18,240	$20,163	10.5%	$22,412	11.2%	$22,181	-1.0%
TreasuryDirect	Retail Securities Services	$7,640	$5,679	-25.7%	$5,887	3.7%	$6,102	3.7%
Subtotal: TreasuryDirect Appropriated		$5,389	$5,679	5.4%	$5,887	3.7%	$6,102	3.7%
Subtotal: TreasuryDirect Permanent & Indefinite		$2,251	$0	-100.0%	$0	N/A	$0	N/A
Subtotal, Major IT Investments		$48,283	$49,722	3.0%	$51,358	3.3%	$51,668	0.6%
Non-Major IT Investments		$9,793	$10,008	2.2%	$10,104	1.0%	$10,419	3.1%
Infrastructure Investments 2/		$15,895	$16,621	4.6%	$17,226	3.6%	$17,384	0.9%
Enterprise Architecture		$342	$352	2.9%	$361	2.6%	$472	30.7%
Total IT Investments		$74,313	$76,703	3.2%	$79,049	3.1%	$79,943	1.1%

[1/] *Oracle e-Business Suites is self-funded.*

[2/] *Includes Enterprise Identity and Accesss Management.*

4B – Information Technology Strategy

In order to ensure the success of Public Debt's mission at the lowest cost to the taxpayer, the bureau has implemented and currently operates secure, efficient IT systems that safely process a wide range of corporate and customer transactions. The bureau's IT Strategic Roadmap for years 2008 – 2012 calls for a culture of continuous improvement through the adoption of best practices, improved quality of information supporting IT investments and improved effectiveness of project execution.

Adoption of Best Practices

Public Debt uses the Information Technology Infrastructure Library, a collection of IT best practices for managing and improving operations, optimizing the capacity of the infrastructure, and increasing the effectiveness in IT service delivery. The bureau plans to further optimize IT infrastructure by expanding the use of server virtualization, exploring the expanded use of virtual storage and backup technologies and evaluating desktop virtualization.

In addition, Public Debt will invest in environmentally-friendly electronic products when eligible options exist, ensure electronic equipment is used for an average life span of four years or greater, and recycle non-reusable electronic equipment.

Public Debt provides effective enterprise solutions to protect systems and data against fraud, identity theft and other cyber-crimes. Areas of focus include desktop security, mobile data devices, data encryption, identification and authentication controls, enhancements to its Trusted Internet Connection infrastructure, secure system configurations, compliance audit capabilities, Security Operations Center capabilities and continuity of operations. The bureau's IT system portfolio is comprised of certified and accredited applications ensuring secure exchange of information between the federal government and the public.

Quality Information Supporting IT Investments

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. The bureau's quarterly enterprise architecture reviews ensure alignment of its IT investments to the strategic enterprise direction of Treasury and identify potential duplication of systems. Tracking and reporting the progress of each investment and the performance measures achieved each quarter ensures the IT system portfolio is well managed, cost effective and supports Treasury's strategic goal of *Effectively Managed U.S. Government Finances*.

Effective Project Execution

Through a disciplined and consistent approach to project management, IT investments are closely monitored for cost, schedule and performance to ensure expected results and benefits are achieved. For example, a corrective action plan is implemented for any project exceeding a tolerance of 10 percent for cost, schedule or performance estimates. Through Public Debt's focused oversight of its system portfolio, the government's critical financing needs are met while maintaining the integrity of primary and secondary markets for Treasury securities.

4.2 – Program Evaluation

Program Name: Administering the Public Debt

Assessment and Improvement Actions

- By 2012, 90 percent of Primary Dealers will submit live bids from their disaster recovery sites on two separate auction dates.
- Consolidate Government Agency Investment Services into a single, integrated control environment by FY 2012.
- Migrate Summary Debt Accounting to a shared service solution by FY 2013.
- By FY 2014, significantly improve the number of retail customer service transactions completed within five business days.
- Receive a high quality customer satisfaction rating for Government Agency Investment Services.

Internal Revenue Service

Mission Statement

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriations	FY 2009		FY 2010	FY 2011		
Internal Revenue Service	ARRA	Enacted[1,2]	Enacted	Request	$ Change	%
Taxpayer Services		$2,293,000	$2,278,830	$2,321,975	$43,145	1.89%
Enforcement		5,117,267	5,504,000	5,797,400	293,400	5.33%
Operations Support		3,867,011	4,083,884	4,108,000	24,116	0.59%
Business Systems Modernization		229,914	263,897	386,908	123,011	46.61%
Health Insurance Tax Credit Administration	80,000	15,406	15,512	18,987	3,475	22.40%
Total Appropriated Resources	$80,000	$11,522,598	$12,146,123	$12,633,270	$487,147	4.01%
FTE		94,189	95,070	96,419		1.42%

[1] FY 2009 Enacted excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices ($122M).

[2] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

FY 2011 Priorities

The IRS collects the revenue that funds the government and administers the nation's tax laws. In FY 2009, the IRS collected $2.345 trillion in taxes (gross receipts before tax refunds), 95 percent of federal government receipts. In order to protect the flow of revenues to the government, the IRS pursues a robust service and enforcement agenda. The service agenda supports and protects the trillions in revenue that already comes into the Treasury every year from hundreds of millions of taxpayers. The enforcement agenda vigorously pursues those who evade their responsibility to pay the taxes they owe.

In its FY 2011 request, the IRS seeks additional funding for:

- **Taxpayer Service –** Increase the telephone level of service and improve the IRS website where an increasing percentage of taxpayers find the help they need;
- **Enforcement –** Expand efforts to address offshore tax evasion and expand the focus on corporate and high-wealth returns; and
- **Business Systems Modernization –** Complete the new taxpayer account database.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The *IRS Strategic Plan 2009-2013* guides program and budget decisions and supports the Department of the Treasury Strategic Plan. The IRS Strategic Plan recognizes the increasing complexity of tax laws, changing business models, expanding use of electronic data and related security risks, accelerating growth in international tax activities, and growing human capital challenges.

The IRS Strategic Plan goals and objectives are:

IRS Strategic Goals

Improve Service to Make Voluntary Compliance Easier

Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes

To improve service to and make voluntary compliance easier, the IRS must:

- Incorporate taxpayer perspectives to improve all service interactions;
- Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS;
- Provide taxpayers with targeted, timely guidance and outreach; and
- Strengthen partnerships with tax practitioners, tax preparers, and other third parties to ensure effective tax administration.

To enforce the law to ensure everyone meets their obligation to pay taxes, the IRS must:

- Proactively enforce the law in a timely manner while respecting taxpayer rights and minimizing taxpayer burden;
- Expand enforcement approaches and tools;
- Meet the challenges of international tax administration;
- Allocate compliance resources using a data-driven approach to target existing and emerging high-risk areas;
- Continue focused oversight of the tax-exempt sector; and
- Ensure that all tax practitioners, tax preparers, and other third parties in the tax system adhere to professional standards and follow the law.

To achieve the service and enforcement goals, the IRS must:

- Make the IRS the best place to work in government;
- Build and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity;
- Use data and research across the organization to make informed decisions and allocate resources; and
- Ensure the privacy and security of data and safety and security of employees.

FY 2011 Budget Request

The FY 2011 President's Budget Request for the IRS is $12,633.3 million, $487.1 million, or 4.0 percent more than the FY 2010 enacted level.

Appropriation Account	**($ in Millions)**
Taxpayer Services	$2,322.0
Enforcement	5,797.4
Operations Support	4,108.0
Business Systems Modernization	386.9
Health Insurance Tax Credit Administration	19.0
Total	$12,633.3

The $487.1 million increase consists of:

- $32.4 million for changes to the base:
  - $219.5 million for the pay raise and inflation;
  - $3.5 million to support the American Recovery and Reinvestment Act (Recovery Act) Health Coverage Tax Credit (HCTC) Program Expansion; and
  - -$190.6 million for efficiency savings and non-recur activities.

- $454.7 million for program changes:
  - $2.8 million for a submission processing consolidation reinvestment;
  - -$9.0 million reallocation from the Taxpayer Advocate Service (TAS) and Low-Income Taxpayer Clinic (LITC) Grants program, Tax Counseling for the Elderly (TCE) program, and the Volunteer Income Tax Assistance (VITA) Grants program relative to 2010 enacted levels to improve service performance by increasing the telephone level of service;
  - $45.9 million to increase the telephone level of service and to improve and redesign the IRS.gov website;
  - $247.4 to reduce the tax gap by investing in a strong compliance program; and
  - $167.6 million to complete development of the new taxpayer account database and continue investments in electronic filing systems.

The IRS requests $2.8 million to fund one-time separation costs associated with the September 30, 2011, closure of the Atlanta submission-processing site. An additional $20.9 million is requested to improve telephone level of service, increasing the level of service performance target to 75 percent from 70 percent in FY 2009 and 71 percent in FY 2010. This includes a program increase of $11.9 million, and a $9 million reallocation from TAS and the LITC, TCE, and VITA grant programs. Without the reallocation within the Taxpayer Services account, the IRS will achieve a lower telephone level of service, currently estimated to be 74 percent, meaning fewer taxpayers will be able to get through to the toll-free line. To continue the effort to move taxpayer service to the internet, and to support the Treasury effort to increase paperless transactions, an additional $25 million in Operations Support will be invested in improvements to the IRS.gov website infrastructure and to redesign the IRS.gov website to meet taxpayer needs and growing demand for more electronic services.

The IRS requests $247.4 million for investments in strong compliance programs, including a robust international enforcement initiative to address offshore tax evasion. The additional enforcement initiatives will address underreporting of income associated with international activities and expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers and the complex business enterprises they control (including corporations, partnerships, and trusts). These enforcement investments will bring in $1.9 billion, in additional annual enforcement revenue, with a return on investment (ROI) of 9.3 to 1, once new hires reach full potential in FY 2013. This estimate does not account for the deterrent effect of IRS enforcement programs, conservatively estimated to be at least three times larger than the direct revenue impact.

Data and technology are central to the future of tax administration. The IRS requests $167.6 million to fund completion of the new taxpayer account database and continue investments in electronic filing systems. Completion of the core taxpayer account database is the cornerstone of IRS IT modernization that will expedite refunds to 140 million individual taxpayers and a prerequisite for other major initiatives such as significant expansion of online paperless services. It will allow the IRS to expand its online services to manage increasing taxpayer service demands. In addition, next generation, more sophisticated compliance systems require the relational database structure and movement away from the legacy data storage model. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until the new taxpayer account database is completed.

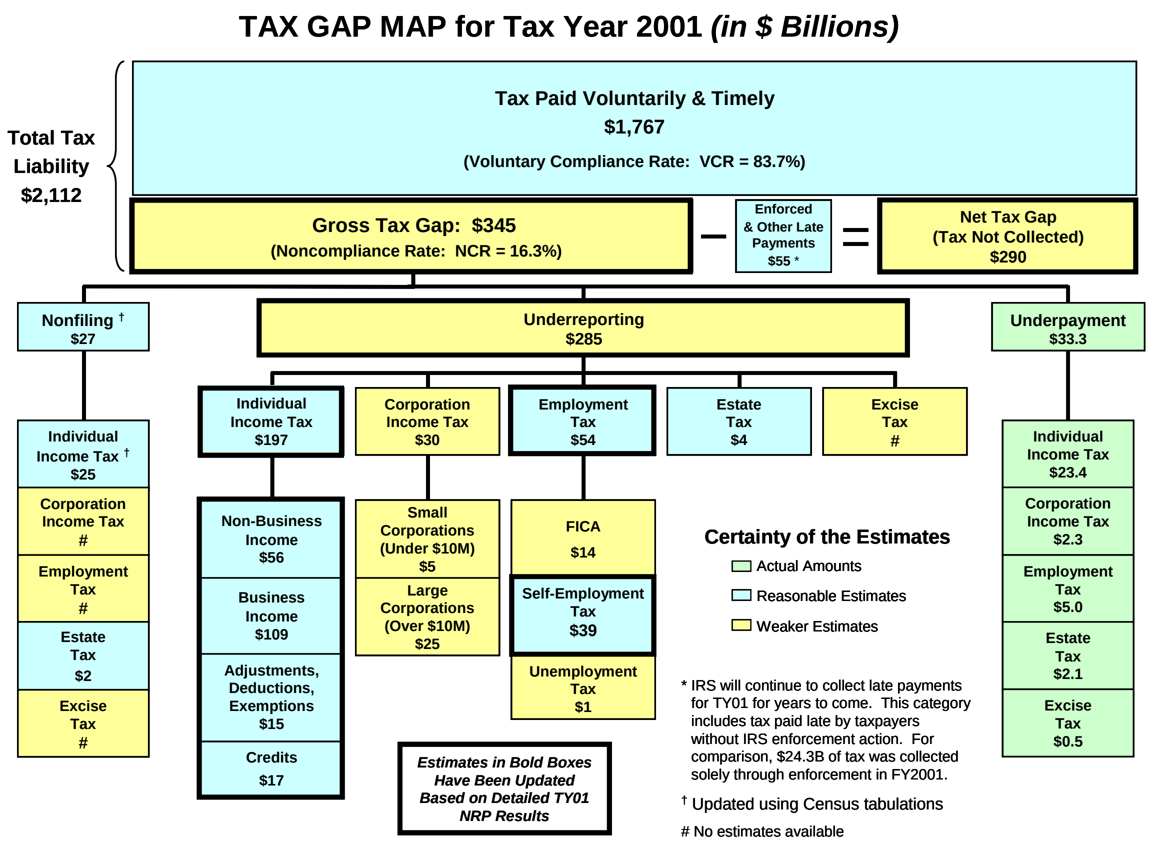
Reducing the Tax Gap

Recent investments in IRS enforcement programs have yielded significant increases in enforcement revenue. Enforcement revenue was $48.9 billion in FY 2009 for a total IRS-wide return on investment (ROI) of 4.2 to 1. This number reflects only the direct revenue collected and does not take into account the deterrent effect of IRS enforcement programs such as Criminal Investigation.

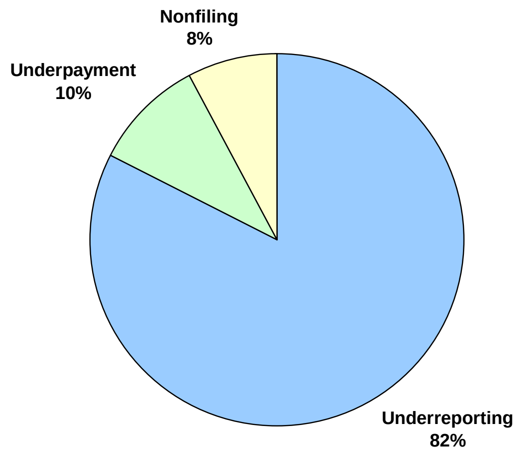
In 2006, the IRS released updated results of its first study in two decades of the difference between taxes owed and taxes actually paid on a timely basis – the "tax gap." The IRS estimated that taxpayers initially underpaid by $345 billion in 2001 see *Tax Gap Map for Tax Year 2001*, below. This equates to a voluntary compliance rate of almost 84 percent. Late payments and IRS enforcement action reduced this to a net tax gap of $290 billion.

The three components of the tax gap are:

- **Underreporting** – Not reporting one's full tax liability on a timely filed return;
- **Nonfiling** – Not filing required returns on time; and
- **Underpayment** – Not timely paying the full amount of tax reported on a timely return.



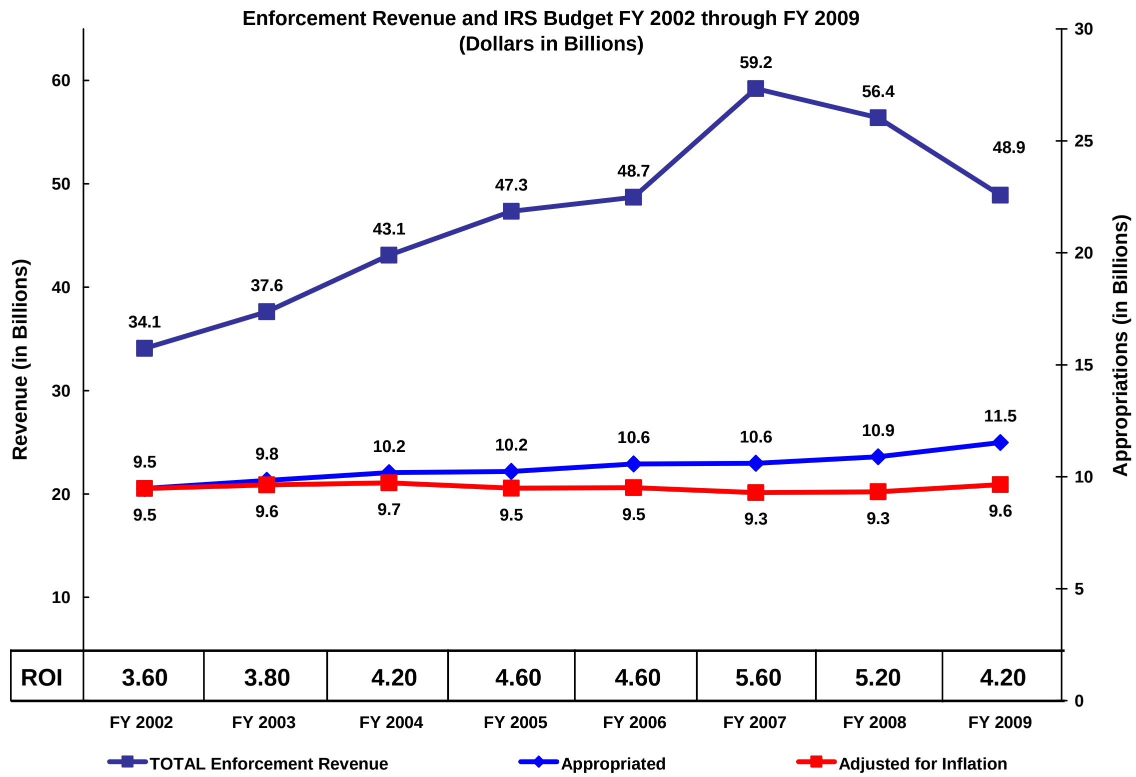
Underreporting tax liability comprises 82 percent of the gross tax gap ($285 billion). The remainder is almost evenly divided between nonfiling (8 percent) and underpaying (10 percent). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.



Taxpayer Service and Enforcement Programs Complement Each Other

The IRS serves individuals, businesses, non-profit organizations, and processed more than 236 million tax returns in 2009. The system of voluntary tax compliance requires the IRS to excel in taxpayer service for those who are trying to meet their obligations under the law and provide a robust enforcement program for those who shirk their responsibilities to their fellow citizens. Most taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply because they do not understand their obligations under the complex tax laws. Noncompliance can stem from a wide range of causes, including lack of knowledge, confusion, poor recordkeeping, differing legal interpretations, unexpected personal emergencies, and temporary cash-flow problems.

Vigorous enforcement encourages voluntary compliance for those taxpayers who seek to avoid meeting their tax obligations under the law, further increasing revenue. IRS enforcement activities remain a high priority.



Increased resources for IRS enforcement programs yield a positive ROI. As shown in the table below, the proposed IRS FY 2011 enforcement initiatives will generate $1,946.2 million, an ROI of 9.3 to 1, in additional annual enforcement revenue once the new hires reach full potential in FY 2013. In addition to direct revenue, IRS enforcement activities yield indirect revenue by deterring noncompliance, and this effect is estimated to be at least three times the direct revenue impact.

Return on Investment for IRS Enforcement Initiatives

Dollars in Millions						
	First Year (FY 2011)			Full Performance (FY 2013)		
FY 2011 Enforcement Investment	Cost	Revenue	ROI	Cost	Revenue	ROI
All Enforcement Initiatives	$247.4	$719.8	2.9	$209.6	$1,946.2	9.3
Direct Revenue Producing Initiatives	$236.9	$719.8	3.0	$200.6	$1,946.2	9.7
Address Business and Individual International Compliance	121.1	300.8	2.5	101.3	812.2	8.0
Reduce the Reporting Compliance Tax Gap	77.7	211.7	2.7	65.8	659.6	10.0
Reduce the Nonfiling and Underpayment Tax Gap	38.1	207.3	5.4	33.5	474.4	14.2
Other Enforcement Initiatives	$10.5	$0.0	0.0	$9.0	$0.0	0.0

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. Assisting taxpayers with their tax questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. Accordingly, the IRS provides year-round assistance to millions of taxpayers through many sources, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, the IRS.gov website, Taxpayer Assistance Centers (TAC), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites. Many of these sites provide information in Spanish as well as English.

In January 2010, the IRS announced multiple recommendations to increase oversight of federal tax return preparers, including new registration, testing, and continuing education requirements. The recommendations are intended to better leverage the tax return preparer community with the twin goals of increasing taxpayer compliance and ensuring uniform and high ethical standards of conduct for tax return preparers. Planning and regulation preparation will proceed in FY 2010 with primary implementation of the initial changes anticipated in FY 2011.

Helping taxpayers understand their obligations under the tax law is critical to improving compliance and addressing the tax gap. To this end, the IRS remains committed to a balanced program of assisting taxpayers to understand the tax law and remit the proper amount of tax and to pursue cases for which noncompliance is willful, even to the point of criminal tax evasion. The IRS remains committed to improving voluntary compliance and reducing the tax gap through both taxpayer service and enforcement.

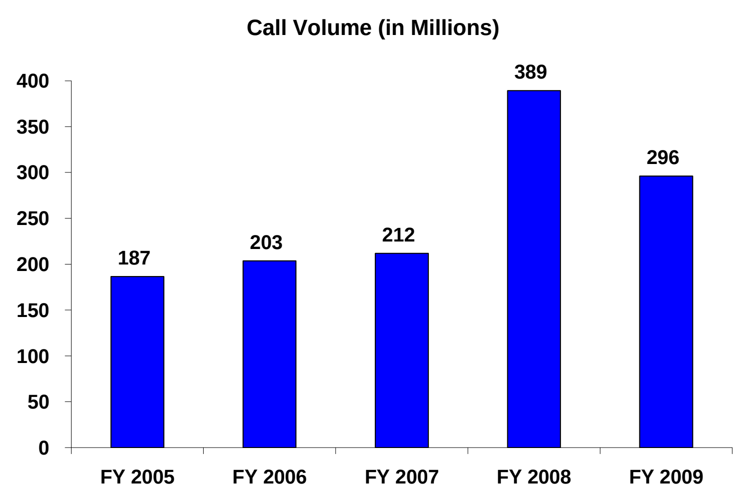
1B – Program History and Future Outlook

The IRS helps taxpayers understand and comply with federal income tax laws. Each year, IRS employees make millions of contacts with taxpayers and businesses. Thus, it is essential that correspondence, including e-notices, exam and collection notices and other tax-related correspondence, provide clear and accurate information to taxpayers.

Taxpayer Service

In FY 2009, the IRS Commissioner chartered a Taxpayer Communications Taskgroup (TACT) to study and improve the clarity, accuracy, and effectiveness of written communications to taxpayers. As a result of the TACT efforts, the IRS reduced the number of inserts included with the balance due notice from 13 to two, reducing the amount of paper while improving clarity and readability. This streamlining effort eliminated more than 16 million pieces of paper per year and also reduced IRS annual postage costs by $570,000. In addition, the IRS rolled out in January 2010 nine redesigned notices as part of the TACT effort to improve IRS correspondence. The nine notices account for approximately two million pieces of correspondence and were rewritten to provide a clear and simple explanation of the purpose of the notice and what actions the taxpayer must take to resolve the issue.

In FY 2009, the IRS continued to improve its services by providing year-round assistance to millions of taxpayers through multiple channels. Demand for telephone services remained high as taxpayers called to obtain information regarding economic stimulus payments, new Recovery Act credits, and prior year adjusted gross income (AGI) numbers needed for electronic filing. The significant increases in call demand stressed existing resources, resulting in a lower customer level of service. Despite the high call volume, the IRS continued to focus on the accuracy of information provided to taxpayers as both Toll-Free Tax Law and Toll-Free Accounts Accuracy performance surpassed FY 2008 record-breaking numbers. The following chart shows the call volume from FY 2005 through FY 2009.



The Budget provides a significant investment to increase level of service by adding resources to meet the ever increasing demand and continuing to make efficiency improvements such as automated self-service applications that allow taxpayers to obtain information on less complex issues such as refund inquiries. These improvements free up staff to deal with the more complex tax law issues stemming from the passage of the Recovery Act and the Worker, Homeownership, and Business Assistance Act of 2009.

In FY 2009, there were more than 296 million visits to IRS.gov. Taxpayers visited the website to obtain information on the Recovery Rebate Credit, to determine if they qualify for the Earned Income Tax Credit (EITC), to track the status of their refunds using the *Where's My Refund?* application, and to get the most up-to-date information on Recovery Act credits they may be entitled to. More than 54 million taxpayers used *Where's My Refund?*, a 39 percent increase over the same period last year. During FY 2009, the IRS received more than 296 million calls and helped more than 6.2 million taxpayers at 401 Taxpayer Assistance Centers. The Budget will continue supporting these self-service options as well as support the development of additional enhancements such as calculators, on-line tools and information on new legislation in an easy, accessible format. In addition, the Budget supports a multi-year effort to improve the IRS.gov website to meet taxpayer needs and the growing demand for more electronic services. The new web environment will improve customer satisfaction by providing an enhanced look and feel, making navigation on the site easier, and improve the user's ability to locate desired information and access applications.

Despite these challenges, the IRS delivered another successful filing season. During FY 2009, the IRS received 144.4 million individual returns, 11.2 million fewer than 2008, when millions of taxpayers filed solely to receive an Economic Stimulus Payment. The number of refunds issued increased 3.5 percent to 111.4 million. The percentage of individual returns filed electronically reached 66 percent, with more than 95 million individual tax returns filed electronically, compared to 89.6 million in 2008, an increase of 6 percent. During 2009, home computer filing increased to more than 32.2 million, an increase of 19 percent.

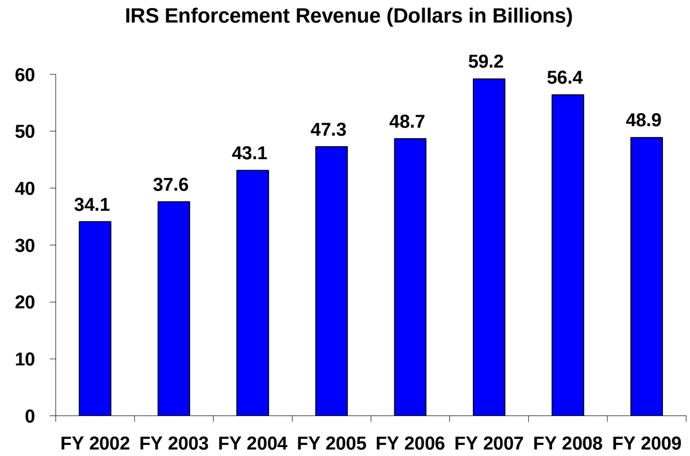
The IRS provided extensive media coverage and expanded electronic outreach activities to make taxpayers aware of new credits, deductions, and exclusions for which they qualified. A second *Super Saturday* event was held in FY 2009, and the IRS provided more than 11,000 taxpayers with tax assistance and return preparation. The event was the largest one-day outreach service event in IRS history.

The IRS also provided assistance to million of taxpayers by expanding partnerships with nonprofit and community organizations, opening more than 12,100 free tax preparation sites nationwide.

Enforcement

Enforcement of the tax laws is an integral component of the IRS effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, target elements of the tax gap and remain a high priority. In FY 2009, the IRS expanded its enforcement presence in the international field, continued to pursue high-wealth, noncompliant taxpayers, and initiated action to better leverage the tax return preparer community.

Total enforcement revenue was $48.9 billion in FY 2009. The IRS showed steady progress in increasing its audit coverage:



- Total individual audits increased 2.6 percent;
- Automated Underreporter (AUR) contact closures increased 2.6 percent;
- High-wealth audits increased 11.2 percent; and
- Large corporate audits increased 2.6 percent compared to 2008, a significant achievement given the size (more than $10 million) and complexity of these corporate entities.

In FY 2009, the IRS placed extraordinary focus on detecting and bringing to justice those who hide assets overseas to avoid paying tax. As part of an overall IRS strategy to improve offshore compliance, the IRS implemented initiatives to identify U.S. taxpayers who engaged in offshore tax evasion schemes. In August 2009, the IRS reached agreement with Swiss authorities that will result in the IRS receiving an unprecedented amount of information on taxpayers who evaded their tax obligations by hiding money offshore at UBS. This represents a major step forward for the IRS in its efforts to combat offshore tax evasion and will send a clear message to people hiding income and assets offshore that the IRS will vigorously pursue tax cheats, no matter how remote or secret the location.

At the same time, the IRS established an offshore voluntary disclosures/penalty framework for taxpayers to disclose their offshore activities. The framework provided taxpayers the opportunity to:

- Calculate the total cost of resolving all offshore tax issues;
- Become compliant with U.S. tax laws;
- Make voluntary disclosures that will be used to further the IRS understanding of how foreign accounts and foreign entities are promoted to U.S. taxpayers as ways to avoid or evade tax; and
- Provide data to be used in developing additional IRS strategies to inhibit promoters and facilitators from soliciting new clients.

As a result of the offshore voluntary disclosure program that ran through October 15, 2009, more than 14,700 taxpayers with offshore accounts came forward to disclose information bringing them back into the U.S. tax system. A key aspect of future international offshore work will be mining the information from people who came forward to identify financial institutions, advisors, and others who promoted or otherwise helped U.S. taxpayers hide assets and income offshore.

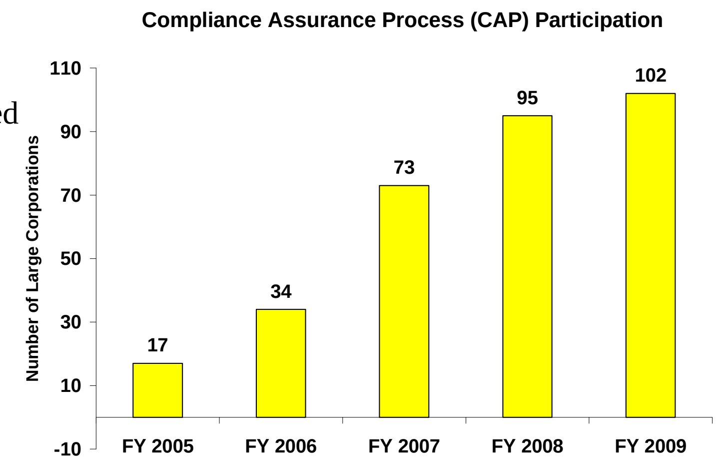
In FY 2009, the IRS continued to investigate tax, money laundering, and other financial crimes that adversely affect tax administration. Performance levels for the criminal investigation program remained high during FY 2009, with 3,848 completed criminal investigations and 2,105 convictions.

Maintaining a strong enforcement presence in the tax-exempt sector is important to ensure that charitable organizations are not used for non-charitable or illegal purposes. During FY 2009, the IRS increased tax-exempt and government entities compliance contacts by 10 percent over FY 2008 levels.

The Compliance Assurance Process (CAP) is a method of resolving tax issues through open and transparent interaction between the IRS and large corporations to identify and resolve issues before the filing of the return. CAP involves some of the largest U.S. corporations.

CAP participation expanded from 17 corporations in 2005 to 102 corporations in 2009 and is expected to become a permanent program for Tax Year (TY) 2010.

The CAP program benefits both the IRS and the taxpayer by fostering compliance, reducing the time it takes to process a return, and improving both customer and employee satisfaction while maintaining a high level of quality.



Research allows the IRS to target specific areas of noncompliance to improve voluntary compliance and allocate resources more effectively to reduce the tax gap. Improved research data also refine the workload selection models to reduce audits of compliant taxpayers and ultimately help the IRS achieve high rates of return from its enforcement programs. Current National Research Program (NRP) efforts include analyzing individual income tax returns for tax years 2006 through 2008 as part of on-going reporting compliance studies. An employment tax reporting compliance study is in the planning stages. Results from these studies will be used to develop additional approaches to addressing the tax gap. In addition, efforts are underway to develop models to measure compliance time and expenses for small business taxpayers who file income and employment tax returns.

Information Technology (IT) Infrastructure

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 many megabytes in size), seasonal processing with extreme variations in processing load, transaction rates on the order of billions per year, and storage measured in trillions of bytes. The IRS continues to improve the information technology infrastructure leading to greater efficiency and productivity.

The IRS continues to replace its IT infrastructure using an ongoing review process that prioritizes funding of business needs. In FY 2009, 49 percent of IRS IT hardware assets were aged, with an average of 12 percent becoming aged each year. The IRS spent more than $170 million to replace more than 53,720 of these aged assets. The 53,720 aged assets that were replaced included network equipment, end-user equipment, and servers and storage equipment.

Business System Modernization

IRS modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. The following highlights the IRS accomplishments in FY 2009:

- *Customer Account Data Engine (CADE)* – In FY 2009, CADE posted more than 40.0 million returns and issued 34.9 million refunds, totaling $58.6 billion. In addition, the IRS revised its CADE strategy to implement a new taxpayer account database by the end of 2011 for the 2012 filing season. The new database will allow the migration of all 140 million individual taxpayers to a modernized, relational database that will support daily processing and result in faster refunds for all individual refund filers.

- *Modernized e-File (MeF)* – The IRS deployed MeF Release 5.5 that included the redesigned Form 990, *Return of Organization Exempt from Income Tax,* in time for the filing season. MeF processed Form 1120 and 990 returns at much higher volumes than expected. The volume of Form 1120 returns increased 38 percent and Form 990 increased 307 percent from 2008. Returns submitted through MeF have an average 7 percent processing error rate, compared to 19 percent for transcription-based paper processing. MeF return receipts increased to about 4.5 million.

- *Account Management Services (AMS)* – The IRS completed the 2009 releases of AMS, providing additional real-time address changes to CADE by the conversion of account transcripts from paper to electronic format. AMS processed more than 2.3 million accounts since deployment and more than 2.2 million electronic transcript cases were distributed. In addition, AMS delivered the capability to update account address data on a daily cycle. AMS added a new component to its organization in FY 2009, the Integrated Automation Technologies (IAT) Branch. The IAT developed tools to support the implementation of Recovery Act including the First-Time Home Buyer Credit tool, which systematically researches amended returns for specific criteria to identify unallowable or fraudulent claims.

Section 2 – Budget Adjustments – Internal Revenue Service

The IRS Budget Request for FY 2011 is $12,633,270,000 in direct appropriations and 96,419 FTE. This is an increase of $487,147,000 or 4.01 percent, and 1,349 FTE more than the FY 2010 enacted budget of $12,146,123,000 and 95,070 FTE.

Program Summary by Appropriations Account and Budget Activity
Dollars in Thousands

Appropriations	FY 2009		FY 2010	FY 2011		
Internal Revenue Service	ARRA	Enacted[1,2]	Enacted	Request	$ Change	% Change
Taxpayer Services		$2,293,000	$2,278,830	$2,321,975	$43,145	1.89%
Pre-filing Taxpayer Assistance and Education		661,000	685,063	693,753	8,690	1.27%
Filing and Account Services		1,632,000	1,593,767	1,628,222	34,455	2.16%
Enforcement		$5,117,267	$5,504,000	$5,797,400	$293,400	5.33%
Investigations		611,601	637,694	651,966	14,272	2.24%
Exam and Collections		4,355,186	4,706,350	4,974,618	268,268	5.70%
Regulatory		150,480	159,956	170,816	10,860	6.79%
Operations Support		$3,867,011	$4,083,884	$4,108,000	$24,116	0.59%
Infrastructure		875,538	900,852	889,929	(10,923)	-1.21%
Shared Services and Support		1,269,642	1,296,629	1,337,776	41,147	3.17%
Information Services		1,721,831	1,886,403	1,880,295	(6,108)	-0.32%
Business Systems Modernization		$229,914	$263,897	$386,908	$123,011	46.61%
Health Insurance Tax Credit Administration	$80,000	$15,406	$15,512	$18,987	$3,475	22.40%
Total Appropriated Resources	$80,000	$11,522,598	$12,146,123	$12,633,270	$487,147	4.01%
Total FTE		94,189	95,070	96,419		1.42%

[1] FY 2009 Enacted excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices ($122M).
[2] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.1 – Budget Adjustments Table

Dollars in Thousands

Internal Revenue Service

	FTE	Amount
FY 2009 Enacted	94,189	$11,522,598
FY 2010 President's Budget Request	95,081	$12,126,000
Congressional Action	(11)	20,123
FY 2010 Enacted Budget (P.L. 111-117)	95,070	$12,146,123
Changes to Base:		
Maintaining Current Levels		$219,523
Pay Annualization		47,473
Pay Inflation Adjustment		119,537
Non-Pay Inflation Adjustment		36,121
FERS Increased Participation		16,392
Other Adjustments	(318)	$3,494
Resource Adjustment to Support Recovery Act-HCTC Program Expansion		3,494
Technical FTE Adjustments	(318)	
Efficiencies/Savings	(472)	($190,638)
Non-Recur Savings		(32,680)
Increase e-File Savings	(472)	(22,808)
IT Infrastructure and Process Improvements		(75,000)
Reduce Procurement/Contracting		(25,000)
Reduce Printing, Travel, and Training		(10,000)
Reduce Tuition Assistance Program		(5,150)
Eliminate Selective Mailing of Forms and Publications		(20,000)
Subtotal Changes to Base	(790)	$32,379
Total FY 2011 Base	94,280	$12,178,502
Program Changes:		
Program Reinvestment:		$2,792
Submission Processing Consolidation (Atlanta)		2,792
Program Decrease:		($9,000)
Reduce Taxpayer Service Grant and Advocacy Programs		(9,000)
Program Increases:		
Taxpayer Service Initiatives		$45,945
Improve IRS.gov		25,000
Increase Telephone Level of Service		20,945
Enforcement Initiatives	1,983	$247,446
Address Business and Individual International Compliance	781	121,086
Reduce the Reporting Compliance Tax Gap	700	77,679
Reduce the Nonfiling and Underpayment Tax Gap	406	38,181
Support for Increased Enforcement Activities	65	5,000
Maintain Recovery Act Staffing	31	5,500
Business Systems Modernization (BSM) Initiative	156	$167,585
Continue Migration from Aging Tax Administration System	156	167,585
Subtotal Program Changes	2,139	$454,768
Total FY 2011 Request	96,419	$12,633,270
Adjustments to Request		
User Fees		194,100
Total FY 2011	96,419	$12,827,370

2A – Budget Increases and Decrease Description

Treasury Strategic Goals and Outcome

The IRS FY 2011 initiatives support the Treasury Strategic Goal of *Effectively Managed U.S. Government Finances* and the Treasury Strategic Outcome of *Revenue collected when due through a fair and uniform application of the law*.

The table that follows lists FY 2011 resources by Strategic Goal, Objective and Outcome outlined in the FY 2007-2012 Treasury Strategic Plan. The Treasury Strategic Plan is a corporate-level plan for the Department that provides a description of what the agency intends to accomplish over the five year period.

Budget by Strategic Outcome
Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Request	Percent Change
Revenue collected when due through a fair and uniform application of the law	11,876,695	12,361,836	4.1%
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	269,428	271,434	0.7%
Total Request	$12,146,123	$12,633,270	4.0%

Treasury High Priority Performance Goals

The IRS budget request includes resources to achieve the following FY 2011 Treasury High Performance Goals:

Increase voluntary tax compliance

- Make progress against the Tax Gap through improved service and enhanced enforcement of the tax laws:
  - Achieve more than four million document matching closures in FY 2011 (where IRS information does not match taxpayer reported information).
- Assist Americans in voluntarily meeting their tax obligations:
  - Increase individual income tax filers' American Customer Satisfaction Index to 69 percent; and
  - Improve telephone level of service to 75 percent by the end of FY 2011.

Significantly increase the number of paperless transactions with the public

- Increase individual e-File rate to 81 percent in 2011.

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 calculator fully costs the salary, benefits, and support costs needed for each FTE.

Total Changes to Base +$32,379,000 / -790 FTE

Maintaining Current Levels (MCLs) +$219,523,000 / 0 FTE

This request funds the estimated cost of pay and benefits increases and non-pay inflation. This amount includes:

- $47,473,000 to fund annualization of the 2.0 percent January 2010 federal pay raise in FY 2011;
- $119,537,000 to fund the assumed 1.4 percent January 2011 federal pay raise;
- $36,121,000 to fund the 1.1 percent FY 2011 non-pay inflation adjustment for items such as rent, utilities, communications, contracts, travel, supplies, and equipment; and
- $16,392,000 to fund the increase in agency retirement contribution percentages for GS employees from 11.2 percent to 11.5 percent for FY 2011 as required by Office of Personnel Management.

Other Adjustments +$3,494,000 / -318 FTE

Resource Adjustment to Support Recovery Act-HCTC Program Expansion +$3,494,000 / 0 FTE

This temporary base increase will provide additional contractor funding for the continued support, sustainability, administration and operation of the Health Coverage Tax Credit (HCTC) program. Taxpayer participation in the HCTC program is expected to grow because of the American Recovery and Reinvestment Act of 2009 (Recovery Act) (Public Law 111-5). The additional resources will allow the IRS to serve the increasing number of taxpayers: including handling phone calls, processing enrollment documents, and processing payments to health plans. The increased workload stems from the Recovery Act legislation expanding the scope and scale of the HCTC and job losses from the economic downturn.

Participation in the HCTC program is increasing. The number of individuals claiming the monthly HCTC has increased by more than 50 percent, from 13,600 in December 2008 to approximately 20,600 in November 2009. Additionally, the work required to deliver the HCTC Program effectively is growing. For example, HCTC received more than two to three times the number of calls and registration attempts in October 2009 than in October 2008. The trend appears to be accelerating, as the past three months have been the busiest in the program's history.

Technical FTE Adjustments
$0 / -318 FTE

This adjustment reflects permanent changes to ensure FTE levels are fully funded in the base budget.

Efficiencies and Savings
-$190,638,000 / -472 FTE

Non-Recur Savings
-$32,680,000 / 0 FTE

This is the net reduction of non-recurring, one-time costs associated with the IRS FY 2010 enforcement initiatives (e.g., IT equipment and training).

Increase e-File Savings
-$22,808,000 / -472 FTE

This decrease is a result of savings from increased electronic filing (e-File), which is projected to lead to fewer returns filed on paper in FY 2011. The number of electronically filed returns is expected to increase substantially in FY 2011 with the enactment of the Worker, Homeownership, and Business Assistance Act of 2009 (Public Law 111-92). This legislation requires tax return preparers who file more than 10 individual tax returns during a calendar year to file electronically. As taxpayers file fewer returns on paper and file more returns electronically, the IRS requires fewer resources to process paper returns. The projected decrease in paper return filing and increase in electronic filing translates into a reduced need of 472 FTE in submission processing, generating a savings of $22.8 million. The IRS will reinvest $2.8 million of the savings to cover the costs of *Submission Processing Consolidation (Atlanta)*.

Information Technology (IT) Infrastructure and Process Improvements
-$75,000,000 / 0 FTE

The IRS will reduce costs through process improvements in IT infrastructure. Initiatives such as the Information Technology Infrastructure Library (ITIL) will allow the IRS to improve the quality of IT services. In addition, the IRS is working to achieve a Capability Maturity Model Integrated (CMMI) certification that will yield efficiencies in software engineering.

Reduce Procurement/Contracting
-$25,000,000 / 0 FTE

In accordance with Presidential guidance on controlling contracting costs, the IRS will generate savings by improving the effectiveness of existing acquisition practices and reducing the cost of contracts.

Reduce Printing, Travel and Training
-$10,000,000 / 0 FTE

The IRS will generate printing savings of $6 million by reducing agency-wide printing of selected internal manuals, selected training materials, and other items. The IRS will generate travel savings of $2 million by reducing non-case related travel, as well as training savings of $2 million by reducing non-technical training.

Reduce Tuition Assistance Program (TAP)
-$5,150,000 / 0 FTE

The TAP provides funding to employees for courses that support both career development and the IRS mission. Funding is provided for college tuition/fees and books for approved participants. The IRS was projected to spend $10.3 million on the TAP program in FY 2011. The restructuring of this program will generate a savings of $5.2 million.

Eliminate Selective Mailing of Forms and Publications
-$20,000,000 / 0 FTE

The projected savings of $20 million will be generated by:

- **Eliminating Non-Mandated Notice Inserts**
  The IRS mails more than 200 million notices each year that weigh from one ounce to three ounces. About a third of taxpayer notices weigh two or more ounces. By eliminating inserts, the notice could fall into a lower weight category and thereby save the IRS 12.5 cents per notice.
- **Eliminating Automatic Mailing of Form 1040, *U.S. Individual Tax Return*, Tax Packages**
  Each year the IRS mails more than 17 million tax packages to taxpayers who have not used e-filing software or a tax practitioner. By eliminating the automatic distribution of Form 1040 tax packages, the IRS could save postage costs of 44 cents per package.
- **Eliminating the Automatic Mailing of Business Tax Products**
  Each year the IRS mails out more than 31 million business tax products. By eliminating the automatic distribution of business tax products the IRS could save about 26 cents per package in postage costs.

Program Reinvestment
+$2,792,000 / 0 FTE

Submission Processing Consolidation (Atlanta)
+$2,792,000 / 0 FTE

Increased use of e-File has led to consolidation of the individual return processing sites. A portion of the *Increased e-File Savings* will be reinvested to fund one-time separation costs associated with the September 30, 2011 closure of the Atlanta submission processing site. As the Atlanta consolidation approaches, the IRS will continue to assist employees in finding employment either in or outside the organization.

Program Decrease
-$9,000,000 / 0 FTE

Reduce Taxpayer Service Grant and Advocacy Programs
-$9,000,000 / 0 FTE

The funds provided in FY 2010 included an additional $3,500,000 to expand the Taxpayer Advocate Service (TAS) case processing activities, an additional $500,000 to increase the Low-Income Taxpayer Clinic (LITC) grants program, an additional $1,000,000 to increase the Tax Counseling for the Elderly (TCE) program, and an additional $4,000,000 to increase the Volunteer Income Tax Assistance (VITA) grants program. This program decrease will realign the programs to the 2009 enacted level so that the IRS can reallocate these resources to fund the *Increase Telephone Level of Service* initiative.

Program Increases
+$460,976,000 / +2,139 FTE

Improve IRS.gov
+$25,000,000 / 0 FTE

INITIATIVE SUMMARY

This initiative requests $25 million to initiate the migration of IRS web content and applications from the current outdated portal infrastructures to a new consolidated IRS web environment. These funds will allow the IRS to complete the first phase of the migration of the taxpayer-facing content and applications and to initiate the second phase of the migration that includes the incremental build-out of the new environment for the Registered User Portal that provides secure public and partner-facing portals.

INITIATIVE DETAIL

The IRS web environment consists of the three portals:

- **Public User Portal –** Communicates non-sensitive information to taxpayers, tax practitioners, businesses, and government partners in a readily-available format;
- **Registered User Portal –** Provides tax administration services to taxpayers, tax practitioners, businesses and government partners in a secure portal environment utilizing the proper identification; and
- **Employee User Portal –** Enables IRS employees to access tax administration services in order to assist taxpayers, tax practitioners, businesses and government partners in a secure portal environment.

In FY 2011, the IRS plans to build a new infrastructure for hosting the taxpayer-facing public portal of the IRS.gov website, including a new Content Management System (CMS). The CMS is a tool that will allow IRS to manage and update IRS.gov content in a real-time environment. In FY 2012, the IRS plans to expand the new IRS web environment infrastructure to host the applications currently on the Registered User Portal and the Employee User Portal.

The IRS will complete the consolidation of all IRS.gov content and applications in the three existing portal environments into the new web environment infrastructure in three phases. This FY 2011 initiative supplies the funding needed to complete Phase 1 and initiate Phase 2.

Phase	**Portal**	**Fiscal Year**
1	Public User Portal	2011
2	Registered User Portal	2011/2012
3	Employee User Portal	2012

Phase 1 – Public User Portal ($4.1 million / 0 FTE)

This initiative will complete Phase 1 and allow IRS to make full use of the new infrastructure and transition the IRS.gov web site content and applications to the new environment. To successfully migrate IRS.gov content and applications to the new web environment, this initiative will fund the following three major activities:

IRS.gov Information Model will configure the new CMS to accommodate the new, more robust IRS.gov architecture. This will establish a much more flexible structure for the new CMS database than the current Content Management Application (CMA) allows. The IRS will then be able to enhance IRS.gov content at the same time it is being migrated from the current CMA.

IRS.gov Redesign will make use of added flexibility provided by the new CMS in managing design elements of the site. This will result in enhanced look, feel, and navigation on the site thereby improving user ability to locate desired information. By leveraging the new web environment, the IRS will ensure that IRS.gov can adapt to meet user expectations. As use of the internet grows, taxpayers form expectations about their “user experiences” based on web sites they visit, and those expectations directly affect their willingness to use a web site to address their needs. The current design uses architecture from 2001 and a display design from 2005. IRS.gov is a highly-used, cost-effective channel for providing information to taxpayers; however, to maintain its effectiveness, IRS.gov must continue to evolve to meet taxpayer expectations.

IRS.gov Usability will enable the IRS to create a mobile usability lab to test and assess the design and user interface of the new site during development to allow continuous improvement of IRS.gov. Online tools and tax information on IRS.gov result in fewer telephone calls, both to the IRS.gov Help Desk and the toll-free tax assistance lines. User-experience management will result in cost savings for new web applications and other functionality by reducing the need to make costly post-launch fixes.

Phase 2 – Registered User Portal ($20.9 million / 0 FTE)

This initiative also will allow the IRS to begin the second phase of migration by incrementally building the new consolidated web environment for hosting secure public/partner-facing applications that are hosted on the Registered User Portal and transitioning approximately 35 percent of the current Registered User Portal applications to the new environment.

The Registered User Portal includes three "self-authenticating" applications that taxpayers and tax professionals can access without pre-registration (generally through "shared secrets" known by both IRS and the user), and two major categories of applications that require pre-registration and approval by IRS.

The three self-authenticating applications are:

- Where's My Refund? – Allows authorized users to look up the status of refunds reported on their (or their client's) tax return;
- Online EIN Application – Allows users to apply online for a new Employer Identification Number and in most cases receive the new number immediately; and
- Online Payment Agreement – Allows qualified users who cannot pay the entire amount of taxes owed to apply online for a payment agreement that will allow them to make payments over time.

The two categories of partner-facing applications requiring pre-registration are:

- Modernized e-File – Allows authorized partners to transmit electronic tax returns to IRS for processing. This environment is an enhanced replacement of the legacy e-File environment).
- e-Services – Allows authorized partners to access a suite of applications that enable them to conduct business electronically with IRS. Specific e-Services applications include:
    - Registration – Allows tax professionals to register online to gain access to other e-Services applications (for which they meet standard requirements).
    - Online e-file Application – Allows tax professionals to apply online to become an authorized e-File Electronic Return Originator (ERO).
    - TIN Matching Application – A pre-filing service offered to payers and/or authorized agents who submit any of six information returns subject to backup withholding, allowing users to compare payee Taxpayer Identification Number and name combinations before submitting information returns.
    - Disclosure Authorization – Allows eligible tax professionals to complete authorization forms, view and modify existing forms, and receive

acknowledgement of accepted submissions immediately. Disclosure Authorization allows tax professionals to submit Form 2848, *Power of Attorney and Declaration of Representative*, and Form 8821, *Tax Information Authorization* electronically. This e-service expedites processing and issues a real-time acknowledgment of accepted submissions.

  - Electronic Account Resolution – Allows tax professionals to expedite closure on clients' account problems by electronically sending and receiving account related inquiries. Tax professionals may inquire about individual or business account problems, refunds, installment agreements, missing payments or notices. The IRS response is delivered to an electronic secure mailbox within three business days.
  - Transcript Delivery System – Allows eligible tax professionals with a Power of Attorney authorization on file with the IRS to request and receive account transcripts, wage and income documents, tax return transcripts, and verification of non-filing letters for a client.

After running a pilot with one self-authenticating application and one registered user application. The IRS will migrate up to 35 percent of the Registered User Portal applications. In FY 2012, migration of the remaining Registered User Portal applications would be completed and the transition of all Employee User Portal applications to the new web environment would occur.

EXPECTED BENEFITS

This initiative will leverage the new IRS web environment to improve self-service, reduce taxpayer burden, increase compliance, reduce costs, and continue to position IRS.gov as the preferred choice for taxpayer service. It will improve customer satisfaction with IRS.gov, including navigation, content quality, and search capabilities. The initiative will also support the Department of the Treasury's efforts to increase the number of paperless transactions with the public, including progress toward the High-Priority Performance Goal of 81 percent of individual returns e-filed by the end of FY 2011.

Transitioning IRS.gov taxpayer-facing content and applications to the new web environment will:

- Replace infrastructure that has reached its end-of-life or end-of-support period;
- Allow IRS.gov to meet the changing needs and rising expectations of its customers and increase customer satisfaction; and
- Establish user experience standards and techniques that will be used to continually make improvements to content and applications in the new web environment.

Increase Telephone Level of Service
+$20,945,000 / 0 FTE

INITIATIVE SUMMARY

Recent legislation has led to an unprecedented demand for telephone services over the past few years. In addition, the additional complexity of – and time needed to resolve – many phone calls, resulted in a decline in the telephone level of service. This initiative will improve the telephone level of service from a projected 71 percent in FY 2010 to a target of 75 percent in FY 2011 through a program increase of $11.9 million and a $9.0 million reallocation from TAS and the LITC, TCE and VITA grant programs. Without the $9.0 million reallocation, the FY 2011 level of service performance target would be 74 percent.

INITIATIVE DETAIL

This initiative provides funding for the extension of seasonal employees and overtime in FY 2011 to allow the IRS to increase the telephone level of service, respond to increased workload, and enhance taxpayer service. The IRS has dealt with significant challenges during the past several years because of the economic downturn and legislative mandates. From FY 2006 to FY 2009, demand for assistor services on the telephone lines increased by more than 30 percent, from 45 million to more than 60 million.

The IRS effectively addressed some of the rising demand by automating certain taxpayer and employee activities, including the web-based *Where's My Refund?* and Employee Identification Number (EIN) applications, and integrated automation technology tools. These efficiency improvements were not sufficient to offset the increased workload demands. In addition, the composition of the workload has become more complex because of the increased automation of the less complex issues.

The telephone Level of Service (LOS) performance measure remained above 80 percent from FY 2003 through FY 2007. With the increasing demand for services, the LOS steadily declined and customer wait times increased. In FY 2009, LOS was 70 percent with a customer wait time of approximately nine minutes. As wait times increase and LOS decreases, retries from callers increase demand and further erode telephone performance.

EXPECTED BENEFITS

This investment will allow the IRS to achieve a 75 percent LOS and maintain a 94 percent Customer Satisfaction for Toll Free Telephone Service. Without the $9 million reallocation from the TAS and the LITC, TCE and VITA grant programs, the IRS will achieve a 74 percent LOS and without the additional $11.9 million the IRS will achieve a 72 percent LOS.

Address Business and Individual International Compliance
+$121,086,000 / +781 FTE

INITIATIVE SUMMARY

This initiative requests an increase of $121.1 million and 781 FTE to support the Presidential priority to address offshore tax evasion and builds on the IRS FY 2010 international enforcement initiative. It will allow the IRS to continue its multi-year investment in international tax compliance activities. It increases coverage of the most strategically important international issues, including large enterprises with international components operated by businesses and investors through multiple interrelated financial and tax entities and high-wealth individuals and the complex business enterprises they control. Once the new hires reach full potential in FY 2013, they will increase the examination of these types of returns by 4,864 and will produce an additional $812.2 million in estimated revenue for a return on investment (ROI) of 8.0 to 1.

The IRS resources needed to carry out this initiative are shown below:

Dollars in Thousands

Position Type/Other Costs	FY 2011 FTE	FY 2011 Dollars
Revenue Agent	442	$70,454
Appeals Officer	8	1,352
Customer Service Representative	40	3,593
Tax Compliance Officer	57	6,031
Special Agent	51	11,838
Attorney	82	16,374
Other Support Staff	69	6,515
Data Capture Process Improvements	29	2,200
Research Technology	3	2,729
Total	**781**	**$121,086**

INITIATIVE DETAIL

The use of multi-tiered structures and transactions surfaces repeatedly in high-profile areas such as multinational corporations, financial vehicles, high-wealth individuals, and the use of domestic and international tax avoidance or evasion strategies. The IRS will increase coverage by addressing the compliance risk of the entire global enterprise with emphasis on the pass-through entity components of these businesses. Many high-wealth individuals have global business and financial interests or are involved in international transactions affecting their U.S. tax liability. To achieve proper risk assessment in complex enterprises, each component tax return needs to be identified and evaluated in terms of the information available across all of the tax returns filed by the enterprise. In addition, the IRS will expand the pre-filing compliance review processes, such as the

Compliance Assurance Program, to detect high-risk issues through improved data gathering and analysis that will complement increased corporate governance.

Complex enterprises and transactions affect both domestic entities and global enterprises. In-depth analysis of the international and domestic components of foreign structures will improve the IRS ability to address both foreign enterprise and foreign resident compliance for complex reporting, filing, and payment avoidance tactics in a global environment.

Underreporting – Improve Identification and Coverage of Complex Enterprise Structures and Transactions (+$82.5 million / +566 FTE)

The first component of this initiative will allow the IRS to address underreporting and improve voluntary compliance. The 566 FTE will play a vital role in addressing these issues on the increasing number of business and individual returns with international features.

This initiative will combine skills of Tax Compliance Officers (TCO) and Revenue Agents (RA) as well as international examiners, flow-through return and financial products specialists, valuation experts, research analysts, technical advisors and subject matter experts to enable the IRS to increase its ability to ensure proper tax reporting of complex structures and transactions. This initiative will allow the IRS to:

- Examine highly complex returns to address the non-compliant entities;
- Address compliance risk at the enterprise level;
- Increase coverage of pass-through entities;
- Expand Enterprise Risk Assessment of high-wealth individuals;
- Expand the Compliance Assurance Program to detect high-risk issues through improved data analysis that will complement increased corporate governance;
- Address laws and regulations that have not kept pace with developments in business structures such as limited liability companies (LLCs), series LLCs (an LLC that organizes itself with separate pools of assets and liabilities that stands alone economically within a single LLC entity), and targeted allocations that do not follow the regulatory safe harbor for special allocations; and
- Enable the IRS to better address foreign resident compliance.

Partnerships, LLCs, S Corporations, and Trusts, are "pass-through" entities. The pass-through entity does not pay taxes on its income; instead, a pass-through entity is a legal form where income "passes through" to investors. The pass-through entity files an information return to the IRS and provides a Schedule K-1, *Shareholder's/Beneficiary's/ Partner's Share of Income, Deductions, Credits,* to each owner allocating the share of certain specified income, loss, deduction, and credit items. The pass-through entity is frequently owned by individuals. The S Corporation may be owned only by individuals and certain trusts for individuals. Partnerships may be owned by individuals, corporations, partnerships, and trusts.

The complexity of enterprise structures and transactions reduces transparency and creates opportunities for underreporting and non-reporting. The enormous amount of money that flows through pass-through entities and is held in different countries adds to the complexity of tax administration and increases the opportunities for underreporting of income. In tax year 2006, these pass-through entities filed 10.8 million returns (Forms 1065, *U.S. Return of Partnership Income*; Forms 1120S, *U.S. Income Tax Return for an S Corporation*; and Forms 1041, *U.S. Income Tax Returns for Estates & Trusts*) with total income of $4.1 trillion and ordinary business income (taxable income for Forms 1041) available to shareholders/beneficiaries of more than $753 billion. The IRS projects a small increase, 1.2 percent, in total Form 1120, *U.S. Corporation Income Tax Return*, filings from FY 2007 through FY 2015. In contrast, the pass-through entity population increase for the same period is expected to be much larger. For example, Forms 1120S are projected to increase by 38.1 percent, and Forms 1065 are projected to increase 49.1 percent.

In recent years, the IRS has observed the following trends:

- In tax year 2007, partnership returns indicated that 72.1 percent of the pass-through entity filing population are multi-tiered in such a way that the entities themselves are either members/partners/shareholders of higher-level entities, or have members/ partners/shareholders that are pass-through entities themselves;
- In tax year 2006, more than 3.1 million partnerships earned ordinary business income of more than $369 billion for their individual partners;
- In tax year 2006, more than 4 million S Corporations earned ordinary business income of approximately $302 billion for their individual shareholders; and
- In tax year 2006, almost 3.7 million Estates and Trusts earned nearly $82.3 billion in taxable income for their beneficiaries.

Complex enterprises often operate in multiple jurisdictions. The entity might choose a structure regarded as a corporation in the U.S. and a partnership in another country, or the reverse. Such hybrid structures must be considered in a risk assessment. An indicator of risk for international aspects of complex enterprises is found in the December 2008 Government Accountability Office (GAO) report GAO-09-157, *Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions*. The report indicates that 83 of the 100 largest publicly-traded U.S. corporations, in terms of 2007 revenue, reported having subsidiaries in jurisdictions listed in low-or-no tax countries or financial privacy jurisdictions. The requirement of Schedule M-3, *Net Income(Loss) Reconciliation*, Part I lines 5 and 6 to disclose related-party information, including foreign entities, will increase transparency and will improve the identification of risks on the entire enterprise structure.

Complex business structures are not limited to the corporate arena. Tax-exempt organizations and employee pension plans may initiate complex business arrangements of their own, or they may be used in complex arrangements by third parties for the purposes of tax avoidance. This initiative will provide additional examination resources to improve the IRS ability to detect, pursue, and rectify noncompliance using certain tax-exempt arrangements. Some potential areas for increased scrutiny and enforcement include:

- Rollovers as business startup (ROBS) plans are established to allow plan participants to access qualified plan retirement funds while avoiding the assessable taxes and penalties that are attached to the distribution. Funds are used to startup a new business;
- Maintenance of domestic trusts by foreign entities sponsoring qualified pension plans;
- Use of disregarded entities by charities and other exempt organizations;
- Transfers of highly appreciated property to charitable family-limited partnerships, a large percentage of which is then gifted to genuine charitable (501(c)) organizations; and
- Transferring ownership of gifts-in-kind through multiple charities to inflate charitable activities on Form 990, *Return of Organization Exempt from Income Tax*.

<u>Data Capture Process Improvements (+$2.2 million / +29 FTE)</u>

The second component of this initiative includes 29 FTE for data capture to support critical compliance information systems. This will allow the IRS to increase the use of existing systems to capture other electronic data through scanning and imaging of residual paper documents. These residual paper returns include international information returns, paper-filed Schedule M-3s, certain flow-through filings, and returns not mandated to be filed electronically. Capturing the data will allow better and quicker identification of abusive transactions related to complex enterprise structures and transactions.

<u>Combat Multi-Jurisdictional Tax Evasion Schemes (+$12.3 million / +56 FTE)</u>

The last component of this initiative funds additional Special Agents to combat tax evasion involving taxpayer entities or transactions that are complex and multi-jurisdictional. These entities have an international nexus requiring sensitive cross-border coordination by providing resources to:

- Develop and coordinate investigations through two expanded Criminal Investigation (CI) task forces focusing on taxpayers and transactions with an international nexus:

    - The International Task Force, located on the East Coast, with a geographic focus on Europe and the Middle East; and
    - The Pacific Rim Task Force located on the West Coast, with a geographic focus on Pacific Rim countries, particularly those in Southeast Asia.
- Handle the increased investigative workload in Field Offices generated from:
    - Expanded examinations of international transactions on large and mid-size complex business returns, individual foreign residents and nonresident aliens, and small pass-through entities and corporations with significant international activity;
    - Expanded attaché presence overseas;
    - Expanded international task forces; and
    - The IRS Whistleblower Program.

Tax planning is becoming increasingly focused on worldwide tax rate minimization. As a result, taxpayers often have an incentive to adopt structures (parallel banking schemes, such as the Black Market Peso Exchange) or arrangements (abusive trust transactions) that maximize U.S. expenses or shift income abroad. While many cross-border transactions are clearly addressed under U.S. domestic law or treaty provisions, others involve emerging issues that may constitute unacceptable tax avoidance or evasion and pose an increasingly serious risk to the U.S. tax base.

In addition to protecting the tax base, these resources will allow the IRS to work more effectively with other Department of the Treasury organizations, the Department of Justice, and other law enforcement partners to combat corporate fraud, terrorist financing and financial aspects of other criminal activity. Globalization of the world economy and financial systems has allowed tax evaders and money launderers to exploit domestic and international funds transfer methods to hide illicit and untaxed monies. Money laundering allows criminals and criminal organizations to conceal illegal income in an untaxed underground economy and is an essential part of many tax evasion schemes.

CI's International Task Force has been very successful in developing working relationships with many sources from which it receives information to develop investigations. Current investigations have the potential of additional forfeitures of hundreds of millions of dollars. Additionally, the policies of some offshore banks likely will change as they are held accountable. While the taskforce has been very successful, many potential cases were not pursued because of insufficient resources.

The Pacific Rim Grand Jury Task Force will target offshore financial schemes involving individuals using foreign financial accounts, credit or debit cards, trusts, corporations, partnerships, and other entities. It will analyze leads, investigate subjects and coordinate judicial actions across the U.S. for these complex and multi-jurisdictional cases.

There is a significant positive spillover effect on tax compliance when successful criminal enforcement actions are reported in the media. Recent successes with complex, sensitive international investigations have led to increases in voluntary disclosures. This initiative will allow the IRS to increase its ability to identify and pursue remedies for emerging complex international issues that may constitute unacceptable tax avoidance or evasion. Prosecutions with the associated publicity will allow the IRS to maximize the deterrent effect of its activities, increase voluntary disclosures, increase numbers of potential tax evaders identified, and increase tax revenue dollars collected. Remedies also will include increased seizure of assets where appropriate, and the application of pressure for policy changes by financial institutions in tax haven countries through increased legal actions that hold them accountable by all legal means.

This initiative will increase the number of investigations worked in the complex international arena, and will result in 51 more case closures in FY 2013.

OTHER DIRECT COSTS

The IRS Appeals division (+$1.7 million / +10 FTE) The IRS activity associated with this initiative will generate a minimum of 81 new Partnership, S Corporation and C Corporation cases and 84 related cases to Appeals. Although the increase in the number of cases is small, the workload increase is substantial, with each case and tiered entity requiring, on average, several hundred hours of work. An additional ten Appeals Officer positions are required to work the projected additional 165 cases.

The Taxpayer Advocate Service (TAS) (+$0.1 million / +1 FTE) will ensure the IRS follows appropriate procedures and does not create unnecessary burden or compromise taxpayer rights. TAS uses a workload projection model to project TAS inventory based on expected IRS operating division work. Applying this ratio to the FY 2011 increase yields an additional 159 TAS cases attributable to this initiative.

The IRS Office of Chief Counsel (+$19.6 million / +116 FTE) Counsel will provide increased legal advice and assistance to the teams and technical advisors engaged in these complex examinations. Counsel attorneys will assist in all phases of the examination process. They will assist in the development of technical advice, litigation positions, and published guidance to address significant issues arising from the increased coverage of complex enterprises and high-risk taxpayers. The complex nature of the taxpayers and returns examined under this initiative will generate highly technical questions that will need to be addressed on a national level.

The IRS Office of Research Analysis and Statistics (+$2.7 million / +3 FTE) The identification of abusive transactions in corporations, partnerships, high-wealth individuals, and tax-exempt entities is extremely difficult. Many schemes are complex and frequently cross-operational boundaries. The economic enterprise of many abusive transactions does not correlate to the IRS data structure of Individual and Business Master Files (IMF and BMF) which were not designed to identify abuse hidden in the relationship between the entities. Rather, these master files process tax return data on a given taxpayer, one at a time. The volume of data associated with schemes can be so voluminous that the analysis of the data and the presentation of its complexities in an understandable, cohesive manner can only be accomplished using advanced computer technologies.

This initiative funds the technology needed for examiners to use specialized tools and technologies to detect unknown abuses and trends.

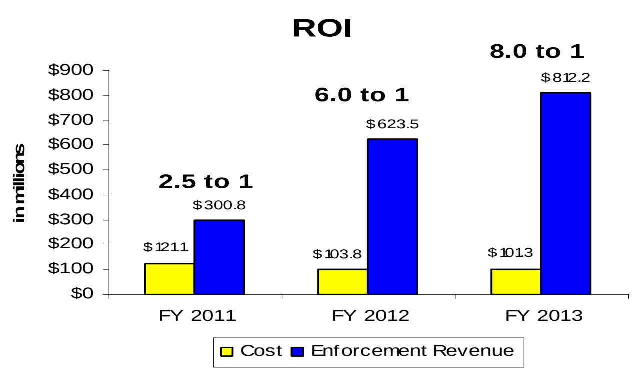
Combining tools for a focused strategy to identify tax avoidance transactions is a key element in the initiative to promote compliance with large and wealthy taxpayers. The applications will provide research capabilities to all parts of the IRS that need to address complex entities. A variety of workload selection and issue detection models will provide a queue of cases to be reviewed by issue specialists. Existing workload selection rules and filters will be augmented with additional data sources to develop a case file.

This research will:

- Allow the IRS to identify abusive transactions and emerging trends;
- Promote collaboration for cases that cross operating divisions;
- Centralize several disparate data sets into a cohesive data sharing strategy; and
- Eliminate the need for separate, narrowly-focused applications by creating an enterprise-wide database with technologies that can be used by all divisions working complex cases involving flow-through and high-wealth issues.

EXPECTED BENEFITS

Once the new hires reach full potential in FY 2013, they will increase the number of examinations of corporate, pass-through, international, individual and other related returns by 4,864, producing an additional $812.2 million in revenue and provides an expected ROI of 8.0 to 1.



Reduce the Reporting Compliance Tax Gap
+$77,679,000 / +700 FTE

INITIATIVE SUMMARY

This initiative requests an increase of $77.7 million and 700 FTE to improve compliance by increasing audit coverage in critical areas including business and high-income audits. The additional resources will increase enforcement capacity to reduce the reporting compliance tax gap. Individual return filings from FY 2008 through FY 2011 are expected to grow 5 percent. The IRS needs these additional examination resources to maintain the current audit coverage rate of approximately 1 percent for individual returns. Once the new hires reach full potential in FY 2013, this initiative will produce 305,600 more audits, producing additional annual enforcement revenue of $659.6 million with an ROI of 10.0 to 1 by increasing:

- Examinations of businesses, high-income individuals, and specialty program returns;
- Audits involving flow-through entities; and
- Coverage of the Automated Underreporter (AUR) Program

INITIATIVE DETAIL

<u>Underreporting Compliance (+$59.0 million / +527 FTE)</u>

This initiative will increase staff by 212 Revenue Agents (RAs), 36 Tax Compliance Officers (TCOs), 90 Specialty Field Examination Attorneys, RAs and TCOs, 125 Correspondence Examination Tax Examiners, and 64 support personnel. These resources will preserve the balanced coverage approach of all taxpayer segments with a focus on addressing high-risk tax gap areas. In FY 2011, this increase will generate additional revenue of $109.2 million, and once staff reach full potential in FY 2013, this investment would produce 71,600 more audits and generate $433.9 million each year.

Field Examination

The RAs will focus on high-priority segments of the tax gap such as Abusive Tax Avoidance Transactions (ATAT), structured transactions, and corporate and high-income examinations involving flow-through entities (e.g., trusts, partnerships, and S Corporations).

The RAs and TCOs FTE will examine an additional 5,800 individual income tax returns and 900 business income tax returns in FY 2011. Once new hires reach full potential in FY 2013, this investment is projected to generate additional revenue of $210.7 million and produce an additional 8,100 individual return audits and 1,200 business return audits.

Specialty Tax Programs

Specialty Programs address the tax gap by examining tax returns and addressing compliance issues in the Employment, Excise, and Estate and Gift Tax Programs.

- *Employment Tax Program* - The Employment Tax Program will work with external stakeholders to update and improve the voluntary tip agreements offered to taxpayers and to develop new agreements that improve compliance and reduce taxpayer burden. The program will address additional workload from large and medium-sized business nonfilers and the Combined Annual Wage Report program. It will focus on the major reporting compliance areas of fringe benefits, officer compensation, tip audits and worker classification.

  The additional Employment Tax RA and TCO FTE will conduct approximately 7,500 more tax audits in FY 2011 and generate $14.5 million more in revenue. Once new hires reach full potential in FY 2013, this investment is projected to generate additional revenue of $31.1 million and produce an additional 8,300 return audits.

- *Excise Tax Program* - Excise taxes are taxes paid on purchases of a specific good, such as gasoline. Excise taxes are often included in the price of the product. There are also excise taxes on activities, such as on wagering or on highway usage by trucks. In FY 2011, the IRS will continue to address the fuel tax gap and extend tax compliance efforts by establishing an international group focusing on foreign insurance products and foreign entities owing aviation tax.

  The additional Excise Tax RAs and TCOs FTE will conduct approximately 600 new examinations in FY 2011 generating $2.9 million in revenue. Once new hires reach full potential in FY 2013, this investment is projected to generate additional revenue of $6.7 million and produce an additional 800 return audits.

- *Estate and Gift Program* - There has been erosion in the estate tax audit rate because filing volumes have not declined as expected, and the planned 28 percent coverage rate for estates of more than $5 million is projected to slip to 22 percent in FY 2009 and FY 2010.

  Additional resources in FY 2011 would restore the 28 percent coverage rate for estates of more than $5 million. The additional attorneys will conduct approximately 100 audits in FY 2011, generating revenue of $11.6 million. Once new hires reach full potential in FY 2013, this investment is projected to generate additional revenue of $25.6 million and produce an additional 200 return audits.

Correspondence Examination

The Correspondence Examination program addresses the tax gap through increased enforcement presence in priority segments of individual reporting compliance, including itemized deductions and education credits. These resources will deter more taxpayers from evading their tax obligations, and thereby support the IRS goal of increased voluntary compliance. The additional FTE will examine approximately 20,000 more cases in FY 2011 with an estimated $73.5 million in additional revenue. Once new hires reach full potential in FY 2013, this investment is projected to generate additional revenue of $159.8 million and produce an additional 53,000 individual return audits.

Automated Underreporter (AUR) (+$10.6 million / +116 FTE)

The objective of the AUR program is to minimize revenue loss through document matching of taxpayer account information. Approximately 7.7 million Small Business/Self-Employed (SB/SE) taxpayers may currently misreport their income based on third party information returns. Of those, the SB/SE AUR program processes approximately 2.5 million taxpayer cases, leaving an unaddressed gap of 5.2 million taxpayers.

This investment will increase staff resources by 110 Tax Examiners and 6 support FTE, who will reconcile approximately 193,000 additional tax returns, generating approximately $102.5 million in revenue. Once new hires reach full potential in FY 2013, this investment is projected to produce an additional 234,000 individual return audits, generating $225.7 million in revenue.

Implement Legislative Proposals to Improve Compliance (+$2.1 million / +19 FTE)

The IRS will establish a new unit in the AUR program to implement the requirements contained in Section 3091 of the Housing and Economic Recovery Act of 2008 (Public Law 110-289). This legislation requires merchant payment card and third party network card entities to report the amount of transactions and the name, address and Taxpayer Identification Number (TIN) of each payee receiving payments from reportable transactions. This new AUR unit will test and validate the software and evaluate the new procedures essential to working with business taxpayers before full implementation of this new document-matching program in FY 2012.

OTHER DIRECT COSTS

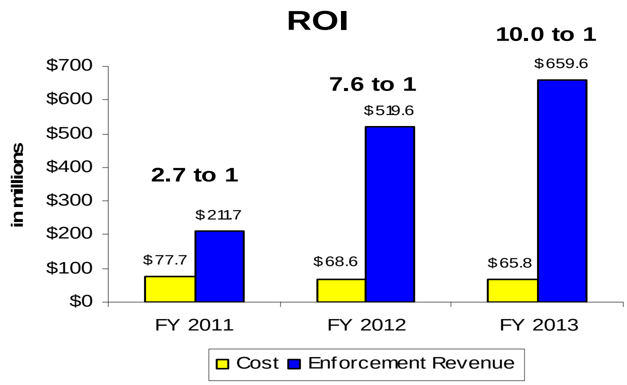
The IRS Appeals Division (+$3.1 million / +21 FTE) supports examination efforts on key compliance areas focused on improving voluntary compliance. Appeals additional resources will yield resolution of Examination Appeals and Docketed Tax Court cases.

The IRS Office of Chief Counsel (+$2.4 million / +13 FTE) will provide legal advice and assistance to Field Examination at the audit stage of cases involving abusive tax avoidance transactions, corporate and high-income examinations involving pass-through entities, and structured transactions; litigate those cases that are not resolved at the audit or appeals stages and advise examiners hired to do employment tax examinations in the Specialty Tax Program.

Funding for the Taxpayer Advocate Service (+$0.5 million / +4 FTE) will be applied to examination programs to ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayers’ rights.

EXPECTED BENEFITS

This request will produce 305,600 more audits and generate $659.6 million in additional annual enforcement revenue once new hires reach full potential in FY 2013 for an expected 10.0 to 1 ROI.



Reduce the Nonfiling and Underpayment Tax Gap
+$38,181,000 / +406 FTE

INITIATIVE SUMMARY

This initiative requests $38.2 million and 406 FTE to allow the IRS to broaden its collection coverage and address the tax gap more effectively by increasing the resources for field collection and the Automated Collection System (ACS) program. The additional resources will allow the IRS to increase efforts to bring taxpayers who fail to file or fail to pay their tax debt into compliance, laying the foundation for future voluntary compliance. At full performance in FY 2013, this initiative will produce 166,500 more case closures and generate $474.4 million in additional revenue for an ROI of 14.2 to 1.

INITIATIVE DETAIL

<u>Nonfiling/Underpayment (+$30.3 million / +318 FTE)</u>

This investment will increase staff resources in field collection by 26 Revenue Officers. ACS campus compliance staff resources will increase by 238 Customer Service Representatives and 54 support personnel to complete the investment made in the FY 2010 budget for the build out of two Automated Collection sites. These additional resources will increase the coverage of high income non-filers and work cases generated by balance due and delinquent return notices. It will provide an increased focus on decreasing nonfiling and improving voluntary compliance.

In recent years, non-filers with high incomes and higher amounts of net tax due have dominated the non-filer population. Revenue Officers and Campus Compliance employees use an array of techniques to address nonfiling, including the creation of compliance assessments based upon available internal and third-party information.

Additional staffing will increase coverage of potentially collectible inventory (PCI). PCI represents total unpaid assessments available for collection actions. PCI increased from $81 billion in 2004 to $113 billion in 2008. New PCI compliance assessments increased from $14 billion in 2004 to $26 billion in FY 2008.

Field Collection

The additional Field Collection staff will produce an estimated 700 additional tax delinquency accounts (TDA) (i.e., balance due accounts where returns were filed, but the taxes have not been paid) and 400 additional tax delinquency investigations (TDI) (i.e., investigations of taxpayers with unfiled returns and who have not responded to a notice) in FY 2011 generating revenue of $7.3 million. Once new hires reach full potential in FY 2013, this investment is projected to produce an additional 1,000 TDAs and 500 TDIs, generating $17.7 million in revenue.

Automated Collection System (ACS)

The additional ACS staff will produce approximately 48,000 tax delinquency accounts and 10,800 tax delinquency investigations in FY 2011 yielding approximately $200.0 million in revenue. Once new hires reach full potential in FY 2013, this investment is projected to produce an additional 143,000 TDAs and 22,000 TDIs, generating $456.6 million in revenue.

Centralized Offer in Compromise (COIC) (+$4.2 million / +50 FTE)

The challenges existing within the economy have led to changes in the Offer in Compromise (OIC) program. In conjunction with the IRS Commissioner's Economic Challenge initiative, there has been a significant increase in the number of OIC submissions. In addition to taxpayers experiencing greater difficulty in meeting their tax obligations, more requests are being considered and worked to final disposition. FY 2009 OIC receipts have increased 9 percent over projections, and a 3 percent increase is expected in future years.

The Commissioner's initiative is an effort to consider reduced asset equity, primarily personal residences, as a basis for reviewing financial analysis statements. COIC will take extra measures to ensure that values placed on properties are realistic and offers previously rejected due to inflated equity values will be reconsidered. These efforts are expected to provide taxpayers with an increased incentive for improving voluntary compliance.

Centralized Insolvency Operation (+$2.5 million / +30 FTE)

The state of the economy has led to significant increases in bankruptcy filings. FY 2009 receipts in the Insolvency Unit increased 35 percent, and bankruptcy filings increased 24 percent with expectations that this trend will continue. The additional resources will protect IRS interests in collection cases, provide litigation transcripts, and discharge or dismiss cases when appropriate.

OTHER DIRECT COSTS

Appeals (+$0.5 million / +4 FTE) will address filing and payment compliance by supporting the increased coverage of taxpayers who fail to file returns or who underpay their tax liability. These additional FTE are necessary if Appeals is to adjudicate successfully the more than 350 projected Appeals cases generated by this initiative.

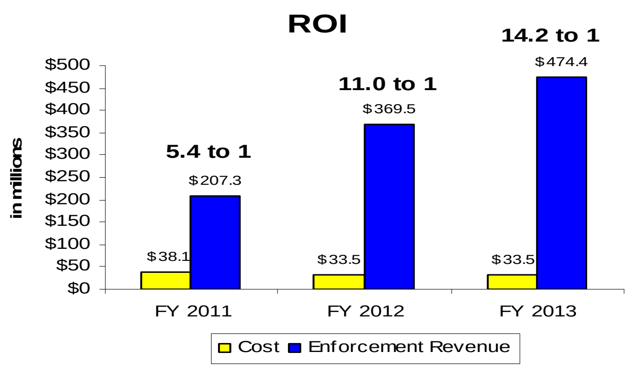
The IRS Office of Chief Counsel (+$0.6 million / +3 FTE) will provide legal advice and assistance in litigating the increased number of cases, support for additional tax shelter litigation, published guidance, and will conduct tax reform-related work pertaining to cases involving small business and self employed taxpayers.

Counsel will provide Field Collection with legal advice and assistance in high-risk and high-yield collection cases and cases involving the collection of taxes due from abusive trusts, as well as by supporting the Department of Justice in litigating such cases. Collection Due Process cases involving employment tax issues have recently been transferred from the United States District Courts to the United States Tax Court.

The Taxpayer Advocate Service (+$0.1 million / +1 FTE) will ensure that the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayer rights.

EXPECTED BENEFITS

This request will produce 166,500 more case closures and generate $474.4 million in enforcement revenue with an ROI of 14.2 to 1 once new hires reach full potential in FY 2013.



Support for Increased Enforcement Activities
+$5,000,000 / +65 FTE

INITIATIVE SUMMARY

This initiative requests $5.0 million and 65 FTE to fund the Accounts Management staff needed to support rapidly expanding enforcement activities. This funding is required to assist taxpayers to resolve issues early in the enforcement process and respond to and close various enforcement actions. Improving the response to taxpayers who have received enforcement notices should increase revenue and reduce interest paid.

INITIATIVE DETAIL

Most tax enforcement actions result in downstream Accounts Management activities, including account adjustments, assisted phone calls, amended returns, and installment agreement preparation. The IRS sends notices to taxpayers as the primary method to collect taxes due and resolve taxpayer issues. The IRS receives 123 phone calls from taxpayers for every 1,000 notices mailed.

The increase in enforcement activities has contributed significantly to the more than 35 percent increase in notices sent to taxpayers since FY 2004 with 95 percent of the notices referring the recipient to a taxpayer service phone line. In 2009, the IRS:

- Mailed more than 126 million notices to taxpayers, a 12 percent increase over FY 2008;
- Established more than $6.0 billion in installment agreements, a 21 percent increase over FY 2008, and Taxpayer Service answered questions from taxpayers for 79 million enforcement-related notices;
- Adjusted almost 12 million post-filing tax accounts through assisted service and processed 8 percent more individual amended returns; and
- Answered 11.6 percent more phone calls, with individual “balance due” calls alone exceeding 3.9 million.

Insufficient staffing of taxpayer service is costly. Late processing of amended returns in 2009 resulted in interest payments to taxpayers of $35.4 million, a 9.6 percent increase over FY 2007. Without this initiative, insufficient staff levels may result in reduced revenue collected, increased interest paid, and a delay for taxpayers attempting to resolve enforcement issues.

EXPECTED BENEFITS

This initiative will allow the IRS to help taxpayers resolve issues faster and improve customer satisfaction.

Maintain Recovery Act Staffing
+$5,500,000 / +31 FTE

INITIATIVE SUMMARY

This initiative requests $5.5 million and 31 FTE to extend staffing resources the IRS received in the American Recovery and Reinvestment Act of 2009 (Recovery Act) (Public Law 111-5). Before the Recovery Act, the value of outstanding tax-exempt debt had soared to more than $2.7 trillion in 2008. The Recovery Act and other economic recovery proposals incorporated significant infrastructure investments that will accelerate this trend. In addition, the Recovery Act added many new types of bond financings (such as clean renewable energy bonds) that also will increase activity in this area.

Among other responsibilities, the IRS is mandated by the Recovery Act to administer these new bond provisions. The IRS is required to issue a direct payment to the bond issuer. For example, under the Build America Bond provisions, the IRS will issue a 35 percent payment and under the Recovery Zone Economic Development Bond provisions, the IRS will issue a 45 percent payment to bond issuers. The unique nature of this new role requires continuous compliance reviews and verification throughout the administrative life of the bonds.

INITIATIVE DETAIL

The IRS will administer the Build America Bonds (BABs) program and implement compliance programs related to several new types of tax credit bonds. The initial compliance begins with eligibility reviews of the following bonds:

- Build America Bonds Recovery;
- Recovery Zone Economic Development Bonds;
- Tribal Economic Development Bonds;
- Qualified School Construction Bonds;
- Qualified Zone Academy Bonds;
- Qualified Energy Conservation Bonds; and
- New Clean Renewable Energy Bonds (CREBs).

In addition to the initial eligibility verification, the IRS implemented a compliance system to administer, process, and monitor requests for direct federal credit payments. Through Forms 8038-CP, *Return for Credit Payments to Issuers of Qualified Bonds,* issuers of BABs may opt to receive a direct payment from the IRS equivalent to 35 percent of the interest costs. The IRS performs a compliance check of each request before issuance of the credit payment and, when appropriate, refers the underlying return for audit. The IRS began making these payments in July 2009. Due to the length of bond maturities, the compliance system may need to operate for 30 years or more.

By continuing to staff current levels for Build America Bonds, the IRS will further enhance compliance with the development of a multi-faceted compliance program, which will implement the following improvements:

- Enhance the payment process, the compliance process, and the process for tracking tax credits, particularly, as it relates to tax credit stripping (packaging and remarketing of tax credits);
- Perform compliance contacts for all BABs direct pay issuances within one year of their issuance through compliance check questionnaires;
- Develop focused examination initiatives based on compliance issues identified from the questionnaires and other sources;
- Develop classification guidelines for a general examination program and initiate examination programs directed towards achieving an appropriate rate of coverage of BABs and other types of tax-credit bonds; and
- Enhance monitoring of Form 8038-CP, *Return for Credit Payments to Issuers of Qualified Bonds*, for federal credit payments requests.

The IRS needs to retain the staffing funded by the Recovery Act since these bond financings are expected to comprise a significant portion of the bond market. Issuers of new bond financings are now required by law to file information returns, Form 8038-G, *Information Return for Tax-Exempt Governmental Obligations*. The IRS is responsible for processing volume cap applications, coordinating form revisions, return processing, and providing taxpayer assistance and outreach with respect to these financings. In addition, because of the length of maturity for some of these bonds, resources may be necessary to provide ongoing tax administration and enforcement for 30 years or more.

EXPECTED BENEFITS

This initiative will address the tax administration responsibilities required by the Recovery Act. The additional resources will achieve the following benefits:

- Provide resources to increase total enforcement contacts to include compliance contacts related to BAB and other new tax credit bonds.
- Meet the IRS goal of 100 percent compliance checks on Forms 8038-CP (filed semi-annually). The IRS projects the issuance of 500 BABs in FY 2009 and the doubling of BAB issuances each year through 2013.
- Revise the voluntary compliance programs, coordinate the publication of regulations and other formal guidance with Chief Counsel, and provide new education and outreach programs to the tax-exempt bond market to assist taxpayers in understanding and complying with applicable tax laws.
- Increase prevention, detection, and remediation of noncompliant bond transactions.

- Prevent shifting resources from the Tax Exempt Bond (TEB) division general program to Recovery Act administration to ensure adequate oversight of the new requirements. Shifting resources from the general program to meet the underlying Recovery Act demand would decrease the number of general program examinations from 550 in FY 2009 to zero in FY 2012; and the number of TEB non-Recovery Act compliance checks from 275 in FY 2009 to zero in FY 2012. This would widen the coverage gap in the tax-exempt bond market and potentially dramatically increase the undetected abusive transactions.

Continue Migration from Aging Tax Administration System
+$167,585,000 / +156 FTE

INITIATIVE SUMMARY

This initiative requests $167.6 million and 156 FTE for Business Systems Modernization (BSM) to:

- Continue the development and deployment of BSM projects ($122.1 million and 156 FTE in the BSM appropriation and $3.5 million in the Operations Support appropriation for overhead costs related to the new hires); and
- Fund the Operations and Maintenance (O&M) costs of deployed modernization systems ($42.0 million in the Operations Support appropriation).

The $123 million increase to the BSM appropriation (the BSM program increase of $122.1 million plus inflation of $.889 million) is a 46.6 percent increase from the FY 2010 enacted level. This increase requests a total appropriation of $386.9 million and is allocated as shown below.

FY 2011 BSM Project Activities

Project	Business Systems Modernization Initiatives	FY 2009 Enacted	FY 2010 Enacted [1]	FY 2011 President's Budget Request[2,3]	$ Change FY 2010 to FY 2011
CADE 2 *(Taxpayer Account Database)*	Complete the taxpayer account database for 2012 filing season.	29.500	58.100	152.119	94.019
Current CADE	Implement tax law changes and enhance the overall security posture.	48.600	38.000	40.000	2.000
Modernized e-File	Complete Form 1040 Phase III, including 137 more supporting schedules and forms that will expand the reach of Modernized e-File to 100 percent of the e File population, or approximately 98.3 million filers. Funding also includes work to begin logical design to deliver Form 94X family of forms, *Employment/ Unemployment Tax* .	25.000	50.000	39.100	-10.900
Core Infrastructure	Provide services in architecture, engineering and deployment of standardized, consolidated, virtual and secure modernized development environments (DITE) and shared infrastructure components (Employee User Portal, Registered User Portal, and Security) of the production environments.	43.250	32.000	38.500	6.500
Architecture, Integration, and Management	Provide system engineering management capabilities including systems strategy, architecture, and engineering capabilities across IT Infrastructure, Business Applications, Data Management and IT Security. Provide project integration and management processes and tools including governance, enterprise lifecycle support, tiered program management, business rules and requirements, transition management, cost estimation, configuration/change management and risk management.	35.000	28.085	37.000	8.915
	Management Reserve	3.358	11.712	10.000	-1.712
	Subtotal Capital Investments	**184.708**	**217.897**	**316.719**	**98.822**
	Total BSM Labor	45.206	46.000	70.189	24.189
	Total BSM	**229.914**	**263.897**	**386.908**	**123.011**

[1] The FY 2010 Enacted column reflects proposed allocation based on $10.223 million increase received in enacted budget.

[2] The BSM appropriation excludes $3,463,200 for the overhead costs related to the new hires and $42,000,000 for the operations and maintenance of deployed modernization project releases. These costs are included in the Operations Support appropriation.

[3] BSM labor Includes $889,000 of inflation costs.

INITIATIVE DETAIL

The BSM increase is a top priority of the IRS and will allow completion of the new taxpayer account database for the 2012 filing season. The new taxpayer account database will expedite refunds to 140 million individual taxpayers, improve service accuracy and timeliness, enhance data security, and make progress toward addressing the financial statement audit material weakness. Completion of the core taxpayer account database is the cornerstone of modernization, and a prerequisite for other major initiatives such as significant expansion of online paperless services and next generation enforcement technologies. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until it is completed.

Customer Account Data Engine (CADE) 2 (+ $94.0 million)

This initiative funds completion of the new taxpayer account database for the 2012 filing season. The new database will operate in a daily processing environment. This daily processing cycle will enhance taxpayer service by allowing all individual taxpayers who file electronically to receive direct deposit refunds in less than 10 days, on average five days faster than in the legacy system. More timely, accurate, and complete data will result in improved service to taxpayers (e.g., faster account adjustments and faster resolution of taxpayer account issues).

The new database will provide a single source of authoritative individual core taxpayer data in a relational database, will support sophisticated next-generation compliance systems and will move the IRS away from the legacy, flat-file data storage model.

CADE 2 will:

- Continue the IRS focus on moving away from 1960s technology (i.e., aging infrastructure, applications and sequential, flat file processing);
- Address financial material weaknesses, demonstrate compliance with Federal Financial Management System Requirements (FFMSR), and maintain the IRS clean audit opinion;
- Improve data security and privacy posture;
- Establish a solid data foundation for the future by leveraging the relational database processing capabilities; and
- Demonstrate substantive progress toward achieving long-term viability.

These goals will be met as CADE 2 delivers the following functionality and activities:

- Establish an authoritative database for individual taxpayer accounts;
- Replace the current individual master file applications, as well as current CADE applications with a single, state-of-the art solution;

- Expand the Integrated Production Module (IPM) to include additional data elements not currently in IMF and build an interface from the authoritative database for individual taxpayer accounts to IPM;
- Provide daily outputs to the Integrated Data Retrieval System (IDRS) and other downstream systems as they are able to support daily processing.

Completing the taxpayer account database for the 2012 filing season is the first step in achieving these goals. As a result of the transition to a daily processing environment, the Integrated Data Retrieval System will receive more timely and accurate data. In addition, the data population of the Integrated Production Module will provide more tools to enhance compliance and improve customer service. Enhanced data security also will be in place.

Current CADE (+$2.0 million)

The IRS requests $40 million total, $2 million more than 2010 enacted, to fund updates to current CADE for any tax law changes and the operations and maintenance of the system.

Modernized e-File (MeF) (-$10.9 million)

MeF provides a standard filing structure for all IRS return types, a robust platform, enhanced and up-to-date technologies, and customer service benefits. MeF stores all tax return data in XML format in a modernized Tax Return Database allowing all authorized viewers of the data to see an entire tax return online over the internet.

The IRS has completed the implementation of MeF Form 1120, *U.S. Corporation Income Tax Return*, Form 1120-S, *U.S. Income Tax Return for an S Corporation,* Form 990, *Return of Organization Exempt from Income Tax* and Form 1065, *U.S. Return of Partnership Income.* In January 2008, MeF Release 5 added Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation* along with the *Federal Form 990 N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or 990-EZ.*

FY 2011 funding will start the migration of the 94X family of forms, *Employment/ Unemployment Tax*, to the MeF platform, which includes annual and quarterly filings. When implemented, the IRS projects that more than 8 million of 94X forms will be filed through MeF.

Currently, the IRS is implementing the Form 1040, *U.S. Individual Income Tax Return*, on the MeF platform in three phases. The first phase, which began in FY 2007, is scheduled to deploy in January 2010, and will implement the Form 1040 and 21 supporting forms and schedules, which will reach an estimated 61 percent of the e-File population. In addition to these additional forms, the completion of this phase will include delivery of all interfaces, an interim Disaster Recovery capability, and code optimization.

The second phase will begin in FY 2010 and will include Tax Year 2010 changes for the Form 1040 and supporting forms and schedules implemented in 2010. This phase will deploy additional hardware, the final phase for Disaster Recovery, and optimization code necessary to support the anticipated volume of returns in 2012. Also in FY 2010, work will begin on phase three, the final phase, of the 1040-related development effort. This phase will deploy the 1040A, the 1040EZ and 135 Form 1040-related forms and schedules on the MeF platform. Once this phase is complete, MeF will reach 100 percent of the 1040 e-File population.

Core Infrastructure (+$6.5 million)

Core infrastructure supplies the design, engineering, standardized deployment, and production environments for BSM projects. The modernized infrastructure provides a complete environment (hardware, software, processes, and management) for developing, testing, deploying, operating and monitoring applications, including standardizing telecommunication services, security, operations management, and updating access portals. This approach allows the IRS to develop shared infrastructure and common business service solutions that are usable across multiple BSM projects. The Core infrastructure consists of Infrastructure Shared Services (ISS) and Development, Integration and Testing Environment (DITE).

- *Infrastructure Shared Services (ISS)* – ISS provides design, engineering, and deployment services in a standardized, consolidated, virtual and secure modernized production environment for BSM projects. In FY 2011, ISS will build common shared IT infrastructure services (i.e., audit, security, case management, and authentication services) in support of completion of the new taxpayer account database. The FY 2011 funding will allow common IT infrastructure and security and application services to access and leverage the IRS systems and data repositories across heterogeneous environments. In addition, ISS will address the effect on the infrastructure of the increase in electronic documents, on-line transactions, and on-line tax filers.
- *Development, Integration, and Testing Environment (DITE)* – The DITE is a standardized development and test environment composed of the modernized infrastructure components for use by BSM projects. Increased funding is required in FY 2011 to address the increased demand on DITE resources to support the completion of the taxpayer account database. The IRS will increase the virtualization of DITE components and support dynamic allocation of storage required by BSM projects for development and testing. DITE also will improve the efficiency of server administration, engineering, installation, maintenance, refresh and support of core DITE infrastructure. This will include web portals and common IT infrastructure services and provide a mechanism for remote access to core DITE data by authorized users.

Architecture, Integration, and Management (+$8.9 million)

The increased funding will allow the Architecture, Integration, and Management (AI&M) program to deliver build-out of the Enterprise Target Architecture Integration Roadmap, Enterprise Transition Strategy, Release Architecture, As-built Architecture, Enterprise Standards Profile, Service Oriented Architecture Roadmap, and Segment Architectures.

In addition, data strategy is as a key component of modernization. The BSM projects to be included in the FY 2011 Data Strategy roadmap are the build out of the tax return store, a prototype for the metadata program, and expansion of users for the Integrated Production Model (IPM). These new data management capabilities allow IRS to reuse data for BSM projects, reduce the complexity of data schema development for MeF releases, create the physical data model for the Customer Account Data Engine, and support efforts to reduce the tax gap with new releases of the IPM.

Finally, funding also will be used to implement automation geared toward proactive security evaluation and instrumentation of applications, projects and system compliance with internal and external security and privacy standards, policies, and related federal directives (e.g., FISMA, NIST, DHS, OMB, GAO, and Treasury). This security initiative designs and implements remediation plans to ensure that a project or system passes the security test and evaluation processes. Other planned FY 2011 deliverables include “defense-in-depth” improvements through, updated infrastructure engineering security standards, IRS Enterprise Architecture Security and Privacy Guidance updates, and refinements to the IRS Security Domain Segment Architecture.

Management Reserve (-$1.7 million)

Given the size and complexity of the taxpayer account database project, the management reserve funding is needed to cover unanticipated cost adjustments.

BSM Labor (+$24.2 million / +156 FTE)

The IRS requests $23.3 million for BSM labor and $0.9 million for FY 2011 inflation costs. These funds provide for government labor costs associated with the design, development, test, preparation and testing of the infrastructure of the Customer Account Data Engine project. These funds also include $3.5 million in one-time overhead costs associated with the hiring and equipping of the 156 FTE (funded in the Operations Support appropriation).

O&M of Deployed Modernization Systems (+$42 million)

This increase provides funding in the Operations Support appropriation for the O&M costs of deployed modernization systems. The base funding in the Operations Support appropriation is no longer sufficient to support these costs without placing other critical systems development and support at risk. Since 2007, the IRS Operations Support appropriation has funded the operation and maintenance requirements for these deployed

BSM systems. BSM systems are implemented incrementally, and therefore, each individual segment does not achieve full functionality to replace legacy systems. The IRS, then, is forced to incur in O&M costs for both the legacy systems and the deployed BSM system releases. The deployment of multiple BSM systems has depleted the original O&M funding levels.

EXPECTED BENEFITS

Completion of the relational taxpayer account database is fundamental to significant transformation opportunities in IRS service and enforcement functions. The new database will operate in a daily processing environment that will improve taxpayer service through the faster disbursement of refunds, the increased timeliness and accuracy of taxpayer transactions, and faster resolution of taxpayer issues. The relational database also will provide increased capacity to leverage expanded data collected from information returns to increase the effectiveness of compliance efforts. Finally, the modernized environment will improve the security posture of the IRS and improve the efficiency of IT operations by faster integration into a single tax processing environment.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2009 ARRA Level	FY 2009 Enacted Level[1]	FY 2010 President's Budget	Congressional Action including Rescission	FY 2010 Enacted Level	Proposed Reprogram.	FY 2010 Proposed Operating Level	FY 2011 Request Level	% Change FY 2010 to FY 2011
FTE		94,189	95,081	(11)	95,070	0	95,070	96,419	1.4%
Object Classification:									
11.1 Full-Time Permanent Positions	$0	$5,795,347	$6,094,684	$278	$6,094,962	$0	$6,094,962	$6,394,057	4.9%
11.3 Other than Full-Time Permanent Positions	0	412,025	422,984	0	422,984	0	422,984	423,013	0.0%
11.5 Other Personnel Compensation	1,000	277,965	287,172	0	287,172	0	287,172	308,396	7.4%
11.8 Special Personal Services Payments	0	14,999	18,164	0	18,164	0	18,164	18,445	1.5%
11.9 Personnel Compensation (Total)	$1,000	$6,500,336	$6,823,004	$278	$6,823,282	$0	$6,823,282	$7,143,911	4.7%
12.0 Personnel Benefits	0	1,730,179	1,788,144	(277)	1,787,867	0	1,787,867	1,937,543	8.4%
13.0 Benefits to Former Personnel	0	50,728	56,137	0	56,137	0	56,137	57,106	1.7%
21.0 Travel	0	257,116	260,693	2,500	263,193	0	263,193	255,980	-2.7%
22.0 Transportation of Things	0	31,052	34,611	0	34,611	0	34,611	33,170	-4.2%
23.1 Rental Payments to GSA	0	631,857	668,154	0	668,154	0	668,154	676,738	1.3%
23.2 Rent Payments to Others	0	769	538	0	538	0	538	592	10.0%
23.3 Communications, Utilities, & Misc	2,000	436,018	453,214	0	453,214	0	453,214	434,883	-4.0%
24.0 Printing & Reproduction	2,000	71,427	70,495	0	70,495	0	70,495	67,503	-4.2%
25.1 Advisory & Assistance Services	0	169,052	190,158	0	190,158	0	190,158	126,385	-33.5%
25.2 Other Services	73,000	743,246	740,872	12,123	752,995	0	752,995	718,802	-4.5%
25.3 Purchase of Goods & Services from Govt. Accounts	0	167,261	120,050	0	120,050	0	120,050	204,826	70.6%
25.4 Operation & Maintenance of Facilities	0	182,873	185,552	0	185,552	0	185,552	217,899	17.4%
25.5 Research & Development Contracts	0	10,916	10,799	0	10,799	0	10,799	8,478	-21.5%
25.6 Medical Care	0	13,328	11,187	0	11,187	0	11,187	12,616	12.8%
25.7 Operation & Maintenance of Equipment	0	68,963	81,485	0	81,485	0	81,485	129,660	59.1%
25.8 Subsistence & Support of Persons	0	7,082	7,063	0	7,063	0	7,063	6,500	-8.0%
26.0 Supplies and Materials	2,000	70,079	71,892	0	71,892	0	71,892	70,555	-1.9%
31.0 Equipment	0	326,471	472,711	0	472,711	0	472,711	476,244	0.7%
32.0 Lands and Structures	0	22,613	48,682	0	48,682	0	48,682	17,857	-63.3%
33.0 Investments & Loans	0	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	22,605	22,606	5,499	28,105	0	28,105	28,105	0.0%
42.0 Insurance Claims & Indemn	0	2,027	2,866	0	2,866	0	2,866	2,712	-5.4%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	6,600	5,087	0	5,087	0	5,087	5,205	2.3%
Total Budget Authority	$80,000	$11,522,598	$12,126,000	$20,123	$12,146,123	$0	$12,146,123	$12,633,270	4.0%
Appropriations:									
Taxpayer Services	$0	$2,293,000	$2,269,830	$9,000	$2,278,830	$0	$2,278,830	$2,321,975	1.9%
Enforcement	0	5,117,267	5,504,000	0	5,504,000	0	5,504,000	5,797,400	5.3%
Operations Support	0	3,867,011	4,082,984	900	4,083,884	0	4,083,884	4,108,000	0.6%
Business Systems Modernization	0	229,914	253,674	10,223	263,897	0	263,897	386,908	46.6%
Health Insurance Tax Credit Administration	80,000	15,406	15,512	0	15,512	0	15,512	18,987	22.4%
Total Budget Authority	$80,000	$11,522,598	$12,126,000	$20,123	$12,146,123	$0	$12,146,123	$12,633,270	4.0%

[1] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Internal Revenue Service Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted[1,2]		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Taxpayer Services	32,422	$2,279,806	32,622	$2,293,000	31,206	$2,278,830	30,668	$2,321,975	-1.72%	1.89%
Enforcement	47,361	5,109,680	48,952	5,117,267	51,200	5,504,000	52,863	5,797,400	3.25%	5.33%
Operations Support	12,101	3,796,412	12,267	3,867,011	12,316	4,083,884	12,384	4,108,000	0.55%	0.59%
Business Systems Modernization	322	131,138	333	229,914	333	263,897	489	386,908	46.85%	46.61%
Health Insurance Tax Credit Administration	10	15,374	15	15,406	15	15,512	15	18,987	0.0%	22.40%
Subtotal New Appropriated Resources	92,216	$11,332,410	94,189	$11,522,598	95,070	$12,146,123	96,419	$12,633,270	1.42%	4.01%
Other Resources:										
Recoveries				882						
Offsetting Collections - Reimbursable	792	113,896	792	113,896	956	142,169	961	144,592	0.52%	1.70%
Available multi-year/no-year funds	88	75,830		86,327		196,128		105,497		-46.21%
50% Carryover		15,744		15,744						
Transfers In/Out		3,641		7,878						
Mandatory Appropriations - User Fees	273	135,648		165,521		187,100		194,100		3.74%
Subtotal Other Resources	1,153	$344,759	792	$390,248	956	$525,397	961	$444,189	0.00%	-15.46%
Total Resources Available for Obligation	93,369	$11,677,169	94,981	$11,912,846	96,026	$12,671,520	97,380	$13,077,459	1.41%	3.20%

[1] FY 2009 Enacted excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices ($122M).

[2] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2B – Appropriation Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE **TAXPAYER SERVICES** *(including transfer of funds)*	
For necessary expenses of the Internal Revenue Service to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [$2,278,830,000]*$2,321,975,000*, of which not less than [$6,100,000]*$5,100,000* shall be for the Tax Counseling for the Elderly Program, of which not less than [$10,000,000]*$9,500,000* shall be available for low-income taxpayer clinic grants, of which not less than [$12,000,000]*$8,000,000*, to remain available until September 30, [2011]*2012*, shall be available for a Community Volunteer Income Tax Assistance matching grants[demonstration] program for tax return preparation assistance, and of which [not less than $205,954,000 shall be available for operating expenses of the Taxpayer Advocate Service]*up to $6,000,000 may be transferred as necessary from this account to "Health Insurance Tax Credit Administration" upon advance notification of the Committees on Appropriations: Provided, That this transfer authority shall be in addition to any other transfer authority provided in this Act*. *(Department of the Treasury Appropriation Act, 2010.)*	The IRS supports adequate funding for the Taxpayer Advocate Service. Specifying the TAS funding level in law prevents the IRS from proposing an operating plan that allocates resources in the best interest of taxpayers. This change represents a contingency in case the increased workload related to the American Recovery and Reinvestment Act continues in FY 2011.
ENFORCEMENT (including transfer of funds)	
For necessary expenses for tax enforcement activities of the Internal Revenue Service to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes, to purchase (for police-type use, not to exceed 850) and hire passenger motor vehicles	The Budget Request for the Enforcement account is $5,797,400,000 including a program integrity allocation adjustment of $790,000,000 which, when combined with the $325,000,000 allocation

(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, [$4,904,000,000]*$5,007,400,000*, of which not less than [$59,206,000]*$60,257,000* shall be for the Interagency Crime and Drug Enforcement program[; and of which not to exceed $126,500 shall be for official reception and representation expenses associated with hosting the Leeds Castle Meeting in the United States during 2010]: *Provided*, That up to $10,000,000 may be transferred as necessary from this account to "Operations Support" solely for the purposes of the Interagency Crime and Drug Enforcement program: *Provided further*, That this transfer authority shall be in addition to any other transfer authority provided in this Act. In addition to amounts made available above, [$600,000,000]*$790,000,000* shall be made available for *additional* and/or enhanced tax enforcement activities. *(Department of the Treasury Appropriations Act, 2010.)*	adjustment in the Operations Support account, totals $1,115,000,000 in additional enforcement activities. The Leeds Castle Meeting was a one-time event hosted by the IRS in FY 2010. The language addressing this prior year requirement is deleted.
OPERATIONS SUPPORT For necessary expenses of the Internal Revenue Service to support taxpayer services and enforcement programs, including rent payments; facilities services; printing; postage; physical security; headquarters and other IRS-wide administration activities; research and statistics of income; telecommunications; information technology development, enhancement, operations, maintenance, and security; the hire of passenger motor vehicles (31 U.S.C. 1343(b)); and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; [$4,083,884,000]*$4,108,000,000*, of which up to $75,000,000 shall remain available until September 30, [2011]*2012*, for information technology support; *of which up to $65,000,000 shall remain available until expended for acquisition of real property, equipment, construction and renovation of facilities;* of which not to exceed $1,000,000 shall remain available until September 30, [2012]*2013*, for research; of which not [less than]*to exceed* $2,000,000 shall be for the Internal Revenue Service Oversight Board; of which not to exceed $25,000 shall be for official reception and representation[; and of which $290,000,000 shall be made available to support enhanced tax enforcement activities]: *Provided*, That of the amounts provided	This change will ensure full funding at real estate project inception in compliance with OMB Circular A-11 requirements for capital projects, align IRS appropriation language with that of other agencies that fund similar longer-term projects, and accommodate the schedule uncertainty inherent in real estate projects. Recent changes in GSA rules for obligating the agency share of facilities costs make it difficult to fully fund and obligate all of the cost of a project in the first year, further exacerbating the need for the change.

under this heading, such sums as are necessary shall be available to fully support tax enforcement[and enhanced tax enforcement] activities*, including not less than $325,000,000 to support additional and/or enhanced tax enforcement activities*. *(Department of the Treasury Appropriations Act, 2010.)* **BUSINESS SYSTEMS MODERNIZATION** For necessary expenses of the Internal Revenue Service's business systems modernization program, [$263,897,000]*$386,908,000*, to remain available until September 30, [2012]*2013*, for the capital asset acquisition of information technology systems, including management and related contractual costs of said acquisitions, including related Internal Revenue Service labor costs, and contractual costs associated with operations authorized by 5 U.S.C. 3109: *Provided*, That, with the exception of labor costs, none of these funds may be obligated until the Internal Revenue Service submits to the Committees on Appropriations[, 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]*received* 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, 2010.)* **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), [$15,512,000]*$18,987,000*. *(Department of the Treasury Appropriations Act, 2010.)*	The Budget Request includes additional resources for increased tax enforcement through a program integrity allocation adjustment, of which $325,000,000 is in the Operations Support account.

ADMINISTRATIVE PROVISIONS - INTERNAL REVENUE SERVICE (including transfer of funds) Sec. 101. Not to exceed 5 percent of any appropriation made available in this Act to the Internal Revenue Service or not to exceed 3 percent of appropriations under the heading "Enforcement" may be transferred to any other Internal Revenue Service appropriation upon the advance [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 provide sufficient and effective 1-800 help line service for taxpayers. The Commissioner shall continue to make the improvement of the Internal Revenue Service 1-800 help line service a priority and allocate resources necessary to increase phone lines and staff to improve the Internal Revenue Service 1-800 help line service. Sec. 105. Of the funds made available by this Act to the Internal Revenue Service, not less than [$7,100,000,000]*$8,235,000,000* shall be available only for tax enforcement[. In addition, of the funds made available by this Act to the Internal Revenue Service, and subject to the same terms and conditions, $890,000,000]*, of which not less than $1,115,000,000* shall be available for *additional and/or* enhanced tax law enforcement*, to be expended subject to the periods of availability applicable under each account.*	
[Sec. 106. None of the funds made available in this Act may be used to enter into, renew, extend, administer, implement, enforce, or provide oversight of any qualified tax collection contract (as defined in section 6306 of the Internal Revenue Code of 1986).] *(Department of the Treasury Appropriations Act, 2010.)*	This program was terminated in March 2009, therefore this language is no longer needed.

2C – Legislative Proposals

The FY 2011 President's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will specifically target the tax gap and generate nearly $26 billion over the next ten years. Among other proposals, the Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

Expand information reporting – Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:

- Require information reporting for private separate accounts of life insurance companies;
- Require information reporting on payments for services to corporations;
- Require a certified Taxpayer Identification Number (TIN) from contractors;
- Require increased information reporting on certain government payments;
- Increase information return penalties; and
- Require information reporting on expense payments relating to rental property.

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

- Provide Treasury regulatory authority to require that information returns be filed electronically;
- Require corporations and partnerships with assets of $10 million or more that are required to file Schedule M-3 to file their tax returns electronically;
- Provide Treasury regulatory authority to reduce the current threshold, filing 250 or more returns during a calendar year, to require electronic filing of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations);
- Implement standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes; and
- Increase certainty about the rules pertaining to classification of employees as independent contractors.

Strengthen tax administration – The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would:

- Expand IRS access to information in the National Directory of New Hires for tax administration purposes;
- Make repeated willful failure to file a tax return a felony;
- Facilitate tax compliance with local jurisdictions;
- Extend statutes of limitations where state tax adjustments affect federal tax liability;
- Improve the investigative disclosure statute;
- Repeal the requirement of a partial payment with an application for an offer-in-compromise;
- Allow assessment of criminal restitution as tax; and
- Codify “economic substance” doctrine.

Expand penalties – Penalties play an important role in discouraging intentional noncompliance. A specific proposal to expand penalties would:

- Impose a penalty on failure to comply with electronic filing requirements; and
- Clarify that the bad check penalty applies to electronic checks and other forms of payment.

Improve Tax Administration and Other Miscellaneous Proposals

The Administration has put forward additional proposals relating to IRS administrative reforms. These proposals would:

- Improve the foreign trust reporting penalty;
- Apply the Federal Payment Levy Program to contractors before providing Collection Due Process; and
- Clarify that a vendor levy on “goods and services” would not exclude “property”.

Section 3 – Budget and Performance Plan

Taxpayer Services

Appropriation Description

The Taxpayer Services appropriation provides funding for taxpayer service activities and programs. This includes printing forms and publications, processing tax returns and related documents, offering filing and account services, ensuring the availability of taxpayer assistance, and providing taxpayer advocacy services.

The Taxpayer Services Budget Request for FY 2011 is $2,321,975,000 in direct appropriations and 30,668 FTE. This is an increase of $43,145,000, or 1.89 percent, more than the FY 2010 enacted level of $2,278,830,000, and 538 FTE fewer than the FY 2010 enacted level of 31,206 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Taxpayer Services	FTE	Amount
FY 2009 Enacted	32,622	$2,293,000
FY 2010 President's Budget Request	31,217	$2,269,830
Congressional Action	(11)	9,000
FY 2010 Enacted Budget (P.L. 111-117)	31,206	$2,278,830
Changes to Base:		
Maintaining Current Levels		$50,054
Pay Annualization		11,643
Pay Inflation Adjustment		30,534
Non-Pay Inflation Adjustment		2,495
FERS Increased Participation		5,382
Other Adjustments	(169)	
Resource Adjustment to Support Recovery Act-HCTC Program Expansion		
Technical FTE Adjustments	(169)	
Efficiencies/Savings	(472)	($28,023)
Increase e-File Savings	(472)	(23,186)
Reduce Procurement/Contracting		(2,878)
Reduce Printing, Travel, and Training		(523)
Reduce Tuition Assistance Program		(1,436)
Subtotal Changes to Base	(641)	$22,031
Total FY 2011 Base	30,565	$2,300,861
Program Changes:		
Program Reinvestment:		$2,792
Submission Processing Consolidation (Atlanta)		2,792
Program Decrease:		($9,000)
Reduce Taxpayer Service Grant and Advocacy Programs		(9,000)
Program Increases:		
Taxpayer Service Initiatives		$20,945
Increase Telephone Level of Service		20,945
Enforcement Initiatives	103	$6,377
Address Business and Individual International Compliance	30	1,779
Reduce the Reporting Compliance Tax Gap	7	769
Reduce the Nonfiling and Underpayment Tax Gap	1	91
Support for Increased Enforcement Activities	65	3,738
Subtotal Program Changes	103	$21,114
Total FY 2011 Request	30,668	$2,321,975
Adjustments to Request		
User Fees		127,000
Total FY 2011	30,668	$2,448,975

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2009 Enacted Level[1]	FY 2010 President's Budget	Congressional Action including Rescission	FY 2010 Enacted Level	Proposed Reprogram.	FY 2010 Proposed Operating Level	FY 2011 Request Level	% Change FY 2010 to FY 2011
FTE	32,622	31,217	(11)	31,206		31,206	30,668	-1.7%
Object Classification:								
11.1 Full-Time Permanent Positions	$1,284,613	$1,281,991	$278	$1,282,269	$0	$1,282,269	$1,309,132	2.1%
11.3 Other than Full-Time Permanent Positions	308,132	309,849	0	309,849	0	309,849	304,283	-1.8%
11.5 Other Personnel Compensation	86,246	88,518	0	88,518	0	88,518	98,503	11.3%
11.8 Special Personal Services Payments	$0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	$1,678,991	$1,680,358	$278	$1,680,636	$0	$1,680,636	$1,711,918	1.9%
12.0 Personnel Benefits	385,276	350,315	(277)	350,038	0	350,038	391,504	11.8%
13.0 Benefits to Former Personnel	2,351	7,362	0	7,362	0	7,362	8,199	11.4%
21.0 Travel	34,106	31,763	2,500	34,263	0	34,263	31,269	-8.7%
22.0 Transportation of Things	5,726	6,541	0	6,541	0	6,541	5,564	-14.9%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	48	45	0	45	0	45	46	2.2%
23.3 Communications, Utilities, & Misc	743	3,709	0	3,709	0	3,709	3,607	-2.8%
24.0 Printing & Reproduction	9,925	9,009	0	9,009	0	9,009	9,091	0.9%
25.1 Advisory & Assistance Services	21,723	28,951	0	28,951	0	28,951	3,923	-86.4%
25.2 Other Services	44,563	100,853	1,000	101,853	0	101,853	46,993	-53.9%
25.3 Purchase of Goods & Services from Govt. Accounts	68,660	13,968	0	13,968	0	13,968	67,939	386.4%
25.4 Operation & Maintenance of Facilities	48	95	0	95	0	95	95	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	0	675	0	675	0	675	673	-0.3%
25.8 Subsistence & Support of Persons	1,355	1,494	0	1,494	0	1,494	1,487	-0.5%
26.0 Supplies and Materials	16,281	11,432	0	11,432	0	11,432	10,899	-4.7%
31.0 Equipment	477	578	0	578	0	578	587	1.6%
32.0 Lands and Structures	5	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	22,600	22,601	5,499	28,100	0	28,100	28,100	0.0%
42.0 Insurance Claims & Indemn	122	81	0	81	0	81	81	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
Total Budget Authority	$2,293,000	$2,269,830	$9,000	$2,278,830	$0	$2,278,830	$2,321,975	1.9%
Budget Activities:								
Pre-filing Taxpayer Assistance & Education	$661,000	$676,063	$9,000	$685,063	$0	$685,063	$693,753	1.3%
Filing & Account Services	1,632,000	1,593,767	0	1,593,767	0	1,593,767	1,628,222	2.2%
Total Budget Authority	$2,293,000	$2,269,830	$9,000	$2,278,830	$0	$2,278,830	$2,321,975	1.9%

[1] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Taxpayer Services Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted[1,2]		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Pre-Filing Taxpayer Assistance and Education	5,978	$648,685	6,142	$661,000	6,164	$685,063	6,200	$693,753	0.58%	1.27%
Filing and Account Services	26,444	1,631,121	26,480	1,632,000	25,042	1,593,767	24,468	1,628,222	-2.29%	2.16%
Subtotal New Appropriated Resources	32,422	$2,279,806	32,622	$2,293,000	31,206	$2,278,830	30,668	$2,321,975	-1.72%	1.89%
Other Resources:										
Recoveries				160						
Offsetting Collections - Reimbursable	499	24,454	499	24,454	646	33,513	649	34,159	0.46%	1.93%
Available multi-year/no-year funds	88	14,236		14,137		8,011		8,010		-0.01%
50% Carryover		1,874		1,874						
Transfers In/Out (Multiyear funds)		363		4,433						
Mandatory Appropriations - User Fees	253	123,000		127,000		127,000		127,000		0.00%
Subtotal Other Resources	840	$163,927	499	$172,058	646	$168,524	649	$169,169	0.46%	0.38%
Total Resources Available for Obligation	33,262	$2,443,733	33,121	$2,465,058	31,852	$2,447,354	31,317	$2,491,144	-1.68%	1.79%

[1] FY 2009 Enacted excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices ($122M).

[2] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

3A – Pre-Filing Taxpayer Assistance and Education *($693,753,000 in direct appropriations and an estimated $1,459,000 from reimbursable programs):* This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication production, and advocate services. This includes the following program activities:

- *Pre-Filing Services Management* supports headquarters management associated with Customer Assistance Relationship and Education (CARE). CARE provides pre-filing taxpayer assistance and education.
- *Taxpayer Communication and Education* researches customer needs; prepares tax forms and publications; develops and manages educational programs; establishes partnerships with stakeholder groups; and disseminates tax information to taxpayers and the general public through a variety of media, including publications and mailings, websites, broadcasting, and advertising.
- *Media and Publications* develops and produces notices, forms, and publications for printed and electronic tax materials, and provides media production services to taxpayers.
- *Taxpayer Advocacy* provides advocate services to taxpayers by identifying the underlying causes of taxpayer problems and participating in the development of systematic and/or procedural remedies.

- *Account Management and Assistance – Field Assistance* provides face-to-face assistance, education, and compliance services to taxpayers. It includes return preparation, answering tax questions, resolving account and notice inquiries, and supplying forms and publications to taxpayers.
- *Taxpayer Advocate Case Processing* provides advocate services to taxpayers to resolve taxpayer problems through prompt identification, referral, and settlement.
- *W&I HQ Management and Administration* provides staffing, training, and direct support for W&I management activities of strategic planning, communications and liaison, finance, human resources, EEO and diversity, business modernization, and embedded training.
- *National Distribution Center* processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

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 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$559,249	$573,685	$628,286	$648,685	$685,063	$693,753
Reimbursable Resources	1,038	843	774	876	1,431	1,459
Mandatory Appropriations - User Fees		1,201	12,827	18,703		
Total Resources	$560,287	$575,729	$641,887	$668,264	$686,494	$695,212

Pre-Filing Taxpayer Assistance & Education Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	83.0%	83.5%	92.4%	96.8%	94.0%	94.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public (Ot	61.2%	84.0%	89.5%	95.2%	90.0%	91.0%
Taxpayer Self Assistance Rate (E) (L)	46.8%	49.5%	66.8%	69.3%	61.3%	62.7%
Percent of Eligible Taxpayers Who File for EITC (Oe)	*	*	*	N/A	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

The IRS enhanced its outreach and educational services through partnerships with the public to increase understanding of and compliance with the tax law. The IRS partners with organizations such as state taxing authorities and volunteer groups to serve taxpayer needs. Through its Volunteer Income Tax Assistance (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. During FY 2009, more than 82,000 volunteers filed more than 3 million returns, a 13 percent decrease from FY 2008 because last year's figure included returns related to the Economic Stimulus Payment (ESP) activity.

The IRS also reached out to those taxpayers eligible for the Earned Income Tax Credit (EITC), implementing a vigorous outreach strategy that included:

- Creating EITC products and services designed to target underserved groups such as rural taxpayers, childless workers, and limited English proficient filers;
- Conducting a third annual EITC Awareness Day to promote the EITC that may be a critical financial lifeline to many taxpayers. Community coalitions and IRS partners across the nation marked the day with a series of local news conferences and news releases promoting this refundable tax credit for low-wage taxpayers. The organizations operated free tax preparation sites for low and moderate-income individuals, seniors and other eligible taxpayers in every state; and
- Increasing electronic filing of EITC returns by 8.2 percent.

The IRS increased the number of Facilitated Self-Assistance workstations and phones to 50 sites, allowing nearly 12,500 taxpayers to access IRS.gov at Taxpayer Assistance Centers, a 420 percent increase from 2008.

In FY 2009, taxpayers viewed more than 1.7 billion IRS.gov pages, and more than 54 million taxpayers used *Where's My Refund?,* an increase of 39 percent, with 453,000 taxpayers using the Spanish version.

The FY 2009 *Super Saturday* event resulted in the largest one-day outreach service event in IRS history. Successes from Super Saturday include:

- Assisted more than 11,000 taxpayers with a variety of services including tax advice and return preparation;
- Answered more than 33,000 calls and prepared more than 53,000 returns for taxpayers needing assistance;
- Promoted and achieved approximately 200 media stories on Super Saturday; and
- Used more than 1,700 VITA sites across the country.

3B – Filing and Account Services *($1,628,222,000 in direct appropriations, an estimated $32,700,000 from reimbursable programs, and an estimated $127,000,000 from user fees)*: This budget activity funds programs that provide filing and account services to taxpayers, processes paper and electronically submitted tax returns, issue refunds, and maintains taxpayer accounts. This includes the following program activities:

- *Filing and Account Services Management* administers filing and account services programs.
- *Submission Processing* processes paper and electronically-submitted tax returns and supplemental documents, accounts for tax revenue, processes information documents, and issues refunds and tax notices.
- *Account Management and Assistance – Electronic/Correspondence Assistance* provides education and assistance to taxpayers through telephone, paper, and internet correspondence to resolve account and notice inquiries.
- *Electronic Products and Services Support (EPSS)* provides centralized operations and support capabilities for the IRS suite of electronic products. EPSS includes e-help desk, technology support, and operations support.
- *Electronic Tax Administration (ETA)* markets and administers electronic tax administration products and services.
- *Pre-Refund* provides coordination support for the pre-refund activities to ensure timely issuance of refunds and credits that are legally due to taxpayers. The pre-refund activity is now a part of the ETA office.
- *Joint Operations Center (JOC)* provides service, support, and technology for telephone, correspondence, and electronic media inquiries; real time monitoring and routing of inbound calls; monitoring of Customer Service Representative accuracy; and management of the enterprise telephone database.
- *Files Most Efficient Organization (MEO)* provides staffing, training, and direct support for the management associated with the MEO for files in Submission Processing. This organization stores the administrative files and the most recent tax returns in process, which are 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 Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$1,568,209	$1,559,779	$1,545,478	$1,631,121	$1,593,767	$1,628,222
Reimbursable Resources	24,242	20,081	36,037	23,578	32,082	32,700
Mandatory Appropriations - User Fees		63,458	139,109	104,297	127,000	127,000
Total Resources	$1,592,451	$1,643,318	$1,720,624	$1,758,996	$1,752,849	$1,787,922

Filing and Account Services Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Percent Individual Returns Processed Electronically (Oe) (L)	54.1%	57.1%	57.6%	65.9%	70.2%	81.0%
Percent of Business Returns Processed Electronically (Oe) (L)	16.6%	19.1%	19.4%	22.8%	24.3%	25.4%
Customer Accuracy - Tax Law Phones (Ot)	90.9%	91.2%	91.2%	92.9%	91.2%	91.2%
Customer Accuracy - Accounts (Phones) (Ot)	93.2%	93.4%	93.7%	94.9%	93.7%	93.7%
Customer Contacts Resolved per Staff year (E)	7,414	7,648	12,634	12,918	9,398	10,181
Customer Service Representative (CSR) Level of Service (Oe) (L)	82.0%	82.1%	52.8%	70.0%	71.0%	75.0%
Refund Timeliness - Individual (paper) (Ot)	99.3%	98.9%	99.1%	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 2009 filing season, rising to challenges posed by the residual effects of the 2008 Economic Stimulus Payment program and the implementation of the Recovery Act.

Results of the 2009 filing season include:

- Processed 144.4 million individual returns and issued 111.4 million refunds;
- Achieved a 70 percent telephone level of service while answering 39 million assistor calls and 29 million automated calls;
- Responded correctly to 92.9 percent of tax law questions and 94.9 percent of account questions received via the telephone;
- Provided free tax assistance to more than 6.2 million taxpayers at 401 Taxpayer Assistance Centers; and

- Provided free tax assistance, including the preparation of more than 3 million tax returns, at the more than 12,100 VITA and TCE sites.

Increased electronic filing:

- Individual returns electronically filed surpassed 65.9 percent;
- Total number of individual returns filed electronically reached 95 million;
- Home-computer filing increased to 32.2 million returns, a 19 percent increase over 2008; and
- Tax professional use of e-File increased to 63.2 percent.

In FY 2009, the IRS Commissioner chartered a Taxpayer Communications Taskgroup (TACT) to study and improve the clarity, accuracy, and effectiveness of written communications to taxpayers. As a result of the TACT efforts, the IRS reduced the number of inserts included with the balance due notice from 13 to two, reducing the amount of paper while improving clarity and readability. This streamlining effort eliminated more than 16 million pieces of paper per year and also reduced IRS annual postage costs by $570,000. In addition, the IRS rolled out in January 2010 nine redesigned notices as part of the TACT effort to improve IRS correspondence. The nine notices account for approximately two million pieces of correspondence and were rewritten to provide a clear and simple explanation of the purpose of the notice and what actions the taxpayer must take to resolve the issue.

Enforcement

Appropriation Description

The Enforcement appropriation provides funding for the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; examination of tax returns of exempt organizations; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of underreporting of tax obligations; securing of unfiled tax returns; and collecting unpaid accounts.

The Enforcement Budget Request for FY 2011 is $5,797,400,000 in direct appropriations and 52,863 FTE. This is an increase of $293,400,000 or 5.33 percent and 1,663 FTE more than the FY 2010 enacted level of $5,504,000,000 and 51,200 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Enforcement	FTE	Amount
FY 2009 Enacted	48,952	$5,117,267
FY 2010 President's Budget Request	51,200	$5,504,000
Congressional Action		
FY 2010 Enacted Budget (P.L. 111-117)	51,200	$5,504,000
Changes to Base:		
Maintaining Current Levels		$110,506
Pay Annualization		27,964
Pay Inflation Adjustment		69,255
Non-Pay Inflation Adjustment		4,460
FERS Increased Participation		8,827
Other Adjustments	(208)	
Technical FTE Adjustments	(208)	
Efficiencies/Savings		($7,092)
Reduce Procurement/Contracting		(2,246)
Reduce Printing, Travel, and Training		(1,979)
Reduce Tuition Assistance Program		(2,867)
Subtotal Changes to Base	(208)	$103,414
Total FY 2011 Base	50,992	$5,607,414
Program Changes:		
Enforcement Initiatives	1,871	$189,986
Address Business and Individual International Compliance	747	97,527
Reduce the Reporting Compliance Tax Gap	688	59,687
Reduce the Nonfiling and Underpayment Tax Gap	405	28,166
Maintain Recovery Act Staffing	31	4,606
Subtotal Program Changes	1,871	$189,986
Total FY 2011 Request	52,863	$5,797,400
Adjustments to Request		
User Fees		
Total FY 2011	52,863	$5,797,400

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Enforcement	FY 2009 Enacted Level[1]	FY 2010 President's Budget	Congressional Action including Rescission	FY 2010 Enacted Level	Proposed Reprogram.	FY 2010 Proposed Operating Level	FY 2011 Request Level	% Change FY 2010 to FY 2011
FTE	48,952	51,200		51,200		51,200	52,863	3.2%
Object Classification:								
11.1 Full-Time Permanent Positions	$3,441,653	$3,732,481	$0	$3,732,481	$0	$3,732,481	$3,938,661	5.5%
11.3 Other than Full-Time Permanent Positions	88,810	89,273	0	89,273	0	89,273	91,365	2.3%
11.5 Other Personnel Compensation	157,188	166,157	0	166,157	0	166,157	173,549	4.4%
11.8 Special Personal Services Payments	14,999	18,164	0	18,164	0	18,164	18,445	1.5%
11.9 Personnel Compensation (Total)	$3,702,650	$4,006,075	$0	$4,006,075	$0	$4,006,075	$4,222,020	5.4%
12.0 Personnel Benefits	1,014,514	1,092,263	0	1,092,263	0	1,092,263	1,173,634	7.4%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0.0%
21.0 Travel	177,693	190,851	0	190,851	0	190,851	181,570	-4.9%
22.0 Transportation of Things	5,055	6,792	0	6,792	0	6,792	6,607	-2.7%
23.1 Rental Payments to GSA	530	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	407	486	0	486	0	486	502	3.3%
23.3 Communications, Utilities, & Misc	6,275	3,978	0	3,978	0	3,978	4,131	3.8%
24.0 Printing & Reproduction	6,694	6,432	0	6,432	0	6,432	6,546	1.8%
25.1 Advisory & Assistance Services	28,595	33,770	0	33,770	0	33,770	25,464	-24.6%
25.2 Other Services	80,201	84,121	0	84,121	0	84,121	72,609	-13.7%
25.3 Purchase of Goods & Services from Govt. Accounts	39,502	27,914	0	27,914	0	27,914	49,902	78.8%
25.4 Operation & Maintenance of Facilities	187	194	0	194	0	194	196	1.0%
25.5 Research & Development Contracts	3,675	2,974	0	2,974	0	2,974	3,007	1.1%
25.6 Medical Care	148	77	0	77	0	77	78	1.3%
25.7 Operation & Maintenance of Equipment	1,520	2,048	0	2,048	0	2,048	2,110	3.0%
25.8 Subsistence & Support of Persons	5,393	4,313	0	4,313	0	4,313	4,692	8.8%
26.0 Supplies and Materials	31,670	29,053	0	29,053	0	29,053	29,733	2.3%
31.0 Equipment	4,625	5,506	0	5,506	0	5,506	7,301	32.6%
32.0 Lands and Structures	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	5	5	0	5	0	5	5	0.0%
42.0 Insurance Claims & Indemn	1,328	2,061	0	2,061	0	2,061	2,088	1.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	6,600	5,087	0	5,087	0	5,087	5,205	2.3%
Total Budget Authority	$5,117,267	$5,504,000	$0	$5,504,000	$0	$5,504,000	$5,797,400	5.3%
Budget Activities:								
Investigations	$611,601	$637,694	0	$637,694	$0	$637,694	$651,966	2.2%
Exam & Collections	4,355,186	4,706,350	0	4,706,350	0	4,706,350	4,974,618	5.7%
Regulatory	150,480	159,956	0	159,956	0	159,956	170,816	6.8%
Total Budget Authority	$5,117,267	$5,504,000	$0	$5,504,000	$0	$5,504,000	$5,797,400	5.3%

[1] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Enforcement Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted[1]		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Investigations	4,228	$615,544	4,241	$611,601	4,284	$637,694	4,088	$651,966	-4.58%	2.24%
Exam and Collections	41,931	4,342,021	43,481	4,355,186	45,652	4,706,350	47,463	4,974,618	3.97%	5.70%
Regulatory	1,202	152,115	1,230	150,480	1,264	159,956	1,312	170,816	3.80%	6.79%
Subtotal New Appropriated Resources	47,361	$5,109,680	48,952	$5,117,267	51,200	$5,504,000	52,863	$5,797,400	3.25%	5.33%
Other Resources:										
Recoveries				2						
Offsetting Collections - Reimbursable	128	49,078	128	49,078	141	60,508	142	61,506	0.71%	1.65%
Available multi-year/no-year funds		1,132		4,382		3,413		265		-92.24%
50% Carryover										
Transfers In/Out		11		178						
Mandatory Appropriations - User Fees	19	3,103		5,621		10,100		0		-100.00%
Subtotal Other Resources	147	$53,324	128	$59,261	141	$74,021	142	$61,771	0.71%	-16.55%
Total Resources Available for Obligation	47,508	$5,163,004	49,080	$5,176,528	51,341	$5,578,021	53,005	$5,859,171	3.24%	5.04%

[1] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

3C – Investigations *($651,966,000 in direct appropriations and an estimated $50,567,000 from reimbursable programs):* This budget activity funds the IRS Criminal Investigation (CI) programs that explore potential criminal violations of tax laws, enforce criminal statutes relating to violations of tax laws, and recommend prosecution as warranted. This includes the following program activities:

- *General Management and Administration* supports the headquarters management activities of strategic planning, communications, finance, and human resources for CI activities.
- *Criminal Investigations* supports the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes. CI investigates cases of suspected intent to defraud that involve both legal and illegal sources of income and recommends prosecution as warranted. This activity includes the investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.
- *Criminal Tax Legal Support* provides staffing, training, and direct support to Counsel and CI.
- *International Investigations* supports international investigations involving U.S. citizens residing abroad, non-resident aliens, expatriates, and investigations involving other international issues including legal support (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion).

- *Accounts Management Taxpayer Assurance Program* provides support to Accounts Management for the review of questionable refunds.

3.2.3 – Budget and Performance Plan

Dollars in Thousands

Investigations Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$599,878	$573,469	$601,436	$615,544	$637,694	$651,966
Reimbursable Resources	33,306	32,441	49,404	39,639	49,776	50,567
Mandatory Appropriations - User Fees						
Total Resources	$633,184	$605,910	$650,840	$655,183	$687,470	$702,533

Investigations Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Criminal Investigations Completed (Ot) (L)	4,157	4,269	4,044	3,848	3,900	3,900
Number of Convictions (Oe) (L)	2,019	2,155	2,144	2,105	2,135	2,135
Conviction Rate (Oe) (L)	91.5%	90.2%	92.3%	87.2%	92.0%	92.0%
Conviction Efficiency Rate ($) (E) (L)	$328,750	$301,788	$315,751	$327,328	$331,000	340,000

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long Term Goal

Description of Performance

The IRS continued to investigate vigorously egregious tax, money laundering, and other financial crimes that adversely affect tax administration. Improved case development and selection methods, coupled with heightened fraud awareness resulted in the successful prosecution of taxpayers involved in significant abusive tax schemes, high income non-filers, employment tax evasion cases, and other flagrant forms of tax evasion. Using its unique statutory jurisdiction and financial expertise, the IRS made significant contributions to important national law enforcement priorities. Performance levels for the IRS Criminal Investigation (CI) program remained high in FY 2009:

- Completed 3,848 criminal investigations;
- Achieved a conviction rate of 87.2 percent;
- Maintained a Department of Justice acceptance rate of 91.7 percent and a U.S. Attorney acceptance rate of 88.7 percent, which compares favorably with other federal law enforcement agencies;
- Obtained 2,105 convictions; and
- Increased tax-exempt and government entities compliance contacts 10 percent.

The Questionable Refund Program (QRP), a nationwide multifunctional program designed to identify fraudulent returns and to stop payment of fraudulent refunds, continued to show positive results in FY 2009.

QRP accomplishments include:

- Identification of more than 414,000 potentially fraudulent returns claiming more than $2.7 billion in total refunds of which more than $2.3 billion in fraudulent refunds were stopped; and
- Initiation of 418 QRP investigations, an 86.6 percent conviction rate, a 78.8 percent incarceration rate, and an 87.2 percent publicity rate on adjudicated cases.

3D – Exam and Collections *($4,974,618,000 in direct appropriations and an estimated $10,245,000 from reimbursable programs)*: This budget activity funds programs that enforce tax laws through examination and collection programs that ensure proper payment and tax reporting. This budget activity also supports appeals and litigation activities associated with exam and collection. This includes the following program activities:

- *Compliance Services Management* supports management associated with compliance program activities.
- *Payment Compliance – Correspondence Collection* supports IRS collection activities by initiating contact and collecting delinquent taxpayer liabilities through written notices and other means.
- *Automated Collections and Support* supports the IRS centralized Automated Collection System (ACS) by initiating contact and collecting delinquent taxpayer liabilities through automated means.
- *Payment Compliance – Field Collection* conducts field investigations and collection efforts associated with delinquent taxpayer and business entity liabilities, including direct taxpayer contact and outreach programs to protect the interest of the federal government in delinquent tax liability situations.
- *Tax Reporting Compliance – Document Matching* supports the Automated Underreporter (AUR), Combined Annual Wage Reporting (CAWR), Federal Unemployment Tax Act (FUTA), and other Document Matching Programs.
- *Tax Reporting Compliance – Electronic/Correspondence Exam* initiates written correspondence with taxpayers related to tax issues arising from claims on their tax returns.
- *Tax Reporting Compliance – Field Exam* compares taxpayer income levels and corresponding tax liabilities to ensure accuracy of taxpayer returns.

- *Fraud/Bank Secrecy Act* enforces the anti-money laundering provisions of the *Bank Secrecy Act of 1970* (BSA), and the *USA Patriot Act of 2001*. It examines non bank financial institutions for compliance with these laws, receives and processes more than 15 million financial reports annually, and manages a centralized database of that information for the Financial Crimes Enforcement Network (FinCEN). The Fraud program follows the "money trail" to support the criminal investigation of tax evasion operations. Fraud Technical Advisors and Revenue Agents provide investigative leads and referrals to federal, state, and local law enforcement agencies.
- *Appeals* provides an administrative review process that provides a channel for impartial case settlement before a case is docketed in a court of law.
- *Litigation* provides legal support for the IRS in litigation of cases, including interpretation of the tax law.
- *Specialty Programs – Exams* examines federal tax returns of businesses and individuals responsible for the filing and payment of employment, excise, estate, and gift taxes.
- *International Collection* supports international field collection efforts associated with delinquent taxpayer and business entity liabilities from U.S. citizens residing abroad, non-resident aliens, expatriates, and those involving other international issues (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion).
- *International Exams* supports the international exam program involving U.S. citizens residing abroad, non-resident aliens, expatriates and other examinations involving other international issues including legal support (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion).
- *Unit General Management and Administration* provides staffing, training, and direct support for headquarters management activities of strategic planning, communication and liaison, finance, human resources, EEO and diversity, business system planning, and embedded training.
- *EITC Management & Administration* supports headquarters management associated with administering EITC program service-wide.
- *Whistleblower* provides staffing, training, and direct support to process, assess, and analyze tips from individuals who identify tax problems in the course of their daily personal business, regardless of where encountered (including the workplace).
- *Communications and Liaison* coordinates local government and liaison relationships; manages congressional, state, and national stakeholder relationships and issues; coordinates crosscutting issues, including audit management and legislative implementation; manages national media contacts and local media relationships; and ensures IRS compliance with disclosure and privacy laws.

3.2.4 – Budget and Performance Plan

Dollars in Thousands

Exam and Collections Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$3,925,839	$3,932,874	$4,030,648	$4,342,021	$4,706,350	$4,974,618
Reimbursable Resources	9,851	8,764	8,302	8,970	10,051	10,245
Mandatory Appropriations - User Fees		5,452	12,679	3,103	10,100	
Total Resources	$3,935,690	$3,947,090	$4,051,629	$4,354,094	$4,726,501	$4,984,863

Exam and Collections Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Examination Coverage - Individual (Oe) (L)	1.0%	1.0%	1.01%	1.0%	1.1%	1.1%
Field Exam National Quality Review Score (Oe) (L)	85.9%	85.9%	86.0%	85.1%	86.3%	86.3%
Office Exam National Quality Review Score (Oe) (L)	88.2%	89.4%	90.0%	92.1%	90.9%	90.9%
Examination Quality - Industry (Oe) (L)	85.0%	87.0%	88.0%	88.0%	89.0%	89.0%
Examination Quality - Coordinated Industry (Oe) (L)	96.0%	96.0%	97.0%	95.0%	96.0%	96.0%
Examination Coverage - Business (Oe) (L)	7.3%	6.8%	6.1%	5.6%	5.1%	5.0%
Automated Underreporter Efficiency (E) (L)	1,832	1,956	1,982	1,905	1,868	1,945
Automated Underreporter Coverage (E) (L)	2.4%	2.5%	2.55%	2.6%	3.0%	3.4%
Examination Efficiency - Individual (E) (L)	128	137	138	138	132	128
Collection Coverage - Units (Ot) (L)	54.0%	54.0%	55.2%	54.2%	50.5%	51.5%
Collection Efficiency - Units (E) (L)	1,677	1,828	1,926	1,845	1,898	1,884
Field Collection National Quality Review Score (Ot) (L)	84.2%	84.0%	79.0%	80.5%	81.0%	82.0%
Automated Collection System (ACS) Accuracy (Oe)	91.0%	92.9%	95.3%	94.3%	92.5%	94.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, L - Long Term Goal, Ot - Output/Workload Measure

Description of Performance

Enforcement of the tax laws is an integral component of the IRS effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, target elements of the tax gap and remain a high priority. In FY 2009, the IRS expanded its enforcement presence in the international field, continued to pursue high-wealth noncompliant taxpayers, and initiated action to better leverage the tax return preparer community.

In FY 2009, the IRS placed extraordinary focus on detecting and bringing to justice those who hide assets overseas to avoid paying tax. As part of an overall IRS strategy to improve offshore compliance, initiatives were implemented to identify U.S. taxpayers that engaged in offshore tax evasion schemes. In August 2009, the IRS reached agreement with the Swiss authorities that will result in the IRS receiving an unprecedented amount of information on taxpayers who evaded their tax obligations by hiding money offshore at UBS. This represents a major step forward for the IRS in its efforts to combat offshore tax evasion and will send a clear message to people hiding income and assets offshore that the IRS will vigorously pursue tax cheats, no matter how remote or secret the location.

At the same time, the IRS established an offshore voluntary disclosures/penalty framework for taxpayers to disclose their offshore activities. The framework provided taxpayers the opportunity to:

- Calculate the total cost of resolving all offshore tax issues;
- Become compliant with U.S. tax laws;
- Make voluntary disclosures that will be used to further the IRS understanding of how foreign accounts and foreign entities are promoted to U.S. taxpayers as ways to avoid or evade tax; and
- Provide data to be used in developing additional IRS strategies to inhibit promoters and facilitators from soliciting new clients.

As a result of the offshore voluntary disclosure program that ran through October 15, 2009, more than 14,700 taxpayers with offshore accounts voluntarily came forward to disclose information bringing them back into the U.S. tax system. A key aspect of future international offshore work will be mining the information from people who came forward to identify financial institutions, advisors, and others who promote or otherwise helped U.S. taxpayers hide assets and income.

Total enforcement revenue was $48.9 billion in FY 2009. The IRS showed steady progress in increasing its audit coverage:

- Total individual audits by 2.6 percent;
- Automated Underreporter (AUR) contact closures by 2.6 percent;
- High-wealth audits by 11.2 percent; and

- Large corporate audits by 2.6 percent, a significant achievement given the size (more than $10 million) and complexity of these corporate entities.

With many people facing financial difficulties, the IRS took several steps to help people who owed back taxes, especially those who have complied in the past and were facing unusual hardships. Some of the actions IRS took to help taxpayers included:

- Postponement of Collection Actions — The IRS suspended collection actions in certain hardship cases where taxpayers were unable to pay.
- Lien Relief for Homeowners trying to Refinance or Sell — In an effort to raise taxpayer awareness of the availability of the discharge and lien subordination process, the IRS conducted various outreach efforts and sought feedback from the National Society of Accountants, the American Bar Association, and the National Associations of Enrolled Agents and Tax Professionals; resulting in a 20.8 percent increase in lien discharge applications and a 5.3 percent increase in lien subordination.
- Added Flexibility for Missed Payments — Previously compliant individuals in existing Installment Agreements in certain cases were allowed to skip payments or pay a reduced monthly payment amount without automatically suspending the Installment Agreement.
- Prevention of Offer in Compromise (OIC) Defaults — Taxpayers who were unable to meet the payment terms of an accepted OIC received a letter outlining options to avoid default.
- Expedited Levy Releases — The IRS released levies in an expedited manner for taxpayers suffering financial hardships.
- Offering Installment Agreements — The IRS offered installment agreements at the end of an audit to taxpayers having difficulty paying their tax liability.

The Compliance Assurance Process (CAP) is a method of resolving tax issues through an open and transparent interaction between the IRS and large corporations to identify and resolve issues before the filing of a return. CAP involves some of the largest U.S. corporations. CAP participation has been expanded from 17 in 2005 to 102 in 2009 and is expected to become a permanent program for Tax Year (TY) 2010.

The CAP program benefits both the IRS and the taxpayer by fostering compliance, reducing the time it takes to process a return, and improving both customer and employee satisfaction while maintaining a high level of quality.

In FY 2009, the IRS developed a comprehensive set of recommendations to ensure consistent standards for tax preparer qualifications, ethics and service. The recommendations were developed using information obtained from a large and diverse constituent community that included those licensed by state and federal authorities, unlicensed tax preparers, software vendors, consumer groups and taxpayers. More than 450 taxpayers and tax professionals and 600 IRS employees responded to the IRS request for comments to help leverage the tax return preparer community with the twin goals of increasing taxpayer compliance and ensuring uniform and high ethical standards of conduct for tax preparers.

3E – Regulatory *($170,816,000 in direct appropriations and an estimated $694,000 from reimbursable programs):* This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; advice on general legal servicing, ruling, and agreements; enforcement of regulatory rules, laws, and approved business practices; and support for taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. This includes the following program activities:

- *Tax Law Interpretation and Published Guidance* interprets the tax law through published guidance, technical advice, and other technical legal services.
- *General Legal Services* provides advice to the IRS on non-tax legal issues, including procurement, personnel, labor relations, equal employment opportunity, fiscal law, tort claims and damages, ethics, and conflict of interest.
- *Rulings and Agreements* applies the tax law to specific taxpayers in the form of pre-filing agreements, determination letters, advance pricing agreements, and other pre-filing determinations and advice.
- *International Regulatory Legal Support* supports Counsel's work in tax law interpretation and rulings and agreements related to international issues.
- *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 Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$150,115	$146,213	$145,036	$152,115	$159,956	$170,816
Reimbursable Resources	151	255	435	469	681	694
Mandatory Appropriations - User Fees			168			
Total Resources	$150,266	$146,468	$145,639	$152,584	$160,637	$171,510

Regulatory Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
TE/GE Determination Case Closures (Ot)	108,462	109,408	100,050	96,246	140,465	99,491

Key: Ot - Output/Workload Measure

Description of Performance

The IRS continues to help pension plans, exempt organizations, and government entities comply with tax laws. In FY 2009, the IRS:

- Released the results of its nonprofit hospital study. The research presented demographics of nonprofit hospitals and their community benefit and executive compensation reporting and practices that can be used by Congress and others to revise community benefit and reasonable compensation standards.
- Created a new category of practitioner, “Enrolled Retirement Plan Agent” (ERPA). This new category allows practitioners who have administrative or financial information about a plan to have a limited practice before the IRS under the safeguard of Circular 230. In addition, ERPAs provide valuable information to the IRS with respect to the administrative and financial issues affecting retirement plans.

The IRS implemented the Build America Bonds (BAB) program as well as other Recovery Act tax credit bond provisions. This included:

- Coordination of the development of a new direct payment processing system;
- Development of a new return, Form 8038-CP, and instructions;
- Implementation of new compliance programs related to BABs and other new forms of tax credit bonds;
- Presentation of Recovery Act information to several groups, including underserved territories and tribes; and
- Development of seven notices and several educational documents related to the new bond provisions.

In FY 2009, TE/GE closed approximately 35,900 enforcement contacts, a 14 percent improvement from the FY 2008 level and 21 percent above plan. Total exam closures surpassed last year’s accomplishment by 17 percent and the plan by 22 percent.

Operations Support

Appropriation Description

The Operations Support appropriation provides funding for overall planning, direction, and support for the IRS, including shared service support related to facilities services, rent payments, printing, postage, and security. This appropriation funds headquarters policy and management activities such as corporate support for strategic planning, communications and liaison, finance, human resources, Equal Employment Opportunity (EEO) and diversity; research and statistics of income; and necessary expenses for information systems and telecommunication support, including development, security, and maintenance of the IRS information systems.

The Operations Support Budget Request for FY 2011 is $4,108,000,000 in direct appropriations and 12,384 FTE. This is an increase of $24,116,000 or 0.59 percent and 68 FTE more than the FY 2010 enacted level of $4,083,884,000 and 12,316 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Operations Support	FTE	Amount
FY 2009 Enacted	12,267	$3,867,011
FY 2010 President's Budget Request	12,316	$4,082,984
Congressional Action		900
FY 2010 Enacted Budget (P.L. 111-117)	12,316	$4,083,884
Changes to Base:		
Maintaining Current Levels		$57,884
Pay Annualization		7,608
Pay Inflation Adjustment		19,127
Non-Pay Inflation Adjustment		29,026
FERS Increased Participation		2,123
Other Adjustments	59	
Technical FTE Adjustments	59	
Efficiencies/Savings		($155,314)
Non-Recur Savings		(32,680)
Increase e-File Savings		378
IT Infrastructure and Process Improvements		(75,000)
Reduce Procurement/Contracting		(19,697)
Reduce Printing, Travel, and Training		(7,468)
Reduce Tuition Assistance Program		(847)
Eliminate Selective Mailing of Forms and Publications		(20,000)
Subtotal Changes to Base	59	($97,430)
Total FY 2011 Base	12,375	$3,986,454
Program Changes:		
Taxpayer Service Initiatives		$25,000
Improve IRS.gov		25,000
Enforcement Initiatives	9	$51,083
Address Business and Individual International Compliance	4	21,780
Reduce the Reporting Compliance Tax Gap	5	17,223
Reduce the Nonfiling and Underpayment Tax Gap		9,924
Support for Increased Enforcement Activities		1,262
Maintain Recovery Act Staffing		894
Business Systems Modernization (BSM) Initiative		$45,463
Continue Migration from Aging Tax Administration System		45,463
Subtotal Program Changes	9	$121,546
Total FY 2011 Request	12,384	$4,108,000
Adjustments to Request		
User Fees		67,100
Total FY 2011	12,384	$4,175,100

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Operations Support	FY 2009 Enacted Level[1]	FY 2010 President's Budget[2]	Congressional Action including Rescission	FY 2010 Enacted Level	Proposed Reprogram.	FY 2010 Proposed Operating Level	FY 2011 Request Level	% Change FY 2010 to FY 2011
FTE	12,267	12,316		12,316		12,316	12,384	0.6%
Object Classification:								
11.1 Full-Time Permanent Positions	$1,032,735	$1,044,177	$0	$1,044,177	$0	$1,044,177	$1,089,960	4.4%
11.3 Other than Full-Time Permanent Positions	14,307	23,007	0	23,007	0	23,007	26,496	15.2%
11.5 Other Personnel Compensation	33,933	31,770	0	31,770	0	31,770	35,147	10.6%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	$1,080,975	$1,098,954	$0	$1,098,954	$0	$1,098,954	$1,151,603	4.8%
12.0 Personnel Benefits	321,992	335,790	0	335,790	0	335,790	357,973	6.6%
13.0 Benefits to Former Personnel	48,377	48,775	0	48,775	0	48,775	48,907	0.3%
21.0 Travel	45,170	37,928	0	37,928	0	37,928	42,852	13.0%
22.0 Transportation of Things	20,271	21,278	0	21,278	0	21,278	20,999	-1.3%
23.1 Rental Payments to GSA	631,327	668,154	0	668,154	0	668,154	676,738	1.3%
23.2 Rent Payments to Others	314	7	0	7	0	7	44	528.6%
23.3 Communications, Utilities, & Misc	428,987	445,527	0	445,527	0	445,527	426,745	-4.2%
24.0 Printing & Reproduction	54,778	55,054	0	55,054	0	55,054	51,666	-6.2%
25.1 Advisory & Assistance Services	118,586	127,437	0	127,437	0	127,437	96,998	-23.9%
25.2 Other Services	428,041	416,456	900	417,356	0	417,356	390,480	-6.4%
25.3 Purchase of Goods & Services from Govt. Accounts	59,099	78,168	0	78,168	0	78,168	86,985	11.3%
25.4 Operation & Maintenance of Facilities	182,638	185,263	0	185,263	0	185,263	217,608	17.5%
25.5 Research & Development Contracts	7,241	7,825	0	7,825	0	7,825	5,471	-30.1%
25.6 Medical Care	13,180	11,110	0	11,110	0	11,110	12,538	12.9%
25.7 Operation & Maintenance of Equipment	67,443	68,184	0	68,184	0	68,184	110,905	62.7%
25.8 Subsistence & Support of Persons	334	1,256	0	1,256	0	1,256	321	-74.4%
26.0 Supplies and Materials	22,074	31,399	0	31,399	0	31,399	29,916	-4.7%
31.0 Equipment	312,999	395,013	0	395,013	0	395,013	360,851	-8.6%
32.0 Lands and Structures	22,608	48,682	0	48,682	0	48,682	17,857	-63.3%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	577	724	0	724	0	724	543	-25.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
Total Budget Authority	$3,867,011	$4,082,984	$900	$4,083,884	$0	$4,083,884	$4,108,000	0.6%
Budget Activities:								
Infrastructure	$875,538	$900,852	0	$900,852	$0	$900,852	$889,929	-1.2%
Shared Services & Support	1,269,642	1,296,629	0	1,296,629	0	1,296,629	1,337,776	3.2%
Information Services	1,721,831	1,885,503	900	1,886,403	0	1,886,403	1,880,295	-0.3%
Total Budget Authority	$3,867,011	$4,082,984	$900	$4,083,884	$0	$4,083,884	$4,108,000	0.6%

[1] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Operations Support Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted[1]		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Infrastructure		$859,093		$875,538		$900,852		$889,929	0.00%	-1.21%
Shared Services and Support	5,710	1,257,040	5,977	1,269,642	5,977	1,296,629	6,003	1,337,776	0.44%	3.17%
Information Services	6,391	1,680,279	6,290	1,721,831	6,339	1,886,403	6,381	1,880,295	0.66%	-0.32%
Subtotal New Appropriated Resources	12,101	$3,796,412	12,267	$3,867,011	12,316	$4,083,884	12,384	$4,108,000	0.55%	0.59%
Other Resources:										
Recoveries				720						
Offsetting Collections - Reimbursable	165	40,364	165	40,364	169	48,148	170	48,927	0.59%	1.62%
Available multi-year/no-year funds		60,462		67,808		68,455		65,455		-4.38%
50% Carryover		13,870		13,870						
Transfers In/Out		3,267		3,267						
Mandatory Appropriations - User Fees	1	9,545		32,900		50,000		67,100		34.20%
Subtotal Other Resources	166	$127,508	165	$158,929	169	$166,603	170	$181,482	0.59%	8.93%
Total Resources Available for Obligation	12,267	$3,923,920	12,432	$4,025,940	12,485	$4,250,487	12,554	$4,289,482	0.55%	0.92%

[1] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

3F – Infrastructure *($889,929,000 in direct appropriations, an estimated $398,000 from reimbursable programs and an estimated $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-IT equipment. This includes the following program activities:

- *Building Delegation* oversees and manages the IRS GSA-delegated buildings, including cleaning, maintenance, utilities, protection, administrative, and recurring and one-time repair costs.
- *Rent* provides resources for all IRS rent needs.
- *Space and Housing/Non-IT Equipment* provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and Non-IT equipment.

3.2.6 – Budget and Performance Plan

Dollars in Thousands

Infrastructure Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$837,320	$808,254	$809,039	$859,093	$900,852	$889,929
Reimbursable Resources	103	121	149	14,120	393	398
Mandatory Appropriations - User Fees			13,049		16,100	16,100
Total Resources	$837,423	$808,375	$822,237	$873,213	$917,345	$906,427

Description of Performance

The IRS continued to achieve cost savings in FY 2009 with its rent management strategy. These savings, coupled with those of previous years, have helped offset the increased costs associated with infrastructure improvement initiatives such as the Philadelphia Consolidation. Workstation utilization increased in 2009 as the IRS was able to place most attrition hires and new hires into existing space. The FY 2009 hiring initiatives increased rent because the IRS had to obtain additional space in some locations.

Rent costs, including the cost of facility security, increased 0.56 percent, from $659.6 million in FY 2008, to $663.2 million in FY 2009. The IRS achieved rent savings by identifying and completing 25 space reduction projects, releasing a cumulative total of 179,260 square feet. These projects have annualized savings estimated at $4.1 million.

While the IRS plans to achieve additional cost savings in FY 2010 by continuing its rent management strategy, these savings will be more than offset by expected increases associated with relocations because of expiring leases, acquisition of new space to permanently house new hires, operating cost increases, and the cost of bringing the new Philadelphia Consolidated Campus facility on-line beginning in late FY 2010. The net result of this will be a substantial increase in rent and security costs in FY 2010, which is expected to continue in FY 2011. In FY 2011, the annualization of the rent increase associated with the consolidated Philadelphia facility and other GSA-driven rent increases are the primary reason costs will increase.

3G – Shared Services and Support *($1,337,776,000 in direct appropriations and an estimated $33,110,000 from reimbursable programs):* This budget activity funds policy and management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equal employment opportunity and diversity services and programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and employee benefits programs. This includes the following program activities:

- *National Headquarters Management and Administration* directs the management activities of strategic planning, communications and liaison, finance, human resources, EEO and diversity, and business systems planning and embedded training. This activity sets policies and goals, provides leadership and direction for the IRS and builds partner relationships with key stakeholders (Congress, GAO, OMB). It provides policy guidance for conducting IRS planning and budgeting strategies, conducting analysis of programs and investments to support strategic decision-making, and developing and managing human resources. It also includes official reception and representation expenses.

- *Real Estate & Facilities Management* provides services and supplies required to manage IRS facilities.
- *Procurement* supports the procurement function of the IRS.
- *EEO & Diversity 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.
- *Employee Support Services* plans and manages financial services, including relocation, travel, imprest fund, purchase cards, corporate express, and employee clearances.
- *Treasury Complaint Mega Centers* plan and manage the Treasury Complaint Centers.
- *Shared Support not provided by Agency-Wide Shared Services* provides resources for shared cross-functional support such as copiers, postage meters, shredders, courier services, and post office boxes.
- *Printing and Postage – Media and Publications* provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials.
- *Statistics of Income* provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations.
- *Research* provides resources for market-based research to identify compliance issues, for conducting tests of treatments to address noncompliance, and for the implementation of successful treatments of taxpayer non-compliant behavior.
- *Security* protects employees, facilities and assets, and the confidentiality of taxpayer information.
- *W & I Business Modernization Support* provides staffing, training, and direct support for W&I's enterprise-wide business modernization efforts including Customer Account Data Engine (CADE), technology solutions and re-engineered business processes.

- *Benefit Payments* provides resources to fund Workers' Compensation benefits and Unemployment Compensation for federal employee payments.
- *Shared Services* provides additional services such as Public Transit Subsidy and Career Counselor Contract.

3.2.7 – Budget and Performance Plan

Dollars in Thousands

Shared Services and Support Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$1,154,616	$1,154,724	$1,279,800	$1,257,040	$1,296,629	$1,337,776
Reimbursable Resources	17,836	13,649	30,796	20,763	32,573	33,110
Mandatory Appropriations - User Fees			19,114	2		
Total Resources	$1,172,452	$1,168,373	$1,329,710	$1,277,805	$1,329,202	$1,370,886

Description of Performance

Through support activities that include management and administration of human resources, security, and research, the IRS continues to provide shared services to all IRS programs.

In FY 2009, the IRS began implementing *Workforce of Tomorrow* initiatives for both short and long-term improvements in the areas of attracting, developing, and retaining the best people, and enhancing the role of IRS managers and growing future leaders. Recent accomplishments include:

- Establishment of a new Centralized Recruiting Office;
- Implementation of a revamped five-step hiring process;
- Revision of all communications used in the hiring process;
- Pilot of an accelerated leadership program in Criminal Investigation with additional organizations launching accelerated leadership pilots in FY 2010;
- Redesign of the Front Line Manager Curriculum, which included piloting three new components of the curriculum – a web-based Manager Orientation, Fundamental Management Skills, and Front Line Manager course training; and
- Streamline of the Leadership Competency Model from 21 competencies to four core competencies supported by 13 key leader behaviors.

The IRS actively ensures the security of its infrastructure and IT systems. The IRS collects a tremendous amount of sensitive information, and protecting this information is vital to maintaining the public trust. Public trust encourages voluntary compliance with the tax law and enables the IRS to conduct business effectively.

In FY 2009, to protect the tax administration systems from unauthorized access, disruption, and modification the IRS:

- Continued risk assessments of business processes to address identity protection and analyzed the use of social security numbers for reduction and elimination where possible;
- Completed a corrective action plan to address IT security training, systems auditing, access controls, system security configuration control, and IT systems disaster recovery; and
- Established agency-wide security policies and standards.

The IRS takes the issue of identity theft very seriously. In FY 2009, to preserve and enhance public confidence, the IRS advocated the protection and proper use of identity information by:

- Establishing Opened Identity Protection Specialized Units (IPSUs) and a dedicated toll-free number to provide guidance and assistance to taxpayers affected by identity theft. These units assist taxpayers who have experienced tax administration issues or problems as a result of identity theft. In the first year, the IRS responded to 120,000 calls and opened nearly 34,000 cases for further action.
- Placing markers on more than 231,300 taxpayer accounts to alert employees the account belongs to a substantiated identity-theft victim. The IRS also provided a portfolio of identity protection services for taxpayers, including letters to individuals triggered by the account marker informing taxpayers that their personal information was used by another individual to file a return or may have been compromised through phishing scams. In FY 2009, the IRS sent nearly 79,600 letters.
- Eliminating the use of social security numbers (SSNs) on more than 8 million forms, notices, and letters. This is the first large-scale effort to eliminate and reduce the use of SSNs on taxpayer correspondence. Over the next 2 to 5 years, the IRS will eliminate the use of SSNs on more than 90 million notices and forms.

The Office of Online Fraud Detection and Prevention (OFDP) protects the IRS and taxpayers from increasing and evolving online threats. Through the OFDP, the IRS shut down 3,444 phishing web sites in FY 2009 (1,578 domestic sites and 1,866 international sites), compared to 2,926 sites in 2008. The median shut down time was 2.35 hours for domestic phishing sites and 6.85 hours for international sites. By monitoring, identifying, and mitigating fraudulent sites and phishing scams, OFDP helps to reduce the number of taxpayers who fall victim to online fraud schemes.

The IRS continues to conduct research to improve services to taxpayers and develop better ways to identify noncompliance and reduce the tax gap.

During FY 2009, the IRS continued its research studies of filing, payment, and reporting compliance, including the National Research Program (NRP), to provide a comprehensive picture of overall taxpayer compliance levels. Research allows the IRS to target specific areas to improve voluntary compliance and to allocate resources more effectively to reduce the tax gap. In FY 2009, the NRP included analyzing individual income tax returns for tax years 2006 through 2008 as part of an on-going reporting compliance study and studies of employment taxes and their contribution to the tax gap. The IRS also began an NRP study to address cases with the highest compliance risk by providing an identification process for returns filed by U.S. persons living abroad.

The IRS is studying the effects of its taxpayer services (internet, walk-in sites, and toll-free hotline) on voluntary compliance, including identifying why taxpayers make errors and exploring the relationships between errors made and unclear correspondence. The IRS will use the results to develop new approaches to service.

As part of its continuing effort to measure the burden associated with meeting federal tax obligations, the IRS surveyed 7,000 individual and self-employed taxpayers to measure time and expense in meeting filing requirements. Efforts are underway to develop models to measure time and expenses for small-business taxpayers who file income and employment tax returns. Estimates are scheduled to be released in FY 2010.

3H – Information Services *($1,880,295,000 in direct appropriations, an estimated $15,419,000 from reimbursable programs and an estimated $51,000,000 from user fees):* This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of tax administration programs. 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 responsible for operating and administering the hardware infrastructure of mainframes, servers, personal computers, networks, and a variety of management information systems.

Modernization & Information Technology Services (MITS) is responsible for information systems and technology, ranging from cyber security and networks to applications development and end user equipment and services. This includes the following program activities:

- *Customer Relationship and Service Delivery Management* provides services in an integrative manner to improve service delivery processes to seek performance improvement.
- *Security Services* 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 investment projects using core data to support specialized functions.
- *Management Services* provides for the design, development, delivery, and evaluation of a wide range of human resource programs for the MITS organization. These programs include workforce planning, recruitment and retention, career management, performance management, labor/employee relations, position management, workplace improvement, succession management and service-wide IT training and education.
- *National Headquarters (NHQ) IT Management* provides for the management and oversight of investments in IT for the Chief of Staff and Research, Analysis and Statistics (RAS). The program enables NHQ to manage and leverage IT solutions that are responsive to IRS-wide management, tax compliance, enforcement, and strategic and tactical research projects.
- *MITS Executive Oversight* provides support to the immediate office of the Chief Technology Officer, as well as the direct reports for EEO and Diversity, and the Director, Stakeholder Management (including Communications Services and Program Oversight). The program provides executive direction for the MITS organization, enabling MITS to be a customer-focused supplier of IT solutions that are responsive to customer business priorities and effectively meet functional and operational needs.
- *Application Development* performs the analysis, design, development, testing, and implementation of approximately 85,000 application programs supporting critical tax processing, management information reporting, and financial and management support systems for the IRS. This program also supports external trading partner data exchanges with federal government agencies, state and local governments, and other third-party entities. The program controls application source code and deploys applications to the production environment.
- *Enterprise Operations* designs, develops, and maintains IT that supports critical tax processing, management information reporting, and financial and management support systems for the IRS. The program supports data exchanges with external organizations, such as other federal agencies, state and local governments, and external entities (e.g., employers and banks), and includes a comprehensive disaster recovery capability to ensure continued operations in the event of a major interruption of service.
- *Enterprise Network* provides telecommunications service delivery to all customer segments, including management of day-to-day operations 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.
- *Strategy and Planning* 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 mechanisms used by the IRS systems and applications as part of the system security plan, system risk assessment, and IT contingency plan. It also supports security testing and evaluation as part of the certification process, including time preparing system documentation, interviewing with contractors, and responding to information requests.
- *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* funds the replacement of IRS IT infrastructure that has reached or surpassed its useful life cycle. The resources achieved through efficiencies in various parts of MITS are centralized to ensure that replacement of the aging infrastructure is addressed corporately.
- *Treasury Working Capital Fund* is a centralized functional area for separating from the Information Services base budget the resources required to pay Treasury billings for services provided through the working capital fund.
- *Integrated Document Solutions Enterprise (IDSE) Campus Operations Most Efficient Organization (MEO)* captures savings resulting from IDSE MEO activities.

3.2.8 – Budget and Performance Plan

Dollars in Thousands

Information Services Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$1,510,449	$1,551,603	$1,678,744	$1,680,279	$1,886,403	$1,880,295
Reimbursable Resources	3,330	14,006	14,310	5,481	15,182	15,419
Mandatory Appropriations - User Fees		66,678	50,000	9,543	33,900	51,000
Total Resources	$1,513,779	$1,632,287	$1,743,054	$1,695,303	$1,935,485	$1,946,714

Description of Performance

The IRS continues to replace its IT infrastructure using an ongoing review process that prioritizes funding of business unit needs. In FY 2009, 49 percent of IRS IT hardware assets were aged, with an average of 12 percent becoming aged each year. The IRS spent more than $170 million to replace more than 53,720 of these aged assets. The 53,720 aged assets included network equipment, end-user equipment, and servers and storage equipment.

Future funding will be used to replace aging IT and telecommunication equipment in line with current business standards. The backlog of aged and outdated IT and telecommunication equipment is growing every year. Without investing in an ongoing replacement program, the IRS runs the risk of increased maintenance costs, an inability to accommodate the increasing interaction and information exchange with taxpayers and tax preparers or failure to comply with government-wide standards and industry best practices.

In FY 2009, the IRS completed security certification and accreditation for 98 percent of its IT systems. All FISMA 2009 reporting activities were completed and validated before the June 30, 2009 deadline.

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 2011 is $386,908,000 in direct appropriations and 489 FTE. This is a net increase of $123,011,000 or 46.6 percent and 156 FTE more than the FY 2010 enacted level of $263,897,000 and 333 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Business Systems Modernization	FTE	Amount
FY 2009 Enacted	333	$229,914
FY 2010 President's Budget Request	333	$253,674
Congressional Action		10,223
FY 2010 Enacted Budget (P.L. 111-117)	333	$263,897
Changes to Base:		
Maintaining Current Levels		$889
Pay Annualization		243
Pay Inflation Adjustment		589
Non-Pay Inflation Adjustment		
FERS Increased Participation		57
Subtotal Changes to Base		$889
Total FY 2011 Base	333	$264,786
Program Changes:		
Business Systems Modernization (BSM) Initiative	156	$122,122
Continue Migration from Aging Tax Administration System	156	122,122
Subtotal Program Changes	156	$122,122
Total FY 2011 Request	489	$386,908
Adjustments to Request		
User Fees		
Total FY 2011	489	$386,908

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Business Systems Modernization	FY 2009 Enacted Level[1]	FY 2010 President's Budget	Congressional Action including Rescission	FY 2010 Enacted Level	Proposed Reprogram.	FY 2010 Proposed Operating Level	FY 2011 Request Level	% Change FY 2010 to FY 2011
FTE	333	333		333		333	489	46.8%
Object Classification:								
11.1 Full-Time Permanent Positions	$34,020	$33,672	$0	$33,672	$0	$33,672	$53,905	60.1%
11.3 Other than Full-Time Permanent Positions	766	855	0	855	0	855	869	1.6%
11.5 Other Personnel Compensation	575	703	0	703	0	703	1,173	66.9%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	$35,361	$35,230	$0	$35,230	$0	$35,230	$55,947	58.8%
12.0 Personnel Benefits	8,044	9,416	0	9,416	0	9,416	14,058	49.3%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0.0%
21.0 Travel	0	0	0	0	0	0	78	100.0%
22.0 Transportation of Things	0	0	0	0	0	0	0	0.0%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	0	0	0	0	0	0	0	0.0%
23.3 Communications, Utilities, & Misc	0	0	0	0	0	0	0	0.0%
24.0 Printing & Reproduction	0	0	0	0	0	0	0	0.0%
25.1 Advisory & Assistance Services	148	0	0	0	0	0	0	0.0%
25.2 Other Services	177,944	126,836	10,223	137,059	0	137,059	193,348	41.1%
25.3 Purchase of Goods & Services from Govt. Accounts	0	0	0	0	0	0	0	0.0%
25.4 Operation & Maintenance of Facilities	0	0	0	0	0	0	0	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	0	10,578	0	10,578	0	10,578	15,972	51.0%
25.8 Subsistence & Support of Persons	0	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials	47	0	0	0	0	0	0	0.0%
31.0 Equipment	8,370	71,614	0	71,614	0	71,614	107,505	50.1%
32.0 Lands and Structures	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	0	0	0	0	0	0	0	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
Total Budget Authority	$229,914	$253,674	$10,223	$263,897	$0	$263,897	$386,908	46.6%
Budget Activities:								
IT Investments	$229,914	$253,674	$10,223	$263,897	$0	$263,897	$386,908	46.6%
Total Budget Authority	$229,914	$253,674	$10,223	$263,897	$0	$263,897	$386,908	46.6%

[1] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted[1]		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Business Systems Modernization	322	$131,138	333	$229,914	333	$263,897	489	$386,908	46.85%	46.61%
Subtotal New Appropriated Resources	322	$131,138	333	$229,914	333	$263,897	489	$386,908	46.85%	46.61%
Other Resources:										
Recoveries										
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds						116,249		31,767		-72.67%
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
Subtotal Other Resources	0	$0	0	$0	0	$116,249	0	$31,767	0.00%	-72.67%
Total Resources Available for Obligation	322	$131,138	333	$229,914	333	$380,146	489	$418,675	46.85%	10.14%

[1] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

3I – Business Systems Modernization *($386,908,000 in direct appropriations):* 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 is required to submit an annual BSM expenditure plan that justifies the projects for which resources are requested.

The IRS depends on the core tax administration systems to deliver its mission, which require ongoing, long-term commitment to ensure that the IRS maintains its tax administration systems. The FY 2011 BSM request of $386.9 million funds the projects listed in the table below.

Project	FY 2011 President's Budget Request
CADE 2 *(Taxpayer Account Database)*	$152.1
Current CADE	40.0
Modernized e-File	39.1
Core Infrastructure	38.5
Architecture, Integration and Management	37.0
Management Reserve	10.0
Labor	70.2
Total	$386.9

CADE *2 (New Taxpayer Account Database)*

The IRS requests $152.1 million to complete the new taxpayer account databases in 2011 in time for the 2012 filing season. The IRS will begin migration of 140 million individual taxpayer accounts into the relational database in a daily processing architecture. The daily processing cycle allows taxpayers to receive refunds in less than 10 days, five days faster than in the legacy system, if they file electronically with direct deposit. In addition to faster refunds, daily processing will provide more timely, accurate, and complete data to the key customer service database. This will result in improved taxpayer service through faster resolution of taxpayer account issues, elimination of notices based on out-of-date information, and daily mailing of notices, which will reduce spikes in telephone call volumes associated with the current weekly mailing of notices.

The new taxpayer account database will serve as the central repository of tax account information for all individual taxpayers. Completion of the core taxpayer account database will allow the IRS to expand its online services and develop next generation, more sophisticated compliance systems. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until the core taxpayer account database is completed.

The Integrated Production Model (IPM) is an important component of the CADE strategy. This application extracts data from the Individual Master File (IMF) and Business Master File (BMF) and reformats it into the necessary relational structure. The goal of IPM is to develop an integrated data solution that will replace costly IRS data extracts. It also will allow the IRS to modernize its development language tools, enhance security, and standardize data names. These improvements will allow the IRS to use and share data more effectively. In FY 2011, the IRS will expand its capabilities for data sharing, data understanding, and data analytics. The IRS also will leverage its new daily processing capability, new relational database, and tools to access the IPM analytic data store.

Current CADE

The IRS requests $40.0 million to fund the filing season changes and the operations and maintenance of the current Customer Account Data Engine system. The IRS has addressed filing season changes each year with updates to the current Customer Account Data Engine by planning and budgeting for anticipating changes to the tax law. Over the past few years, the IRS has realized a significant amount of tax law changes, which must be implemented to the current Customer Account Data Engine in January of each year.

Modernized e-File (MeF)

The IRS requests $39.1 million to continue development and deployment of the MeF web-based platform. MeF allows electronic tax filing and provides a single point of transmission for the electronic submission of federal corporate, non-profit, and partnership returns and the associated state returns for a limited number of states. MeF stores tax return data in a modernized Tax Return Database, allowing IRS employees to see an entire tax return online.

The following forms have been migrated onto the modernized platform:

- Form 1120, *U.S. Corporation Income Tax Return*, Form 1120-S, *U.S. Income Tax Return for an S corporation* (2004-2006)*;*
- Form 990, *Return of Organization Exempt from Income Tax* (2004-2006)*;*
- Form 1065, *U.S. Return of Partnership Income* (2007)*;* and
- Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation* along with the *Non-Profit e-Postcard* (990N) (2008).

The IRS is implementing the Form 1040, *U.S. Individual Income Tax Return*, onto the MeF platform in three phases.

Phase I (MeF Release 6.1) began in FY 2007 with deployment scheduled in January 2010. Phase I consists of the Form 1040 and 22 of the most common forms and schedules used by 61 percent of the e-File population such as Schedule A, *Itemized Deductions*, Schedule B, *Interest and Ordinary Dividends*, and Schedule D, *Capital Gains and Losses.* Phase I also includes enhancements to infrastructure and disaster recovery and development of the interfaces for all three 1040 phases.

Phase II (MeF Release 6.2) will begin in FY 2010 and is scheduled for implementation in January 2011. This Phase will enhance the deployment of disaster recovery capability delivered in Phase I and continue code optimization.

Phase III (MeF Release 7) also will begin in FY 2010 and is scheduled to deploy in January 2012. This phase will complete the implementation of the 1040 family of forms. After Phase III implementation, all Form 1040 taxpayers will be able to file electronically using MeF.

Once forms are migrated to the MeF platform, tax preparers and taxpayers will realize the following benefits:

- Extensive business rule validation and error checking to ensure the accuracy of the tax return;
- Sophisticated math error validation checking to increase the likelihood that the tax return will be successfully processed;
- Explanations for rejected returns;
- Ability to submit all necessary supporting documentation with the tax return; and
- Faster response times to the external community.

The IRS benefits from the continued migration of forms from the legacy e-File applications to MeF. MeF eliminates the need to match paper tax return-related documents with e-filed tax returns; makes tax return data needed for compliance purposes available sooner to front-line enforcement staff; and includes tools and help-desk capabilities to provide more timely information to taxpayers on the status of their return.

In FY 2011, the IRS will begin migration of the 94X family of forms (Release 8), *Employment/ Unemployment Tax*, to the MeF platform, which includes annually and quarterly filings. When implemented, the IRS projects that more than 8 million 94X forms will be filed through MeF.

Core Infrastructure

The IRS requests $38.5 million to provide a complete environment (hardware, software, and management) for developing, testing, deploying, operating, and monitoring both customer and internal applications in support of the IRS shift in business practices. This investment supports the architecture, engineering and integration of BSM projects (Customer Account Data Engine 2, and MeF Releases 7 and 8). It also includes funding for annual software licenses fees and hardware maintenance purchased in 2009 and 2010 for releases of MeF that have not yet transitioned to production. This includes standardizing telecommunication services, security, and operations management as well as updating the access portals. This allows the IRS to develop infrastructure and common business service solutions that are usable across multiple major projects. Core infrastructure consists of two programs, Infrastructure Shared Services (ISS) and Development, Integration and Testing Environment (DITE).

ISS provides mission critical services in designing, engineering and deploying a standardized, consolidated, virtual and secure modernized production environment for the BSM projects. In FY 2011, ISS will place increased emphasis on common information technology infrastructure services, security, and infrastructure enhancement initiatives that affect the BSM projects, while continuing to support efforts beginning in FY 2010 related to enhanced availability and portal improvements. The ISS will address the effect on the modernized infrastructure environments because of an increase in the number of electronic documents, on-line transactions, and on-line tax filers. During FY 2011, ISS will continue to provide capacity planning and performance engineering services for BSM projects and will include support for integration and security testing. ISS will provide subject matter experts and institute security measures to protect the modernized infrastructure from intrusion and unauthorized access.

In FY 2011, ISS will increase its capabilities by building new common shared IT infrastructure services (i.e., audit, security, case management, and authentication services) in support of the BSM projects. Failure to implement common IT infrastructure services results in dissonant implementation of solutions and loss of business efficiencies. The FY 2011 funding enables common IT infrastructure and security and application services to access and leverage the IRS systems and data repositories across heterogeneous environments. Using the ISS, BSM projects have avoided the need to develop costly customized solutions for each required interface to data, other application services, and security components.

Common IT infrastructure integration services provide the ability for BSM applications to isolate data sources from front-end applications, access multiple data stores via a single service request, and generate application level authentication and authorization to service requests. These abilities result in improved employee productivity, improved customer service through new and differentiated service options, and improved taxpayer compliance by reducing inaccuracy and latency. Using ISS, the BSM projects will improve response time and reduce application development, operations and maintenance costs, as well as eliminate unnecessary duplicative functionalities. In addition, as the BSM projects broaden their respective capabilities, standardized, integrated, and secure infrastructure underlie the IRS ability to deliver consistently high-quality, cost-effective, and trusted services to its employees, partners, and filers.

DITE is a standardized development and test environment composed of all of the modernized infrastructure components and services needed by BSM projects that plan to use and integrate into the modernized production environment. The DITE uses streamlined processes and standard tools that allow thorough development and testing in a controlled environment, to ensure projects work effectively and seamlessly within the modernized production environment.

DITE is comprised of a Virtual Development Environment (VDE) and an Enterprise Integration and Test Environment (EITE). The VDE provides a software development environment that allows geographically distributed developers access to standardized tools, information, and services in support of the BSM projects. The EITE provides a more structured, production-like, comprehensive integration and testing environment necessary to test rigorously system capabilities before release into production.

In FY 2011, DITE will continue to engineer, install, maintain, and support the development and test environments needed for each BSM project through deployment and acceptance in the production environment. The IRS will improve the efficiency of server administration, engineering, installation, maintenance, refresh and support of core DITE infrastructure. This will include web portals and common IT infrastructure services and provide a mechanism for remote access to core DITE data by authorized users. It also will provide maintenance of Rational Tools Suite and Rational Subject Matter Expert support to BSM projects.

Funding is required to support the BSM projects and releases that use the DITE to support development, integration and testing needs of the core DITE infrastructure components, FISMA compliance, and virtualized environments for remote BSM application developers. To address the increased demand on DITE resources in FY 2011, the IRS will continue to increase the virtualization of DITE components and to support dynamic allocation of storage required by BSM projects for development and testing.

Architecture, Integration, and Management (AI&M)

The IRS requests $37.0 million to provide continued support to the AI&M program. This program provides engineering management capabilities essential to delivering a program of the magnitude, nature, and complexity of BSM and delivers essential IRS systems strategy, architecture, and engineering capabilities to the major modernization projects across all technology platforms: IT Infrastructure, Business Applications, Data Management, and IT Security. AI&M translates enterprise and project objectives into targeted, actionable investments to provide the necessary enterprise technical framework and direction for cohesive and successful modernization. Major AI&M components are:

- *Architecture and Integration (A&I)* — The A&I ensures systems solutions meet business needs and provides a single authoritative source of guidance for effectively integrating each project as it moves from the development to the business environment. This program produces the principles, strategies, and standards to guide the construction and delivery of coherent and integrated enterprise systems. Key FY 2011 deliverables include continued build-out of Enterprise Target Architecture Integration Roadmap, Enterprise Transition Strategy, Release Architecture, As-built Architecture, Enterprise Standards Profile, Service Oriented Architecture Roadmap, and Segment Architectures. The Architecture also includes data, security, business architecture, and engineering support.
- *Enterprise Data Management* — Data Management delivers several essential elements of the IRS Data Strategy Roadmap and implements common repositories for use by all IRS applications. The Data Management Strategy defines an enterprise-wide data environment to easily and efficiently organize, identify, share, reuse and correlate data that enables IRS compliance functions to consume information and maximize value to the agency.

  The BSM projects included in the FY 2011 Data Strategy Roadmap are building out the tax return store; prototyping the metadata program; and expanding users for the IPM, in which data from different data stores (accounts, tax returns, and information returns) will be combined in a single environment. These new data management capabilities allow reuse of services for BSM projects so information is readily shared. The FY 2011 Enterprise Data Strategy will focus on increasing data security and closing the gap on key capabilities needed by the IRS compliance functions, such as deeper integration of data and better case selection.
- *Security* — IT Security is implementing automation to allow proactive cyber security evaluation and instrumentation of applications, projects and system compliance with internal and external security and privacy standards, policies, and related federal directives (e.g., Federal Information Security Management Act, National Institute of Standards and Technology, Department of Homeland Security, OBM, GAO, and the Department of the Treasury). It also designs and implements remediation plans to ensure that the project or system passes the security test and evaluation processes. Other planned FY 2011 deliverables include “defense-in-depth” improvements through updated infrastructure

engineering security standards, IRS Enterprise Architecture Security and Privacy Guidance updates, and refinements to the IRS Security Domain Segment Architecture.

- *Business Integration (BI)* **—** BI processes and standards allow the IRS to define, manage, and deliver its Information Technology portfolio successfully. Activities include IT portfolio investment management, cost estimation, transition management and risk management. The IRS will develop an IT risk management strategy to establish a consistent and enterprise approach for identification and mitigation of risks for BSM projects and releases. BI also will provide an integrated IT portfolio assessment of organizational capacity for delivering BSM capabilities. This IT portfolio assessment is critical to ensure the technical impact of BSM program decisions to the current production environment are understood and considered fully. Engineering analyses and resource estimates are integral to ensuring organizational capacity needs are incorporated into both plans and budgets to deliver an integrated portfolio, including maintaining current operations, delivering filing season readiness, addressing significant legislative proposals, and supporting BSM initiatives.

- *Requirements and Demand Management (RADM)* **(***formerly referred to as Business Rules and Requirements Management (BRRM)* **—** RADM improves the conduct of business analysis, process redesign, business rules harvesting and management, and business requirements elicitation, definition and management. RADM standards and expertise allow the IRS to incorporate requirements engineering industry best practices into the Enterprise Life Cycle for consistent systems development processes, apply business rules methods, tools and processes to BSM projects, and develop enterprise policy and standards for requirements and business rules management.

  RADM provides requirements planning and management support, business process redesign, rules and requirements development, business modeling, requirements training and outreach, requirements baseline management, and solution development support. In addition, RADM will be responsible for integrating the technical requirements engineering process into RADM methodology. A thorough review of both processes and all related assets are necessary in FY 2011 to ensure Customer Account Data Engine 2 shows a seamless traceability from the Enterprise Architecture to the physical design.

- *Management Processes (MP)* **—** MP provides management disciplines leading to consistent quality, managed risk, increased stakeholder satisfaction, and delivery of modernized business systems within established cost and schedule parameters. The IRS is continually working to strengthen its management processes through the development and deployment of processes and procedures such as Earned Value Management (EVM) and Enterprise Life Cycle (ELC). The dynamic nature of modernization drives BSM to continually assess its operation and implement continuous improvements.

- *Program Management (PM)* — PM provides financial planning and management oversight to all BSM projects. PM will address the risk management methodology, which uses common risks, and management process tools to track issues and action items.
- *Federally Funded Research & Development Center (FFRDC)* — FFRDC provides national experts in systems engineering, architectural design and development, security, and other technical disciplines that are critical to modernization success. The Center's broad visibility, deep domain knowledge, and objectivity provide an independent voice to executive management staff and provide management guidance on difficult issues. Key services include support of institutionalizing and maturing processes and risk mitigation.

Management Reserve

The IRS requests $10.0 million to fund the management reserve to cover unanticipated cost adjustments given the size and complexity of the taxpayer account database project.

BSM Labor

The IRS requests $70.2 million to fund the staffing level for BSM labor ($69.3 million) and inflation costs ($0.9 million).

3.2.9 – Budget and Performance Plan

Dollars in Thousands

Business Systems Modernization Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$113,702	$158,758	$170,576	$131,138	$263,897	$386,908
Reimbursable Resources						
Mandatory Appropriations - User Fees						
Total Resources	$113,702	$158,758	$170,576	$131,138	$263,897	$386,908

Business Systems Modernization Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Percent of BSM Projects within +/- 10% Cost Variance (E)	*	*	92.0%	60.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance (E)	*	*	92.0%	90.0%	90.0%	90.0%

Key: E - Efficiency Measure

* Prior to FY 2008, Cost and Schedule Variance was reported separately for each project. In FY 2008, these measures were changed to reflect an overall percentage of all major BSM projects that were within the +/- 10% threshold.

Description of Performance

IRS modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. Customer Account Data Engine (CADE), Modernized e-File (MeF), and Account Management Services (AMS) modernization projects delivered the required changes for the filing season, supported implementation of the Recovery Act provisions, and provided audit trails addressing security vulnerabilities. FY 2009 successes include:

- **Customer Account Data Engine (CADE) –** CADE processed more than 40.0 million returns, issued more than 34.9 million refunds using a modernized account database, and processed more than 7 million payments totaling $58.6 billion. In addition, the IRS revised its CADE strategy to implement a new taxpayer account database by the end of 2011 for the 2012 filing season. The new database will result in the migration of 140 million individual taxpayers to a modernized, relational database that will support daily processing and result in faster refunds for all individual refund filers.
- **Modernized e-File (MeF) –** The IRS deployed MeF Release 5.5 that included the redesigned Form 990, *Return of Organization Exempt from Income Tax*, in time for the filing season. MeF processed Form 1120 and 990 returns at much higher volumes than expected. The volume of Form 1120 returns increased 38 percent and Form 990 increased 307 percent from 2008. Returns submitted through MeF have an average 7 percent processing error rate, compared to 19 percent for transcription-based paper processing. MeF return receipts increased to about 4.5 million.

- **Account Management Services (AMS) –** The IRS completed the 2009 releases of AMS providing additional real-time address changes to CADE by the conversion of account transcripts from paper to electronic format. AMS processed more than 2.3 million accounts since deployment and more than 2.2 million electronic transcript cases were distributed. In addition, AMS delivered the capability to update account address data on a daily cycle. AMS added a new component to its organization in FY 2009, the Integrated Automation Technologies (IAT) Branch. The IAT developed tools to support the implementation of the Recovery Act including the First-Time Home Buyer Credit tool, that systematically researches amended returns for specific criteria to identify unallowable or fraudulent claims.

Health Insurance Tax Credit Administration

Appropriation Description

The Health Insurance Tax Credit Administration (HITCA) appropriation provides funding for contractor support to develop and administer the advance payment option for the Health Coverage Tax Credit (HCTC) included in Public Law 107-210, the *Trade Adjustment Assistance Act* (Trade Act of 2002).

The IRS administers the enrollment, payment, and compliance components of this credit. The Department of Labor, state workforce agencies, and the Pension Benefit Guaranty Corporation (PBGC) are responsible for determining potentially eligible HCTC taxpayers. This credit was expanded by the Recovery Act.

The HITCA Budget Request for FY 2011 is $18,987,000 in direct appropriations and 15 FTE. This is an increase of $3,475,000 or 22.4 percent more than the FY 2010 enacted level of $15,512,000 and 15 FTE. This amount does not include $80,000,000 provided by the Recovery Act for fiscal years 2009 and 2010.

2.1 – Budget Adjustments Table

Dollars in Thousands

Health Insurance Tax Credit Administration	FTE	Amount
FY 2009 Enacted	15	$15,406
FY 2010 President's Budget Request	15	$15,512
Congressional Action		
FY 2010 Enacted Budget (P.L. 111-117)	15	$15,512
Changes to Base:		
Maintaining Current Levels		$190
Pay Annualization		15
Pay Inflation Adjustment		32
Non-Pay Inflation Adjustment		140
FERS Increased Participation		3
Other Adjustments		$3,494
Resource Adjustment to Support Recovery Act-HCTC Program Expansion		3,494
Efficiencies/Savings		($209)
Reduce Procurement/Contracting		(179)
Reduce Printing, Travel, and Training		(30)
Subtotal Changes to Base		$3,475
Total FY 2011 Base	15	$18,987
Program Changes:		
Subtotal Program Changes		
Total FY 2011 Request	15	$18,987
Adjustments to Request		
User Fees		
Total FY 2011	15	$18,987

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Health Insurance Tax Credit Administration	FY 2009 ARRA Level	FY 2009 Enacted Level[1]	FY 2010 President's Budget	Congressional Action including Rescission	FY 2010 Enacted Level	Proposed Reprogram.	FY 2010 Proposed Operating Level	FY 2011 Request Level	% Change FY 2010 to FY 2011
FTE		15	15		15		15	15	0.0%
Object Classification:									
11.1 Full-Time Permanent Positions	$0	$2,326	$2,363	$0	$2,363	$0	$2,363	$2,399	1.5%
11.3 Other than Full-Time Permanent Positions	0	10	0	0	0	0	0	0	0.0%
11.5 Other Personnel Compensation	1,000	23	24	0	24	0	24	24	0.0%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	$1,000	$2,359	$2,387	$0	$2,387	$0	$2,387	$2,423	1.5%
12.0 Personnel Benefits	0	353	360	0	360	0	360	374	3.9%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0	0.0%
21.0 Travel	0	147	151	0	151	0	151	211	39.7%
22.0 Transportation of Things	0	0	0	0	0	0	0	0	0.0%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	0	0	0	0	0	0	0	0	0.0%
23.3 Communications, Utilities, & Misc	2,000	13	0	0	0	0	0	400	100.0%
24.0 Printing & Reproduction	2,000	30	0	0	0	0	0	200	100.0%
25.1 Advisory & Assistance Services	0	0	0	0	0	0	0	0	0.0%
25.2 Other Services	73,000	12,497	12,606	0	12,606	0	12,606	15,372	21.9%
25.3 Purchase of Goods & Services from Govt. Accounts	0	0	0	0	0	0	0	0	0.0%
25.4 Operation & Maintenance of Facilities	0	0	0	0	0	0	0	0	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	0	0	0	0	0	0	0	0	0.0%
25.8 Subsistence & Support of Persons	0	0	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials	2,000	7	8	0	8	0	8	7	-12.5%
31.0 Equipment	0	0	0	0	0	0	0	0	0.0%
32.0 Lands and Structures	0	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	0	0	0	0	0	0	0	0	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0	0.0%
Total Budget Authority	$80,000	$15,406	$15,512	$0	$15,512	$0	$15,512	$18,987	22.4%
Budget Activities:									
Health Insurance Tax Credit Administration	$80,000	$15,406	$15,512	$0	$15,512	$0	$15,512	$18,987	22.4%
Total Budget Authority	$80,000	$15,406	$15,512	$0	$15,512	$0	$15,512	$18,987	22.4%

[1] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Health Insurance Tax Credit Administration Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted[1]		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Health Insurance Tax Credit Administration	10	$15,374	15	$15,406	15	$15,512	15	$18,987	0.00%	22.40%
Subtotal New Appropriated Resources	10	$15,374	15	$15,406	15	$15,512	15	$18,987	0.00%	22.40%
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	$15,374	15	$15,406	15	$15,512	15	$18,987	0.00%	22.40%

[1] FY 2009 Enacted represents the approved FY 2009 Operating Plan.

3J – Health Insurance Tax Credit Administration *($18,987,000 in direct appropriations):* The HITCA budget activity funds costs to administer a refundable tax credit created by the *Trade Act of 2002* to purchase health insurance for eligible taxpayers. This activity maintains the administrative and direct support for the HITCA program office and the staff charged with managing the program for the IRS.

3.2.10 – Budget and Performance Plan

Dollars in Thousands

Health Insurance Tax Credit Administration Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	$19,993	$14,850	$15,223	$15,374	$15,512	$18,987
Reimbursable Resources						
Mandatory Appropriations - User Fees						
Total Resources	$19,993	$14,850	$15,223	$15,374	$15,512	$18,987

Health Insurance Tax Credit Administration Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target[2]	FY 2011 Target
Cost per Taxpayer Served ($) (E)	$13.71	$14.90	$16.94	$13.79	Baseline[1]	TBD[1]
Sign-up Time (days) - Customer Engagement (Ot)	98.7	93.3	94.0	91.3	Baseline[1]	TBD[1]

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

[1]An increase in participation is expected due to the Recovery Act. IRS will establish a new baseline in FY 2010.

Description of Performance

The Department of Labor, state workforce agencies, and the PBGC are responsible for determining potentially eligible HCTC participants. The IRS administers the HCTC by working with health plan administrators to arrange for direct payment of health plan premiums.

In FY 2009, HCTC underwent significant changes. First, the economic downturn led to an increased number of potentially eligible taxpayers and increased operational volumes. In February 2009, the Recovery Act included changes to extend the accessibility and affordability of the HCTC program, which further increased the eligible population and operational volumes.

In FY 2009, the IRS processed approximately 10 million HCTC eligibility records, made almost 174,000 HCTC payments on behalf of taxpayers, handled almost 132,000 inbound HCTC telephone calls, and mailed almost 640,000 pieces of outbound correspondence. Though these volumes are higher than in FY 2008, the IRS maintained an HCTC program customer satisfaction level of more than 90 percent.

The FY 2009 cost per taxpayer served (CPTS) was $13.79, more than $3 lower than the FY 2009 target of $17.00. CPTS is expected to remain lower than planned as the number of taxpayers served remains higher than projected.

Sign-up time was 91 days in FY 2009, 6 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. Better results are a consequence of a larger number of new enrollees submitting registration forms more rapidly after receiving program kits. The economic downturn may be influencing taxpayers to return registration forms more quickly.

Future efforts will include:

- Implementing the final Recovery Act provisions for HCTC;
- Sustaining the FY 2009 ramp-up to continue handling increased operational volumes;
- Completing a full technical refresh of HCTC systems; and
- Expanding outreach to educate potential eligibles about recent program changes.

Section 4 – Supporting Materials

4A – Human Capital Strategy

Introduction

The IRS Human Capital Business Plan for 2010-2014 was built upon the *IRS Strategic Plan 2009-2013.* To achieve the service and enforcement strategic goals the IRS must invest in high performance by effectively supporting the IRS workforce. To support "making IRS the best place to work in government," the following four Human Capital pillars were developed to deliver the IRS mission today and in the future:

- **Recruit, Hire & Onboard –** This pillar supports the IRS priority to achieve both the optimum mix of employee skill sets and diversity by continuing efforts to improve recruiting, hiring transition and other processes to ensure the right person is in the right job.
- **Engage, Develop & Retain –** This pillar reflects the Human Capital commitment to enhance employee skills, address retention efforts, and increase employee engagement. It also reflects a commitment to support top quality managers with effective resources, recognition, and tools to lead an engaged workforce.
- **Develop and Promote Leaders –** This pillar addresses the crucial support needed to provide leadership with effective resources, recognition, and tools to lead the IRS workforce. Without a stable, knowledgeable managerial infrastructure, the IRS ability to carry out its mission is compromised.
- **Facilitate Collaborative Environment –** This pillar fosters an open exchange of innovative ideas and leveraging relationships to ensure that human capital plans and implementation efforts are fully integrated with the IRS mission, strategies and program goals.

FY 2011 Challenges

The key objectives for the IRS in FY 2011 are to:

- Enhance productivity through the use of technology;
- Design new processes to simplify the hiring experience;
- Close skill and competency gaps in critical occupations; and
- Compete with the private sector for a shrinking pool of accounting and information technology professionals.

Retirements

The current economic climate affects retirements, attrition, and recruitment. At the beginning of FY 2010, 83 executives, or 28 percent of Senior Leadership, were eligible to retire. This group includes Senior Executives, Critical Pay, Senior Level, and Candidate Development Program participants. An additional 31 executives, or 10 percent of Senior Leadership, will be eligible to retire in FY 2011. Leadership continuity continues to be one of the IRS key areas of focus.

Recruitment and Retention

In August 2008, the Commissioner established the *Workforce of Tomorrow* task force to address recruitment and retention issues so that the IRS will have the necessary leadership and workforce to meet future challenges. Several projects were launched as a result of the *Workforce of Tomorrow* recommendations, including increasing the use of technology to streamline hiring, revamping Frontline Manager training, improving the new employee hiring process, and establishing a centralized recruiting office. The benefits expected from the new centralized recruiting office are:

- Integrating business unit recruitment efforts;
- Ensuring mission critical occupation, geography, and diversity needs are met;
- Centralizing management of a national recruiting calendar and event logistics; and
- Standardizing materials and messages, tailored to candidate segments.

Employee Engagement

Based on key initiatives recommended by the *Workforce of Tomorrow*, the IRS annual employee satisfaction survey (ESS) results, and the Federal Human Capital Survey (FHCS) results, the IRS is taking the following steps to increase employee satisfaction:

- **Reduction of Managerial Burden –** Research indicates the primary influence on an employee's engagement level is his/her manager. The IRS has taken the following steps to enable managers to develop and guide their employees:
    - Established a **Manager Resource Center** to provide dedicated staff to assist managers with questions as well as an interactive website. The *iManage* website pilot was launched on October 29, 2009. This pilot site contains four Communities of Practice (CoPs) that provide targeted information, advice, and interactive features for IRS managers to work more efficiently. The pilot site is now available to four IRS Operating Divisions: Agency-Wide Shared Services, Appeals, Human Capital Office and Taxpayer Advocate Service. Full implementation of the *iManage* website is scheduled for deployment during the third quarter of FY 2010. The Managers Resource Center staff is also pursuing a telephone servicing solution that will reduce wait times for resolving Managers'

administrative issues. The anticipated release of the telephone hotline is scheduled for the first quarter of FY 2011.

  - **Streamlined mandatory briefings** that require significantly less management oversight and involvement. This effort was completed in July 2009.
  - Development of a **Recognition Toolkit** that centralizes all of the options and instructions for monetary and non-monetary recognition, including expanded options and streamlined instructions for planning and funding recognition ceremonies. The toolkit scheduled release is in the second quarter of FY 2010.
  - Numerous **managerial training enhancements**. Improvements in training for readiness program participants, new managers, existing managers, and administrative professionals are in development. Implementation is planned in phases. Phase 1 is scheduled for completion January 31, 2010. Phase 2 is targeted for completion by June 6, 2010.
  - Appointment of a **Managerial Champion** with permanent responsibility for managerial burden oversight. Establishment of this position in the Human Capital Office will ensure ongoing analysis of managerial burden issues and accountability for long-term oversight. This was completed in May 2009.

- **Expansion of Leadership Coaching –** Participants in this program would include managers who are experiencing declining employee survey scores, have extenuating circumstances that warrant action or are high performers and can share best practices with others in the organization. Third-party consultants will work directly with managers and/or their teams, if desired. The IRS plans to analyze trends among groups receiving coaching and those who did not.
- **Increase Strategic Communications to Employees –** The IRS is taking steps to better inform employees of service-wide and division level initiatives. Senior leaders are using different communication channels such as town halls, blogs, streaming videos and all-employee messages to reach staff. Leaders are also encouraged to share best practices and success stories on their internal websites and to recognize those who are moving the organization forward.
- **Improve Employee Recognition –** The IRS awards and recognition program is being revised to reach more employees and to create a standard protocol for how employees are selected for different awards. A team is dedicated to this effort. Communication surrounding the simplified funding process for employee recognition ceremonies was completed in September 2009. Implementation of other recognition activities, e.g., web page recognizing employee successes, is scheduled throughout FY 2010.
- **Improve Training for New Employees –** The IRS is also working on ways to better train new employees. The agency is revamping its on-boarding program and initiating an ambassador program to help familiarize new employees with

their specific jobs. Many of these programs were created with input from the National Treasury Employees Union.

- **Address Results of the IRS Annual Employee Survey –** The IRS received its 2009 survey results and each division within the agency during the fall of 2009 held meetings with their workgroups to further discuss results and devise specific plans for addressing their particular issues. The IRS is also working with the Partnership for Public Service to further enhance its service-wide action planning process.

Wellness Program

- **Description of Current Services**

  The IRS currently provides a number of services and programs to address physical, emotional, financial and occupational wellness aimed at improving employee health and making positive behavior changes. These services include health screenings, health risk appraisals, smoking cessation, flu shots, fitness centers, lunch and learn wellness seminars, 24/7 counseling services, substance abuse prevention, stress management training, child and elder care referral services, work-life balance resources, financial on-line resources, pre-retirement seminars, occupational safety information, ergonomic tips and emergency preparedness.

- **Health and Wellness Performance Improvement Target**

Measure	FY 2011 Goal
Increase Employee Use of Wellness Services	**+5%**

  The Wellness Program promotes individual well-being while improving morale, productivity, absenteeism and employee satisfaction. To meet the FY 2011 performance target, the IRS completed an inventory of current wellness and health services/activities in July 2009. In September 2009, IRS researched external health resources and tools to supplement internal wellness activities. To increase employee awareness, both a detailed communication strategy and a wellness website highlighting the availability and benefits of these services will be implemented in March 2010.

- **IRS Wellness Program Evaluation**

  To evaluate the progress of the IRS Wellness Program, the IRS will:

  - Survey new employees and employees leaving the IRS;
  - Measure the usage of Federal Occupational Health and Employee Assistance Program Services; and
  - Assess increases in the Federal Human Capital Survey Results.

- **Action Plan**

  Examples of actions that are either underway or will be undertaken include:

  - Linking services to National Health Observances;
  - Marketing and promoting benefits for employees and the organization;
  - Promoting personal responsibility for managing health and well-being as a key concept;
  - Encouraging participation and completion of wellness activities; and
  - Increasing employee awareness of internal and external wellness services and resources.

Human Capital Occupations/Functions Contracted

During periods of extensive hiring, workload transition, and heavy volumes of workload, the IRS employment offices utilize contractor employees to fill short-term needs. In FY 2009 and FY 2010, the IRS received enforcement funding to increase the number of Revenue Agents and Officers. Thousands of frontline positions were established under these hiring initiatives. The IRS used contractor employees across Employment Operations and Personnel Security to handle the surge in the workload. The number of contractor employees will depend on hiring demands.

4B – Information Technology (IT) Strategy

The IRS information systems support all aspects of tax administration and are essential tools for taxpayer communication and transaction with the IRS. The IRS information technology (IT) and telecommunications services support existing operational information systems as well as the development of replacement systems. Major IT activities address both internal and external priorities, through a balanced investment portfolio that is fully aligned with the *IRS Strategic Plan 2009-2013*. In support of the IRS strategic priorities, the IT strategy focuses on:

- Improving service to IRS customers;
- Enhancing risk management;
- Delivering improved business capabilities and governance;
- Strengthening technology infrastructure; and
- Ensuring effective organizational leadership.

Developing the IRS IT Investment Portfolio

The IRS IT Investment Strategy supports the IRS mission and strategic goals and communicates strategic priorities established by the IRS Senior Executive Team. The strategic priorities provide the foundation for making investment decisions to meet both IRS and business IT needs. By using this IT investment approach and aligning the investment portfolio with the strategic priorities, the IRS is able to ensure investments deliver strategic benefits for the organization.

Governance Process

In addition to the IT investment strategy, the IRS uses an integrated governance model that reflects industry best practices and assigns all projects to an appropriate governance body for oversight. The enterprise governance model:

- Considers IT projects regardless of dollar value or life cycle phase;
- Empowers governance bodies to make project cost, schedule, and scope decisions for "at risk" projects requiring rigorous oversight; and
- Promotes accountability and decision-making at the program and project level, specifying the appropriate thresholds and governance bodies for elevating issues.

Originally, the governance model was implemented to manage the major projects of the Business Systems Modernization (BSM) program, but it has been expanded to cover all IRS IT projects. As of January 2009, all identified IRS IT investments have risk and configuration management plans; and as of February 2009, approximately 98 percent of non-BSM investments are within established thresholds for cost variance and schedule

Health Assessments

The IRS has implemented monthly health assessments to monitor project progress. These assessments focus on Key Performance Indicators (KPI) in the areas of cost, schedule, scope, risks and issues, organizational readiness and transition management, and technical status. Within each KPI, criteria codes are assigned that explain exactly what generated the health rating. Control and governance organizations review these ratings and take corrective actions. Metrics regarding cost and schedule variance are reported both internally and externally to oversight organizations. In addition to monitoring the health of the project, the IRS IT organization conducts quality assurance reviews of project data to monitor compliance with methodologies and assists project managers in implementing components of the IRS Enterprise Lifecycle methodology.

To identify projects in potential need of remediation, the IRS governance and control organizations are provided with detailed project-level information. These organizations guide the project managers in remediation activities when certain thresholds have been met; starting with assessing the issues at hand and determining the appropriate actions to be taken. Project managers that require assistance may be required to participate in interviews with the control and/or governance organizations. Organization-wide issues are identified for remediation through the analysis of project specific data. Project assistance teams are formed as needed to identify and remediate project issues.

4.1 – Summary of IT Resources Table

Dollars in Millions

Major IT Investments / Funding Source	Budget Activity	FY 2008 & Earlier Enacted	FY 2009 Actuals	FY 2010 Enacted	% Change from FY09 to FY10	FY 2011 Requested	% Change from FY10 to FY11
Account Management Services (AMS)	Information Technology Investments	0.000	22.807	17.037	-25.3%	19.178	12.6%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	10.650	0.000	-100.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	12.157	17.037	40.1%	19.178	12.6%
Automated Collection System (ACS) - Major	Information Services	18.130	6.892	10.145	47.2%	7.534	-25.7%
Business Master File (BMF)	Information Services	77.292	12.259	8.410	-31.4%	8.274	-1.6%
Counsel Automated Systems Environment (CASE)	Information Services	83.035	26.513	27.951	5.4%	27.951	0.0%
Criminal Investigation Management Information System (CIMIS) - Major	Information Services	4.447	2.767	0.247	-91.1%	0.230	-6.9%
IRS Enforcement 20-0913-0-1-999		1.615	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803		2.832	2.767	0.247	-91.1%	0.230	-6.9%
Current CADE (previously known as Customer Account Data Engine (CADE))	Information Technology Investments	651.517	61.430	48.207	-21.5%	49.996	3.7%
IRS BSM 20-0921-0-1-803	Information Technology Investments	577.056	58.100	47.788	-17.7%	49.647	3.9%
IRS Taxpayer Services 20-0912-0-1-803		13.215	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	61.246	3.330	0.419	-87.4%	0.349	-16.7%
Customer Account Data Engine (MTA) / CADE 2	Information Technology Investments	0.000	33.150	65.089	96.3%	185.864	185.6%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	33.150	65.089	96.3%	185.123	184.4%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	0.000	0.000	0.0%	0.741	100.0%

Continuation – 4.1 – Summary of IT Resources Table
Dollars in Millions

Major IT Investments / Funding Source	Budget Activity	FY 2008 & Earlier Enacted	FY 2009 Actuals	FY 2010 Enacted	% Change from FY09 to FY10	FY 2011 Requested	% Change from FY10 to FY11
e-Services	Information Services	100.903	14.648	14.007	-4.4%	14.761	5.4%
Electronic Fraud Detection System (EFDS)	Information Services	220.725	12.392	12.251	-1.1%	11.657	-4.9%
IRS Operations Support 20-0919-0-1-803	Information Services	150.795	8.754	8.594	-1.8%	7.946	-7.5%
IRS Operations Support (EITC) 20-09E9		69.930	3.639	3.657	0.5%	3.711	1.5%
Electronic Management System (EMS)	Information Services	199.056	4.742	5.761	21.5%	4.639	-19.5%
Enterprise Data Access Strategy (EDAS) (Formerly:Enterprise Data Warehouse)	Information Services	19.409	8.369	5.425	-35.2%	3.953	-27.1%
IRS Operations Support (EITC) 20-09E9		0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803		19.409	8.369	5.425	-35.2%	3.953	-27.1%
Excise Files Information Retrieval System (ExFIRS) - Major / Externally Funded 1/	Information Services	0.471	13.022	6.632	-49.1%	0.630	-90.5%
External Sources		0.471	13.018	6.139	-52.8%	0.000	-100.0%
IRS Operations Support 20-0919-0-1-803		0.000	0.004	0.493	12026.2%	0.630	27.7%
Exise Tax e-File & Compliance (ETEC) - Major	All External Funding	7.927	0.000	0.000	0.0%	0.000	0.0%
Financial Management Information System (FMIS)	Information Services	13.950	6.801	3.501	-48.5%	5.610	60.2%
Implement RRP (incorporates EFDS replacement)	Information Services	0.000	0.000	17.947	100.0%	18.243	1.6%
Individual Master File (IMF)	Information Services	62.109	13.357	10.982	-17.8%	10.789	-1.8%
IRS Operations Support (EITC) 20-09E9	Information Services	0.000	0.142	0.000	-100.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	62.109	13.215	10.982	-16.9%	10.789	-1.8%
Information Returns Processing (IRP)	Information Services	39.995	7.654	6.775	-11.5%	7.075	4.4%
Integrated Collection System (ICS)	Information Services	33.205	7.484	9.104	21.6%	8.694	-4.5%
Integrated Customer Communications Environment (ICCE)	Information Services	370.315	12.082	16.618	37.5%	12.451	-25.1%
Integrated Data Retrieval Systems (IDRS)	Information Services	112.341	20.231	19.550	-3.4%	19.204	-1.8%
Integrated Financial System/CORE Financial System (IFS)	IRS Business Systems Modernization	300.983	18.167	17.449	-4.0%	17.062	-2.2%
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		47.317	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	253.666	18.167	17.449	-4.0%	17.062	-2.2%
Integrated Submission and Remittance Processing System (ISRP)	Information Services	63.654	18.981	17.939	-5.5%	17.805	-0.7%
Internal Revenue Service.gov (IRS.gov)	Information Services	0.000	56.479	61.082	8.1%	80.380	31.6%
Interim Revenue Accounting Control System (IRACS) - BAC 99	Information Services	2.419	5.137	1.495	-70.9%	1.508	0.9%

Continuation – 4.1 – Summary of IT Resources Table
Dollars in Millions

Major IT Investments / Funding Source	Budget Activity	FY 2008 & Earlier Enacted	FY 2009 Actuals	FY 2010 Enacted	% Change from FY09 to FY10	FY 2011 Requested	% Change from FY10 to FY11
Modernized e-File (MeF)	Information Technology Investments	0.000	47.117	70.986	50.7%	63.465	-10.6%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	29.500	56.332	91.0%	45.498	-19.2%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	17.617	14.654	-16.8%	17.967	22.6%
Report Generation Software (RGS)	Information Services	0.000	7.961	6.502	-18.3%	7.132	9.7%
IRS Operations Support (EITC) 20-09E9	Information Services	0.000	3.384	1.457	-56.9%	3.152	116.4%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	4.578	5.045	10.2%	3.980	-21.1%
Reporting Compliance Case Management System (RCCMS) (Formerly TE/GE Reporting and Electronic Exmaination System (TREES)	Information Services	0.000	2.140	4.030	88.3%	2.749	-31.8%
Service Center Recognition/Image Processing System (SCRIPS)	Information Services	74.855	16.632	16.818	1.1%	13.292	-21.0%
Tax Return Database (TRDB) - BAC 99	Information Services	31.242	4.250	5.212	22.6%	4.508	-13.5%
Travel Reimbursement and Accounting System (TRAS) - BAC 99	Information Services	4.299	0.000	0.000	0.0%	0.000	0.0%
Web Currency and Banking Retrieval System (WebCBRS)	Information Services	0.000	7.550	7.756	2.7%	8.502	9.6%
IRS Taxpayer Services 20-0912-0-1-803		0.000	6.521	5.747	-11.9%	6.368	10.8%
IRS Operations Support 20-0919-0-1-803		0.000	1.029	2.009	95.2%	2.134	6.2%
Web Requisition Tracking System /Integrated Procurement System (WebRTS/IPS)	Information Services	0.000	5.246	5.770	10.0%	5.398	-6.4%
Subtotal, Major IT Investments		2,492.279	476.263	520.679	9.3%	638.534	22.6%
Non-Major IT Investments		1,648.742	500.339	597.611	19.4%	612.876	2.6%
Infrastructure Investments							
IRS Mainframes and Servers Services & Support (Formerly: IRS/Data Center Systems and Services (Consol) (for EITIO)	Information Services	1,001.449	504.507	513.842	1.9%	518.518	0.9%
IRS/End User Systems and Services (for EITIO)	Information Services	848.257	238.249	275.019	15.4%	237.012	-13.8%
IRS/Telecommunications Systems Services (for EITIO)	Information Services	698.760	243.636	269.935	10.8%	276.624	2.5%
Infrastructure Investments - total		2,548.466	986.392	1,058.796	7.3%	1,032.154	-2.5%
Enterprise Architecture		13.287	2.443	2.491	2.0%	5.104	104.9%
1/ minus Externally Funded Major Investments			-13.018	-6.139		-0.000	
Total IT Investments		6,702.774	1,952.418	2,173.439	11.3%	2,288.667	5.3%

4.2 – Assessment and Improvement Actions

Program Name:	**Tax Collection**

Assessment and Improvement Actions

- Use audit results and intelligence from ongoing offshore initiatives to refine case identification and selection methods and to identify promoters, facilitators, and participants in abusive offshore arrangements.

- Implement improved case selection models in the Automated Collection System.

- Develop the FY 2010 Enterprise Collection Plan that includes resources and results for all collection activities, including a stronger link between program resources and outcomes.

Program Name: **Earned Income Tax Credit**

Assessment and Improvement Actions

- Continue testing the effects of education, compliance notices, and telephone contacts for Earned Income Tax Credit (EITC) first-time and low-risk paid preparers on the accuracy of returns prepared.

- Increase the accuracy of EITC returns by refining EITC paid preparer treatment activities, including issuance of due diligence letters and compliance visits by revenue and criminal investigation agents, streamlined injunctions, and streamlining notice/phone contact treatments.

- Implement an on-line training module for preparers that covers requirements and standards.

Program Name: **Submission Processing**

Assessment and Improvement Actions

- Deliver Modernized e-File (MeF) Release 6.1 (Form 1040 Phase I), providing capability to process Form 1040 (including 22 other schedules and supporting forms), which will reach 61 percent of the e-File population.
- Develop milestones necessary to complete the new taxpayer account database.
- Deliver the production pilot for CADE release 5 adding capabilities that include allowing individual taxpayer refunds to be applied to the next year's tax (Credit Elect) and refund hold capability for Criminal Investigation.
- Provide an automated application that allows taxpayers to obtain their PIN for use in electronically submitting their Tax Year 2009 returns.

Program Name: **Taxpayer Service**

Assessment and Improvement Actions

- Provide topical information, alternative resources, and expedited routing options through the toll-free telephone system.

- Improve the taxpayer experience by implementing new quality initiatives at Taxpayer Assistance Centers and volunteer return preparation sites using sampling reviews of selected returns to determine the accuracy of returns prepared.

- Gather feedback from professional organizations that represent external stakeholders (i.e., Accountants, Reporting Agents, etc.) to simplify forms and the tax filing process.

- Continue to develop informational products to inform taxpayers of tax credits for which they may be eligible.

- Continue to operate Facilitated Self-Assistance in 50 sites to provide taxpayers with the ability to check the status of tax refunds, obtain forms and publications, apply for Employer Identification Numbers (EIN), set up payment arrangements, and use Free File to prepare tax returns.

Program Name:	**Taxpayer Advocate Service**

Assessment and Improvement Actions

- Implement a low-income filter that will exclude taxpayers that are more likely to experience a hardship if included in the Federal Payment Levy Program.

- Complete and implement models to determine which SSA recipients to exclude from the Federal Payment Levy Program by FY 2011.

- Engage a Government Sponsored vendor to help in the design of strategic measures.

- Establish baselines for the revised quality standards that address the changes in casework and processing that have occurred since TAS began operating in 2000.

- Continue to work jointly with the operating divisions to improve the systems associated with Amended Returns and the Combined Annual Wage Reporting (CAWR)/Federal Unemployment Tax Act (FUTA) compliance programs, identified sources of rework.

Program Name: **Criminal Investigations**

Assessment and Improvement Actions

- Use audit results and intelligence from ongoing offshore initiatives to refine case identification and selection methods and to identify promoters, facilitators, and participants in abusive offshore arrangements.

- Include new security settings in the next Criminal Investigative Management Information System (CIMIS) release scheduled for February 2010.

- Identify questionable preparers for treatments including streamlined injunctions, program action cases, and Knock & Talk Visits to stop erroneous return filings for the First-Time Homebuyer Credit and send a compliance message to the abusive preparer community.

Program Name: Examinations

Assessment and Improvement Actions

- Modify Examination case selection and modeling to include cases where taxpayers claimed the First-Time Home Buyer Credit.
- Implement improved analytics in Automated Underreporter case selection while continuing to test soft notices as an alternative to examinations.
- Improve the way compliance risks are identified and addressed in large, complex global businesses and high wealth individuals.

Program Name:	**Retirement Savings Regulatory Program**

Assessment and Improvement Actions

- Utilize investigations to identify promoters of abusive transactions involving retirement plans to deter the marketing of abusive promoter schemes.

- Continue to address emerging compliance issues, including internationally sponsored pension plans, the movement of in-kind charitable gifts offshore, and cross-border commerce using Indian reservations.

- Undertake a thorough review of the revenue procedures for staggered remedial amendments with a goal of significantly simplifying the process for Individually Designed Plans.

Program Name: Health Coverage Tax Credit Administration

Assessment and Improvement Actions

- Conduct focus groups and telephone surveys to gather information from taxpayers regarding program awareness, interest, usage, and satisfaction among current participants and potentially eligible individuals. Use findings from this research to drive enhancements to program materials and help understand barriers to enrollment.

- Conduct additional outreach initiatives including implementation of an outreach communication plan across all stakeholder groups and the launch of training and education for Trade Adjustment Assistance and Pension Benefit Guarantee Corporation stakeholder groups.

- Complete the first Health Coverage Tax Credit Report to Congress by October 2010.

- Implement self-service applications to reduce ongoing operational costs and provide service through preferred communication channels including an interactive voice response system and an e-payment solution. Other applications being considered include a web portal to allow taxpayers to determine eligibility for the credit, register for the monthly credit, check registration status, obtain payment information, and make payments online.

4.3 – IRS Performance Measure Table

The following table shows IRS performance measures achieved and projected from FY 2008 through FY 2011.

Performance Measures	Type of Measure	FY 2009 Target	FY 2009 Actual	FY 2010 Planned	FY 2011 Planned
Customer Service Representative Level of Service	Oe, L	70.0%	70.0%	71.0%	75.0%
Customer Contacts Resolved per Staff Year	E	10,386	12,918	9,398	10,181
Percent of Eligible Taxpayers Who File for EITC	Oe	75% - 80%	N/A	75% - 80%	75% - 80%
Customer Accuracy - Tax Law (Phones)	Ot	91.0%	92.9%	91.2%	91.2%
Customer Accuracy - Accounts (Phones)	Ot	93.5%	94.9%	93.7%	93.7%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	92.0%	96.8%	94.0%	94.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public	Ot	89.0%	95.2%	90.0%	91.0%
Percent Individual Returns Processed Electronically	Oe, L	64.0%	65.9%	70.2%	81.0%
Cost per Taxpayer Served ($) (HCTC)	E	$17.00	$13.79	Baseline[1]	TBD[1]
Sign-Up Time (Days) - Customer Engagement (HCTC)	Ot	97.0	91.3	Baseline[1]	TBD[1]
Percent of Business Returns Processed Electronically	Oe, L	21.6%	22.8%	24.3%	25.4%
Refund Timeliness - Individual (Paper)	Ot	98.4%	99.2%	98.4%	98.4%
Taxpayer Self-Assistance Rate	E, L	64.7%	69.3%	61.3%	62.7%
Examination Coverage - Individual	Oe, L	1.0%	1.0%	1.1%	1.1%
Field Exam Nat'l Quality Review Score	Oe, L	87.0%	85.1%	86.3%	86.3%
Office Exam Nat'l Quality Review Score	Oe, L	90.0%	92.1%	90.9%	90.9%
Examination Quality - Industry	Oe, L	88.0%	88.0%	89.0%	89.0%
Examination Quality - Coordinated Industry	Oe, L	96.0%	95.0%	96.0%	96.0%
Examination Coverage - Business	Oe, L	5.8%	5.6%	5.1%	5.0%
Examination Efficiency - Individual	E, L	132	138	132	128
Automated Underreporter Efficiency	E, L	1,855	1,905	1,868	1,945
Automated Underreporter Coverage	E, L	2.5%	2.6%	3.0%	3.4%
Collection Coverage (Units)	Ot, L	54.4%	54.2%	50.5%	51.5%
Collection Efficiency (Units)	E, L	1,872	1,845	1,898	1,884
Field Collection Nat'l Quality Review Score	Ot, L	80.0%	80.5%	81.0%	82.0%
Automated Collection System Accuracy	Oe	92.0%	94.3%	92.5%	94.0%
Criminal Investigations Completed	Ot, L	3,900	3,848	3,900	3,900
Number of Convictions	Oe, L	2,135	2,105	2,135	2,135
Conviction Rate	Oe, L	92.0%	87.2%	92.0%	92.0%
Conviction Efficiency Rate ($)	E, L	$317,100	$327,328	$331,000	$340,000
TE/GE Determination Case Closures	Ot	94,000	96,246	140,465	99,491
Percent of BSM Projects within +/- 10% Cost Variance	E	90.0%	60.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance	E	90.0%	90.0%	90.0%	90.0%

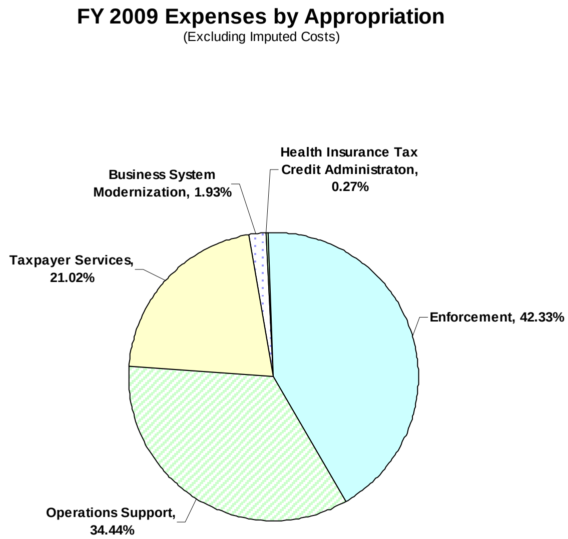
Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long-Term Goal

[1] An increase in participation is expected due to the Recovery Act. IRS will establish a new baseline in FY 2010.

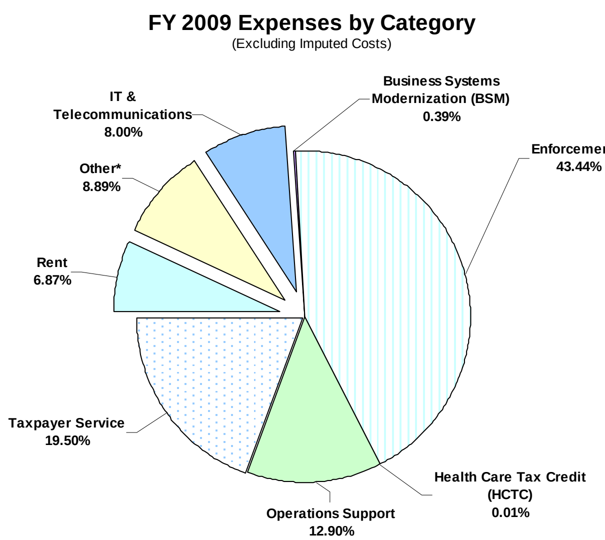
4.4 – Cost of IRS Operating Activities

FY 2009 Cost of IRS Operating Activities

The following charts provide the FY 2009 cost of IRS operating activities by appropriation and by major expense category. The charts include all expenditures, regardless of the fiscal year the funds were appropriated, that occurred in FY 2009 except for imputed costs (i.e., costs associated with services obtained by other agencies such as the Department of the Treasury and the Office of Personnel Management that are provided to the IRS, but are not reimbursed).



The second chart shows the FY 2009 actual costs by major expense category.



Note:

* **Other** includes Contractual Services, Supplies, Printing, Postage, Travel, and Training

** **Enforcement** includes Non-Labor Enforcement Expense of $263 million (2.3%)

Labor Costs represent 73.9% of total expenses and include Taxpayer Services, Operations Support, Enforcement, BSM, and HCTC

4.5 – Summary of IRS FY 2011 Budget Request

Bureau: Internal Revenue Service
Summary of Proposed FY 2011 Budget Request

	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		HITCA		TOTAL	
	$000	FTE	$000	FTE	$000	FTE	$000	FTE	$000	FTE	$000	FTE
FY 2009 Enacted Budget[1]	$2,293,000	32,622	$5,117,267	48,952	$3,867,011	12,267	$229,914	333	$15,406	15	$11,522,598	94,189
FY 2010 President's Budget Request	$2,269,830	31,217	$5,504,000	51,200	$4,082,984	12,316	$253,674	333	$15,512	15	$12,126,000	95,081
Congressional Action[2]	9,000	(11)			900		10,223				20,123	(11)
FY 2010 Enacted	$2,278,830	31,206	$5,504,000	51,200	$4,083,884	12,316	$263,897	333	$15,512	15	$12,146,123	95,070
Changes to Base												
Maintaining Current Levels (MCLs)	$50,054		$110,506		$57,884		$889		$190		$219,523	
Pay Annualization	11,643		27,964		7,608		243		15		47,473	
Pay Inflation Adjustment	30,534		69,255		19,127		589		32		119,537	
Non-Pay Inflation Adjustment	2,495		4,460		29,026				140		36,121	
FERS Increased Participation	5,382		8,827		2,123		57		3		16,392	
Other Adjustments		(169)		(208)		59			$3,494		$3,494	(318)
Resource Adjustment to Support Recovery Act-HCTC Program Expansion									3,494		3,494	
Technical FTE Adjustments[3]		(169)		(208)		59						(318)
Efficiencies/Savings	($28,023)	(472)	($7,092)		($155,314)				($209)		($190,638)	(472)
Non-Recur Savings					(32,680)						(32,680)	
Increase e-File Savings	(23,186)	(472)			378						(22,808)	(472)
Information Technology (IT) Infrastructure and Process Improvements					(75,000)						(75,000)	
Reduce Procurement/Contracting	(2,878)		(2,246)		(19,697)				(179)		(25,000)	
Reduce Printing, Travel, and Training	(523)		(1,979)		(7,468)				(30)		(10,000)	
Reduce Tuition Assistance Program	(1,436)		(2,867)		(847)						(5,150)	
Eliminate Selective Mailing of Forms and Publications					(20,000)						(20,000)	
Subtotal, FY 2011 Changes to the Base	$22,031	(641)	$103,414	(208)	($97,430)	59	$889		$3,475		$32,379	(790)
FY 2011 Current Services (Base)	$2,300,861	30,565	$5,607,414	50,992	$3,986,454	12,375	$264,786	333	$18,987	15	$12,178,502	94,280
Program Changes												
Reinvestment												
Submission Processing Consolidation (Atlanta)	2,792										2,792	
Subtotal, Program Reinvestment	$2,792										$2,792	
Program Decrease												
Reduce Taxpayer Service Grant and Advocacy Programs	($9,000)										(9,000)	
Subtotal, Program Decrease	($9,000)										($9,000)	
Program Increases												
Taxpayer Service Initiatives												
Improve IRS.gov					25,000						25,000	
Increase Telephone Level of Service	20,945										20,945	
Subtotal, Taxpayer Service Initiatives	$20,945				$25,000						$45,945	
Enforcement Initiatives												
Address Business and Individual International Compliance	1,779	30	97,527	747	21,780	4					121,086	781
Reduce the Reporting Compliance Tax Gap	769	7	59,687	688	17,223	5					77,679	700
Reduce the Nonfiling and Underpayment Tax Gap	91	1	28,166	405	9,924						38,181	406
Support for Increased Enforcement Activities	3,738	65			1,262						5,000	65
Maintain Recovery Act Staffing			4,606	31	894						5,500	31
Subtotal, Enforcement Initiatives	$6,377	103	$189,986	1,871	$51,083	9					$247,446	1,983
Business Systems Modernization (BSM) Initiative												
Continue Migration from Aging Tax Administration System					45,463		122,122	156			167,585	156
Subtotal, BSM Initiative					$45,463		$122,122	156			$167,585	156
Subtotal, FY 2011 Program Changes	$21,114	103	$189,986	1,871	$121,546	9	$122,122	156			$454,768	2,139
Total FY 2011 President's Budget Request	$2,321,975	30,668	$5,797,400	52,863	$4,108,000	12,384	$386,908	489	$18,987	15	$12,633,270	96,419
Dollar/FTE Change	$43,145	-538	$293,400	1,663	$24,116	68	$123,011	156	$3,475		$487,147	1,349
Percent Change	1.89%	-1.72%	5.33%	3.25%	0.59%	0.55%	46.61%	46.85%	22.40%		4.01%	1.42%

[1] FY 2009 Enacted represents the approved FY 2009 Operating Plan.
[2] The IRS had to take an FTE cut in the Taxpayer Services Appropriation in order to accomplish the requirements mandated on the FY 2010 Appropriation Bill.
[3] Technical FTE adjustments to ensure FTE levels are fully funded in the base budget.

Emergency Economic Stabilization Act Programs

Mission Statement

The mission of the Office of Financial Stability is to carry out the authorities delegated to the Secretary of the Treasury to implement the Troubled Assets Relief Program (TARP). These authorities were vested to the Treasury Secretary by the Emergency Economic Stabilization Act of 2008, which authorized the Secretary of the Treasury to establish the TARP to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on terms and conditions as are determined by the Secretary."

The purposes of the EESA are to—
(1) immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States; and
(2) ensure that such authority and such facilities are used in a manner that —
  (A) protects home values, college funds, retirement accounts, and life savings;
  (B) preserves homeownership and promotes jobs and economic growth;
  (C) maximizes overall returns to the taxpayers of the United States; and
  (D) provides public accountability for the exercise of such authority.

Program Summary by Budget Activity

(Dollars in thousands)	**Purchase Cap[1]**			**BA Outlays[2]**
	FY 2009	**FY 2010**	**Total**	**Cohort 2009 and 2010**
Capital Purchase Program	$204,617,573	$3,382,427	$208,000,000	- $3,680,719
Public-Private Investment Program	$6,666,667	$23,340,000	$30,006,667	+ $314,542
AIG Investment Program	$69,835,000	$0	$69,835,000	+ $48,147,456
Consumer and Business Lending Initiative	$20,000,000	$40,000,000	$60,000,000	+ $2,194,226
Home Affordable Modification Program[3]	$27,065,760	$21,690,240	$48,756,000	+ $48,756,000
Targeted Investment Program	$40,000,000	$0	$40,000,000	- $4,083,330
Automotive Industry Financing Program	$81,054,933	$3,790,000	$84,844,933	+ $28,208,444
Asset Guarantee Program[4]	$5,000,000	$0	$5,000,000	- $3,014,971
Total	**$454,239,933**	**$92,202,667**	**$546,442,599**	**+ $116,841,648**

[1]Amount applied to the Section 115 Purchase Cap (i.e., the portion of the original $700 billion cap expected to be used).
[2] Estimated program costs (+) or savings (-) over the life of the program, including interest on reestimates and excluding administrative costs.
[3] Includes $1.2 B reduction in TARP purchase authority from the Helping Families Save Their Homes Act of 2009.
[4] Treasury guaranteed up to $5 billion of potential losses incurred on a $301 billion portfolio of loans.

FY 2011 Priorities

During FY 2011, the Office of Financial Stability will be primarily in the maintenance phase of the TARP, which includes managing assets, repayments, repurchases, warrant liquidation, dividends, corporate actions, collateral management exchanges, etc. Under the terms of TARP, Treasury can enter into new commitments to purchase troubled assets through October 3, 2010. While Treasury does not plan to implement any new TARP programs in FY 2011, funding for existing programs such as the Home Affordable Modification Program will continue to occur.

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Section 1 – Purpose

1A-Description of Office Vision and Priorities

The Emergency Economic Stabilization Act of 2008 (EESA) authorized the Secretary of the Treasury to establish the Troubled Assets Relief Program (TARP) to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on terms and conditions as are determined by the Secretary." The EESA further authorized that the Secretary implement the programs under section 101 through an Office of Financial Stability (OFS).

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

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

1B – Program History and Future Outlook

To administer the programs under TARP, the Secretary of the Treasury has established the OFS, which is designed to be temporary in nature, but also highly skilled and well equipped to handle the complexity of TARP initiatives. During FY 2009, the OFS disbursed $364 billion of the authorized $700 billion, most of it in the form of investments. As a result of improved financial conditions and careful stewardship of the program, the ultimate cost to the taxpayer of TARP investments is likely to be significantly lower than expected. In the FY 2010 budget total impact of the program on the deficit was expected to be $306 billion, but it is now expected to total only $117 billion (see Program Summary by Budget Activity table above). The authority for administrative budget TARP funds is provided in Section 118 of EESA. In FY 2011 OFS plans to obligate almost $298 million and use 271 FTE, a decrease of $58 million and an increase of 11 FTE from the FY 2010 estimates.

Capital Purchase Program

EESA was originally proposed as a means to buy mortgage loans, mortgage-backed securities and certain other assets from banks. However, the authorities granted under EESA were broadened in the legislative process to cover any financial instrument whose purchase the Secretary of the Treasury, after consultation with the Chairman of the Federal Reserve, determines necessary to promote financial market stability. Shortly following passage of EESA, it became clear to the leaders of many G-7 nations that rapid action was needed to provide capital to the financial system as a whole. Lending even between banks had practically stopped, credit markets had shut down, and many financial institutions were facing severe stress. There was not sufficient time to implement a program to buy mortgage related assets, which posed difficulties related to valuing such assets and getting the holders of such assets to sell them at current prices. In this context, immediate capital injections into financial institutions were a necessary step to avert a potential collapse of the financial system.

Given the high level of uncertainty in financial markets and the economy, even strong financial institutions began to hoard capital. Based on various market indicators, it became clear that financial institutions needed additional capital to sustain a normal flow of credit to businesses and consumers during the financial turmoil and economic downturn. As a result, OFS launched the Capital Purchase Program (CPP), its largest and most significant program under EESA, on October 14, 2008. OFS initially committed over a third of the total TARP funding, $250 billion, to the CPP, which it lowered to $218 billion in March 2009.

The CPP was designed to bolster the capital position of viable institutions and, in doing so, to build confidence in these institutions and the financial system as a whole. With the additional capital, CPP participants were better equipped to undertake new lending, even while absorbing write downs and charge-offs on loans that were not performing.

Of the $250 billion commitment, OFS invested $125 billion in eight of the country's largest financial institutions. The remaining $125 billion was made available to qualifying financial institutions (QFIs) of all sizes and types across the country, including banks, savings associations, bank holding companies and savings and loan holding companies. QFIs interested in participating in the program had to submit an application to their primary federal banking regulator. The minimum subscription amount available to a participating institution was 1 percent of risk-weighted assets. The maximum subscription amount was the lesser of $25 billion or 3 percent of risk-weighted assets.

OFS provided a total of $205 billion in capital to 707 institutions in 48 states, including more than 300 small and community banks, helping to enable them to absorb losses from bad assets while continuing to lend to consumers and businesses. The largest investment was $25 billion while the smallest was $301,000. To encourage continued participation by small and community banks, the application window for CPP was reopened on May 13, 2009, for banks with less than $500 million in assets, with an application deadline of November 21, 2009. As of December 31, 2009, the funding deadline for CPP ended. The Budget reflects that financial institutions redeemed $70.7 billion in principal repayments and $9.7 billion in dividends, interest, warrants and fees as of September 30, 2009. Furthermore, the Budget reflects that financial institutions will redeem an additional $59.7 billion in principal repayments and receive over $20.1 billion in dividends, interest, warrants and fees in 2010.

Most banks participating in the CPP are to pay OFS a dividend rate of 5 percent per year, increasing to 9 percent a year after the first five years. In the case of S-corporations, OFS acquires subordinated debentures. Under the CPP, OFS has a right to elect two directors to the board of directors of an institution that misses six or more dividend payments.

American International Group, Inc. (AIG) Investment Program

Since September 2008, the Federal Reserve and OFS have taken a series of actions related to AIG in order to prevent AIG's disorderly failure and mitigate systemic risks. These actions addressed the liquidity and capital needs of AIG, helping to stabilize the company. OFS provided this assistance by purchasing preferred shares in AIG and also received warrants to purchase common shares in the institution. The assistance provided to AIG was deemed "exceptional assistance" which means that the recipient is subject to greater restrictions under the rules relating to executive compensation.

The Federal Reserve Board, through the Federal Reserve Bank of New York (FRBNY), provided an $85 billion credit facility in the form of secured loans to AIG on September 16, 2008 to contain the financial panic at least cost to the American taxpayer. The FRBNY has also provided additional assistance to AIG by funding special purpose entities which purchased certain derivative contracts from AIG. In connection with its assistance to AIG, the FRBNY received convertible preferred stock representing approximately 77.9 percent of the fully diluted voting power of the AIG common stock. This preferred stock was deposited in a trust, which exists for the benefit of the U.S. taxpayers. The FRBNY has appointed three independent trustees who have the power to vote the stock and dispose of the stock with prior approval of FRBNY and after consultation with Treasury. The Department of the Treasury does not control the trust and cannot direct the trustees.

In November 2008, this assistance was restructured so that AIG had more equity and less debt. OFS purchased $40 billion in cumulative preferred stock from AIG under the TARP, the proceeds of which were used to repay the Federal Reserve loan in part. In April 2009, OFS exchanged the $40 billion in cumulative preferred stock for $41.6 billion in non-cumulative preferred stock and created an equity capital facility, under which AIG may draw up to $29.8 billion as needed in exchange for issuing additional preferred stock to OFS. As of September 30, 2009, AIG had drawn approximately $3.2 billion from the facility. The preferred stock pays a noncumulative dividend, if declared, of 10 percent per annum.

Targeted Investment Program

OFS established the Targeted Investment Program (TIP) under the TARP in December 2008. The TIP gave the OFS the necessary flexibility to provide additional or new funding to financial institutions that were critical to the functioning of the financial system. Through TIP, OFS sought to prevent a loss of confidence in critical financial institutions, which could result in significant financial market disruptions, threaten the financial strength of similarly situated financial institutions, impair broader financial markets, and undermine the overall economy.

Eligibility to participate in the TIP was determined on a case-by-case basis, depending on a number of factors. OFS considered, among other things:

- The extent to which the failure of an institution could threaten the viability of its creditors and counterparties because of their direct exposures to the institution;

- The number and size of financial institutions that are perceived or known by investors or counterparties as similarly situated to the failing institution, or that would otherwise be likely to experience indirect contagion effects from the failure of the institution;

- Whether the institution is sufficiently important to the nation's financial and economic system that a disorderly failure would, with a high probability, cause major disruptions to credit markets or payments and settlement systems, seriously destabilize key asset prices, or significantly increase uncertainty or loss of confidence, thereby materially weakening overall economic performance; and

- The extent and probability of the institution's ability to access alternative sources of capital and liquidity, whether from the private sector or other sources of government funds.

OFS invested $20 billion in each of Bank of America (BofA) and Citigroup under the TIP. These investments provide for annual dividends of 8 percent; and impose greater reporting requirements and harsher restrictions on the companies than under the CPP terms, including restricting dividends to $0.01 per share per quarter, restrictions on corporate expenses, and other measures. The Budget reflects that both Citigroup and Bank of America fully redeemed the Government's TIP investments in 2010. Furthermore, the Budget reflects that Citigroup and Bank of America paid $1.8 billion in dividends in 2009 and an estimated $791 million in additional dividend payments in 2010. Assistance under the TIP is also considered "exceptional assistance", which means that the recipient is also subject to greater restrictions under the executive compensation rules.

Automotive Industry Financing Program

OFS established the Automotive Industry Financing Program (AIFP) on December 19, 2008, to help prevent a significant disruption to the American automotive industry, which would have posed a systemic risk to financial market stability and had a negative effect on the economy. OFS announced a plan to make emergency loans available from the TARP under the AIFP to General Motors Corporation (GM) and Chrysler LLC (Chrysler) to provide a path for these companies to go potentially through orderly restructurings and achieve viability.

OFS' investments in the auto companies were determined to be consistent with both the purpose and specific requirements of EESA. OFS determined that the auto companies were and are interrelated with entities extending credit to consumers and dealers because of their financing subsidiaries and other operations, and that a disruption in the industry or an uncontrolled liquidation would have had serious effects on financial market stability, employment and the economy as a whole. In addition, Congress provided the Secretary of the Treasury broad authority by defining “financial institutions” in EESA flexibly so as not to be limited to banks, savings institutions, insurance companies and similar entities. The auto companies, as well as their respective financing entities, qualified as "financial institutions" under EESA. In each case, they were organized under Delaware law, had significant U.S. operations, were subject to extensive federal and state regulation, and were not a central bank or institution owned by a foreign government.

OFS initially provided loans of $13.4 billion to GM and $4 billion to Chrysler under the AIFP to give the companies time to negotiate with creditors and other stakeholders in order to prevent disorderly bankruptcies. Under the terms of the loans, each company was required to prepare a restructuring plan that included specific actions aimed at assuring: (i) the repayment of the loan extended by TARP; (ii) the ability of the company to comply with applicable federal fuel efficiency and emissions requirements and commence the domestic manufacturing of advanced technology vehicles in accordance with federal law; (iii) achievement of a positive net present value; (iv) rationalization of costs, capitalization, and capacity with respect to the manufacturing workforce, suppliers and dealerships of the company; and (v) a product mix and cost structure that is competitive in the U.S. marketplace.

To oversee the federal financial assistance—including evaluating the restructuring plans—and to make decisions about future assistance to the automakers, the loan agreements provided for a presidential designee. Under the terms of the loan agreements, because no presidential designee has been appointed to date, the Secretary of the Treasury makes decisions on all matters involving financial assistance to the automakers, with input from the National Economic Council.

To date, the OFS has provided approximately $85 billion in loans and equity investments to GM, Chrysler, and their respective financing entities.

Auto Supplier Support Program

Because of the credit crisis and the rapid decline in auto sales, many of the nation's auto parts suppliers were struggling to access credit and faced uncertainty about the prospects for their businesses. Suppliers that ship parts to auto companies generally receive payment approximately 45-60 days after shipment. In a normal credit environment, suppliers can either sell or borrow against those commitments, or receivables, in the interim period to pay their workers and fund their ongoing operations. However, due to the uncertainty about the ability of the auto companies to honor their obligations, banks were unwilling to extend credit against these receivables. On March 19, 2009, OFS announced the Auto Supplier Support Program (ASSP) to help address this problem by providing up to $5 billion to domestic auto manufacturers to purchase supplier receivables. With the emergence of New GM and New Chrysler from bankruptcy proceedings and with the threat of liquidation greatly reduced, credit market access for suppliers has improved. As of July 1, 2009, the base commitment under the ASSP was decreased to $3.5 billion. As of September 30, 2009, OFS has funded $413 million under the ASSP. The loans used to finance the program must be repaid within a year, unless extended. OFS expects these loans to be fully repaid by or before April 2010. The companies may still draw on the loans but they are not expected to.

Warranty Commitment Program

On March 30, 2009, OFS announced an Auto Warranty Program designed to give consumers considering new car purchases from domestic manufacturers the confidence that warranties on those cars would be honored regardless of the outcome of the restructuring process. As of July 10, 2009, the program was terminated after New GM and New Chrysler completed the purchase of substantially all of the assets of GM and Chrysler from their respective bankruptcies. The $640 million advanced to GM and Chrysler under the program has been repaid to OFS; Chrysler repaid the full amount with interest while GM repaid only principal.

Asset Guarantee Program

Pursuant to section 102 of EESA, OFS established the Asset Guarantee Program (AGP) with the same objective as the TIP of preserving financial market stability. The AGP, like the TIP, is a targeted program aimed at maintaining the stability of systemically important financial institutions and, thereby, reducing the potential for problems at such an institution to "spillover" to the broader financial system and economy. More specifically, the AGP may be used to provide protection against the risk of significant loss in a pool of assets held by a systemically significant financial institution that faces a risk of losing market confidence due in large part to its holdings of distressed or illiquid assets. By helping limit the institution's exposure to losses on illiquid or distressed assets, the AGP can help the institution maintain the confidence of its depositors and other funding sources and continue to meet the credit needs of households and businesses.

The AGP has been applied with extreme discretion and OFS does not anticipate wider use of this program. To date, OFS has used this program to assist Citigroup and began negotiations with Bank of America (BofA) under the AGP which BofA subsequently terminated.

Citigroup

In January 2009, OFS and Citigroup entered into an agreement for Citigroup's participation in the AGP. OFS guaranteed up to $5 billion of potential losses incurred on a $301 billion pool of loans, mortgage-backed securities, and other financial assets held by Citigroup. The Federal Reserve and the FDIC are also parties to this arrangement. OFS will not become obligated to pay on its guarantee unless and until Citigroup has absorbed $39.5 billion of losses on the covered pool. OFS would then cover 90 percent of all losses on the covered pool, up to a maximum of $5 billion. In consideration for the guarantee, OFS received $4.03 billion in preferred stock that pays an annual dividend of 8 percent. OFS also received a warrant to purchase approximately 66 million shares of common stock at a strike price of $10.61 per share.

As part of an exchange offer, OFS exchanged preferred stock received under the AGP for an equivalent amount of trust preferred securities paying interest at the same rate.

On December 22, 2009, Treasury, the Federal Reserve, the Federal Deposit Insurance Corporation and Citigroup terminated the agreement under which the U.S. government agreed to share losses on a pool of Citigroup assets. The U.S. government parties did not pay any losses under the agreement, and will keep $5.2 billion of $7.0 billion in trust preferred securities as well as warrants for common shares that were issued by Citigroup as consideration for such guarantee. With this termination, the AGP is being terminated at a profit to the taxpayer.

Bank of America

In January 2009, OFS, the Federal Reserve and the FDIC entered into a term sheet for a potential loss sharing arrangement under the AGP on a $118 billion pool of financial instruments owned by Bank of America. In May 2009, Bank of America announced its intention to terminate negotiations with respect to the loss-sharing arrangement and in September 2009, Treasury, the Federal Reserve, the FDIC and Bank of America entered into a termination agreement pursuant to which (i) the parties terminated the related term sheet and (ii) Bank of America agreed to pay a termination fee of $425 million to the government parties, with $276 million going to Treasury. The fee compensated the government parties for the value that Bank of America had received from the announcement of the negotiations with government parties to guarantee and share losses on the pool of assets from and after the date of the term sheet. The termination fee was determined by taking the fee that would have been payable had the guarantee been finalized.

The Consumer and Business Lending Initiative (CBLI)

OFS designed two initiatives to restore consumer and business lending, the Term Asset-Backed Securities Loan Facility (TALF) and the Unlocking Credit for Small Business Initiative. Both programs are discussed in more detail below.

Term Asset-Backed Securities Loan Facility

The asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) markets over time have funded a substantial share of credit to consumers, businesses and real estate owners. In the third quarter of 2008, the ABS market and commercial mortgage-backed securities markets came to nearly a complete halt.

In November 2008, the Federal Reserve and Treasury announced the creation of the Term Asset-Backed Securities Loan Facility (TALF) and launched TALF under the Financial

Stability Plan on February 10, 2009. The TALF's objective was to stimulate investor demand for certain types of eligible ABS, specifically those backed by loans to consumers and small businesses, and ultimately, bring down the cost and increase the availability of new credit to consumers and businesses. Under the TALF, the Federal Reserve extends up to $200 billion in three- and five-year non-recourse loans to investors that agree to purchase eligible consumer or small business ABS. OFS provides up to $20 billion of TARP monies in credit protection to the Federal Reserve for losses arising under TALF loans.

The TALF was initially designed for newly or recently originated AAA-rated ABS backed by student loans, auto loans, credit card loans, and loans guaranteed by the SBA. On March 19, 2009, OFS and the Federal Reserve announced that the TALF would be expanded to include newly or recently issued AAA-rated Asset Backed Securities (ABS) backed by four additional types of consumer and business loans – mortgage servicing advances, loans or leases relating to business equipment, leases of vehicle fleets, and floor plan loans. These new categories of collateral were eligible for inclusion in the April 2009 TALF subscription and funding process.

The OFS and the Federal Reserve structured the TALF to minimize credit risk to the U.S. government to the greatest extent possible, consistent with achieving the program's purpose of encouraging lending to consumers and businesses. Investors take risk by providing some of the capital to purchase the securities. The amount of private capital is measured in the form of haircuts, which represents the investor's equity contribution. The haircut level varies across asset class and maturity to take into account any differences in risk. Finally, the borrower must also make monthly or quarterly interest payments to the federal government. The cost of the loan is 100 basis points over a fixed or floating rate benchmark, such as the London Interbank Offered Rate ("LIBOR").

The Federal Reserve had originally authorized using the TALF to make loans through December 31, 2009. To promote the flow of credit to businesses and households and to facilitate the financing of commercial properties, the Federal Reserve announced on August 17, 2009 that the TALF will continue to make loans against newly issued ABS and previously issued CMBS through March 31, 2010. In addition, TALF will make loans against newly issued CMBS through June 30, 2010. The inclusion of CMBS as eligible collateral helps prevent defaults on economically viable commercial properties, increases the capacity of current holders of maturing mortgages to make additional loans, and facilitates the sale of distressed properties.

Unlocking Credit for Small Businesses Program

To help restore the confidence needed for financial institutions to increase lending to small businesses, Treasury announced a program to unlock credit for small businesses on March 16, 2009. Under the program, Treasury announced that it would make up to $15 billion in TARP funds available to purchase securities backed by the Small Business Administration (SBA)-guaranteed portions of loans made under the SBA's 7(a) loan program. The SBA's 7(a) program is the SBA's most basic and widely used loan program.

Since Treasury's announcement of this program, the credit markets for small businesses have improved somewhat. The secondary market for guaranteed SBA loans, for example, had essentially ceased working last fall and had only $86 million in January re-sales. That market improved notably this spring in the wake of Treasury's announcement, with $399 million settled from lenders to broker-dealers in September 2009. As a result of this improvement, as well as reluctance on the part of market participants to accept TARP funds, OFS found that demand for its proposed program declined. As of September 30, 2009, no funds had been disbursed under the program, although it remains available. However, as part of its commitment to take additional steps to improve the availability of credit to small businesses, Treasury is working with the Small Business Administration to develop and implement additional TARP efforts that will support small banks in increasing lending to small businesses in their communities.

Home Affordable Modification Program

To mitigate foreclosures and help ensure homeownership preservation, Treasury announced a comprehensive $75 billion program, the Home Affordable Modification Program (HAMP), in February 2009. OFS will provide up to $50 billion in funding through the TARP, while Fannie Mae and Freddie Mac agreed to provide up to $25 billion of additional funding. HAMP focuses on creating sustainably affordable mortgage payments for responsible home owners who are making a good faith effort to make their mortgage payments, while mitigating the spillover effects of preventable foreclosures on neighborhoods, communities, the financial system and the economy.

HAMP is built around three core concepts. First, the program focuses on affordability. Every modification under the program must lower the borrower's monthly mortgage payment to no more than 31 percent of the borrower's monthly gross income, the "target monthly mortgage payment ratio". Second, the HAMP's pay-for-success structure aligns the interests of servicers, investors and borrowers in ways that encourage loan modifications that will be both affordable for borrowers over the long term and cost-effective for investors and taxpayers. Third, the HAMP establishes detailed guidelines for the industry to use in making loan modifications with the goal of encouraging the mortgage industry to adopt a sustainably affordable standard, both within and outside of the HAMP.

HAMP operates through the combined efforts of the Treasury Department, Fannie Mae, Freddie Mac, mortgage loan servicers, investors and borrowers to help qualifying homeowners who commit to making modified monthly mortgage payments to stay in their homes. In addition, the federal bank, thrift, and credit union regulatory agencies have encouraged all federally regulated financial institutions that service or hold residential mortgage loans to participate in the HAMP.

The following highlights some of the key terms and conditions of HAMP:

- Eligible Homeowners: The modification plan was designed to be inclusive, with a loan limit of $729,750 for single-unit properties, and higher limits for multi-unit properties. Over 97 percent of the mortgages in the country have a principal balance within these limits.

- Servicers' Obligation to Extend Modification Offer: Servicers participating in HAMP are required to apply a standardized net present value (NPV) test to each loan that is at risk of foreclosure -- defined as either at risk of imminent default or in default. The NPV test compares the net present value of cash flows from the mortgage if modified under HAMP and the net present value of the cash flows from the mortgage without modification. If the NPV test is positive – meaning that the net present value of expected cash flows is greater if modified under the HAMP than if the loan is not modified – the servicer must extend an offer to modify the loan in accordance with HAMP guidelines, absent fraud or a contractual prohibition limiting modification of the mortgage.

- Reductions in Monthly Payments: Servicers are required to follow the waterfall outlined in the program contracts in reducing the borrower's monthly payment to no more than 31 percent of their monthly gross income. The interest rate floor under HAMP is 2 percent. Further flexibility is provided if reducing the loan rate to 2 percent, by itself, does not achieve the 31 percent threshold. In that case, the servicers can extend the term of the loan, up to 480 months, in order to achieve the 31 percent payment threshold. The HAMP also provides the servicer the option to reduce principal on a stand-alone basis to help reduce the borrower's monthly payment

The HAMP includes a standardized set of procedures that servicers must follow in modifying eligible loans under the program and in estimating the expected cash flows of modified mortgages. The borrower must remain current on their modified mortgage payments for at least 90 days in order for a HAMP loan modification to become permanent.

To increase participation in HAMP and encourage borrowers to remain current on loan modifications under the program, OFS provides targeted incentives to borrowers, investors, and servicers that participate in the program. These incentives include an up-front payment of $1,000 to the servicer for each successful modification after completion of the trial period, and "pay for success" fees of up to $1,000 per year for three years, provided the borrower remains current. Additional one-time incentives of $500 to the servicers and $1,500 to the investors are paid if loans are modified for borrowers who are current but are in danger of imminent default are successfully modified. Homeowners will also earn up to $1,000 towards principal balance reduction each year for five years if they remain current and pay on time. Investors are entitled to payment reduction cost-share compensation for up to five years for half the cost of reducing the borrower's payment from a 38 percent to 31 percent threshold, provided the borrower remains current. Investors must pay for reducing the borrower's payment down to the 38 percent threshold before they are able to benefit from the cost-share incentive. This requires investors to take the first loss for unaffordable and unsustainable loans that were extended to borrowers.

Public-Private Investment Program

Treasury, in conjunction with the Federal Reserve and the FDIC, announced the Public-Private Investment Program (PPIP) on March 23, 2009, as a part of the Financial Stability Plan. The PPIP is designed to improve the condition of financial institutions by facilitating the removal of legacy assets from their balance sheets. Legacy assets include both real estate loans held on banks' balance sheets (legacy loans) as well as securities backed by residential and commercial real estate loans (legacy securities). The legacy loans portion of PPIP was initially to be operated by the FDIC and has not been implemented to date.

The PPIP is designed to help restart the market and provide liquidity for legacy assets, enabling financial institutions to make new loans available to households and businesses. Legacy assets became a stumbling block to the normal functioning of credit markets with the bursting of the housing bubble. With the housing market in decline, financial institutions and investors suffered significant losses on these legacy assets. These losses drove financial institutions to conserve capital, reduce leverage and minimize exposure to riskier investments. Many institutions did so by selling assets, triggering a wide-scale deleveraging in these markets. As the supply of assets being sold increased, prices declined and many traditional investors exited these markets, causing further declines in the demand and the liquidity for these assets. This lack of liquidity created significant uncertainty regarding the value of these legacy assets, which in turn raised questions about the balance sheets of these financial institutions, compromising their ability to raise capital and continue lending.

The PPIP helps address this valuation concern. Through PPIP, OFS partners with experienced investment managers and private sector investors to purchase legacy assets. Rather than resolving the uncertainty by having the government set the price for these assets, the private sector investors compete with one another to establish the price of the legacy assets purchased under the PPIP. By drawing new private sector capital into the market for legacy assets and facilitating price discovery, the PPIP should increase the liquidity for these legacy assets.

OFS initially announced that it would provide up to $100 billion for the PPIP. Because of improvements in the market, this amount was reduced to $30 billion. Under the PPIP, OFS provides equity and debt financing to newly-formed public-private investment funds (PPIFs) established by private fund managers with private investors for the purpose of purchasing legacy securities. These securities are commercial mortgage-backed securities and non-agency residential mortgage-backed securities. To qualify for purchase by a Legacy Securities PPIP (S-PPIP), these securities must have been issued prior to 2009 and have originally been rated AAA – or an equivalent rating by two or more nationally recognized statistical rating organizations – without ratings enhancement and must be secured directly by the actual mortgage loans, leases, or other assets.

The S-PPIP allows the OFS to partner with private investors in a way that increases the flow of private capital into these markets while maintaining equity "upside" for the taxpayers. Under the principal terms of the S-PPIP, OFS partners with pre-qualified fund managers that raise a minimum amount of capital from private sources. Each manager forms a Public Private Investment Fund or PPIF. OFS invests equity capital from the TARP in each PPIF on a dollar-for-dollar basis, matching the funds raised by these managers. In addition, OFS also provides debt financing up to 100 percent of the PPIF's total equity capital, subject to certain restrictions on leverage, withdrawal rights, disposition priorities and other customary financing protections. OFS not only participates pro rata in any profits or losses of the PPIF but also receives additional potential equity upside in the form of warrants, as required by EESA. Each fund manager will seek to generate attractive returns for the PPIF through a predominately long-term buy and hold strategy.

On July 8, 2009, following a comprehensive two-month application, evaluation and selection process, OFS pre-qualified nine fund managers to participate in the S-PPIP based, in part, on a demonstrated ability to invest in legacy assets and to raise private capital for such investments. On September 30, 2009, two PPIFs signed limited partnership agreements and loan agreements with OFS, resulting in a $6.7 billion commitment for OFS. As of September 30, 2009, these two PPIFs had approximately $1.13 billion in private sector capital commitments, which were matched 100 percent by OFS, representing total equity capital commitments of $2.26 billion. OFS is providing debt financing up to 100 percent of the total capital commitments of each PPIF, representing in the aggregate approximately $4.52 billion of total equity and debt capital commitments. As of November 30, 2009, nine PPIFs have signed agreements with OFS. Following signature of these agreements, each fund manager has up to six months to raise additional private capital to receive the full allocation of the $3.3 billion in matching equity and debt capital from OFS. Assuming that each of the nine fund managers raises enough private capital to receive the full allocation from OFS, the total purchasing power of the PPIFs will be $40 billion, including $10 billion in private capital and the $30 billion OFS commitment. As of September 30, 2009, no fund managers had made any investments and OFS had not disbursed any funds.

Program Evaluation

During FY 2011, OFS is proposing to fund a project to enhance the HAMP's existing standardized set of procedures that servicers must follow to modify loans in order to increase the conversion of offered to modified loans. This would be completed by facilitating and evaluating pilot programs, which some servicers have already implemented on their own book, that are structured differently from the standard loan modifications under HAMP. By assisting these servicers to develop and design statistically sound pilot programs, these successful programs can then be launched on a national scale.

1C – Credit Reform

EESA Section 123 authorizes the cost of EESA programs to be calculated using the methods required by the Federal Credit Reform Act of 1990 ("credit reform"). Under credit reform, the net present value expected cost of a loan or loan guaranty is budgeted for at the time of obligation. Under EESA Section 101(a)(1), Treasury is authorized to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on such terms and conditions as are determined by the Secretary..." Under this authority, Treasury can enter into equity investments and other financial transactions in addition to loans and loan guarantees. Based on Section 123 of EESA, Treasury is budgeting for its equity investments under credit reform.

To comply with the credit reform requirements, Treasury has established five credit program accounts: TARP Equity Purchase Program Account, TARP Equity Purchase Financing Account, TARP Program Account, Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account, and TARP Direct Loan Financing Account.

Credit Reform Accounts Descriptions

TARP Equity Purchase Program Account

The Equity Purchase Program Account records the subsidy costs (cost to the government) associated with Federal equity injections into qualifying financial institutions. Subsidy costs are calculated on a net present value basis.

TARP Equity Purchase Financing Account

The Equity Purchase Financing Account (EPFA) is a non-budgetary account that records all financial transactions to and from the government resulting from equity purchases. The EPFA primarily tracks each cohort year’s purchase activity (dividend payments, the exercise of warrants, Treasury borrowings, interest paid to or received from Treasury, etc.) and is not included in the budget totals when calculating total government spending.

TARP Program Account

The TARP Account records the subsidy costs (cost to the government) associated with direct loans obligated and guaranteed loans committed to qualifying institutions. Subsidy costs are calculated on a net present value basis.

Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account

The Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account (GLFA) is a non-budgetary account that records all financial transactions to and from the government resulting from guarantees committed. Like EPFA, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals.

TARP Direct Loan Financing Account

The TARP Direct Loan Financing Account (DLFA) is a non-budgetary account that records all financial transactions to and from the government resulting from direct loans. Like EPFA and GLFA, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals.

Section 2 – Budget Adjustments and Appropriation Language

2.1 Summary of Appropriation Highlights

Total TARP

Summary of Appropriation Highlights

(dollars in thousands)

TARP On-Budget Accounts	2009 Actual	2010 Budget Estimate	2010 Current Estimate	2011 Estimate	Increase (+) Decrease (-)
Obligations:					
Housing Account	$27,065,760	$0	$21,690,240	$0	- $21,690,240
Equity Program Account	$142,420,358	$0	$4,626,845	$0	- $4,626,845
TARP Account	$40,377,449	$0	$3,000,000	$0	- $3,000,000
TARP Negative Receipt Account	- $2,720,374	$0	-$117,624,526	-$22,261	+ $117,602,264
TARP Administrative Account	$248,325	$262,375	$355,488	$297,747	- $57,741
Total Obligations	**$207,391,518**	**$262,375**	**-$87,951,953**	**$275,485**	**+ $88,227,438**
Budget Authority:					
Housing Account	$45,461,463	$0	$3,294,537	$0	- $3,294,537
Equity Program Account	$151,955,429	$0	$4,626,845	$0	- $4,626,845
TARP Account	$40,572,759	$0	$3,000,000	$0	- $3,000,000
TARP Negative Receipt Account	-$2,720,374	$0	-$117,624,526	-$22,261	+$117,602,264
TARP Administrative Account	$278,700	$262,375	$355,488	$297,747	- $57,741
Total Budgetary Authority	**$235,547,978**	**$262,375**	**-$106,347,656**	**$275,485**	**+ $106,623,141**
Outlays:					
Housing Account	$946	$8,102,255	$11,121,995	$10,259,416	- $862,579
Equity Program Account	$115,293,157	$0	$31,149,603	$58,501	- $31,091,102
TARP Account	$38,577,186	$0	$2,247,080	$438,492	- $1,808,588
TARP Negative Receipt Account	-$2,720,374	$0	$2,720,374	$2,720,374	+ $0
TARP Administrative Account	$89,543	$265,640	$285,000	$309,295	+ $24,295
Total Outlays	**$151,240,459**	**$8,367,895**	**$47,524,052**	**$13,786,077**	**- $33,737,975**

Note: Dollar amounts may not add due to rounding in this and subsequent charts.

The current estimate for FY 2010 TARP administrative expenses is $355 million, including reimbursable expenses. In 2011, TARP administrative expenses are estimated at $298 million. These administrative costs are covered under the permanent, indefinite authority provided under EESA and do not count against the TARP purchase authority.

2.2 Operating Levels Table

(dollars in thousands)					
		2010			
Office of Financial Stability Account	**2009 Actual**	**Budget Estimate**	**Current Estimate**	**2011 Estimate**	**Increase (+) Decrease (-)**
FTE	**86**	**225**	**260**	**271**	**11**
Object Classification:					
11/12 Salary & Benefits	$14,173	$35,054	$39,565	$43,145	+ $3,580
21 Travel	$268	$2,538	$629	$631	+ $2
22 Transportation	$12	$504	$357	$364	+ $7
23 Rent, Communications, Utilities	$113	$8,224	$250	$255	+ $5
24 Printing	$0	$0	$100	$50	- $50
25 Contracts and Other Misc. Services	$233,269	$213,098	$313,956	$252,916	- $61,040
26 Supplies	$257	$497	$130	$135	+ $5
31 Equipment	$232	$2,459	$500	$250	- $250
Total	$248,325	$262,375	$355,488	$297,747	- $57,741

2.2.1 Operating Levels Table by Treasury Reimbursements

(dollars in thousands)					
		2010			
Office of Financial Stability Account	**2009 Actual**	**Budget Estimate**	**Current Estimate**	**2011 Estimate**	**Increase (+) Decrease (-)**
Direct Program Activity	$205,079	$228,375	$313,808	$260,117	**- $53,690**
Reimbursements:					
Congressional Oversight Panel	$4,000	$4,000	$4,800	$2,400	- $2,400
GAO	$9,000	$9,000	$11,360	$11,928	+ $568
Treasury and non-Treasury Agencies	$30,246	$21,000	$25,520	$23,301	- $2,219
Total	$248,325	$262,375	$355,488	$297,747	- $57,741

2.3 Financing Accounts - Non-Budgetary Summary

Financing Accounts – Non-Budgetary Financial Summary
(dollars in thousands)

	2009 Actual	2010 Budget Estimate	2010 Current Estimate	2011 Estimate	Increase (+) Decrease (-)
TARP Guaranteed Loans:					
Obligations	$1,049,055	$1,096,067	$2,223,599	$214,820	- $2,008,779
Collections	$457,234	$1,222,167	$524,948	$360,741	- $164,206
Financing Authority (net)	$774,415	$593,084	$1,986,462	$0	- $1,986,462
Financing Disbursements (net)	$591,821	-$126,100	$1,698,651	-$145,922	- $1,844,573
TARP Direct Loans:					
Obligations	$116,284,337	$19,885,917	$81,280,759	$8,586,863	- $72,693,896
Collections	$42,036,128	$31,397,879	$12,103,180	$7,442,082	- $4,661,098
Financing Authority (net)	$72,447,947	-$11,511,962	$77,003,852	$2,937,947	- $74,065,905
Financing Disbursements (net)	$23,897,532	-$11,511,962	$57,532,161	$6,152,053	- $51,380,108
Equity Purchases:					
Obligations	$334,851,167	$13,393,164	$128,439,706	$11,762,275	- $116,677,431
Collections	$200,579,032	$22,939,476	$154,702,349	$27,147,116	- $127,555,233
Financing Authority (net)	$115,907,175	-$9,546,312	$16,567,212	-$8,873,160	- $25,440,372
Financing Disbursements (net)	$105,420,425	-$9,546,312	$568,454	-$15,202,082	- $15,770,536
TARP Financing Accounts Totals:					
Obligations	$452,184,559	$34,375,148	$211,944,064	$20,563,958	- $191,380,106
Collections	$243,072,393	$55,559,521	$167,330,477	$34,949,940	- $132,380,538
Financing Authority (net)	$189,129,536	-$20,465,190	$95,557,525	-$5,935,213	- $101,492,738
Financing Disbursements (net)	$129,909,778	-$21,184,374	$59,799,267	-$9,195,950	- $68,995,217

2.4 TARP Summary

Summary of TARP Activity
(dollars in thousands)

	Amount towards $700B purchase limit	Net impact on the deficit
Total Equity Transactions	$344,127,222	$48,289,344
Total Direct Loans	$148,559,377	$22,811,275
Guaranteed Loans:	$5,000,000	-$3,014,971
Home Affordable Modification Program[1]	$48,756,000	$48,756,000
Total Amount of TARP Activity	**$546,442,599**	**$116,841,648**

[1] Excludes $1.244B in Helping Families Save Their Home Act of 2009.

2A – Enacting Legislation

Public Law 110-343, Emergency Economic Stabilization Act of 2008, provides such sums as necessary, including administrative expenses, for the cost to purchase and insure certain types of troubled assets for the purposes of providing stability to and preventing disruption in the economy and financial system.

2B –Legislative Proposals

OFS has no legislative proposals.

Section 3 – Budget and Performance Plan

This table lists all FY 2010 resources by strategic goal, objective and outcome.

3.1 – Budget by Strategic Outcome

Treasury Strategic Outcome (dollars in thousands)	FY 2009 Estimated AMOUNT	FY 2010 Estimated AMOUNT	Percent Change AMOUNT
Ensure the Overall Stability and Liquidity of the Financial System	$427,174,173	$70,512,427	- 83%
Prevent Avoidable Foreclosures by Providing an Affordable, Sustainable, Mortgage Modification Option for up to 4 million At-Risk Homeowners	$27,065,760	$21,690,240	- 20%
Protect Taxpayer Interests	--	--	--
Promote Transparency	--	--	--

Ensure the Overall Stability and Liquidity of the Financial System

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

In addition, OFS provided direct aid to certain financial industry participants through the Targeted Investment Program (TIP) and the Asset Guarantee Program (AGP), as well as the program originally known as the Systemically Significant Failing Institutions (SSFI) program. These programs were designed to mitigate the potential risks to the system as a whole from the difficulties facing these firms. (Because SSFI was used only for investments in American International Group, Inc. (AIG), such investments are now referred to as the AIG Investment Program.)

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

The Public-Private Investment Program (PPIP) was established to facilitate price discovery and liquidity in the markets for troubled real estate-related assets as well as the removal of such assets from the balance sheets of financial institutions. In addition to these initiatives, OFS implemented the Consumer and Business Lending Initiative (CBLI) to enhance liquidity and restore the flow of credit to consumers and small businesses. The primary program through which the CBLI operated in 2009 was the Term Asset-Backed Securities Loan Facility (TALF).

Through this combination of tools, the TARP helped strengthen a broad set of financial institutions and markets. While directly measuring the effects of any of these programs is not possible, OFS is tracking a number of indicators of success of the programs taken together.

Performance metrics[1]	**FY 2008 Result**	**FY 2009 Result**
LIBOR/OIS spread	218bp (1 m) 232bp (3m)	10bp (1 m) 12bp (3m)
Change in lending of CPP banks vs. control banks	--	TBD
Change in capital ratio of CPP banks vs. control banks	--	TBD
Credit default spreads at targeted institutions	151bp BofA 305bp Citi 1,451bp AIG 277bp CDR Index	120bp BofA 190bp Citi 767bp AIG 98bp CDR Index
Change in stock price of auto companies	TBD	TBD
Spreads between secondary ABS and benchmarks	230bp prime auto 200bp credit card 250bp equipment 450bp prv stdnt ln	65bp prime auto 65bp credit card 120bp equipment 500bp prv stdnt ln
TALF eligible ABS issuance	--	$79.7B
Decline in use of government programs (Qualitative)	--	TBD

[1]Items are indicators.

Prevent Avoidable Foreclosures by Providing an Affordable, Sustainable, Mortgage Modification Option for up to 4 million At-Risk Homeowners

To prevent avoidable foreclosures and preserve homeownership, Treasury used authority granted under EESA to establish the Home Affordable Modification Program (HAMP) in February 2009. Other government policies have helped keep home mortgage rates at historic lows and allowed millions of Americans to refinance and stay in their homes. But because of falling housing prices, many responsible homeowners are unable to refinance. Meanwhile, job losses and reductions in working hours and benefits are making it harder for these Americans to pay their mortgages. HAMP provides incentives to mortgage servicers, investors, and homeowners to work together to reduce an eligible homeowner's monthly payments to levels that are affordable in light of the homeowner's current income. This plan also helps to stabilize home prices for homeowners in neighborhoods hardest hit by foreclosures. To track the success of these programs OFS is tracking the following indicators of success.

Performance metrics[1]	**FY 2009 Result**
Number of modifications (trial/permanent) entered into	487,081/ 1,733
Change in average borrower payments	NA
Re-default rate	NA

[1]Items are indicators.

Protect Taxpayer Interests

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

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

Finally, the OFS seeks to achieve the goal of protecting the taxpayer through the effective management and disposition of all TARP investments. To evaluate the success of these efforts OFS tracks the following indicators and metrics.

Performance metrics[1]	**FY 2009 Result**	**FY 2010 Target**
Return for each program over its benchmark (subsidy rate)	TBD	--
<u>Clean audit opinion on TARP financials</u>	Yes	Yes
<u>Percentage of SIGTARP and GAO oversight recommendations responded to on time</u>	100%	100%

[1]Items in *italics* are indicators; those <u>underlined</u> are measures. Targets are provided only for measures.

Promote Transparency

EESA requires transparency and accountability. Specifically, EESA requires OFS to provide Congress with a variety of reports. These include a monthly report to Congress on TARP activity, a “tranche” report each time OFS reaches a $50 billion spending threshold, and transaction reports posted within two days detailing every TARP transaction. In carrying out its operations, the OFS has sought to not only meet the statutory requirements but also to be creative and flexible with respect to additional transparency initiatives. The OFS proactively provides to the public monthly Dividends and Interest Reports reflecting dividends and interest paid to OFS from TARP investments, loans, and asset guarantees, as well as monthly reports detailing the lending activity of participants in the Capital Purchase Program. All of these reports are publicly available on *www.FinancialStability.gov.*

EESA also provided for extensive oversight of the TARP, including by the Congressional Oversight Panel, the Special Inspector General for the TARP, and the Government Accountability Office. In addition, OFS officials frequently testify before Congress on the progress of TARP programs, and OFS staff provided briefings to Congressional staff on programmatic developments. OFS is tracking its performance along a number of metrics related to this Transparency objective.

Performance metrics[1]	**FY 2009 Result**	**FY 2010 Target**
On time reporting percentage	100%	100%
Website satisfaction	65%	70%
Timeliness of responses • Average business days to close a FOIA case • Percentage of Congressional correspondence responses drafted within 48 hours	67 days 87%	64 days 90%

[1]Items are measures. Targets are provided only for measures.

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

OFS's Human Capital Strategy is designed to position the Office of Financial Stability to meet the human capital management challenges necessary to support its mission. The key aspects of OFS's FY 2009/2010 human capital strategy include using:

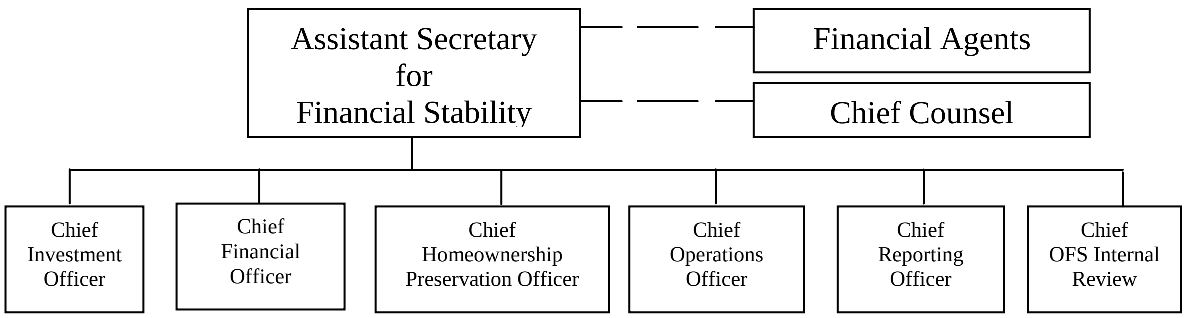
- OPM HR flexibilities and authorities to recruit new employees for short and long term assignments
- Experts or consultants and detailees for temporary or intermittent employment
- Training and development interventions to ensure existing staff is engaged and possesses the requisite skill set
- Regularly scheduled strategic workforce assessments to refine the organization and identify and eliminate competency gaps of its workforce needed to achieve OFS's mission

The OFS organization required a rapid ramp up in staffing during its first year of operation in FY 2009 and utilized term employees and detailees where possible. Additionally, as diverse legal and financial asset management expertise not currently available within the government became essential to support some programs, it became necessary to contract with outside organizations to supplement Treasury's in-house counsel. This was required because it is not practicable or economical for OFS to employ the staff of full-time legal practitioners and support personnel with the necessary required technical expertise to advise on and address the complex legal issues that arise under programs authorized by the EESA.

The Treasury also issued an open notice soliciting financial institutions to provide asset management services needed for its portfolio of securities issued by Financial Institutions participating in programs under EESA. Those services included but were not limited to valuing of the assets issued by those Financial Institutions; analyzing the on-going financial condition, capital structure, and risks of those Financial Institutions; advising on the optimal disposition of Treasury's assets; and providing Treasury with analysis and recommendations on other business events connected with those Financial Institutions that could impact Treasury's ownership stake. These services required outside entities who were capable of gathering and analyzing market inputs, trends, and transactions that are relevant when determining the market value and market impact of Treasury's investments and decisions. Due to the potential impact of Treasury's investments on the Financial Institutions and the broader market, this is an additional area where the Government does not possess the depth and breadth, or the in-house personnel resources, to provide the type of analysis required to fully monitor the value and risks of such investments.

OFS is headed by an Assistant Secretary of the Treasury, appointed by the President with the advice and consent of the Senate. Reporting to the Assistant Secretary for Financial Stability are seven major divisions: the Offices of the Chief Investment Officer, the Chief Financial Officer, the Chief for Investment Operations/Technology, the Chief Homeownership Preservation Officer, the Chief Administrative Officer, the Chief Reporting Officer, and the Chief for OFS Internal Review. A Chief Counsel's Office reports to the Office of the General Counsel in the Department of Treasury.

The OFS organization chart is shown below:



Description of OFS Structure

As of January 8, 2010, OFS had 219 full-time employees (108 career civil servants, 101 term appointments, and 10 detailees) who support the TARP. These employees include 20 employees who report through the Department of the Treasury's Office of General Counsel and approximately 40 others outside of OFS who continue to provide support to the office on an as-needed basis. OFS continues to use direct-hire and other appointments to expedite hiring of highly-qualified candidates, which has enabled OFS to reduce the number of temporary and contract staff and strengthen the continuity and institutional knowledge of the workforce.

OFS is made up of six divisions:

The Chief Investment Office (CIO) is responsible for program development and the execution and management of all investments made pursuant to EESA. The CIO relies on contracted asset managers and a custodian to assist in the management of acquired or insured assets. The CIO also manages a contract with an investment advisor who provides guidance on the selection of asset managers.

The Office of the Chief Financial Officer (CFO) manages the OFS budget, cash flow requirements and accounting support activities for all of OFS concentrating on accounting and reporting activities required by the Federal Credit Reform Act to include modeling of cash flow and all required re-estimates. The Office serves as liaison with Government Accountability Office (GAO) staff for financial statement reporting and internal controls.

The Office of the Chief of Homeownership Preservation is responsible for identifying opportunities to help homeowners while also protecting taxpayers. The priorities of the Office are to: implement the Administration's loss mitigation program; develop and implement a robust outreach program targeted to at-risk homeowners; outline and implement strategies to regularly update the Administration, Congress, the public, and other key stakeholders, on results; and monitor, analyze and report on the results of the loan modification program.

The Office of the Chief Operations Officer (OCOO) is responsible for developing an office infrastructure and managing internal operations in OFS. The OCOO works with each OFS organizational entity to effectively manage the budget, facilities, information technology (IT), acquisition management oversight, document flows, physical security and privacy, and workforce planning.

The Office of Reporting is responsible for coordinating OFS' work with the external oversight entities including the GAO, Special Inspector General for TARP, Financial Stability Oversight Board and the Congressional Oversight Panel. The Office also prepares periodic, statutory reports to the Congress under EESA.

The Office of Internal Review (OIR), for which most functions were previously conducted under the name Office of Compliance and Risk, is responsible for management controls such as policies and procedures, designed to help program and financial managers achieve results, mitigate risk, and safeguard the integrity of TARP programs.

The Office of the Chief Counsel provides legal advice to the Assistant Secretary for Financial Stability.

OFS Staff by Office **(as of 1/08/2010)**

	Perm	Term/Temp	Details	Total	ES/SL/EF	GS-15	GS-14	GS-13	GS-12	GS-11	GS-9	GS-7	GS-5
Assistant Secretary	1	3	0	**4**	1	1	0	1	1	0	0	0	0
CIO	10	23	4	**37**	4	11	8	6	3	2	2	1	0
HPO	9	18	0	**27**	1	5	7	3	1	3	5	2	0
Chief Counsel	16	4	0	**20**	1	10	3	4	2	0	0	0	0
Internal Review	11	12	0	**23**	2	8	7	2	1	1	0	2	0
CFO	16	10	1	**27**	3	8	8	4	2	0	1	1	0
COO	32	14	5	**51**	1	10	14	6	11	4	2	2	1
Oversight & Reporting	7	8	0	**15**	1	4	1	2	4	0	1	2	0
Financial Agent	6	4	0	**10**	0	4	2	1	2	1	0	0	0
Special Master	0	5	0	**5**	0	3	0	0	2	0	0	0	0
Totals	108	101	10	**219**	14	64	50	29	29	11	11	10	1

4B – Summary of IT Resources and Information Technology Strategy

As an organization embedded in Domestic Finance, OFS has leveraged technologies and services provided by the Treasury Department Office of the Chief Information Officer (OCIO) as much as possible. In its first year of operation, OFS utilized OCIO-provided infrastructure/applications (e.g., LAN, WAN, telephones) and contractor personnel to develop and support the current infrastructure and applications. During FY 2010, OFS will focus on five core activities:

- Develop a governance structure (program and project management)
- Develop fundamental transaction records and ledgers to better support the Middle Office and Chief Financial Officer's Office
- Build a robust data warehouse to support end user questions, reporting and analysis
- Enhance unstructured document management
- Manage a variety of IT operational issues supported by either OFS or OCIO.

To successfully achieve these objectives, OFS will expand its on board IT staff to include a Chief Technology Officer. External contractors/consultants will be sourced to provide short-term/specialized skills with additional personnel being absorbed through the transfer of personnel from within OFS as well as with term employees.

The bulk of needed hardware and software has already been purchased, though refinement of OFS needs will occur as the requirements for the projects noted above are further developed. All OFS support technologies are in concert with the Treasury Optimized Enterprise IT Infrastructure.

Housing Government Sponsored Enterprise Programs

Mission Statement

To provide stability to financial markets and promote mortgage affordability while at the same time protecting the taxpayer, Treasury has implemented five programs with respect to two Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, as well as the Federal Home Loan Banks (FHLBs). These programs include Preferred Stock Purchase Agreements (PSPAs) with Fannie Mae and Freddie Mac, a Mortgage-Backed Securities (MBS) Purchase Program limited to such securities issued by Fannie Mae and Freddie Mac, and a credit facility for all three entities. In addition to these programs, Treasury will purchase securities of Fannie Mae and Freddie Mac backed by new housing bonds issued by the Housing Finance Agencies (HFAs), through the New Issue Bond Program ("NIBP"). Treasury will also purchase participation interests in the obligations of Fannie Mae and Freddie Mac under Temporary Credit and Liquidity Facilities that they will issue and administer through the Temporary Credit and Liquidity Program ("TCLP") to provide backstop liquidity and credit for state and local HFAs. Together, the TCLP and the NIBP are the Housing Finance Agencies Initiative ("HFA Initiative").

Program Summary by Budget Activity

(Dollars in Thousands)

		FY 2009	FY 2010	FY 2011		
Housing Government Sponsored Enterprise Programs	**Activity**	**Actual**	**Estimated**	**Estimated**	**$ Change**	**% Change**
Preferred Stock Purchase Agreements	Obligations	$95,600,000	$69,000,000	$23,000,000	($46,000,000)	-37.68%
GSE MBS Purchase Program	Securities Purchased	$190,574,064	$29,877,874	$0	($29,877,874)	-100.00%
GSE Credit Facility	Loan Levels	$0	$0	$0	$0	0%
New Issue Bond Purchase Program	Securities Purchased	$0	$15,308,598	$0	($15,308,598)	-100.00%
Temporary Credit and Liquidity Program	Securities Purchased	$0	$8,209,840	$0	($8,209,840)	-100.00%

FY 2011 Priorities

- To provide stability to financial markets.
- To prevent disruptions to the availability of mortgage credit to American homebuyers.
- To maintain investor confidence in the GSEs and in state and local HFAs.
- To restore the capacity of state and local HFAs to provide affordable housing resources to working families at the state and local level.

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Section 1 – Purpose

1A-Description of Bureau Vision and Priorities

Preferred Stock Purchase Agreements

The PSPAs were created to instill confidence in investors that Fannie Mae and Freddie Mac would remain viable entities critical to the functioning of the housing and mortgage markets. Investors have purchased securities issued or guaranteed by Fannie Mae and Freddie Mac in part because ambiguities in their Congressional charters created a perception of government backing. These ambiguities fostered enormous growth in the obligations issued or guaranteed by the two housing GSEs and the breadth of these holdings posed a systemic risk to global financial markets.

Vision: The function of the PSPAs is to enhance market stability by providing additional confidence to holders of Fannie Mae and Freddie Mac securities that the GSEs will remain viable entities, which, in turn, leads to increased mortgage affordability. This commitment also eliminates any mandatory triggering of receivership. To this end, the PSPAs are an effective means of averting systemic risk while at the same time protecting the taxpayer.

***Priorities*:** Market stability is a priority for the Department of the Treasury. In this regard, Treasury has identified the following priorities for mission success:

- To provide stability to the GSE securities market.
- To maintain the viability of the GSEs.

GSE MBS Purchase Program

The GSE MBS Purchase Program was created to help support the availability of mortgage credit by temporarily providing additional capital to the mortgage market.

Vision: Treasury's investment in GSE MBS, with the size and timing subject to the discretion of the Secretary of the Treasury, was another element of its comprehensive plan to address challenges in the housing markets. By purchasing these credit-guaranteed securities, Treasury sought to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability. The scale of the program was based on developments in the capital markets and housing markets. Given that Treasury can hold these securities to maturity, the spreads between Treasury's issuance and GSE MBS should result in a positive return to the taxpayer.

Priorities:

- To prevent disruptions to the availability of mortgage credit to American homebuyers
- To mitigate pressures in mortgage markets
- To provide stability to the mortgage market

GSE Credit Facility

The GSE Credit Facility was created to ensure credit availability to Fannie Mae, Freddie Mac, and the FHLBs by providing secured funding on an as-needed basis under terms and conditions established by the Treasury Secretary.

Vision: The funding was to be provided directly by Treasury from its general fund held at the Federal Reserve Bank of New York in exchange for eligible collateral which was limited to guaranteed MBS issued by Fannie Mae and Freddie Mac as well as advances made by the FHLBs. All such assets pledged against loans were to be accepted with appropriate collateral margins as determined by Treasury. Loans were to be for short-term durations and would in general be expected to be for less than one month, but no shorter than one week. The fee, if the GSE Credit Facility was used, was to be LIBOR + 50 basis points.

Priorities:

- To maintain credit availability to the GSEs.
- To instill confidence in investors that these entities can finance themselves.

Housing Finance Agencies Initiative

State and local Housing Finance Agencies (collectively, the "HFAs") are agencies or authorities created by state law that are charged with helping persons and families of low or moderate income attain affordable housing. State and local HFAs operate in all 50 states and many cities across the country. HFAs also provide refinancing and modification opportunities to homeowners at risk of foreclosure, to enable them to convert to more affordable and sustainable mortgages. In addition, HFAs serve other functions related to providing affordable housing resources, such as providing homeownership education and allocating low income housing tax credits.

HFAs have historically played a central role in providing a safe, sustainable path to homeownership for working families across the country. State and local HFAs have experienced a number of challenges in the course of the housing downturn, including a lack of liquidity support for existing variable rate bonds, credit and cash flow concerns stemming from losses on mortgages and downgrades of re-insurance providers, and an inability to issue new bonds to fund single-family and multi-family loans. Historically, HFAs have funded their activities by issuing tax-exempt mortgage revenue bonds (MRBs), keeping the associated mortgage collateral produced on HFA balance sheets. The bond performance of HFAs has generally been strong. However, due to the uncertainties and strain throughout the housing sector and the widening of spreads in the tax-exempt market, HFAs have experienced challenges in issuing new bonds to fund new mortgage lending. They have also faced difficulties in renewing required liquidity facilities on non-punitive terms.

Overall, market conditions have undermined the ability of the HFAs to maintain their important, Congressionally supported, role in the housing market, providing access to affordable mortgage credit for low and moderate income Americans.

To provide stability to the financial markets and promote mortgage affordability while at the same time protecting the taxpayer, Treasury has implemented two programs as part of the Housing Finance Agencies Initiative – the New Issue Bond Purchase Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP).

New Issue Bond Program

The New Issue Bond Program (NIBP) will provide temporary financing for HFAs to issue new housing bonds. Treasury will purchase securities of Fannie Mae and Freddie Mac backed by these new housing bonds. This will temporarily allow the HFAs to issue an amount of new housing bonds equal to what they would ordinarily be able to issue with the allocations provided them by Congress but are recently unable to issue given the current challenges in housing and related markets. The program may support up to several hundred thousand new mortgages to first time homebuyers this coming year, as well as refinancing opportunities to put at-risk, but responsible and performing, borrowers into more sustainable mortgages. The NIBP will also support development of tens of thousands of new rental housing units for working families.

Vision: The NIBP will provide stability to financial markets and prevent disruptions in mortgage finance availability by providing a temporary supplemental market for newly issued HFA housing bonds. By temporarily supplementing private demand for HFA production until the market can recover, the NIBP will enable HFAs to keep their lending programs active while they adapt to changing market conditions. The program will support the availability of mortgage credit and affordable rental properties for low and moderate income Americans. Facilitating supply and demand in the housing markets will help to stabilize the housing markets, thereby reducing losses to the Housing GSEs going forward.

***Priorities*:**

- To provide stability to the housing market.
- To maintain the viability of the GSEs and state and local Housing Finance Agencies.
- To promote availability and affordability of housing resources for low and moderate income Americans.

Temporary Credit and Liquidity Program

Fannie Mae and Freddie Mac will administer a Temporary Credit and Liquidity Program (TCLP) for HFAs to help relieve current financial strains and enable them to continue to serve their important role in providing housing resources to working families. Treasury will purchase a participation interest in the Temporary Credit and Liquidity Facilities (TCLFs) provided to HFAs under the program, providing a credit and liquidity backstop. The TCLP will provide HFAs with temporary credit and liquidity facilities to help the HFAs maintain their financial health and preserve the viability of the HFA infrastructure so that that HFAs can continue their Congressionally supported role in helping provide affordable mortgage credit to low and moderate income Americans, as well as continue their other important activities in communities.

Vision: The TCLP will provide stability to financial markets and prevent disruptions in mortgage finance availability by helping HFAs relieve current financial strains and enabling them to continue to serve their important role in providing housing resources to working families. The TCLP will support the HFAs through the current downturn and give them time to develop and implement more sustainable financing structures that preserve their critical role in extending mortgage credit to low- and moderate-income Americans.

***Priorities*:**

- To provide stability to the housing market.
- To maintain the viability of the GSEs and state and local Housing Finance Agencies.
- To promote availability and affordability of housing resources for low and moderate income Americans.

1B – Program History and Future Outlook

Section 1117 of the Housing and Economic Recovery Act of 2008 (Act) authorizes the Treasury to purchase any obligations and other securities issued by Fannie Mae, Freddie Mac, and any Federal Home Loan Bank on such terms and conditions as the Treasury may determine and in such amounts as the Treasury may determine. On September 7, 2008, the Secretary of the Treasury made the determination that the Treasury's exercise of its purchase authority under the Act was necessary to provide stability to the financial markets, prevent disruptions in the availability of mortgage finance, and protect taxpayers.

Prior to Treasury's exercise of authority, the overall conditions in the mortgage and housing markets were challenging for many market participants. Both Fannie Mae and Freddie Mac were exposed to these markets through their guarantees of mortgage backed securities and mortgage investments in their portfolios. As the assets supporting Fannie Mae's and Freddie Mac's guarantee and investment portfolios deteriorated, the costs of raising additional capital and funding themselves had increased, and both companies had experienced challenges in raising capital under these conditions. In addition to the challenges experienced by Fannie Mae and Freddie Mac, the FHLBs' borrowing costs were also affected, which had repercussions on the availability of mortgage credit in the overall economy.

As noted above, investors have purchased securities issued or guaranteed by Fannie Mae and Freddie Mac in part because ambiguities in their Congressional charters created a perception of government backing, which fostered enormous growth by these two housing GSEs. Fannie Mae and Freddie Mac were so large and so interwoven in the U.S. financial system that a failure of either of them would have caused significant turmoil in U.S. financial markets and financial markets around the globe. Thus, Treasury exercised its purchase authority under this Act, and created the first three programs described above to avoid the negative impact that the failure of Fannie Mae and Freddie Mac (and the diminished role of the FHLBs) would have on financial markets and the U.S. economy.

In order to further provide stability to financial markets, prevent disruptions in mortgage finance availability, and protect the taxpayers, Treasury exercised its authority under the Act in December 2009 by amending the PSPAs in three ways. First, Treasury replaced the existing fixed $200 billion cap on Treasury advances with a formulaic cap for the next three years that will automatically adjust upwards quarterly by the cumulative amount of any losses realized by either GSE and downward by the cumulative amount of any gains, but not below $200 billion, and will become fixed at the end of the three years. Second, Treasury adjusted the retained portfolio runoff requirements such that any reduction will be measured from the $900 billion total permitted portfolio size for each GSE and the target date for the first 10% reduction was postponed by one year to December 31, 2010. Third, Treasury delayed the periodic commitment fee setting process for one additional year to December 10, 2010.

The PSPAs provide for purchases in senior preferred stock from each GSE to help ensure that they each maintain a positive net worth. The three changes to the PSPAs described above will further provide market stability by providing additional confidence to GSE debt holders and will further prevent disruptions in mortgage availability by providing additional confidence to investors in GSE mortgage backed securities.

In designing these three changes to the PSPAs, specific steps were taken to protect the taxpayer. In particular, consideration was given to the six factors set forth in the Act. .

The need for preferences or priorities – The PSPAs continue to protect the taxpayer by providing the Treasury with senior preferred stock that has a liquidation preference over all other classes of equity, including existing preferred stock. The PSPAs also continue to protect the taxpayer by: (i) prohibiting Fannie Mae and Freddie Mac from issuing any additional subordinated debt; and (ii) restricting Fannie Mae and Freddie Mac from increasing the aggregate amount of their indebtedness to more than 120% of the amount of their permitted mortgage portfolio size as of December 31, 2010. In addition, the terms of the PSPAs require Fannie Mae and Freddie Mac to remit to Treasury the net proceeds from the issuance of any equity which is to be applied to redeem amounts outstanding under the liquidation preference (and which shall be applied first against any accrued and unpaid dividends).

Limits on maturity or disposition of obligations or securities – In considering the appropriate limits on the duration of the PSPAs, It was determined that, in order to facilitate market stability, the PSPAs should continue until the earlier of reaching a formulaic cap that will automatically adjust upwards quarterly by the cumulative amount of any losses realized by either GSE and downward by the cumulative amount of any gains, but not below $200 billion or until all liabilities of Fannie Mae and Freddie Mac have been satisfied. In addition, beginning in 2011 the Treasury will begin to charge the GSEs a periodic commitment fee that will be payable quarterly to compensate the taxpayers for the ongoing support provided to the GSEs under the terms of the PSPAs.

Enterprise plans for orderly resumption of private market funding or capital market access – Under conservatorship, the PSPAs allow for Fannie Mae and Freddie Mac to continue operating as going concerns by maintaining a positive net worth in each company, which allows for continued access to debt markets and preserves potential future capital market access.

Probability of the Enterprises and the FHLBs fulfilling the terms of their obligations – The structure of the PSPAs, with their liquidation preference over all other equity, including preferred equity, combined with the PSPAs' restrictions on debt issuance, enhance the probability of both Fannie Mae and Freddie Mac ultimately repaying amounts owed.

Need to maintain the Enterprises' and the FHLBs' status as private shareholder-owned companies – Fannie Mae and Freddie Mac may emerge from conservatorship to resume independent operations, or they may emerge in some other form reflecting legislative changes to their congressional charters. Conservatorship preserves the status and claims of the preferred and common shareholders. The value of the warrants issued to the government under the terms of the PSPAs could potentially increase in value, thereby providing enhanced value to the taxpayers. Upon the government's exercise of the warrants, the GSEs would be required under the terms of the PSPAs to apply the net cash proceeds to pay-down the liquidation preference of the senior preferred stock.

Restrictions on the use of corporation resources – The terms of the PSPAs prohibit Fannie Mae and Freddie Mac from declaring any dividends on outstanding preferred or common stock until the senior preferred stock has been fully redeemed. The PSPAs also prohibit the redemption of any outstanding preferred or common stock without the prior consent of the Treasury until the senior preferred stock has been fully redeemed. The PSPAs require that the Director of FHFA consult with the Treasury before entering into any new compensation arrangements or increasing amounts or benefits payable under existing compensation agreements with certain executive officers. Treasury's Special Master for Executive Compensation, Kenneth R. Feinberg, will review all executive compensation arrangements subject to the PSPA requirement.

Preferred Stock Purchase Agreements

Program History: During FY 2008, the Department of the Treasury entered into agreements with Fannie Mae and Freddie Mac. The agreements are indefinite in duration and have a funding commitment limit of $100 billion each. These agreements were subsequently amended to have a funding commit limit of $200 billion each, and further amended in December, 2009, to replace the fixed-dollar-amount funding commitment limit with a formulaic limit that will automatically adjust upward quarterly by the amount of any cumulative reduction in net worth over the next three years. In exchange for entering into these agreements with these two GSEs, Treasury immediately received $1 billion of senior preferred stock in each GSE and warrants for the purchase of common stock of each GSE representing 79.9 percent of the common stock of each GSE on a fully-diluted basis at a nominal price. No taxpayer money was spent to receive the senior preferred stock.

Program Outlook: Treasury estimates that it will make $69 billion in payments under its funding commitment in FY 2010 and $23 billion in FY 2011.

GSE MBS Purchase Program

Program History: During September 2008, Treasury designated private sector firms to act as its financial agents to act as asset managers and custodian. Treasury began to fund the GSE MBS purchase program in September 2008, and the first purchases were made by Treasury's agents in the third week of September 2008. Program activity was initially reported in the Monthly Treasury Statement but is now also published in a more detailed form on FinancialStability.gov. In FY 2009, Treasury continued to implement the program, and purchased an estimated $190 billion of GSE MBS.

Program Outlook: Treasury purchased nearly $29.9 billion under its authority for this program in FY 2010. Treasury does not have authority to purchase securities under the program after December 31, 2009

GSE Credit Facility

Program History: This program would have provided liquidity if needed until December 31, 2009, but it was not been needed.

Program Outlook: Treasury did not use this program in FY 2010. Treasury does not have authority to purchase securities under the program after December 31, 2009.

Housing Finance Agencies Initiative

The Housing and Economic Recovery Act of 2008, signed into law on July 30, 2008, included authority for the Secretary of the Treasury to purchase obligations of the Housing GSEs. These entities include: Fannie Mae, Freddie Mac, and the FHLBs. On October 19, 2009 Treasury announced the Housing Finance Agencies Initiative, including the New Issue Bond Program and the Temporary Credit and Liquidity Program.

In designing these two initiatives, specific steps were taken to protect the taxpayer. In particular, consideration was given to the six factors set forth in the Act as discussed below.

The need for preferences or priorities – The Housing GSEs are participating in the TCLP and NIBP based on an assessment by the Housing GSEs and the FHFA that these are commercially reasonable transactions for the Housing GSEs to undertake. Under both the TCLP and the NIBP, participating HFAs will pay the Housing GSEs and Treasury a fee designed to cover risk posed by the HFA. The HFA Initiative is designed so that the Initiative is unlikely to impose any losses on either the Housing GSEs or the taxpayers. In addition, both the TCLP and the NIBP are designed to maintain the health of the HFAs while still protecting the taxpayer. The fee for HFAs to use the TCLP will increase over time. This increasing cost to the HFAs will encourage the HFAs to transition from the TCLP to private market financing alternatives as quickly as possible. Before the HFAs can use the NIBP to issue bonds purchased by the GSEs, they will be required to sell to the private market an amount of shorter-term bonds in a ratio equal to 40 percent of aggregate bond proceeds, with the other 60 percent of bonds represented by the bonds purchased through NIBP.

Limits on maturity or disposition of obligations or securities – The duration and maturities of the obligations undertaken by the Housing GSEs have been set in a manner that is consistent with commercially reasonable practices. Treasury can at any time, e.g., when the secondary market for HFA housing bonds recovers, instruct the issuing Housing GSE to dissolve any GSE security that Treasury has purchased, at which time the Housing GSE will deliver the underlying HFA housing bonds to Treasury's designee for resale.

Housing GSEs' plans for orderly resumption of private market funding or capital market access – Under conservatorship, Fannie Mae and Freddie Mac continue to operate as going concerns, and the issuance of the Senior Preferred Stock Purchase Agreement, and Treasury's corresponding commitment of funding for the next three years so that each Housing GSE maintains a positive net worth, should continue to strengthen their ability to secure financing in the capital markets. The Housing GSEs and FHFA have assessed the NIBP and TCLP programs as being commercially reasonable, so the Housing GSEs will be executing these programs through commercially reasonable capital markets transactions. We don't envision any negative impact on the Housing GSEs' resumption of private market funding or capital market access from executing the HFA Initiative.

Probability of the Housing GSEs fulfilling the terms of their obligations - The pricing and fee structure of the TCLP and NIBP were designed to be commercially reasonable, and allow the Housing GSEs to fully cover all costs of the programs. Therefore, it is expected that the Housing GSEs will be able to fulfill all of their obligations under the HFA Initiative. The HFA Initiative will be funded by fees paid by the HFAs to the Housing GSEs, and is not expected to impose any additional costs on taxpayers.

Need to maintain the Housing GSEs' status as private shareholder-owned companies – Both the TCLP and NIBP have been entered into by the Housing GSEs with the approval of FHFA on commercially reasonable terms. Based on pricing and the fee schedule for both programs, the Housing GSEs expect a commercially reasonable return from participating in these programs. We don't envision any negative impact to the Housing GSEs or shareholders from executing the HFA Initiative.

Restrictions on the use of corporation resources – Fannie Mae and Freddie Mac have already been made subject to executive compensation restrictions. The TCLP and NIBP do not place additional restrictions on the use of corporation resources.

New Issue Bond Program

Program History: During FY 2009, the Department of the Treasury entered into a Memorandum of Understanding with Fannie Mae, Freddie Mac and the Federal Housing Finance Agency (FHFA) outlining the obligations of each party with regard to the HFA Initiative transactions. The Housing GSEs are participating in the TCLP and NIBP based on an assessment by the Housing GSEs and the FHFA that these are commercially reasonable transactions for the Housing GSEs to undertake. Under the terms of the NIBP, Treasury will purchase GSE securities backed by housing bonds issued by the state and local HFAs. Nearly $15.3 billion has been allocated to state and local HFAs through the NIBP to issue new bonds under this program

Program Outlook: Treasury estimates that it will make $15.3 billion in purchases under its authority for this program in FY 2010. Treasury does not have authority to enter additional purchase commitments under the program after December 31, 2009.

Temporary Credit and Liquidity Program

Program History: During FY 2009, the Department of the Treasury entered into a Memorandum of Understanding with Fannie Mae, Freddie Mac and the Federal Housing Finance Agency (FHFA) outlining the obligations of each party with regard to the HFA Initiative transactions. The Housing GSEs are participating in the TCLP and NIBP based on an assessment by the Housing GSEs and the FHFA that these are commercially reasonable transactions for the Housing GSEs to undertake. Under the terms of the TCLP, Treasury will purchase participation interests in GSE liquidity facilities available for outstanding housing bonds issued by the state and local HFAs. $8.2 billion has been allocated to state and local HFAs through the TCLP to use the credit and liquidity facilities.

Program Outlook: Treasury estimates that it will make $8.2 billion in purchases under its authority for this program in FY 2010. Treasury does not have authority to enter additional purchase commitments under the program after December 31, 2009.

Section 2 – Budget Adjustments and Appropriation Language

2.1 Summary of Appropriation Highlights

Total Housing GSE Assistance Program
Summary of Appropriation Highlights
(dollars in thousands)

Preferred Stock and Program Accounts	2009 Actual	2010 Budget Estimate	2010 Current Estimate	2011 Estimate	Increase (+) Decrease (-)
Obligations:					
Preferred Stock Purchase Account	$95,600,000	$41,293,0000	$69,000,000	$23,000,000	-$46,000,000
HFA Initiative and GSE MBS Purchase Program Account	$19,200	$13,000	$36,420	$25,143	-$11,277
Total Obligations	**$95,619,200**	**$41,306,000**	**$69,036,420**	**$23,025,143**	**-$46,011,277**
Budget Authority:					
Preferred Stock Purchase Account	$400,000,000	$0	$304,400,000	$235,400,000	-$69,000,000
HFA Initiative and GSE MBS Purchase Program Account	$19,200	$13,000	$36,420	$25,143	-$11,277
Total Budgetary Authority	**$400,019,000**	**$13,000**	**$304,436,420**	**$235,425,143**	**-$69,011,277**
Outlays:					
Preferred Stock Purchase Account	$95,600,000	$41,293,000	$69,000,000	$23,000,000	-$46,000,000
HFA Initiative and GSE MBS Purchase Program Account	$11,870	$13,000	$36,420	$25,143	-$11,277
Total Outlays	**$95,611,870**	**$41,306,000**	**$69,036,420**	**$23,025,143**	**-$46,011,277**

2.2 Summary of Mandatory Receipts

Summary of Mandatory Receipts
(dollars in thousands)

Preferred Stock Account	2009 Actual	2010 Budget Estimate	2010 Current Estimate	2011 Estimate	Increase (+) Decrease (-)
Mandatory Receipts:					
Preferred Stock Dividend Receipt Account	$4,336,305	$6,680,000	$12,254,166	$17,565,000	$5,310,834
Total Receipts	**$4,336,305**	**$6,680,000**	**$12,254,166**	**$17,565,000**	**$5,310,834**

2.3 Financing Accounts- Non-Budgetary Summary

Financing Accounts – Non-Budgetary Financial Summary

(dollars in thousands)

		2010			
	2009 Actual	Budget Estimate	Current Estimate	2011 Estimate	Increase (+) Decrease (-)
GSE MBS Direct Loans:					
Obligations	$200,641,064	$75,414,000	$52,504,874	$0	-$52,504,874
Collections	$29,688,822	$67,606,000	$38,101,102	$42,100,386	$3,999,284
Financing Authority(net)	$203,501,477	$7,808,000	$23,973,502	-$35,969,322	-$59,942,824
Financing Disbursements(net)	$170,953,194	$7,808,000	$3,406,811	-$35,969,322	-$39,376,133
State HFA NIBP:					
Obligations	$0	$0	$15,816,541	$0	-$15,816,541
Collections	$0	$0	$1,255,479	$1,460,527	$205,048
Financing Authority(net)	$0	$0	$18,050,605	-$1,449,498	-$19,500,103
Financing Disbursements(net)	$0	$0	$17,665,841	-$1,449,498	-$19,115,339
State HFA TCLP:					
Obligations	$0	$0	$8,995,194	$0	-$8,995,194
Collections	$0	$0	$277,674	$350,025	$72,351
Financing Authority(net)	$0	$0	$11,152,243	-$360,127	-$11,512,370
Financing Disbursements(net)	$0	$0	$5,613,429	-$360,127	-$5,973,556

2B – Appropriations Language and Explanation of Changes

The Housing Government Sponsored Enterprise Programs and the Housing Finance Agencies Initiative Programs do not receive any discretionary appropriation authority from the Congress. Therefore, no appropriations language is proposed.

2C – Legislative Proposals

There are no current proposals for amending the enacting legislation.

2D – Probability of Repayment

At the end of December, 2009, Treasury closed on all GSE MBS Purchases and State and Local Housing Finance Agency transactions. The programs have a negative subsidy estimate meaning anticipated net receipts for the government is in excess of outlays.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/offices/management/budget/strategic_plan.shtml

3.1 – Budget by Strategic Outcome

Dollars in Thousands

TREASURY Strategic Outcome	FY 2010 Estimated AMOUNT	FY 2011 Estimated AMOUNT	Percent Change AMOUNT
Stabilizing Economy- PSPA	$69,000,000	$23,000,000	**-37.68%**
Stabilizing Economy- MBS	29,877,874	0	**-100.00%**
Stabilizing Economy- Credit Facility	0	0	**0%**
Stabilizing Economy- NIBP	15,308,598	0	**-100.00%**
Stabilizing Economy- TCLP	8,209,840	0	**-100.00%**

3A – Preferred Stock Purchase Agreements *($23 Billion):* The function of the PSPAs is to instill confidence in investors that Fannie Mae and Freddie Mac will remain viable entities critical to the functioning of the housing and mortgage markets. Treasury entered into a PSPA with each GSE to ensure that each enterprise maintains a positive net worth.

This measure enhances market stability by providing additional confidence to holders of Fannie Mae and Freddie Mac securities, which, in turn, leads to increased mortgage affordability. This commitment also eliminates any mandatory triggering of receivership. To this end, the PSPAs are an effective means of averting systemic risk while at the same time protecting the taxpayer. They are more efficient than a one-time equity injection, in that Treasury will use them only as needed and on terms that the Treasury deems appropriate.

In exchange for entering into these agreements with the GSEs, Treasury received $1 billion on senior preferred stock in each GSE and warrants for the purchase of common stock of each GSE representing 79.9 percent of the common stock of each GSE on a fully-diluted basis at a nominal price. The senior preferred stock accrues dividends at 10 percent per year. The rate will increase to 12 percent if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid in cash.

Beginning March 31, 2011, the GSEs shall pay the Treasury on a quarterly basis a periodic commitment fee that will compensate the Treasury for the explicit support provided by the agreement. The Secretary of the Treasury and the Conservator shall determine the periodic commitment fee in consultations with the Chairman of the Federal Reserve. This fee may be paid in cash or may be added to the senior preferred stock.

3.2.1 – Preferred Stock Purchase Agreement Budget and Performance Plan

Description of Performance:

PSPA program offices track metrics to assess Fannie Mae and Freddie Mac's health and contribution to mortgage market stability. To assess the contribution of Fannie Mae and Freddie Mac to mortgage availability, the Housing GSE program tracks the percentage of agency MBS issuance of total MBS issuance and the dollar volume of mortgage purchases by the GSEs. During FY 2009, the majority of MBS were originated by the GSEs, contributing substantially to the stabilization of housing markets. To assess program management and ensure the stability of the GSEs, the program tracks the condition of the GSEs in coordination with the FHFA and makes PSPA disbursements as necessary. Increasing stability in the housing market has resulted in declining disbursements to the GSEs in recent quarters. Projected disbursements for FY 2010 and FY 2011 are $69 billion and $23 billion, respectively.

3B – GSE MBS Purchase Program (*No funding):* The function of the GSE MBS Purchase Program was to help improve the availability of mortgage credit to American homebuyers and mitigate pressures on mortgage rates. To promote the stability of the mortgage market, Treasury purchased GSE MBS in the open market. By purchasing these guaranteed securities, Treasury sought to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability.

The size and timing of this program was subject to the discretion of the Secretary of the Treasury. The scale of the program was based on developments in the capital markets and housing markets. Given that Treasury can hold these securities to maturity, the spreads between Treasury issuances and GSE MBS should result in a positive return to the Taxpayer.

Treasury has designated independent asset managers as financial agents to undertake the purchase and management of portfolio of GSE MBS on behalf of Treasury. The portfolios are managed with clear investment guidelines and investment objectives. The primary objectives of this portfolio are to promote market stability, ensure mortgage availability, and protect the taxpayer.

Treasury purchases of GSE MBS were deemed as outlays, and the debt incurred to fund the purchases is subject to the statutory debt limit. However, Treasury is receiving an income producing asset in return for its invested funds.

Treasury does not have the authority to purchase GSE MBS beyond December 31, 2009.

3.2.2 – GSE MBS Purchase Program Budget and Performance Plan

Description of Performance:

The MBS Purchase Program utilizes a broad range of market indicators in daily operations to ensure funds support mortgage availability for both current and prospective homeowners and promote secondary market stability. The program also utilizes risk assessment techniques, including scenario analysis and cash flow forecasts, to ensure zero principal loss on outlays. Risk management practices will constitute the bulk of program operations in FY 2011, as no additional purchases beyond December 31, 2009 are currently permitted under law.

3C – GSE Credit Facility *(No funding):* The function of the GSE Credit Facility was to maintain credit availability to the housing GSEs by providing secured funding on an as needed basis under terms and conditions established by the Secretary of the Treasury to protect taxpayers. Fannie Mae, Freddie Mac, and FHLBs were eligible to borrow under this program if needed. This facility offered liquidity if needed until December 31, 2009. Treasury did not use this program in FY 2010.

Funding was to be provided directly by Treasury from its general fund held at the Federal Reserve Bank of New York in exchange for eligible collateral from the GSEs which was limited to guaranteed mortgage backed securities issued by Freddie Mac and Fannie Mae as well as advances made by the FHLBs. All such assets pledged against loans were to be accepted with appropriate collateral margins as determined by Treasury.

Loans were to be for short-term durations and were in general expected to have been for less than one month but no shorter than one week. The rate on a loan request ordinarily was to be based on the daily LIBOR fix for a similar term of the loan plus 50 basis points. The rate was to be set at the discretion of the Secretary of the Treasury with the objective of protecting the taxpayer, and was to be subject to change. All loans were to be collateralized and collateral was limited to mortgage backed securities issued by Freddie Mac and Fannie Mae and advances made by the FHLBs. Loans were not to have been made with a maturity date beyond December 31, 2009.

3.2.3 – GSE Credit Facility Budget and Performance Plan

Description of Performance:

As the Credit Facility has been terminated, there are no related performance metrics for this program.

3D – New Issue Bond Program *(No funding):* The function of the NIBP is to provide stability to financial markets and prevent disruptions in mortgage finance availability by providing a temporary supplemental market for newly issued HFA housing bonds. By temporarily supplementing private demand for HFA production until the market can recover, the NIBP will enable HFAs to keep their lending programs active while they adapt to changing market conditions. The program will support the availability of mortgage credit and affordable rental properties for low and moderate income Americans.

Program sized to meet demand. HFAs submitted detailed program participation requests to Treasury's financial agents. In order to haircut the NIBP requests to an acceptable level that could be recommended for adoption, a methodology was developed and applied to arrive at final allocation recommendations under the program for state and local HFAs. The allocation methodology was based primarily on the 2008 HERA allocations to HFAs and historical HFA issuance.

Support for both single-family and multi-family bonds. HFAs were able to request that a portion or all of their NIBP allocation be used to issue single or multi-family bonds. The amount of multi-family bond issuance is subject to a cap at the program level. Two types of multi-family bonds are allowed under the program: bonds that finance single-projects and bonds where proceeds can be used to finance multiple-projects that are approved or guaranteed by Fannie Mae, Freddie Mac, or the Federal Housing Administration. Both single-family and multi-family bond issuance will also be subject to additional requirements.

Protecting taxpayers. HFAs will pay the GSEs and Treasury an amount intended to cover both the cost of financing the newly issued bonds as well as a fee designed to cover risk posed by the HFA. Generally speaking, the interest rate on newly issued HFA bonds will be set to equal a short-term Treasury interest rate for the period in which the proceeds are held in reserve before being drawn down by the HFAs to originate mortgages. Within 30 days of the proceeds being drawn down, the interest rate on the bond will increase to cover Treasury's cost of financing (set at the 10-year Treasury rate) plus the additional fee designed to offset risk to the taxpayer.

Required sale of bonds to private market to impose market discipline and further leverage investment. The proceeds from issued bonds will be placed in escrow until used by the HFAs to fund new mortgages in 2010. Before the HFAs can use the proceeds, they will be required to sell to the private market an amount of shorter-term bonds in a ratio equal to 40 percent of aggregate bond proceeds, with the other 60 percent of bonds represented by the bonds purchased through NIBP. This means that our temporary investment will be leveraged to create even more low-rate mortgages for working families, while at the same time using market discipline to help mitigate risk to the taxpayer.

3.2.4 – New Issue Bond Program Budget and Performance Plan

Description of Performance:

Treasury and its financial agents continue to monitor the housing markets as well as other indicators which have an impact on the HFAs. Through monitoring these indicators, as well as the performance of the HFAs, Treasury will assess the relative health of the HFAs in FY 2011. No additional assistance beyond December 31, 2009 is currently permitted under law.

3E – Temporary Credit and Liquidity Program *(No funding):* The function of the TCLP is to help relieve current financial strains for HFAs and enable them to continue to serve their important role in providing housing resources to working families. The TCLP will provide HFAs with temporary credit and liquidity facilities to preserve the viability of the HFA infrastructure so that HFAs can continue their Congressionally supported role in helping provide affordable mortgage credit to low and moderate income Americans, as well as continue their other important activities in communities.

Reducing costs of maintaining existing financing for HFAs. Through Fannie Mae and Freddie Mac, the TCLP will provide replacement credit and liquidity facilities to HFAs that will help reduce the costs of maintaining existing financing for the HFAs. Treasury will backstop the replacement liquidity by purchasing a participation interest in the GSE temporary credit and liquidity facilities for the HFAs using HERA authority.

Program sized to meet demand. HFAs submitted detailed program participation requests to Treasury's financial agents for the Temporary Credit and Liquidity Program (TCLP). No allocation process was required because requests came in at a total below the program cap.

Protecting Taxpayers. The HFAs will pay the GSEs and Treasury a fee designed to cover risk posed by the HFA. Other specific features of the program are also designed to maintain the health of the HFAs while still protecting the taxpayer, such as limiting the requirement for accelerated amortization of principal for bonds that end up using the program.

Temporary solution, with incentives for HFAs to quickly transition back to market financing. The fee for HFAs to use the TCLP will increase over time. This increasing cost to the HFAs will encourage the HFAs to transition from the TCLF to private market financing alternatives as quickly as possible.

Terms designed to facilitate sustainable business models for housing agencies. The liquidity facilities under the TCLP program are only available for outstanding bonds.

3.2.5 – Temporary Credit and Liquidity Program Budget and Performance Plan

Description of Performance:

Treasury and its financial agents continue to monitor the housing markets as well as other indicators which have an impact on the HFAs. Through monitoring these indicators, as well as the performance of the HFAs, Treasury will assess the relative health of the HFAs in FY 2011. No additional assistance beyond December 31, 2009 is currently permitted under law.

Treasury Forfeiture Fund

Mission Statement

To affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus participating in the Treasury Forfeiture Fund to disrupt and dismantle criminal enterprises.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2009	FY 2010	FY 2011		
	Actual	Estimated	Estimated	$ Change	% Change
Asset Forfeiture Fund	$483,586	$600,000	$526,000	($74,000)	(12.3%)
Total Resources	**$483,586**	**$600,000**	**$526,000**	**($74,000)**	**(12.3%)**
Total FTE	**20**	**22**	**22**	**-**	**-**

FY 2011 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.

- 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. This approach will have the greatest impact on criminal organizations and thus will accomplish the ultimate mission of the Fund to disrupt and dismantle criminal enterprises. The enhancement of forfeiture activity requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that support large case initiatives including the purchase of evidence and information, joint operations expenses, investigative expenses leading to seizure, and asset identification and removal teams. In addition, it is also a priority to fund revenue-enhancing projects such as major case funding, database development and computer forensics through the use of the Secretary's Enforcement Fund or Super Surplus funds when available.

Priorities: Asset seizure and forfeiture is a priority for the Fund's participating law enforcement organizations, as well as the Department of the Treasury, and is linked directly to the National Money Laundering 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 2009, 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 2009 continued a pattern of robust revenue years with income from forfeitures and recoveries totaling $600 million. Among the forfeiture deposits during FY 2009 was $175 million forfeited by Lloyds TSB Bank ("Lloyds") as part of a Deferred Prosecution Agreement. Lloyds, a financial institution registered and organized under the laws of England and Wales, agreed to forfeit $350 million as a settlement with the U.S. Government ($175 Million) and the State of New York ($175 Million) after U.S. investigators found that it falsified information on electronic fund transfers from Iranian and Sudanese banks to U.S. banks.

Future Outlook: Management forecasts a continued robust program for FY 2010 and FY 2011 with forfeiture revenue and recoveries estimated at $502 million, respectively. In FY 2009, the Forfeiture Fund continued to experience higher-than-anticipated revenues as a result of some unusually large forfeiture cases. While estimates for FY 2010 and FY 2011 reflect a higher level of revenue than that set by historical patterns; generally, it is difficult to predict forfeiture revenue into the future. Much depends on the staffing and workload priorities of member bureaus. Fund Management continues to monitor the status of high impact cases through performance measurement and monthly reporting by member bureaus.

FY 2010: For FY 2010, 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 2011: The Treasury Forfeiture Fund is a vital, continuing, business enterprise that is essential in its importance to our member law enforcement bureaus. Given the priorities of the National Money Laundering Strategy and the law enforcement priorities of our member bureaus, the outlook for FY 2011 is similar to FY 2010; management intends to maintain a dynamic and evolving asset forfeiture program that is responsive to the needs of our member law enforcement bureaus. At this time, Fund management projects a Super Surplus of $42 million for FY 2011. Because it is difficult to project forfeiture revenue into the future, this estimate is contingent upon the actual performance of member bureaus during FY 2010.

The FY2011 President's Budget proposes to return $62 million from the Treasury Forfeiture Fund to the Treasury's General Fund in order to reduce the need for Federal borrowing to finance government operations. In the last two appropriations bills, Congress has elected to enact a temporary rescission of Treasury Forfeiture Fund balances, rather than a permanent cancellation of balances. This budget treatment does not allow the rescinded amount to be deposited into the General Fund, but rather simply delays spending for one year. The Forfeiture Fund will not be able to return the money to the Treasury's General Fund thereby reducing budget deficit, unless the Congress enacts a permanent cancellation of balances.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Treasury Forfeiture Fund	FY 2009 Obligated	FY 2010 Estimated	FY 2011 Estimated
FTE	**20**	**22**	**22**
Object Classification:			
25.2 - Other services	144,137	215,000	215,000
25.3 - Other purchases of goods and services from Govt. accounts	155,669	235,000	161,000
41 - Grants, subsidies, and contributions	183,780	150,000	150,000
Total Budget Authority	**$483,586**	**$600,000**	**$526,000**
Budget Activities:			
Asset Forfeiture Fund	483,586	600,000	526,000
Total Budget Authority	**$483,586**	**$600,000**	**$526,000**

2.3 – Resource Detail Table

Table 2.3 Resource Detail Table

Dollars in thousands

The Fund has no direct FTE.	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated	% Change FY 2010 to FY 2011
Revenue:				
Sources:				
Carryover from prior year	$183,082	$299,970	$141,970	-52.67%
Restoration of temporary rescission		$30,000	$90,000	
Current year forfeiture revenue	630,474	502,000	502,000	0.00%
Total Revenue	813,556	831,970	733,970	-11.78%
Uses:				
Permanent Authority (Obligations)	483,586	600,000	526,000	-12.33%
Total Obligations	483,586	600,000	526,000	-12.33%
Rescission of Unobligated Balances: [1/]				
1. Public Law 111-8 Omnnibus Appropriatons Act, 2009	-30,000			
2. Public Law 111-117 Consolidated Appropriations Act, 2010		-90,000		
Cancellation of Unobligated Balances:				
1. Proposed Cancellation of Unobligated Balances			-62,000	
Subtotal, Reduction to Unobligated Balances	-30,000	-90,000	-62,000	-31.11%
Carryover to next year [2/]	299,970	141,970	145,970	2.82%

[1/] In both FY 2009 and FY 2010, the Administration proposed a permanent cancellation of a portion of the Fund's unobligated balances. In both of these years, Congress enacted appropriations legislation that made the rescissions temporary.

[2/] The Fund incurs expenses immediately upon the start of the new year, including costs of an extensive array of property contracts which must be funded without delay. Therefore, a carryover is required each year.

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY TREASURY FORFEITURE FUND Of the unobligated balances available under this heading, [$90,000,000] *$62,000,000* are [rescinded] *hereby permanently cancelled*.	For FY 2011, $62,000,000 of unobligated balances is proposed for permanent cancellation.

2C – Legislative Proposals

The Treasury Forfeiture Fund has no legislative proposals for FY 2011.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/offices/management/budget/strategic_plan.shtml

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Estimated	FY 2011 Estimated	Percent Change
National security	600,000	526,000	**-12.33%**
Total	**$600,000**	**$526,000**	**-12.33%**

3A – Asset Forfeiture Fund *($526,000,000 from reimbursable programs):* The function of the Treasury Forfeiture Fund (the Fund) is to ensure resources are managed to cover the costs of an effective asset seizure and forfeiture program, including the costs of seizing, evaluating, inventorying, maintaining, protecting, advertising, forfeiting and disposing of property. Asset forfeiture is used by federal law enforcement to disrupt and dismantle criminal enterprises.

Summary of Treasury Forfeiture Fund Authorities: The Treasury Forfeiture Fund is a special fund with permanent, indefinite authority. Special funds are federal fund collections that are earmarked by law for a specific purpose, and which consist of separate receipt and expenditure accounts. The enabling legislation for the Treasury Forfeiture Fund (31 U.S.C. § 9703) defines those purposes for which the Fund’s revenue may be used. Forfeiture revenue on deposit in the Fund can be allocated and used as the result of a permanent indefinite appropriation provided by Congress.

A forfeiture process begins once property or cash is seized. Upon forfeiture, seized currency, initially deposited into a suspense, or holding account, is transferred to the Fund as forfeited revenue. Once forfeited, physical properties are sold and the proceeds are deposited into the Fund as forfeited revenue. It is forfeiture revenue that composes the budget authority for meeting expenses of running the Treasury Forfeiture Fund program.

Expenses of the Fund are set in a relative priority so that operating costs are met first. Expenses may not exceed revenue in the Fund.

Types of spending authority of the Fund:

The **mandatory authority** items are generally used to meet the operating costs of the Fund, including expenses of storing and maintaining seized and forfeited assets, valid liens and mortgages, investigative expenses incurred in pursuing a seizure, information and inventory systems, and certain costs of local police agencies incurred in joint law enforcement operations. Following seizure, equitable shares are paid to state and local law enforcement agencies that contributed to the seizure activity at a level proportionate to their involvement.

Secretary's Enforcement Fund (SEF) is derived from equitable shares received from the Department of Justice or U.S. Postal Service (USPS) forfeitures. These shares represent Treasury's portion in the overall investigative effort that lead to a Justice or USPS forfeiture. SEF revenue is available for Federal law enforcement purposes of any law enforcement organization participating in the Treasury Forfeiture Fund.

Super Surplus represents the remaining unobligated balance at the close of the fiscal year after an amount is reserved for Fund operations in the next fiscal year. Super Surplus can be used for any federal law enforcement purpose.

3.2.1 – Asset Forfeiture Fund Budget and Performance Plan

Asset Forfeiture Fund Budget Activity Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Estimated	FY 2011 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$391,512	$597,287	$483,586	$600,000	$526,000
Total Resources	**$391,512**	**$597,287**	**$483,586**	**$600,000**	**$526,000**
Budget Activity Total	**$391,512**	**$597,287**	**$483,586**	**$600,000**	**$526,000**

Asset Forfeiture Fund Performance Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Percent of forfeited cash proceeds resulting from high-impact cases (%) (Oe)	84.18	86.91	75	87.65	75	80

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

Description of Performance: For FY 2011, the Fund will continue to measure the performance of the participating law enforcement bureaus through the use of the performance measure: percent of forfeited cash proceeds resulting from high impact cases. This measures the percentage of forfeited cash proceeds resulting from high impact cases, which includes those with currency forfeitures in excess of $100,000. Focusing on strategic case and investigations that result in high impact forfeitures will do the greatest damage to criminal organizations while accomplishing the ultimate objective which is to disrupt and dismantle criminal activity.

Target: A target of 80 percent has been set for this performance measure. The target allows for those cases that may not be high impact in nature but are important to the exercise of law enforcement. The measure is calculated by dividing the total amount of forfeited cash proceeds from cases that are equal to or greater than $100,000 by the total amount of cash proceeds from all cash forfeiture cases. The data is regularly available to Fund management and provided through accounting systems that record the data and is audited annually as part of the annual financial statement audit process.

Performance Exceeds Target: Member law enforcement bureaus participating in the Treasury Forfeiture Fund have met or exceeded the performance target in five of the last six fiscal years.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://treas.gov/offices/management/budget/

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The Treasury Forfeiture Fund is managed by the Treasury Executive Office for Asset Forfeiture (TEOAF), a policy office that reports to the Assistant Secretary for Terrorist Financing. TEOAF will reimburse Treasury's Departmental Offices covering the salaries and benefits of TEOAF staff, General Counsel positions, and Procurement Services Division staff.

The Departmental Offices (DO) Office of Human Resources (OHR) ensures the availability of tools required to manage the human capital that supports accomplishment of DO's strategic goals and mission. OHR does this through the provision of sound advice and guidance to managers and execution of processes related to staff employment, retention, recognition, employee and labor relations, benefits, performance management and development.

4B – Information Technology Strategy

The Treasury Forfeiture Fund uses Departmental Offices systems and is part of their information technology strategy. The Department is extremely reliant on its Information Technology infrastructure. The cost associated with this infrastructure represents one of the greatest opportunities the Department has for parlaying the savings from greater efficiency to the deployment of new capabilities. In light of this, the Treasury E-Board has endorsed the following multi-faceted strategy for assessing and executing against the opportunities that exist for reducing the cost of the Department's IT infrastructure:

- Converge our voice and data networks to a more capable and cost effective platform;
- Expand the usage of virtualization technologies to further improve the cost efficiency of our computing centers;
- Promote greater leverage of either Department-wide or multi-bureau IT capabilities (i.e., data centers, enterprise content management, etc.); and
- Ensure the usage of cross enterprise licensing for commodity software and hardware.

Treasury Franchise Fund

Mission Statement

To assist customer agencies in meeting their mission by providing responsive, customer-focused, cost-effective financial management and administrative support services.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2009	FY 2010	FY 2011		
	Actual	Estimated	Estimated	$ Change	% Change
Consolidated/Integrated Administrative Management	$15,261	$0	$0	$0	0%
Financial Management Administrative Support Services	$146,400	$167,998	$176,213	$8,215	4.9%
Financial Systems, Consulting and Training	$4,811	$0	$0	$0	0%
Total Resources	**$166,472**	**$167,998**	**$176,213**	**$8,215**	**4.9%**
Total FTE	**944**	**1,003**	**1,043**	**40**	**4.0%**

FY 2011 Priorities

- Maintain outstanding operational service to customer agencies.
- Promote and maximize shared services benefits in support of Treasury and government-wide initiatives.
- Participate in government-wide forums and support good government through maintaining and enhancing compliance and accountability.
- Review services offered to ensure delivery of timely, valuable and cost effective solutions.
- Continue to assess and report our performance and provide timely feedback to customers.
- Enhance human capital strategies to recruit, develop and provide for a challenging, rewarding and values based work environment.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Franchise Fund's (The Fund) vision is to be a leader in providing responsible, effective administrative support services through commitment to service, efficient operations, openness to change and values based behavior. The Fund provides accounting, procurement, travel, human resources, and information technology services through the Bureau of the Public Debt (Public Debt), Administrative Resource Center (ARC). Services are provided to more than 70 federal customers, including most of the Department of the Treasury, on a reimbursable, fee-for-service basis. In FY 2009, 944 FTE were dedicated to servicing franchise customers and generated over $150 million in earned revenue.

The Fund's top priority is to support Treasury and government-wide initiatives by providing timely, high quality, cost effective, and value added administrative support services. This requires continual assessment of services offered to market demands and adherence to The Fund's "good government" vision. This vision ensures compliance with applicable rules and regulations, promotes cost savings through efficient and standardized service delivery while maintaining high customer satisfaction.

A major operational priority is to assess and report on service delivery performance and provide customers with timely performance feedback in areas in which The Fund and customers must work together to successfully perform administrative services. This includes improving the Shared Service Provider (SSP) performance metrics and benchmarks and providing standardized feedback to customers on performance. Performance feedback is critical to customers' ability to improve the efficiency of their own operations, which will lower the level of effort required to support them and maximize the benefits achieved through shared services.

Another operational priority is enhancing infrastructure to better support customers in a SSP role. This is being accomplished by the partnering of service lines to migrate our Oracle E-Business Suite platforms to a commercial host. As planned, two of the platforms were successfully migrated in FY 2009, and the final platform is planned for FY 2010. In addition, the information technology business line is working to implement the infrastructure changes necessary to serve the role of a Trusted Internet Connection Access Provider (TICAP) for Treasury. Through completion of these enhancements, ARC will continue to work with customers to identify additional platform and service improvements in FY 2011.

Over half of The Fund's budgetary resources are used for salaries and benefits. For that reason, human capital strategies are always a high priority. The Fund's goal is to recruit high quality, dedicated employees that care about the success of ARC and its customers. The Fund also focuses on development processes to educate and train staff on new responsibilities as federal stewards, and providing a challenging, rewarding and values based work environment.

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 twelve operating principles for business-like organizations, including provider competition, customer's voluntary exit, full cost recovery, initial capitalization and performance measurement and benchmarking.

In 1996, OMB designated the Department of the Treasury as one of the six Executive Branch agencies authorized to establish a franchise fund program. The Fund began operations in 1997 with six Franchise Business Activities (FBA), less than 80 FTE and earned revenue of $38 million.

In FY 2008, The Fund's services were reviewed for consistency with Treasury's core mission and to ensure that they are advantageous as shared services. This resulted in the decision to transition out of the consulting and training business lines provided by the Federal Consulting Group (FCG) and the Financial Management Services' (FMS), Treasury Agency Services (TAS), as well as, the interagency acquisition services provided by FedSource.

In FY 2009, ARC worked with FMS to migrate TAS from The Fund, successfully transitioned FCG to another federal host and substantially closed out the FedSource business activity. Therefore, in FY 2010 and 2011 the administrative services provided by ARC are the only services provided.

<u>Future Outlook</u>

In FY 2011, The Fund will maintain its commitment to excellence and continue to meet all strategic goals and benchmarks. ARC continues to look for measured and controlled growth opportunities to expand existing service lines or add other value added, marketable administrative services.

As a SSP, The Fund plays an important role in achieving the current administration's goals of improving efficiency, cost effectiveness, and accountability within the federal sector. This is attributable to demonstrated successes in reducing duplication, providing accurate and timely financial management information and providing responsive support for government-wide initiatives.

ARC's estimated FY 2011 FTE and earned revenue are 1,043 and $179 million, respectively.

<u>Demonstrated Success – Eliminating Duplication</u>

<u>Shared Platform and Services</u>

ARC reduces the number of federal administrative systems by providing access to an integrated system platform for accounting, travel, procurement, human resources, and information technology services. In addition, as a SSP, ARC provides many customers with value added services, such as transaction processing and financial reporting.

ARC was designated by the Office of Management and Budget (OMB) as a Center of Excellence for Financial Management Line of Business (FMLoB) and a Shared Services Center for Information Systems Security (ISSLoB). In addition, ARC has critical supporting roles in the Human Resources (HRLoB) and Public Key Infrastructure (PKI) SSP designations of the Department of Treasury.

ARC currently provides:
- 30 organizations with accounting services
- 37 organizations with travel services
- 36 organizations with procurement services
- 31 organizations with personnel services
- 19 organizations with information technology services

Providing shared services to federal customers results in cost savings and improved quality and compliance. Savings are achieved through consolidated buying power and cost sharing opportunities in the areas of operations and maintenance, enhancements and upgrades. Improved quality and compliance is achieved through ARC's service model and standardized business processes that align with applicable laws, rules and regulations.

<u>Demonstrated Success –Timeliness and Accuracy</u>

<u>Timely and Accurate Financial Information</u>
ARC provides timely and high quality services in the area of financial reporting. Using ARC's Oracle E-Business Suite platform, federal managers have timely financial management information available for decision-making.

Internally, there is no better test for the accuracy and quality than annual financial statement and internal control audits. The Fund has received 13 consecutive unqualified audit opinions. In addition, ARC undergoes a Type II SAS-70 audit annually and has received 7 consecutive unqualified opinions. The SAS-70 results enhances customer confidence in ARC's systems and services and reduces agencies annual financial statement audit costs.

<u>Demonstrated Success – Responsiveness</u>
ARC has demonstrated the ability to respond timely to government-wide priorities. For example, increased emphasis on information security led ARC's information technology service line to become a leader in the federal government. On behalf of Treasury, ARC hosts and maintains PKI SSP infrastructure and is an OMB designated shared service center for the ISSLoB. Additionally, in FY 2009 ARC provided timely support to Treasury and other federal agencies in implementing the Troubled Asset Relief Program (TARP), the American Recovery and Reinvestment Act (ARRA) and the Housing and Economic Recovery Act of 2008 (HERA). ARC's support included implementation projects onto ARC platforms and providing administrative services in support of the agencies responsibilities under the acts.

1C – Industry Outlook

There is a positive outlook for shared services in the federal government. The Fund anticipates further growth in this sector due to OMB's Line of Business (LOB) initiatives and increased budget constraints.

There is tremendous synergy between the business model established by the Treasury several years ago and recent OMB initiatives. Each model supports the concept of sharing costs across agencies to reduce each entity's cost burden, especially capital investments in systems. In addition, most of the Lines of Business use competition to keep the costs of service providers to a minimum and to allow customer agencies to shop around for the service provider that best satisfies their needs.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Treasury Franchise Fund	FY 2009 Obligated	FY 2010 Estimated	FY 2011 Estimated
FTE	**944**	**1,003**	**1,043**
Object Classification:			
11.1 - Full-time permanent	69,033	70,047	75,651
11.3 - Other than full-time permanent	520	540	583
11.5 - Other personnel compensation	2,615	2,940	3,176
12 - Personnel benefits	19,414	21,270	22,972
13 - Benefits for former personnel	211	0	0
21 - Travel and transportation of persons	1,011	1,625	1,625
22 - Transportation of things	99	48	50
23.2 - Rental payments to others	697	13	13
23.3 - Comm, utilities, and misc charges	3,485	3,190	3,302
24 - Printing and reproduction	40	44	46
25.1 - Advisory and assistance services	4,328	5,503	3,810
25.2 - Other services	19,462	12,530	12,969
25.3 - Other purchases of goods and services from Govt. accounts	25,911	31,821	32,946
25.4 - Operation and maintenance of facilities	90	110	114
25.7 - Operation and maintenance of equip	7,243	8,410	8,703
26 - Supplies and materials	949	1,440	1,490
31 - Equipment	10,475	8,466	8,762
32 - Land and structures	877	0	0
42 - Insurance claims and indemnities	11	0	0
43 - Interest and dividends	1	1	1
Total Budget Authority	**$166,472**	**$167,998**	**$176,213**
Budget Activities:			
Consolidated/Integrated Administrative Management	15,261	0	0
Financial Management Administrative Support Services	146,400	167,998	176,213
Financial Systems, Consulting and Training	4,811	0	0
Total Budget Authority	**$166,472**	**$167,998**	**$176,213**

2.3 – Resource Detail Table

	FY 2009 Actual		FY 2010 Estimated		FY 2011 Estimated		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Spending Authority / Offsetting Collections								
Financial Mgt. Admin. Support Services		$148,442		$172,300		$178,883		3.82%
Consolidated/Integrated Admin. Mgt.		-126,457		Discontinued		Discontinued		N/A
Financial Systems, Consulting & Training		-8,664		Discontinued		Discontinued		N/A
Total Spending Authority / Offsetting Collections		**$13,321**		**$172,300**		**$178,883**		**3.82%**
Reimbursable Obligations Incurred								
Financial Mgt. Admin. Support Services	931	$146,400	1003	$167,998	1043	$176,213	3.99%	4.89%
Consolidated/Integrated Admin. Mgt.	12	15,261		Discontinued		Discontinued	N/A	N/A
Financial Systems, Consulting & Training	1	4,811		Discontinued		Discontinued	N/A	N/A
Total Obligations Incurred	**944**	**$166,472**	**1,003**	**$167,998**	**1,043**	**$176,213**	**3.99%**	**4.89%**
Net Results								
Financial Mgt. Admin. Support Services		$2,042		$4,302		$2,670		-37.94%
Consolidated/Integrated Admin. Mgt.		-141,718		Discontinued		Discontinued		N/A
Financial Systems, Consulting & Training		-13,475		Discontinued		Discontinued		N/A
Net Results		**-$153,151**		**$4,302**		**$2,670**		**-37.94%**

2B – Appropriations Language and Explanation of Changes

The Fund receives no appropriated funds from Congress.

2C – Legislative Proposals

The Fund has no legislative proposals for FY 2011.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/offices/management/budget/strategic_plan.shtml

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Estimated	FY 2011 Estimated	Percent Change
Aligned organization	167,998	176,213	**4.89%**
Total	**$167,998**	**$176,213**	**4.89%**

3A – Consolidated/Integrated Administrative Management *(No funding):* This Budget Activity consists of only one Federal Budget Activity, 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 contract support services and copier/printer management.

In FY 2009, ARC implemented Treasury's decision to transition out of the interagency acquisition business operated by FedSource. All FedSource offices were closed by March 31, 2009, with residual operational and closeout work performed by ARC staff. Substantially all FedSource customer agreements were closed out at the end of FY 2009, resulting in discontinuing this budget activity in FY 2010 and 2011.

3.2.1 – Consolidated/Integrated Administrative Management Budget and Performance Plan

Consolidated/Integrated Administrative Management Budget Activity					
Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Estimated	FY 2011 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$419,041	$180,361	$15,261	$0	$0
Total Resources	**$419,041**	**$180,361**	**$15,261**	**$0**	**$0**
Budget Activity Total	**$419,041**	**$180,361**	**$15,261**	**$0**	**$0**

Consolidated/Integrated Administrative Management Budget Activity						
Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Customer Satisfaction Index - Consolidated/Integrated Administrative Management (%)(Oe)	N/A	DISC	DISC	DISC	DISC	DISC
Operating expenses as a percentage of revenue--Consolidated/Integrated Administrative Management (%)(E)	4	18	DISC	DISC	DISC	DISC

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance:
With 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 measures are discontinued for this budget activity.

The Fund's objectives for the FedSource transition have been achieved. ARC developed a strategy to ensure customers were transitioned without loss of service and could continue their relationship with current vendors. In addition, employees received job placement and separation assistance and close-out costs were closely managed and controlled. ARC expects the FedSource closeout to be accomplished within FedSource's operating reserve balance.

3B – Financial Management Administrative Support Services *($176,213,000 from reimbursable programs):* This Budget Activity consists of only one Federal Business Activity, Administrative Resource Center (ARC).

The Financial Management Administrative Support Activity supports OMB's shared services concept and furthers "good government" by standardizing the administrative financial systems and processes required to operate federal organizations. Value is provided through cost sharing opportunities in systems capital investments and operating costs and through providing other high quality, value added services. ARC, a Center of Excellence for the FMLoB and a Shared Service Center for ISSLoB, provides traditional administrative support functions with a focus on accounting, procurement, travel, human resources, and information technology services. The program has been very successful in meeting its mission goals as evidenced by the increasing demands for services and the level of satisfaction expressed by customers.

3.2.2 – Financial Management Administrative Support Services Budget and Performance Plan

Financial Management Administrative Support Services Budget Activity					
Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Estimated	FY 2011 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$109,615	$96,952	$146,400	$167,998	$176,213
Total Resources	**$109,615**	**$96,952**	**$146,400**	**$167,998**	**$176,213**
Budget Activity Total	**$109,615**	**$96,952**	**$146,400**	**$167,998**	**$176,213**

Financial Management Administrative Support Services Budget Activity						
Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Customer Satisfaction Index – Financial Mgmt Admin Support Services (%)(Oe)	0	97	80	89	80	80
Operating expenses as a percentage of revenue—Financial Management Administrative Support (%)(E)	15	4	12	5	12	12

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance:
The Fund has established an outcome measure and target of 80 percent to determine performance in satisfying the needs of customer agencies. Annually, ARC conducts a customer satisfaction survey to assess performance within all service lines. For FY 2009, two thirds of ARC's customers responded to the survey, and an overall customer satisfaction rate of 89 percent was achieved.

The Fund has also established an efficiency measure and target of 12 percent for operating expenses as a percentage of total revenue. This provides franchise management with a measure that encourages efficiency in administrative operations and helps to assure services are provided at the lowest possible cost. ARC again met this performance measure in FY 2009 with a five percent operating expense ratio.

3C – Financial Systems, Consulting and Training *(No funding):* This Budget Activity consists of two Franchise Business Activities, Federal Consulting Group (FCG) and Treasury Agency Services (TAS).

The mission of FCG is to support other federal agencies transformation efforts to become more efficient, effective, citizen-centric, and results-oriented by providing performance measurement, consulting and executive coaching services. TAS's mission is to help agencies improve the quality of government financial management through providing information, advice, assistance, and training.

In FY 2009, ARC implemented Treasury's decision to transition out of the Financial Systems, Consulting and Training budget activity operated by FCG and TAS. In conjunction with FMS, TAS was transitioned from The Fund effective October 1, 2008. In addition, ARC successfully transitioned FCG to a new federal host in FY 2009. With the success of these transitions, The Fund discontinued this activity in FY 2010 and 2011.

3.2.3 – Financial Systems, Consulting and Training Budget and Performance Plan

Financial Systems, Consulting and Training Budget Activity					
Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Estimated	FY 2011 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$13,671	$13,691	$4,811	$0	$0
Total Resources	**$13,671**	**$13,691**	**$4,811**	**$0**	**$0**
Budget Activity Total	**$13,671**	**$13,691**	**$4,811**	**$0**	**$0**

Financial Systems, Consulting and Training Budget Activity						
Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Customer Satisfaction Index – Financial Systems, Consulting and Training (%)(Oe)	N/A	DISC	DISC	DISC	DISC	DISC
Operating expenses as a percentage of revenue--Financial Systems, Consulting and Training (%) (E)	7	6	DISC	DISC	DISC	DISC

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance:

With the decision to transition out of the FCG and TAS business lines, all efforts have been focused on ensuring smooth transitions to their new federal hosts. Therefore, The Fund's performance targets are discontinued for this budget activity.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://treas.gov/offices/management/budget/

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The Fund follows the human resource strategy of Public Debt, ARC's host organization. Public Debt is a values-based organization where candidates want to work and employees want to stay. Many employment benefits contribute to this human capital success, including efforts to improve employee health and well-being through providing access to fitness centers, health units and cafeterias.

In the Office of Personnel Management's 2008 Federal Human Capital Survey, Public Debt ranked in the top 2 percent of federal agency subcomponents. Although the results achieved are exceptional, Public Debt continues to strive for improvement in the areas of telework, performance culture and communications.

The Fund's strategic management of human capital is consistent with its mission, vision and priorities and supports government-wide initiatives, Treasury's strategic goals, and those of Public Debt. Following Public Debt's comprehensive recruitment program, The Fund has embraced Public Debt's human capital strategy of operating a values-based organization, using a full range of pay flexibilities to recruit and retain high quality candidates with the skills necessary to accomplish its mission and emphasize succession planning. In addition, The Fund provides employees at all levels with opportunities for continuous development and performance plans that link to its strategic plan.

4B – Information Technology Strategy

The Fund follows the information technology (IT) strategy of Public Debt, ARC's host organization. Public Debt's IT Strategic Roadmap for 2008 – 2012 calls for a culture of continuous improvement through adoption of best practices, improved quality of information supporting IT investments and improved effectiveness of project execution.

IT best practices adopted by Public Debt include using an Information Technology Infrastructure Library, environmentally conscience purchasing and refresh/recycle business processes and providing for effective enterprise solutions to protect systems against fraud, identity theft and other cyber-crimes.

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. It includes quarterly enterprise architecture reviews to ensure alignment of its IT investments to the strategic enterprise direction of Treasury and identify potential duplication of systems.

Finally, Public Debt is continually working to achieve effective project management execution. Through a disciplined and consistent approach, IT investments are closely monitored for cost, schedule and performance to ensure expected results and benefits are achieved.

4.2 – Program Evaluation

The Treasury Franchise Fund has not received a program evaluation.

Bureau of Engraving and Printing

Mission Statement

The mission of the Bureau of Engraving and Printing (BEP) is 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 2009	FY 2010	FY 2011		
	Actual	Estimated	Estimated	$ Change	% Change
Manufacturing	$469,000	$530,000	$527,000	($3,000)	(0.6%)
Protection and Accountability of Assets	$62,000	$61,000	$61,000	$0	0%
Total Resources	**$531,000**	**$591,000**	**$588,000**	**($3,000)**	**(0.5%)**
Total FTE	**1,944**	**2,050**	**2,000**	**(50)**	**(2.4%)**

FY 2011 Priorities

Efficiently and effectively produce and deliver the most secure currency for the nation. BEP expects to produce and deliver 7.5 billion notes to the Federal Reserve System to meet demand for circulation during FY 2011, an increase of four percent from the estimated FY 2010 program.

- Continue re-tooling and retrofitting of the currency production process. Successful implementation of new technology will improve productivity, reduce BEP's environmental impact, and provide needed capabilities to produce increasingly more complex currency note designs.

- Improve the nation's currency to better serve the needs of Americans and others around the world, including the blind and visually impaired. To this end, BEP, in coordination with the Department of Treasury, announced the results of a study analyzing options to assist the blind and visually impaired in denominating U.S. currency. While no timetable has been set for future redesigned currency, the next redesign will incorporate changes to make U.S. currency more accessible to those who are blind and visually impaired. The information gathered in the study will be used to help establish a direction for the Department of the Treasury in providing access to U.S. currency for all cash users.

- Production of the redesigned $100 note. Final developments of the redesigned note will occur in early FY 2010 and production will subsequently begin. The Federal Reserve will determine when the redesigned $100 note is issued to the public. The redesign of the $100 note marked the completion of a multi-year initiative to implement the most ambitious currency redesign in United States history.

- Train and prepare BEP's workforce for increasingly sophisticated technology integrated into 21st century manufacturing processes.

- Continue process improvements as required of an ISO 9001 certified organization, a designation that indicates to current and prospective customers that the Bureau employs a rigorous quality management program.

- Work in concert with the Advanced Counterfeit Deterrent Committee, and other Government agencies to research and develop state-of-the-art counterfeit deterrent features and systems for use in currency notes that will enhance and protect future notes.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that deter counterfeiting and meet customer requirements for quality, quantity and performance.

The Bureau of Engraving and Printing began printing currency in 1862. The Bureau operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a) (4) to engrave and print currency and other security documents. Operations are financed by a means of a revolving fund established in 1950 in accordance with Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products, eliminating the need for appropriations from Congress.

The Bureau's vision is to maintain its position as a world-class securities printer providing its customers and the public superior products through excellence in manufacturing and technological innovation. BEP strives to produce U.S. currency of the highest quality, 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 2011 include the continued re-tooling and retrofitting of the currency production process which will allow BEP to improve productivity, reduce its environmental impact and provide the needed capabilities to produce increasingly more complex currency note designs. This new equipment will ensure that BEP continues to operate in an efficient and cost-effective manner. Another top priority for FY 2011 is the continued production of the redesigned $100 note. Final developments of the redesigned note will occur in early FY 2010. The Federal Reserve will determine when the redesigned $100 note is issued to the public.

Another initiative for FY 2011 will include taking steps to identify, refine and create meaningful access to currency for the blind and visually impaired. As part of this effort, the Bureau has announced the results of a study analyzing options to assist the blind and visually impaired in denominating U.S. currency. While no timetable has been set for future redesigned currency, the next step in currency redesign will include improvements to the Nation's currency to better serve the needs of Americans and others around the world, including the blind and visually impaired. To this end, the Bureau, in coordination with the Department of Treasury, announced the results of a study analyzing options to assist the blind and visually impaired in denominating U.S. currency. The information gathered in the study will be used to help establish a direction for the Department of the Treasury in providing access to U.S. currency for all cash users. In addition, 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 in 2011 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 currency. 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 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 and 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, Treasury, the United States Secret Service, and the Federal Reserve Board, continually researches counterfeit deterrent features and systems for possible use in future currency designs that will enhance and protect 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 U.S. currency in an effort to provide the public with safe and secure notes and the information needed to verify them, which instills public confidence and enables commerce.

The redesigned $5 note began circulating on March 13, 2008. The redesigned $5 note 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 and a larger numeral on the back to assist the visually impaired in denominating currency. The $5 note was selected to be redesigned before the $100 Federal Reserve

Note 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 \$5 paper. 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. Development of a redesigned \$100 note is currently near completion and BEP expects to begin production in the FY 2010. The Federal Reserve will determine when the new note is issued to the public.

Public Education: Because the improved overt 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 and how to authenticate their currency. These materials are also available on-line and can be downloaded from www.moneyfactory.gov/newmoney. 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 program 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 of which is held outside the United States' borders. This education program ensures that people all over the world accept, recognize and use the enhanced security features of the new currency.

Quality: Along with innovative, cutting-edge designs, BEP will maintain its focus on producing high quality security products in the most cost effective manner possible. It will continue to pursue process improvements as required of an ISO 9001 certified organization, a designation that indicates to current and prospective customers that the Bureau employs a rigorous quality management program. Continuous process improvements will be the catalyst for world class quality and improved cost performance through streamlined processes and low spoilage. In FY 2007, the BEP attained ISO 14001 certification for its environmental management systems institutionalizing its commitment to sound environmental stewardship.

Cost Reduction Efforts: The Bureau strives to provide its customers with superior products for the lowest possible price. BEP continuously looks for ways to cut costs without compromising quality. Significant capital investments are being implemented that will enhance productivity and lessen BEP's environmental impact. An investment in a new manufacturing application to integrate, consolidate, and enable analysis of data from the systems embedded in existing and new manufacturing equipments was initiated. This will provide an integrated platform to simplify and standardize the collection of data across the Bureau's disparate systems, sensors and application used in manufacturing. In addition, during the past several years the Bureau streamlined the organization by realigning and grouping similar functions together. This has improved efficiency, reduced response time, and facilitated currency redesign efforts.

Developments 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 its capability of delivering a high quality product.

BEP's success would not be possible without the contributions of its people. The Bureau remains strongly committed to the development of its workforce through an array of career development programs tailored to the demand and skill requirements of a high-technology workplace. In FY 2011, BEP plans to continue to focus on training to prepare the workforce for increasingly sophisticated technology that is integrated into 21st century manufacturing processes as well as knowledge management to prepare for an anticipated wave of 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 of Engraving and Printing	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated
FTE	**1,944**	**2,050**	**2,000**
Object Classification:			
11.1 - Full-time permanent	143,000	191,500	182,000
11.3 - Other than full-time permanent	4,000	0	5,000
11.5 - Other personnel compensation	12,000	13,000	12,100
12 - Personnel benefits	40,100	52,250	50,000
21 - Travel and transportation of persons	2,250	2,250	2,000
22 - Transportation of things	250	300	300
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	15,000	15,000	14,500
24 - Printing and reproduction	1,000	1,000	1,000
25.1 - Advisory and assistance services	3,500	3,500	3,500
25.2 - Other services	45,000	45,000	45,000
25.4 - Operation and maintenance of facilities	9,500	9,500	9,750
25.5 - Research and development contracts	3,250	3,500	3,500
25.7 - Operation and maintenance of equip	9,000	9,000	8,500
26 - Supplies and materials	180,000	182,000	192,700
31 - Equipment	60,000	60,000	55,000
42 - Insurance claims and indemnities	150	200	150
Total Budget Authority	**$531,000**	**$591,000**	**$588,000**
Budget Activities:			
Manufacturing	469,000	530,000	527,000
Protection and Accountability of Assets	62,000	61,000	61,000
Total Budget Authority	**$531,000**	**$591,000**	**$588,000**

2.3 – Resource Detail Table

(Dollars in thousands)

Description	FY 2009 Actual		FY 2010 Estimated		FY 2011 Estimated		% Change FY 2010 to FY 2011
	FTE	Amount	FTE	Amount	FTE	Amount	
Revenue:							
Federal Reserve Notes		$524,000		$584,000		$581,000	-0.51%
Other Security Products		7,000		7,000		7,000	0.00%
Total Revenue/Offsetting Collections		**$531,000**		**$591,000**		**$588,000**	-0.51%
Expenses/Obligations:							
Direct Manufacturing							
Paper and Ink		$163,000		$165,000		$175,000	6.06%
Direct Labor	750	90,000	750	94,500	750	97,300	2.96%
Other Direct Mfg Costs		7,000		7,500		7,500	0.00%
Subtotal Direct Manufacturing Costs		260,000		267,000		279,800	4.79%
Indirect Manufacturing Support	1,194	210,000	1,300	263,000	1,250	247,200	-6.01%
Total Manufacturing Activity Costs		470,000		530,000		527,000	-0.57%
Total Protection & Accountability of Assets Activity Costs		61,000		61,000		61,000	0.00%
Total Expenses/Obligations		**$531,000**		**$591,000**		**$588,000**	-0.51%
Net Results		**$0**		**$0**		**$0**	0.00%
Federal Reserve Notes Manufactured (in billions)		**6.8**		**7.2**		**7.5**	4.17%

2B – Appropriations Language and Explanation of Changes

The Bureau of Engraving and Printing receives no appropriated funds from Congress.

2C – Legislative Proposals

This legislative proposal would repeal the portion of 31 USC Sec. 5114(c) that limits a contract term for the manufacture of distinctive currency paper to four years, and open up the supply of U.S. currency paper to increased competition. Potential suppliers consider four years too short of a payback period for production of this product thus leaving the U.S. with a single source provider of currency paper.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/offices/management/budget/strategic_plan.shtml

3.1 – Budget by Strategic Outcome

(Dollars in Thousands)

Treasury Strategic Outcome	FY 2010	FY 2011	Percent
U.S. notes & coins	$591,000	$588,000	**-0.51%**
Total	**$591,000**	**$588,000**	**-0.51%**

3A – Manufacturing *($527,000,000 from reimbursable programs):* BEP manufactures high quality security documents that deter counterfeiting. These manufactured products are grouped into two programs: Federal Reserve notes and other security documents. The Bureau's manufacturing activity supports Treasury's strategic objective, 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 2009, the Bureau delivered 6.8 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 7.2 billion notes for delivery in FY 2010 and their order is estimated at 7.5 billion notes for FY 2011 based on their projections of currency demand.

3.2.1 – Manufacturing Budget and Performance Plan

(Dollars in thousands)

Manufacturing Budget Activity					
Resource Level	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Actual**	**FY 2010 Estimated**	**FY 2011 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$493,000	$476,700	$469,000	$530,000	$527,000
Total Resources	$493,000	$476,700	$469,000	$530,000	$527,000
Budget Activity Total	**$493,000**	**$476,700**	**$469,000**	**$530,000**	**$527,000**

Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Manufacturing costs for currency (dollar costs per thousand notes produced) ($) (E)	$30.25	$29.47	$37.00	$32.77	$37.00	$37.00
Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements (M)	100%	100%	99.9%	99.9%	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 eight years.

Percent of currency notes delivered to the Federal Reserve that meet customer quality and requirements is a qualitative indicator reflecting the Bureaus' ability to provide a quality product. All notes delivered to the Federal Reserve go through rigorous quality inspections. These inspections ensure that all counterfeit deterrent features, both overt and covert are functioning as designed.

3B – Protection and Accountability of Assets *($61,000,000 from reimbursable programs):* The purpose of the BEP'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.

Accountability and strict control standards are necessary elements due to the cash value of the products produced by the BEP. BEP ensures product security and shipment accuracy by maintaining an accurate and cost effective system of accountability. 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 primary mission of the Bureau's Office of Security's is to preserve the integrity of, and to 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

(Dollars in thousands)

Protection and Accountability of Assets Budget Activity					
Resource Level	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$63,000	$61,500	$62,000	$61,000	$61,000
Total Resources	**$63,000**	**$61,500**	**$62,000**	**$61,000**	**$61,000**
Budget Activity Total	**$63,000**	**$61,500**	**$62,000**	**$61,000**	**$61,000**

Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Currency shipment discrepancies (per million notes delivered) (Oe)	0.01%	0.01%	0.01%	0.00%	0.01%	0.01%
Security costs per 1000 notes delivered (E)	$5.92	$5.63	$5.65	$5.76	$5.60	$5.60

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 zero percent, and has been able to do so several times. For several years, this measure has had an annual target of .01 percent. The Bureau has been able to meet or exceed this target on a regular basis.

The measure security cost per 1000 notes delivered reflects the cost of providing product security. The measure is kept at the lowest level possible without compromising the security posture of the Bureau. BEP strives to reduce the target on an annual basis through a combination of leveraging of the best practices of other federal law enforcement agencies, targeted system investments, and improvements in facility design that incorporate security attributes. In 2009 BEP was unable to meet its target for cost of security. During the last quarter of the fiscal year, BEP responded to the Federal Reserve's need to change the 2009 currency production order due to worldwide changes in the demand for currency. BEP delivered a reduced program as well as a different mix of currency denomination notes; the timing of the reduction did not allow the Bureau to modify security costs in enough time to meet the targeted costs per 1000 notes delivered for the fiscal year. Guarding against theft is the top priority of the BEP security program;

in 2010, BEP will produce and deliver the 2010 currency order while continuing to monitor the cost of providing effective and efficient product security and accountability.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://treas.gov/offices/management/budget/

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The Bureau of Engraving and Printing will continue to focus on training identified in a 2008 competency/skill assessment to prepare the workforce for increasingly sophisticated technology integrated into 21st century manufacturing processes.

The FY 2011 human capital strategy includes:

- Leverage the use of newly implemented Treasury Learning Management System, a web-based system that provides all employees access to professional development courses, online training, and reference books;

- Expand the BEP Telework program. During 2008, BEP implemented a secure, information technology solution that facilitates teleworking, enhancing employee work life balance, and increasing work flexibilities that benefit employee recruitment and retention programs.

- Evaluate staffing needs on a continual basis, as new, more efficient technology is deployed;

- Incorporate pay incentive flexibilities to retain and recruit unique expertise that enables the Bureau to meet its human capital goals;

BEP faces critical deficiencies in some human capital areas. Of particular significance, it is difficult to attract qualified senior contract specialists, GS-1102, and printing/production specialists, due to lack of new technology skills. On the other hand, BEP anticipates that Bulk Money Handlers and Management Analysts could be subjected to staffing surpluses in the future.

While 50 percent of BEP's current staff is eligible for retirement by FY 2013, apprenticeship and trainee programs and on the job training are in place and will help to close this potential skills gap. Furthermore, several occupations, such as information technology, contracting, and human resource specialists are outsourced.

4.1 – Summary of IT Resources Table

(Dollars in Thousands)

Information Technology Investments **Major IT Investments/Funding Source**	Budget Activity	**FY 2009** Obligated	**% Change from** FY08 to FY09	**FY 2010** Estimated	**% Change from** FY09 to FY10	**FY 2011** Estimated	**% Change from** FY10 to FY11
		$0	0.00%	$0	0.00%	$0	0.00%
Subtotal, Major IT Investments		$0	0.00%	$0	0.00%	$0	0.00%
Non-Major IT Investments Technology[1]							
Manufacturing Support Systems	Manufacturing	$1,600	14.29%	$1,700	6.25%	$1,750	2.94%
Public Sales System	Manufacturing	$1,100	41.03%	$1,100	0.00%	$1,100	0.00%
WebTA	Manufacturing	$80	14.29%	$100	25.00%	$120	20.00%
Subtotal, Non-Major IT Investments		$2,780	23.56%	$2,900	4.32%	$2,970	2.41%
Infrastructure Investments,[Server Services and Support]		$0	0.00%	$0	0.00%	$0	0.00%
BEP Data Ctr. Sys. & Serv. (for Consolidation)	Manufacturing	$6,000	5.26%	$6,600	10.00%	$6,750	2.27%
BEP End User Sys. & Serv. (for Consolidation)	Manufacturing	$6,500	4.84%	$7,100	9.23%	$7,300	2.82%
BEP Telecommunications (for Consolidation)	Manufacturing	$670	123.33%	$700	4.48%	$710	1.43%
BEP Infrastructure Security (for Consolidation)	Protection and Accountability	$0	0.00%	$0	0.00%	$0	0.00%
Subtotal, Infrastructure Investments		$13,170	7.95%	$14,400	9.34%	$14,760	2.50%
Enterprise Architecture	N/A	$0	0.00%	$0	0.00%	$0	0.00%
Subtotal, Enterprise Architecture Investments		$0	0.00%	$0	0.00%	$0	0.00%
IT Investments		$15,950	10.00%	$17,300	8.46%	$17,730	2.49%

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.

BEP has no new 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 (a Human Resources Line of Business service provider) and Internet Protocol version 6.

BEP adheres to the Treasury's Capital Planning and Investment Control (CPIC) program as well as BEP's own IT CPIC processes for non-major investments. Limited additional non-major investments are planned to garner savings in administrative costs and provide organizational efficiencies.

BEP's infrastructure investments are all appropriately categorized as part of Treasury Optimized Enterprise IT Infrastructure.

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, The Office of Management and Budget (OMB) Circular A-130 for management of federal information resources, OMB Circular A-11 for associated capital programming, and all applicable Federal Enterprise Architecture guidance issued by OMB, to include both the Federal Enterprise Architecture and associated reference models.

4.2 – Program Assessment

Program Name: New Currency Manufacturing

Assessment and Improvement Actions (Bureau Actions Planned of Underway)

- Work closely with the Advance Counterfeit Steering Committee to identify and evaluate future counterfeit deterrent designs.

- Continue to work with the Advanced Counterfeit Deterrent Steering Committee to assess impact of new currency designs on counterfeiting.

- Monitor design and overhead costs related to the manufacture of currency to ensure the most efficient production and distribution of future denominations.

Program name: Protection and Accountability

Assessment and Improvement Actions (Bureau Actions Planned of Underway)

- Perform in depth, annual assessments of the program's security and accountability processes by an internal group not associated with the program and contracting with an outside group on a 2 to 3 year cycle.

- Ensure that proper accountability and security features are identified and addressed during each stage of acquisition and installation of new equipment.

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 for coins.

Program Summary by Budget Activity

(Dollars in Thousands)

	FY 2009	FY 2010	FY 2011		
Resources	Actual	Actual	Estimated	$ Change	% Change
Manufacturing	$2,215,183	$1,974,420	$2,013,908	$39,488	2.0%
Protection	$43,318	$47,744	$48,699	$955	2.0%
Total Resources	**$2,258,501**	**$2,022,164**	**$2,062,607**	**$40,443**	**2.0%**
Total FTE	**1,812**	**1,955**	**1,955**	**-**	**0.0%**

FY 2011 Priorities

- Efficiently and effectively produce and distribute approximately 9.5 billion coins to meet demand for circulating coins during FY 2011 to enable commerce, an important strategic objective for the Department of the Treasury.

- Mint and issue coins and products required by the America's Beautiful National Parks Quarter-Dollar Coin Act.

- Mint and issue Presidential $1 Coins for circulation to honor the following Presidents: Abraham Lincoln, Andrew Johnson, Ulysses S. Grant and Rutherford B. Hayes.

- Mint and issue the Native American $1 Coin.

- Prepare and distribute recurring numismatic and bullion 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.

- Design, strike and prepare for presentation Congressional Gold Medals, and other national medals, as required by law.

- Continue to secure the nation's gold reserves, silver and other assets.

- Mint for sale to the public the United States Army Commemorative Coin and the Medal of Honor Commemorative Coin.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The United States Mint manufactures and delivers domestic circulating coinage, numismatic coinage, bullion coin products, and national medals. The United States Mint provides security for assets, including the government's stock of gold bullion, silver bullion, coins and coinage metals.

The United States Mint is the world's largest coin manufacturer with operations in California, Colorado, Kentucky, New York, Pennsylvania, and Washington, D.C. Its vision is "to embody the American spirit through the creation of our nation's coins and medals." The United States Mint is committed to achieving efficient operations and providing value to the American people. To support this commitment, a new strategic planning framework which addressed several key questions was implemented in FY 2008:

- *What does the United States Mint want to be?* This question was answered by defining the United States Mint's vision, mission, values, and priorities.

- *How will the United States Mint know when it reached its goals?* Key metrics and indicators were developed to gauge our progress in meeting our goals.

- *Where is the United States Mint now?* The United States Mint performed an honest assessment of our strengths and weaknesses in the seven areas outlined in the Baldrige Quality Award Criteria for High Performance (criteria used for judging within a highly respected award system for industry workplace performance). The United States Mint will periodically reassess its position in these areas.

- *How does the United States Mint achieve its goals?* The United States Mint's five-year plan is broken down into year-by-year action steps. Annually, during the strategic cycle, the United States Mint establishes annual action items, and implements work plans to make continuous progress in achieving objectives and goals. This approach allows the linkage among budgets, all employees' work objectives, and performance plans to the desired outcomes. Through employing this strategic framework, the United States Mint will gauge its progress more effectively and communicate the results to the American public.

1B – Program History and Future Outlook

Since FY 1996, the United States Mint has operated 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. By law, all funds in the PEF are available without fiscal year limitation.

The economic environment significantly affects the United States Mint's financial performance. In FY 2009, slowing economic activity reduced demand for circulating coins to 5.2 billion coins. Commercial banks and other financial institutions curtailed orders for coins and returned excess coins to the Federal Reserve Banks (FRB). The FRB decreased orders for newly minted coins in response to these conditions. As a result, circulating coin revenue fell sharply in FY 2009. Revenue for FY 2009 totaled $777.6 million, a decrease of 40 percent from FY 2008. Because of the significant decline in circulating revenue, the United States Mint transfers to the Treasury General Fund were $475 million (compared to $750 million in FY 2008).

While prices for copper, nickel and zinc remained below levels experienced in prior fiscal years, FY 2009 results showed an upward trend in prices. This increase should continue as the global economy improves. Metal prices have had a significant effect on circulating coinage results. While declining from last year, the unit cost to manufacture the one-cent coin (penny) and 5-cent coin (nickel) denominations remained above face value for the third consecutive fiscal year. Changing the composition of all circulating coins to less expensive materials would ultimately result in significant taxpayer savings without compromising the utility of these coins. Accordingly, the Department of the Treasury continues to work with Congress to examine alternatives to mitigate the effect current metal prices are having on circulating coinage.

In FY 2009, demand for the United States Mint's gold and silver bullion coins remained at unprecedented levels. Bullion revenue reached $1.7 billion, a $746 million (78.6 percent) increase over FY 2008. Efficient use of production capacity allowed the United States Mint to achieve significant bullion production volume without incurring additional operating costs. The United States Mint expects demand for bullion coins to remain strong for a sustained period until economic conditions improve and investors are drawn toward alternative investments. Numismatic revenue fell to $440 million from $557 million in FY 2008. Economic conditions may have suppressed a portion of the public's spending for numismatic products. However, the extent of this is unclear since similar product lines were not available for sale this year compared with last year because precious metal planchets were diverted to fulfill demand for bullion products.

The overall financial outlook for the United States Mint is expected to improve in FY 2011. Circulating revenue and seigniorage are projected to increase as economic activity recovers and coin demand grows with increasing cash transactions. Efforts to promote the $1 coin circulation and the continuation of the America the Beautiful quarters should augment circulating financial results as well. However, economic conditions can significantly impact the United States Mint's financial results. For example, metal and fabrication costs typically make up the largest portion of circulating expenses and accounted for 53 to 73 percent of total expenses between FY 2004 and FY 2008. Since global economic conditions determine the demand for and market prices of metals, a robust global economy tends to increase demand for these commodities.

Challenges

A changing operating environment is posing new challenges and opportunities for the United States Mint. Some of the key challenges the United States Mint expects to face in the coming years are the following:

- **Meeting Coin Demand Under any Conditions –** Even in a fairly stable economic environment, there will always be variations from month-to-month and year-to-year in the level of coin production needed to enable commerce. Significant shifts in the monthly production levels of circulating coins create an unstable environment that is disruptive to the efficient operation of the manufacturing plants. The United States Mint is taking measures to ensure inventory levels are appropriate to respond to coin demand in any economic environment.

- **Promoting Robust Circulation of $1 Coins –** From the inception of the program, $1 coin shipments have steadily declined. This is largely attributable to weakening collector demand. Depository institutions and retailers consider the $1 coin more a collectible than legal tender for commerce. To overcome institutional, attitudinal and behavioral barriers to robust circulation of $1 coins, the United States Mint developed a three-pronged strategy and tested it in a four-city pilot program. Key lessons learned from the pilot experience are being used to develop the United States Mint future efforts in this area. Achieving steady and sustained transactional demand for $1 coins is critical to the long-term success of the $1 Coin Program.

- **Rising Prices of Base Metals Leading to Higher Circulating Production Costs** – As previously stated, the current prices of zinc, copper, and nickel have increased the cost of producing circulating coinage. This is causing the penny and nickel to cost more than their face value on a per-unit basis. As a result, the Department of the Treasury continues to work with Congress on legislation that would authorize the Secretary to approve alternative coinage materials to mitigate the effect of high metals prices. This legislative package includes an "approach" that ensures the United States Mint will employ a process for selecting the alternative metal that will seek public and industry comment to ensure that all factors relevant to the acceptability of new coinage materials are considered. These factors include, but are not limited to, physical, chemical, metallurgical and technical characteristics. Once the agency has a comprehensive inventory of these factors and their relative significance, the United States Mint would employ an objective, competitive, and public process to solicit and evaluate proposals for new coinage materials. The United States Mint will continue to produce circulating coinage as currently mandated by Congress.

- **Volatile Precious Metal Markets -** Record growth and volatility in the prices of gold, silver, and platinum present unique challenges to our bullion and numismatic operations. The bullion markets continued the unprecedented growth that began in FY 2008. Weak equity markets and declines in the United States dollar against most foreign currencies drove investors to commodities as safe havens, especially gold and silver. The United States Mint is one of the world's largest producers of gold and silver coins. However, production capacity and the volume of precious metal blanks provided by suppliers have constrained the number of bullion products the United States Mint can produce and sell in the past.

1C – Industry Outlook

The United States Mint's future outlook is impacted by a variety of factors including the price of metals, circulating coin demand, customers' interest in numismatic and bullion products, and economic trends. For example, the recent economic trends have prompted a comprehensive appraisal of circulating coin production and distribution operations. The United States Mint is taking measures to ensure inventory levels are appropriate to respond to coin demand in any economic environment. Furthermore, the enactment of legislation in recent years has allowed the United States Mint to expand product lines in both numismatic and circulating segments. While sales of new and core recurring products has been strong, the United States Mint recognizes the need to continually improve its portfolio of products. This includes utilizing more efficient production capacity, developing additional production techniques and accommodating new designs and products, while analyzing the market and communicating with the public.

The United States Mint has established the following goals as our underlying foundation to address these challenges, today and in the future:

Enable commerce by efficiently meeting public demand for coins through cost effective and high quality production

The United States Mint continually strives for efficient coin manufacturing and sales operations. Greater efficiency benefits the American public as well as our customers. The United States Mint is researching and developing new technologies and new materials to achieve greater capabilities and efficiencies, and to meet higher quality standards, in the design and manufacturing processes. For example in FY 2009, the United States Mint researched a state-of-the-art visual inspection system for circulating coin production. The goal is to use the system to continuously scan circulating coins for obvious visual and dimensional defects. By reducing production and administrative costs, the United States Mint is able to transfer a larger amount of its excess proceeds from circulating coins to the Treasury General Fund. Greater productivity and efficiency also allow us to keep the sale price of our numismatic products as low as practicable for our customers.

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. However, the United States Mint believes there are opportunities to improve its brand identity among members of the general public. Strengthening the United States Mint brand is essential to making numismatic products more accessible to the public and to the efforts to move $1 coins from collectors' items to robust general circulation. The current strategic planning process encompasses the design and development of cost-effective programs to reinforce the United States Mint brand.

Create and execute the most effective numismatic and bullion coin and medal portfolio that satisfies public and investor demand

The United States Mint has achieved substantial growth in its numismatic operations over the past several years. Recent legislation has established new coin programs that include products for circulation and for numismatic customers. 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. A more optimal product portfolio will allow the United States Mint to better serve the needs of the collector marketplace.

Achieve greater excellence in coin and medal design

The United States Mint recognizes and embraces its responsibility to do more than merely produce coins and medals. Coins are one of the most visible, tangible representations of a nation. Thus, the United States Mint believes its products are exceptional artistic mediums for expressing the national character, memorializing the past, and embodying the future. While prior successes in coin and medal design are noteworthy, the United States Mint strives to reach new levels in design excellence. A concerted, agency-wide plan is necessary to enhance successful programs and realize greater achievements.

Develop optimal workforce and workplace culture

The United States Mint continues to strive to develop its workforce to ensure that each employee has the necessary knowledge, skills, and abilities to effectively and meaningfully contribute to the mission. The United States Mint's Human Capital Strategy focuses on the President's key issues such as hiring reform, employee satisfaction and wellness requirements. Simultaneously, the Mint is committed to providing its employees with a healthy and safe workplace that enables them to meet mission requirements in the most efficient and effective manner possible.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

(Dollars in thousands)

	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated	% Change FY2010-FY2011
FTE	**1,812**	**1,955**	**1,955**	0.0%
Object Classification:				
11.1 Full-Time Permanent Positions	129,600	143,860	146,738	2.0%
11.1 Other than Full-Time Permanent Positions	799	46	47	2.1%
11.5 Other Personnel Compensation	16,965	11,307	11,533	2.0%
12.0 Personnel Benefits	37,611	45,921	46,840	2.0%
13.0 Benefits to Former Personnel	381	1,050	1,071	2.0%
21.0 Travel	3,370	3,920	3,999	2.0%
22.0 Transportation of Things	32,209	31,470	32,100	2.0%
23.1 Rental Payments to GSA	389	394	394	0.0%
23.2 Rent Payments to Others	21,091	22,987	23,446	2.0%
23.3 Communications, Utilities, & Misc	14,389	16,252	16,586	2.0%
24.0 Printing and Reproduction	4,138	4,803	4,899	2.0%
25.1 Advisory & Assistance Services	30,346	58,670	59,843	2.0%
25.2 Other Services	51,879	62,099	63,338	2.0%
25.3 Purchase of Goods/Serv. from Govt. Accts	19,708	8,768	8,943	2.0%
25.5 Research & Development Contracts	830	1,876	1,914	2.0%
25.7 Operation & Maintenance of Equipment	13,863	12,783	13,039	2.0%
26.0 Supplies and Materials	1,878,752	1,592,344	1,624,192	2.0%
31.0 Equipment	2,179	3,608	3,680	2.0%
42.0 Insurance Claims & Indemn	2	5	5	0.0%
Total Budget Authority	**$2,258,501**	**2,022,164**	**$2,062,607**	2.0%
Budget Activities:				
Manufacturing	2,215,183	1,974,420	2,013,908	2.0%
Protection	43,318	47,744	48,699	2.0%
Total Budget Authority	**$2,258,501**	**$2,022,164**	**$2,062,607**	2.0%

2.3 – Resource Detail Table

(Dollars in Thousands)

	FY 2009 Actual		FY 2010 Estimated		FY 2011 Estimated		% Change FY 2010 to FY 2011	
	FTE	**Amount**	**FTE**	**Amount**	**FTE**	**Amount**	**FTE**	**Amount**
Budgetary Resources:								
Revenue / Offsetting Collections								
Circulating		$536,350		$616,000		$868,440		40.98%
- DC & Territories Quarters		180,938		-		-		0.00%
Commemorative Quarters (50 States)		60,312		-		-		0.00%
Numismatic		2,134,800		1,750,400		1,349,218		-22.92%
Total Revenue / Offsetting Collections		**$2,912,400**		**$2,366,400**		**$2,217,658**		**23.07%**
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		**$2,912,400**		**$2,366,400**		**$2,217,658**		**23.07%**
Expenditures/Obligations								
Circulating	381	106,387	724	587,234	724	711,878	0.00%	21.23%
- DC & Territories Quarters	218	35,770	0	0	0	0	0.00%	0.00%
Commemorative Quarters (50 States)	72	12,026	0	0	0	0	0.00%	0.00%
Numismatic	815	2,061,000	881	1,387,186	881	1,302,030	0.00%	-6.14%
Protection	326	43,318	350	47,744	350	48,699	0.00%	2.00%
Total Expenditures / Obligations	**1,812**	**$2,258,501**	**1,955**	**$2,022,164**	**1,955**	**$2,062,607**	0.00%	**2.00%**
Capital Investments		**$23,996**		**$49,948**		**$54,600**		
Net Results		**$653,899**		**$344,236**		**$155,051**		**21.07%**
Coin Shipments (In Millions)								
Circulating:								
One-Cent		3,218		3,600		5,874		
5-Cent		207		100		1,013		
Dime		358		1,000		1,208		
Quarter		965		300		1,013		
Half-Dollar		-		-		-		
Dollar		459		400		385		
Total Circulating		**5,207**		**5,400**		**9,493**		

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 [2010] *2011* under such section 5136 for circulating coinage and protective service capital investments of the United States Mint shall not exceed [$26,750,000] $25,000,000.	

2C – Legislative Proposals

This legislative proposal would authorize the Secretary of the Treasury to approve alternative coinage materials to mitigate the effect of high metals prices. Specifically, the proposal would allow the Secretary to explore, analyze, and approve new, less expensive materials for all circulating coins based on factors that he determines to be appropriate. These factors include, but are not limited to, the physical, chemical, metallurgical and technical characteristics of the coins, as well as any other factors necessary to ensure the coins' utility and integrity. Once the agency has a comprehensive inventory of factors and their relative significance, the United States Mint would employ an objective, competitive, and public process to solicit and evaluate proposals for new coinage materials. The United States Mint will continue to produce circulating coinage as currently mandated by Congress.

Section 3 – Budget and Performance Plan

This table lists all FY 2011 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 a five year time period.

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	Estimated	Estimated	Change
U.S. notes & coins	$2,022,164	$2,062,607	**2.0%**
Total	**$2,022,164**	**$2,062,607**	**2.0%**

3A – Manufacturing *($2,013,908,000 from reimbursable programs):*
The United States Mint manufactures and sells products. For budget reporting purposes, these products are grouped into two programs: Circulating Coinage and Numismatic Program.

Circulating Coinage

The primary mission of the United States Mint is to enable commerce by minting and issuing circulating coinage to meet the needs of the United States. Circulating coinage includes the penny, five-cent, dime, quarter-dollar, half-dollar and dollar. The United States Mint delivers the circulating coinage to the Federal Reserve Banks, at face value, for distribution as demanded by commerce.

The current FY 2011 budget estimate includes resource needs of $712 million to produce and ship 9.5 billion coins and generate $868 million in face value.

By spending $712 million on circulating coinage in FY 2011, the United States Mint will produce and ship approximately:

- 5.9 billion one-cent coins, generating face value of $58.6 million,
- 1.0 billion five-cent coins, generating face value of $50.7 million,
- 1.2 billion dime coins, generating face value of $120.8 million,
- 1.0 billion quarter-dollar coins, generating face value of $253.3 million,
- 385 million dollar coins, generating face value of $385 million.

America the Beautiful Quarters Program

Beginning in 2010 through 2020, the United States Mint will mint and issue commemorative quarter-dollar coins honoring our national parks and other national sites, in accordance with the America's Beautiful National Parks Quarter Dollar Coin Act of

2008 (Public Law 110-456). This program honors national parks and sites in the order in which they were first established as a national park or site. Similar to the issuance of coins under the 50 State Quarters Program, quarter-dollar coins featuring five different coin designs will be issued each year of this program.

The United States Mint recently completed the process to select national sites that will be honored through this program. National sites for consideration include any site under the supervision, management, or conservancy of the National Park Service, the United States Forest Service, the United States Fish and Wildlife Service, or any similar department or agency of the Federal government. The United States Mint consulted with the chief executive of each jurisdiction (*State/District of Columbia/Territory*) and the Secretary of the Interior to ensure the appropriateness of each of the 56 national site recommendations and to validate the date on which each recommended site was established as a national site. The United States Mint then recommended a final candidate list determined to be the most appropriate in terms of natural and historic significance to the Secretary of the Treasury, who approved the final national site list in August 2009. The approved list also established the order in which each quarter-dollar is released.

Numismatic Program

The United States Mint prepares and distributes numismatic products, including proof and uncirculated versions of coins, directly to the public. For some numismatic products, authorizing legislation specifies program requirements, such as design theme, mintage level and duration of product availability. Other programs are structured by law to grant the Secretary of the Treasury discretion in determining product specifications. The Numismatic Program includes the American Eagle Program, the American Buffalo Program, the recurring programs, commemorative coins, and medals. (All American Eagle and American Buffalo numismatic product sales were suspended following the first quarter of FY 2009 in order to divert planchets to meet bullion demand.) The United States Mint also produces bullion coins under American Eagle and American Buffalo Programs to fulfill investor demand. The current FY 2011 budget estimate includes resource needs of $1,302 million to generate $1,350 million in revenues from the sale of these products.

The American Eagle Program consists of the United States Mint's premier collectible products. These coins contain platinum, gold, and silver and are issued in proof or uncirculated quality. Gold proof coins are issued with one-tenth, one-quarter, one-half or one ounce precious metal content. Gold uncirculated coins are issued with one ounce of gold content. Silver proof and uncirculated coins are issued with one ounce of silver metal content. Platinum proof coins are issued with one ounce of platinum metal content.

Recurring programs include high quality, specially presented products based on circulating coinage. These products include proof sets, uncirculated sets, quarter-dollar coin sets, and $1 Coin sets. 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. In FY 2011, the United States Mint will produce the United States Army Commemorative Coin (P.L. 110-450).

Bullion coins are largely bought by precious metal dealers and sold to consumers who desire precious metals as part of an investment portfolio. The demand for bullion coins is greatly influenced by the performance of other investment options such as equities markets or currency markets and therefore is highly unpredictable. The content and purity of bullion coins are backed by the United States Government.

3.2.1 – Manufacturing Budget and Performance Plan

(Dollars in Thousands)

Manufacturing Budget Activity Resource Level	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	2,002,796	2,014,698	2,215,903	1,974,420	2,013,908
Total Resources	**$2,002,796**	**$2,014,698**	**$2,215,903**	**$1,974,420**	**$2,013,908**
Budget Activity Total	**$2,002,796**	**$2,014,698**	**$2,215,903**	**$1,974,420**	**$2,013,908**

Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Cost per 1000 Coin Equivalents ($)(E)	$8.46	DISC	DISC	DISC	DISC	DISC
Customer Satisfaction Index (%)(Oe)	90.5%	87.5%	88.0%	88.3%	88%	88%
Numismatic Customer Base (Ot)	0.97	1.27	1.40	1.06	0.90	1.00
Numismatic Net Margin (%)(E)	14%	15%	15%	9.4%	DISC	DISC
Seigniorage per Dollar Issued ($)(E)	$0.58	$0.55	$0.54	$0.55	$0.53	TBD
Absolute Value of Production Percent Deviation from Net-Pay (%) (Oe)	N/A	N/A	B	6.5%	DISC	DISC
Circulating On-Time Delivery (%) (Oe)	N/A	N/A	N/A	N/A	B	TBD

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M – Management/ Customer Satisfaction, DISC – Discontinued, B – Baseline, TBD – To be determined

Description of Performance:

The United States Mint developed several key performance measures to gauge the progress of achieving each of its strategic goals. The following performance measures are monitored to assess the United States Mint's performance by budget activity for Manufacturing and Sales.

Customer Satisfaction Index (CSI)
A United States Mint contractor conducts a quarterly Customer Satisfaction Measure (CSM) Tracking Survey among a random sample of active customers. The CSM Survey is intended to capture customer satisfaction with the United States Mint's performance as a coin supplier and the quality of specific products. The CSI is a single quantitative score of CSM Survey results. In FY 2009, the United States Mint results were 88.3 percent, exceeding the target of 88 percent and increasing slightly from the FY 2008 result of 87.5 percent.

Numismatic Customer Base
The numismatic customer base consists of the total number of unique purchasers (in millions) with a purchase of at least one numismatic product during the fiscal year. The numismatic customer base measure provides information on the continued and new demand for numismatic products. The FY 2009 numismatic customer base totaled 1.06 million, below the target of 1.40 million. The United States Mint customer retention and acquisition performance declined because the bureau was unable to offer several core numismatic products for sales after January 2009. Economic conditions may have also curtailed customer spending on collectibles from prior years.

The United States Mint began to full satisfy bullion demand in the later months of the fiscal year. Consequently, the bureau hopes to offer some numismatic products for sale in FY 2010 that were unavailable in FY 2009.

Numismatic Net Margin
Numismatic net margin is the return to numismatic (non-bullion) operations, calculated as program net income divided by total program sales. The numismatic program is managed to a 15 percent net margin overall to ensure sale prices are as low as practicable and returns are sufficient to fund numismatic operating costs. Numismatic net margin was 9.4 percent in FY 2009, below the target of 15 percent. Precious metal supply constraints prevented the United States Mint from selling some of its core numismatic products in FY 2009, significantly inhibiting the bureau's ability to meet the net margin. This measure is discontinued in FY 2010.

Seigniorage per Dollar Issued
Seigniorage per dollar issued is the return to circulating operations, calculated as seigniorage divided by the total face value of circulated coinage shipped to Federal Reserve Banks. Actual results for FY 2009 were $0.55, above the target of $0.54. Weakened demand reduced the United States Mint's return from circulating operations in FY 2009. Base metal expenses and the mix of circulating coin ordered by the FRB largely determine seigniorage per dollar issued performance. This measure is discontinued in FY 2010.

Circulating On-Time Delivery
On-time delivery to the Federal Reserve Banks (FRB) is the percentage of total scheduled orders shipped on time to the FRB. The United States Mint is responsible for providing

the Nation's coinage in sufficient quantity to meet the needs of commerce. To accomplish this mission, the United States Mint must supply coinage in the quantities and timelines specified by the FRB. The FRB is then responsible for distributing coinage to the commercial banking sector.

3B – Protection *($48,699,000 from reimbursable programs)*: The United States Mint secures over $240 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 increasing coordination with various Federal, state and local law enforcement agencies. It also ensures that proper policies are in place, and procedures followed, in handling the assets used to produce 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

(Dollars in Thousands)

Protection Budget Activity **Resource Level**	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Actual**	**FY 2010 Estimated**	**FY 2011 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	47,007	42,598	43,318	47,744	48,699
Total Resources	**$47,007**	**$42,598**	**$43,318**	**$47,744**	**$48,699**
Budget Activity Total	**$47,007**	**$42,598**	**$43,318**	**$47,744**	**$48,699**

Measure	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Target**	**FY 2009 Actual**	**FY 2010 Target**	**FY 2011 Target**
Protection Cost Per Square Foot ($)(E)	$31.29	$31.76	$31.75	$31.57	$31.75	$31.75
Protection Employee Confidence (%)(Oe)	81%	81%	83%	81%	DISC	DISC

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

Description of Performance

Protection Cost per Square Foot

Protection cost per square foot is the Protection Department's total operating cost divided by the area of usable space of the Untied States Mint. Usable space is defined as 90 percent of total square footage. Operating costs exclude depreciation. Total square footage of usable space is relatively constant and only changes with major events such as the addition or removal of a facility. The measure indicates the Protection Department's cost efficiency in safeguarding the United States Mint facilities, employees and assets.

Protection cost per square foot decreased to $31.57 in FY 2009 from $31.76 in FY 2008. The FY 2009 result was $0.18 below the target of $31.75.

Employee Confidence in Protection
The Protection Department is responsible for providing a safe and secure workplace for United States Mint employee. The Employee Confidence in Protection measure indicates how well the Protection Department is achieving this objective. It is the percentage of United States Mint employees reporting a favorable response to their confidence in the Protection Department's performance in safeguarding United Sates Mint assets and assets in the custody of the United States Mint. Survey results indicate that 81 percent of employees reported confidence in the Protection Department's ability to safeguard the United States Mint in FY 2009. This was consistent with FY 2008 performance but below the 83 percent target. This measure is discontinued in FY 2010.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://treas.gov/offices/management/budget/

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

In response to the President's government-wide focus on human capital strategies and procedures, the United States Mint's Human Capital Strategy addresses hiring reform, employee satisfaction and wellness requirements. The United States Mint is performing its hiring reform initiatives in close coordination with its shared human resources (HR) service provider, the Bureau of Public Debt (BPD) Administrative Resource Center (ARC).

Hiring Reform

1) *Map the United States Mint's current hiring process using the Office of Personnel Management's (OPM's) Process Mapping Model*:

   The United States Mint is mapping the hiring process for its GS-2210 (Information Technology Specialist) positions. The Department of Treasury identified the GS-2210 series as the benchmark series for modeling its hiring process. The OPM Process Mapping Model requires agencies to recruit vacant positions within 80 days. The Administrative Resources Center (ARC) completed several reports regarding the previous hiring process for GS-2210 (Information Technology Specialist) positions and identified several barriers to the hiring process. ARC worked with the United States Mint to complete an action plan that addressed the barriers. The final results of the initial OPM inquiry and an action plan addressing the barriers were submitted to the Department of Treasury prior to the November 3, 2009 deadline.

2) *Review and develop plain language and streamlined job opportunity announcements (JOAs)*:

   Last year, the United States Mint, through ARC, participated in the Department of the Treasury's work group to review JOAs, and develop streamlined templates using plain language. The United States Mint plans to use this newly revised template, as part of its hiring improvement process.

3) *Notify applicants of their status at four points through USAJobs.gov in a timely fashion:*

   The United States Mint uses the applicant notification status feature in "CareerConnector" which automatically posts an applicant's status in USAJobs at specified points. Additionally, personalized e-mails are sent to candidates informing them of their status at each step of the process as specified by OPM.

4) *Engage hiring managers in all critical phases of the hiring process:*

The United States Mint, in coordination with ARC, established procedures to engage managers in specified phases of the hiring process. Examples include: receiving management approval on JOA's before the job announcement is posted, receiving management approval for job analysis, providing managers copies of new hire letters, etc. Also, ARC personnel and the United States Mint HR staff members assist managers and employees throughout the process. This includes providing training, issuing written guidance, assisting managers in providing "specifics" for announcements (e.g. description of the duties, "marketing" material, etc.), and providing reports and data upon request.

Improving Employee Satisfaction and Wellness

To improve employee satisfaction, the United States Mint will establish a Total Rewards System with performance being the driving force in determining compensation and recognition. All stakeholders (to include management, employees, and the union) will have a seat at the table in determining its design and implementation. This system will be built on the principles of fairness and equity. The overall goal of the Total Rewards approach will be to improve operational performance and employee engagement.

Also, the United States Mint has improved supervisory and managerial competencies through its two-year, award-winning Leadership Development Program. This Program fostered skills in coaching, systems thinking, fundamental Human Resource practices (e.g., employee and labor relations), situational leadership and values clarification.

In 2010, the United States Mint will highlight and expand the benefits of working for the federal government. The United States Mint's ability to recruit, develop, and retain a diverse workforce to execute its mission depends on a fully integrated, corporate-wide human capital program. The human capital goal is to provide a blueprint for the future to ensure the United States Mint hires and retains employees with the right skills to excel in meeting current and future challenges. Successful recruiting, training, career management, compensation, promotion management, performance management, and leadership will contribute toward growing a competent and diverse workforce. Through the strategic management of our human capital, the United States Mint will conduct workforce and succession planning, prioritize and invest in closing skill gaps, align performance with strategic goals, and fully engage its employees in strengthening the workforce.

As a manufacturing entity, the United States Mint also focuses heavily on ensuring employee wellness and safety. Accident rates have decreased dramatically as a result of the United States Mint's efforts for ensuring a strong and regular emphasis on safety and accident prevention. In the areas of telework, work/life balance and wellness, the United States Mint's senior leadership is committed to increasing its participation as appropriate.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Major IT Investments / Funding Source	Budget Activity	FY 2009 Actual	% Change from FY08 to FY09	FY 2010 Estimated	% Change from FY09 to FY10	FY 2011 Estimated	% Change from FY10 to FY11
Retail Sales System	Manufacturing and Sales	$8,978	-9.5%	$11,812	31.6%	$14,923	26.3%
Subtotal, Major IT Investments		$8,978	-9.5%	$11,812	31.6%	$14,923	26.3%
Non-Major IT Investments		$3,065	-31.4%	$3,829	24.9%	$4,700	22.7%
Infrastructure Investments		$31,177	7.4%	$37,573	20.5%	$33,795	-10.1%
Enterprise Architecture		$1,800	-12.6%	$1,459	-18.9%	$1,842	26.3%
Total IT Investments		$45,020	-15.6%	$54,673	21.4%	$55,260	1.1%

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 (IT) purchases, as reflected in the chart below.

The United States Mint's capital projects are focused on improving manufacturing operating efficiencies such as developing new coin design capabilities, automating packaging lines, 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 following major investments are planned for 2011:

Major Investments	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated
Circulating & Protection Capital Investments			
Circulating Information Technology	656.3	2,808.4	3,931.5
Circulating Building Improvements	4,142.5	5,808.0	7,055.2
Circulating Equipment	1,457.4	8,885.0	5,460.0
Protection	4,622.1	8,559.0	8,500.0
Total Circulating and Protection	10,878.3	26,060.4	24,946.7
Numismatic Capital Investments			
Numismatic Information Technology	185.1	2,478.0	1,003.0
Numismatic Building Improvements	3,886.4	9,045.0	14,560.3
Numismatic Equipment	9,046.3	12,365.0	14,090.0
Total Numismatic	13,117.8	23,888.0	29,653.3
Total Capital Investments	23,996.1	49,948.4	54,600.0

The United States Mint's FY 2011 circulating and protection capital request is $24.9 million, which is less than the projected circulating and protection depreciation (capital limit) amount of $25.0 million. Therefore, no additional budget authority is needed in FY 2011 for capital investments.

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 $54.6 million in FY 2011. This includes approximately $16.4 million for circulating projects, $8.5 million for security improvement projects, and $29.7 million for numismatic projects.

4.2 – Program Assessment

In accordance with former OMB guidance, the United States Mint's programs were assessed as follows:

- Coin Production Program – Assessed in 2002
- Numismatic Program – Assessed in 2004
- Protection Program – Assessed in 2005

The United States Mint continues to explore opportunities to improve efficiency and streamline its business processes.

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 2009	FY 2010	FY 2011		
	Actual	Estimated	Estimated	$ Change	% Change
Supervise	$597,859	$661,039	$694,220	$33,181	5.0%
Regulate	$94,511	$104,499	$109,744	$5,245	5.0%
Charter	$23,628	$26,125	$27,436	$1,311	5.0%
Total Resources	**$715,998**	**$791,663**	**$831,400**	**$39,737**	**5.0%**
Total FTE	**3,104**	**3,216**	**3,263**	**47**	**1.5%**

FY 2010 Priorities
- Regulate and supervise 1,564 national bank charters and 51 federal branches of foreign banks with total assets of approximately $8.3 trillion, as of September 30, 2009;
- 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;
- Anticipate and proactively address potential adverse changes in national bank asset quality, liquidity and consumer risk profiles and allocate supervision resources accordingly;
- Assess the adequacy of national banks' credit, liquidity, internal controls, compliance, and corporate governance processes and require corrective action when deficiencies or undue risk concentrations are found;
- Resolve problem bank situations effectively by identifying problems at the earliest possible stage, clearly communicating concerns and expectations to bank management through appropriate enforcement actions, and ensuring timely follow-up on needed corrective actions;
- Continue to work closely with the Department of Treasury to implement provisions of the administration's Financial Stability and Regulatory Reform plans;
- Work with other domestic and international supervisors to strengthen supervisory processes and industry risk management practices, drawing upon key lessons learned from the global disruption in financial markets;
- Maintain a highly skilled and experienced workforce by continuing efforts to identify and develop the next generation of bank supervision leadership, strengthen the breadth and depth of examiner specialty skills, and recruit and retain entry-level examiners;
- Combat fraud and money laundering, and protect the integrity of the financial system through national banks' compliance with the Bank Secrecy Act/Anti-money laundering (BSA/AML), and the Uniting and Strengthening America by Providing

Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act laws and regulations;

- 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; and
- Continue to refine and improve the Comprehensive Report on Mortgage Performance and develop enhanced supervisory analytics with granular data on major national banks' credit card, home equity, and syndicated loan portfolios.

Information regarding the Administration's comprehensive regulatory reform proposals is provided in a separate budget chapter.

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, oversee a nationwide system of banking institutions, and ensure national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.

The OCC supervises 1,564 national bank charters and 51 federal branches of foreign banks in the United States. Total assets under the OCC supervision are approximately $8.3 trillion or 70 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: (1) Supervise, (2) Regulate, and (3) Charter, to achieve the goals and objectives outlined in its strategic plan.

The OCC's priorities for fiscal year (FY) 2010 include supervisory issues related to continued adverse changes in national bank asset quality and risk profiles: working with the U.S. Treasury and other supervisors domestically and internationally to strengthen supervisory processes and banks' capital, liquidity, corporate governance, risk management practices; assessing the potential impact of, and ensuring national banks' compliance with any new applicable statutory, regulatory, and accounting standards; identifying and resolving potential problem banks at the earliest possible stage; further enhancing the OCC's supervisory analytical tools, including the joint OCC and Office of Thrift Supervision (OTS) mortgage metrics database and reports; and encouraging national banks to continue to meet the needs of credit worthy borrowers, including appropriate and effective residential mortgage modification programs, and ensuring that they comply with Community Reinvestment Act (CRA), fair lending, and other consumer protection laws and with BSA/AML and USA PATRIOT Act requirements.

Assessing the adequacy of national banks' credit and liquidity risk management and consumer compliance practices, and obtaining corrective action to address any identified safety and soundness and consumer compliance weaknesses will continue to be a major focus of the OCC on-site supervisory activities in FY 2010. Coordination and cooperation with state officials will be a significant focus for the agency. Maintaining and enhancing examiners' skill sets, recruiting entry-level examiners and enhancing their retention at the critical three/four-year point of their careers, and continuing to develop 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 United States. Resident examiner teams are located in the largest banking companies, and there is an examining office in London, England.

Operations are funded primarily (approximately 96 percent) from semiannual assessments levied on national banks. Revenue from investments in U.S. Treasury securities and other income comprise the remaining 4 percent of the OCC's funding. The OCC does not receive congressional appropriations to fund any portion of its operations.

The OCC and the banking industry continue to operate in a highly challenging and volatile environment. The financial condition and performance of national banks continue to be adversely affected by deterioration in the housing market and decline in general economic conditions. While economic conditions are expected to improve in FY 2010, the pace and scope of recovery may vary considerably across sectors and geographic markets. Credit conditions in many sectors will continue to deteriorate and national banks will continue to have significant volumes of problem loans and borrowers. As a result, the OCC is expected to experience an increase in the number of problem banks and bank failures. In addition, there will be heightened compliance, reputation, and strategic risks posed by significant changes in the statutory, regulatory, and accounting requirements for various bank products, services, and transaction structures that banks will need to successfully integrate into their operations. These changes may foster fundamental shifts in some banks' business models and strategic plans.

Responding to deteriorating credit quality and ensuring adequate liquidity, loan loss reserves, and capital buffers are maintained, will continue to be major focal points for the agency and the industry in the coming year. To address these challenges, the OCC is identifying those banks which are the most vulnerable to the impact of current economic conditions, and coordinating and allocating bank supervision resources to the areas and institutions of highest risk.

The following are highlights of the OCC's FY 2009 accomplishments and specific FY 2010 challenges.

Supervisory Activities

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

The federal banking agencies regularly share supervisory information and undertake coordinated enforcement actions. As an example, when the OCC issues a remedial enforcement action against a national bank, the Federal Reserve Board will often take a complementary action with respect to the bank's holding company. Pursuant to an interagency sharing agreement, the federal banking agencies regularly exchange documents and information concerning fraudulent activities, including suspicious activity reports that involve suspected illegal activities at multiple financial institutions, and notify each other of enforcement actions against banks and individuals.

The OCC also coordinates extensively with other regulatory agencies and with law enforcement authorities. The OCC has entered into similar information sharing agreements with most state banking agencies, and all 50 state insurance departments, and regularly shares information with the Securities and Exchange Commission (SEC). The agency makes enforcement referrals to all of these regulators, as well as to state licensing boards and state professional ethics and responsibility boards, with respect to misconduct by attorneys, accountants, real estate agents, appraisers, and other professionals. The agency also makes enforcement referrals and cooperates in investigations conducted by several federal agencies, including, for example, the Financial Crime Enforcement Network (FinCEN), the Department of Labor (DOL), the Internal Revenue Service (IRS), the Department of Housing and Urban Development (HUD), the Federal Election Commission (FEC), and the Federal Trade Commission (FTC). In FY 2009, the OCC entered into an information-sharing agreement with the FTC to enhance the ability of both agencies to pursue activities of fraudulent payment processors and telemarketers. Suspected criminal violations, including evidence of fraud, are referred to the Department of Justice (DOJ). The OCC assists the DOJ, the Federal Bureau of Investigation (FBI), and the Secret Service in their investigations and prosecutions of fraud, as appropriate, by providing the OCC examiners to serve as special agents to the grand jury and as expert banking witnesses for the prosecution at trial. The OCC is a member of the National Interagency Bank Fraud Working Group and belongs to the President's Corporate Fraud Task Force.

The OCC continuously supervises banks through examination in its community bank, midsize and credit card bank, and large bank programs. A supervisory strategy is developed based on each banking institution's risk profile and condition. Examination activities focus on safety and soundness, consumer compliance, BSA/AML, USA PATRIOT Act, fair lending, asset management, bank information technology, and the CRA.

The OCC monitors and alerts the industry to emerging risks and practices that could adversely affect a bank's safety and soundness or compliance with banking laws and regulations through policy programs. Over the last several years, the OCC issued a series of supervisory guidance to address weaknesses in bank underwriting standards and credit practices. These guidelines addressed credit card account management; loss allowance practices; sound risk management practices for concentration loans in commercial real estate (CRE) lending; credit risk management for home equity lending; and nontraditional and subprime mortgage products. More recently, the OCC has issued guidance on the increased credit risk found in many banks' investment securities portfolios.

In FY 2009, the OCC supervisory activities centered on monitoring and responding to adverse conditions in the credit and financial markets, and national banks' loan portfolios. A primary focus of the OCC on-site supervisory activities has been the quality of national banks' credit risk management practices, as evidenced by effective credit risk rating systems and problem loan identification, adequate loan loss reserves in light of deteriorating credit quality, and effective loan work-out strategies. The OCC continues to encourage bankers to work with credit worthy borrowers who may be facing financial difficulties. Other areas of emphasis have been on sound liquidity risk management, with diversified funding sources and realistic contingeny funding plans, and strengthening capital buffers to weather further earnings pressures and asset quality deterioration. While assessing credit quality, adequacy of loan loss reserves, liquidity, capital, and risk management practices have been and continue to be the OCC's primary focus, the OCC also remains cognizant of the continuing need to address supervisory issues in the areas of fair lending, consumer protection, BSA/AML, and information security.

Monitoring Credit Quality

Monitoring and evaluating the quality of the loans and investments made by national banks are a fundamental component of the OCC's supervision program. Examiners evaluate asset quality and the adequacy of a bank's credit and investment risk management and controls through their on-site examination activities. They also ensure the bank has properly recorded any losses that have occurred in their loans or investments, and that the 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. Fiscal year 2009 activities included:

- Annual Survey of Credit Underwriting Practices - This annual survey, conducted by the OCC examiners and Credit Risk staff, identifies trends in lending standards and credit risk for the most common types of commercial and retail credit products offered by national banks. It provides an aggregate snapshot of how various factors, such as competition, are affecting how banks price and underwrite loans and whether the OCC believes the inherent credit risk in banks' portfolios are increasing or decreasing. The 2009 survey included examiner assessments of credit underwriting standards at the 59 largest national banks with assets of $3 billion or more. This population covers loans totaling $3.6 trillion as of December 2008, approximately 84 percent of total loans in the national banking system. The 2009 survey indicates that the trend of tighter underwriting that began in mid-2007 continued through 2008, as the majority of the banks surveyed tightened underwriting standards for both commercial and retail loans. This tightening offsets widespread easing that occurred during prior periods and is a measured response to a slowing economy and pockets of deteriorating product performance. Survey results indicate that the majority of banks now use generally the same underwriting standards regardless of the intent to hold or distribute. A key lesson learned from the financial market disruption is the need for bankers to apply sound, consistent underwriting standards regardless of whether a loan is originated with the intent to hold or sell. In releasing this year's survey, the OCC reminded bankers that underwriting standards should not be compromised by competitive pressures or the assumption that the loan will be sold to third parties;

- 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 OTS. The SNC review addresses large syndicated loans held by multiple banks. The 2009 review covered 8,955 credit facilities with commitments totaling $2.9 trillion. A SNC Press Release with results of the review will be published in late September. The OCC continued work on an interagency project to modernize the collection and analysis of SNC data and to improve the program's efficiency and effectiveness.

- Risk Concentrations - The market turmoil and subsequent economic downturn have highlighted the risks posed by undue asset or liability concentrations in banks' portfolios. Community banks can be especially prone to such concentrations as their lending portfolios tend to be highly concentrated in their local markets. As noted above, the OCC and other federal banking agencies warned financial institutions of the risks that were accumulating in many banks' CRE loan portfolios. During the last four years, the OCC has conducted asset quality reviews of all the OCC community and mid-size banks that have significant CRE concentrations to ensure that the banks have adequate credit underwriting, problem loan identification, and loan loss reserves for these portfolios. More recently, the OCC and other federal banking agencies have issued for comment, guidance on managing concentrations risk that may emerge from various correspondent banking relationships. These concentrations may emerge as credit exposures to banks that are lending or placing funds with a correspondent bank (e.g., selling excess federal funds) or as a liability exposure for banks that are obtaining funds from downstream correspondents; and

- Enhanced Credit Data Analytics - To improve the OCC's ability to monitor credit quality trends at the largest national banks and to identify potential trends that could pose systemic risks to the industry as a whole, during FY 2009 the OCC awarded contracts to several data aggregators to collect, validate, and aggregate data on home equity, credit card and large corporate syndicated credits. These efforts build off of the highly successful mortgage metrics project that the OCC initiated in FY 2008.

Restoring Financial Stability and Strengthening Prudential Supervision
The OCC has and continues to actively support the administration's efforts to restore stability to the U.S. financial sector and overall economy. The OCC is also working closely with other domestic and international supervisors, including the President's Working Group (PWG), the Basel Committee on Bank Supervision, the Financial

Stability Board (FSB) and the Senior Supervisors' Group (SSG), to identify and coordinate actions aimed at both restoring functioning markets and strengthening risk management and disclosure practices. For example, the FRB and the OCC are working with the Federal Reserve Bank of New York, the SEC, and other key global regulators and market participants to strengthen the operational infrastructure and backroom processes used for various over-the-counter derivative transactions. Through the OCC's ongoing supervisory process, the OCC monitors and benchmarks the efforts of the largest national banks to implement various recommendations and best practices that have been identified in various reports issued by the PWG, SSG, Financial Stability Forum and Basel Committee.

Other key initiatives are highlighted below:

- Troubled Assets Relief Program (TARP) - The OCC worked closely with the U.S. Treasury Department to provide technical assistance on the design and operation of various initiatives under TARP, including the Capital Purchase Program (CPP). The OCC, along with the other federal banking agencies and Treasury, developed a uniform application form for Qualified Financial Institutions (QFIs) that wanted to participate in the TARP CPP and used common evaluation factors and decision forms to review and provide recommendations on those applications to Treasury. As part of this process, the OCC supervisory staff reviewed all CPP applications submitted by national banks to evaluate their eligibility for the program and to provide recommendations to Treasury. The OCC also chaired and provided secretariat support to the interagency TARP CPP Council that is an advisory body to Treasury. For much of FY 2009, the OCC also provided on-site staff to assist Treasury in developing an effective administrative and oversight function for the TARP program. The OCC staff also worked with Treasury to develop reporting mechanisms to monitor and assess the use and effectiveness of TARP CPP proceeds by QFIs;

- Supervisory Capital Assessment Program - In conjunction with Treasury's Capital Assistance Program, the OCC, the FRB, and the FDIC, conducted a comprehensive, forward looking assessment of the financial condition of the nation's 15 largest bank holding companies to determine if those companies had sufficient capital buffers to withstand losses and sustain lending during a sustained economic downturn. This assessment involved staff from the OCC's on-site supervisory teams and policy and economic divisions. Institutions that needed to augment their capital levels were required to submit detailed capital plans and the OCC is closely monitoring national banks' compliance with those plans. Since the results of these assessments were announced in May, national banking organizations have raised or converted over $108 billion in core capital instruments;

- Residential Mortgage Lending, Loan Modifications, and Reporting Metrics - Continued strains in the housing markets are having an adverse affect on national banks' residential mortgage and home equity loan portfolios. To improve the OCC's ability to monitor conditions in this important market segment, in FY 2008 the OCC began requiring the nine largest national bank mortgage servicers to submit comprehensive mortgage data to the OCC on a monthly basis. In the summer of 2008, the OCC established the first loan-level source of mortgage performance data with the OTS by gathering validated information and reporting on more than 34 million first-lien mortgages, which represents 64 percent of all mortgages in the country. In FY 2009, the OCC and OTS refined and expanded the data collected to include information on the performance of modified loans, the sustainability and changes in payments that result from loan modifications, and the types of actions taken to modify loans.

The OCC also continues to encourage national banks to work constructively with borrowers who may be facing difficulties with their current mortgage obligations and to continue to meet the needs of credit worthy borrowers. In November 2008, the OCC and other federal banking agencies issued the *Interagency Statement on Meeting the Needs of Creditworthy Borrowers*. The OCC also has worked closely with Treasury and the HUD on formulating various programs to assist homeowners, including Treasury's Home Affordable Mortgage Program (HAMP). To ensure that regulatory capital was not hindering banks' ability to participate in this program, in November 2009 the OCC and other federal banking agencies issued a final rule that provides a common interagency capital treatment for mortgage loans modified under HAMP. The rule provides that loans modified under HAMP will retain the capital risk-weight assigned to a loan prior to its modification, so long as the loan continues to meet other applicable prudential criteria;

- Enhanced Liquidity Risk Management - In September 2008, the OCC joined other global supervisors in endorsing the Basel Committee's *Principles for Sound Liquidity Risk Management and Supervision*. The principles underscore the importance of establishing a robust liquidity risk management framework that is well integrated into the bank-wide risk management process. In June 2009, the OCC and other U.S. federal banking agencies issued for comment, guidance on the application of these principles to U.S. depository institutions;

- Basel II Capital Rules - The recent market turmoil highlighted areas where the current Basel II capital framework needed to be strengthened. The OCC has been actively involved in the package of measures announced by the Basel Committee in July 2009 to strengthen the 1996 rules governing the capital required for trading activities and to enhance the three pillars of the Basel II framework. The refinements announced in July include: 1) higher capital requirements to capture the credit risk of complex trading activities, including a stressed value-at-risk requirement designed to dampen the cyclicality of the minimum regulatory capital framework; and 2) higher capital requirements for re-securitizations to better reflect the risk inherent in these products, and for short-term liquidity facilities to off-balance sheet conduits. Banks will also be required to conduct more rigorous credit analyses of externally rated securitization exposures and to comply with higher supervisory standards for firm-wide risk governance and risk management.

These measures are part of the Basel Committee's broader program to strengthen capital by: 1) promoting the build-up of capital buffers that can be drawn down in periods of stress; 2) strengthen the quality of bank capital; and 3) introduce a leverage ratio backstop to Basel II for countries that currently do not have a leverage-based capital ratio. The U.S. agencies will jointly consider the adoption of these and other changes to the Basel II Accord for U.S. institutions through the agencies' notice and comment process; and

- Accounting and Financial Disclosure Issues -The OCC and other federal banking agencies continue to work closely with the SEC and the Financial Accounting Standards Board (FASB) on various accounting and disclosure issues related to the recent market disruptions, including various interpretations and application of guidance related to mortgage loan modifications, fair value measurement in illiquid markets, and accounting for asset-backed commercial paper and structured financial instruments. The agencies provided input as needed to the FASB as it developed revised accounting and disclosure standards governing securitization transactions and off-balance sheet entities that culminated in the FASB's Statements of Financial Accounting Standards Nos. 166 and 167 (FAS 166 and FAS 167), published in June 2009. These statements amend Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140), and FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*. These changes will have material effects on banking organizations' accounting for off-balance sheet items as well as the regulatory capital requirements for these items. In September 2009, the OCC and other federal banking agencies issued a proposed rulemaking for comment on the regulatory capital treatment and impact of the new standards. A final rule is expected before year end.

  Under Comptroller Dugan's chairmanship of the Financial Stability Board's Working Group on Provisioning, the OCC is also actively involved with banking supervisors and accounting standard setters world-wide to ensure that banks have the ability to strengthen their loan loss reserves at an appropriate time in the credit cycle, as their potential future loan losses are increasing. A more forward-looking "life of the loan" or "expected loss" concept would allow provisions to incorporate losses expected over a more realistic time horizon, and would not be limited to losses incurred as of the balance sheet date, as under the current regime. Such a revision would help to dampen the decidedly pro-cyclical effect that the current rules are having today.

Resolving Problem Banks
The goal of the OCC's supervision is to identify and correct potential issues at an early stage, before they adversely affect the safety and soundness of the banking system or the viability of any individual bank. Despite these efforts, given current market conditions, the OCC expects to see an increase in problem banks that will require more in-depth supervisory attention. As a bank reaches this stage, the OCC's efforts focus on developing a specific plan that takes into consideration the ability and willingness of management and the board to correct deficiencies in a timely manner and return the bank to a safe and sound condition. In most instances these efforts, coupled with the

commitment of bank management, result in a successful rehabilitation of the bank. The OCC makes every effort to address and seek correction of bank problems through its examination program. However, when problems are serious and well-documented, enforcement action may be warranted to address violations of laws, rules, and regulations; unsafe or unsound banking practices and breaches of fiduciary duty; and noncompliance with the OCC directives or orders by national banks, their insiders, and other affiliated parties.

The OCC has used a variety of tools that were helpful in dealing with the industry-wide increase in problems and troubled institutions in FY 2009, including statutory Prompt Corrective Action determinations when a bank's capital deteriorates below specified thresholds, requirements for increased capital and liquidity sources, required changes in bank management, and prior OCC approval of changes in business plans.

In combating mismanagement during FY 2009, the OCC took such formal enforcement actions as final cease and desist orders, removal or prohibition orders, Civil Money Penalties, and formal agreements. Documents relating to the OCC enforcement actions can be found on the OCC's Web site at (www.occ.gov).

There will be cases, however, where the situation is of such significance that the OCC will require the sale, merger, or liquidation of the bank, if possible. Where that is not possible, the FDIC may be appointed as receiver. The OCC works closely with the FDIC in these cases to affect least cost resolution, consistent with the provisions of the Federal Deposit Insurance Corporation Improvement Act. For FY 2009 there were 13 national bank failures where the OCC appointed the FDIC as receiver. In the first two months of FY 2010 there were nine failures.

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 has also developed a Money Laundering Risk System (MLRS) that provides approximately 1,500 national community bank charters with succinct BSA/AML risk assessment information. This information also enhances the OCC's effectiveness in BSA/AML supervision. In FY 2009, FinCEN and the OCC each assessed Civil Money Penalties of $5 million against a foreign bank branch for alleged violations of the Bank Secrecy Act, which the bank agreed to pay under a consent order.

Fair Access to Financial Services and Fair Treatment of Bank Customers

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

Fair Lending

The OCC's fair lending supervisory process is designed to assess and monitor the level of fair lending risk in every national bank. The OCC assesses compliance with fair lending laws and regulations; obtains corrective action when significant weaknesses or deficiencies are found in a bank's policies, procedures, and controls relating to fair lending; and ensures enforcement action is taken when warranted. This includes referrals to the DOJ and notifications to the HUD.

As described in more detail in the Supervision section, the OCC responded to the mortgage crisis by encouraging national banks to work with consumers, supporting private and public sector initiatives and programs that seek to assist these borrowers, and collecting and analyzing extensive mortgage lending and workout data from the largest national banks.

Community Development

The OCC actively supports the efforts of national banks to engage in sound and successful community development activities and processes community development investment notices and proposals under title 12, Code of Federal Regulations Part 24. The federal financial institution regulatory agencies published new and revised Interagency Questions and Answers Regarding Community Reinvestment, and proposed revisions to regulations implementing the CRA to require consideration of low-cost education loans provided to low-income borrowers when assessing a financial institution's record of meeting community credit needs. The proposal also addresses crediting an institutions involvement with minority- and women-owned institutions. 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. The OCC was particularly active in FY 2009 in identifying potential bank responses to the foreclosure crisis, such as working with community development organizations to rehabilitate foreclosed properties and stabilize neighborhoods, including use of the HUD's Neighborhood Stabilization Program and use of new markets and low income housing tax credits. The agency sponsored a series of banker community development workshops and participated in Hope Now mortgage foreclosure prevention events. Also in FY 2009, the bank regulatory agencies extended by an additional three years the period during which loans, investments, and services that help stabilize the areas impacted by Hurricanes Katrina and Rita will receive positive CRA consideration.

While maintaining its consumer help website, which was launched in 2007 (www.helpwithmybank.gov), the OCC continued to seek ways to work with the other federal financial regulatory agencies to better assist consumers when they have questions or need help in resolving issues with their banks. The agency also issued *Community Development Insights* reports on uses of the Historic Tax Credit and on bank sponsorship of school-based savings program, and also published a *Community Developments* newsletter focusing on financial literacy.

Consumer Protection

During FY 2009, the OCC continued its work with the other federal banking agencies to improve consumer protection. In December 2008, the agencies issued a revised Identity Theft brochure to assist consumers in preventing and resolving identity theft. In April 2009, the OCC issued a consumer advisory to help homeowners avoid scams that claim to help them save their homes, but can cause them to lose their homes and their money. The OCC is also leading the interagency effort to implement the registration requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (S.A.F.E. Act). In June 2009, the agencies issued a proposal that establishes the registration requirements for mortgage loan originators employed by agency-regulated institutions as well as requirements for these institutions, including the adoption of policies and procedures to ensure compliance with the S.A.F.E Act and final rule. As required by the law, the proposal also requires these mortgage loan originators to obtain a unique identifier through the Registry that will remain with that originator, regardless of changes in employment. When the system is fully operational, consumers will be able to use the unique identifiers to access employment and other background information of registered mortgage loan originators. The OCC is also taking the lead in developing interagency guidance for managing the risks presented by reverse mortgage loan products. A key aspect of the guidance is to ensure that there are appropriate consumer safeguards with these products as the market for them expands. The OCC anticipates that this guidance will be published for comment in the near future. The OCC also created public service announcements in English and Spanish advising consumers of the potential risks of reverse mortgage products.

Enforcement

As needed, the OCC uses its enforcement authority to address problems and noncompliance arising from unfair treatment of bank customers, including failure to meet requirements for proper disclosures relating to financial products and services.

In FY 2009, the OCC entered into an amended settlement agreement directing a national bank to make restitution to consumers harmed by its relationships with telemarketers and third party processors. As a result of the OCC's actions, which were based on findings of unsafe and unsound practices, and unfair practices in violation of the Federal Trade Commission Act, the bank issued checks totaling over $150 million to more than 74,000 consumers. The OCC took a total of 346 enforcement actions against banks and 333 enforcement actions against institution-affiliated parties during FY 2009. In FY 2010, the OCC expects to continue to be active on mortgage and credit fraud and fair treatment issues, through agency enforcement processes and in conjunction with interagency efforts.

Customer Assistance

The OCC's Customer Assistance Group (CAG) assists consumers who have questions or complaints about national banks and their operating subsidiaries. As of September 30, 2009, the CAG had received 144,505 contacts from consumers in the form of telephone calls, letters, faxes, and e-mails of which 61,679 were consumer complaints. The majority of complaints received by the CAG involve credit card, retail checking and mortgage issues.

During FY 2009, outreach activities to state bank regulators continued. Memorandums of Understanding (MOU) have now been signed between the OCC and 45 state banking departments and the Commonwealth of Puerto Rico with several others 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 2010 include a continuation of outreach activities to state regulators and others.

Regulatory Activities

As one of its four strategic goals, the OCC strives to maintain a flexible legal and regulatory framework that enables the national banking system to provide a full, competitive array of financial services.

In FY 2009, the federal financial agencies, including the OCC, issued proposed rules requiring mortgage loan originators who are employees of agency-regulated institutions to meet the registration requirements of the S.A.F.E. Act. These mortgage loan originators must be registered with the Nationwide Mortgage Licensing System and Registry, a database established by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators. As part of the registration process, mortgage loan originators will be subject to a background check. When the system is fully operational, consumers will be able to use unique identifiers to access employment and other background information of registered mortgage loan originators. The proposal also establishes requirements that financial institutions adopt policies and procedures to ensure compliance with the S.A.F.E. Act and the rules.

As required by the Fair and Accurate Credit Transactions Act (FACT Act), the federal financial agencies and the FTC published final rules and guidelines to promote the accuracy and integrity of information furnished to credit bureaus and other consumer reporting agencies. This information is widely used to determine credit eligibility and access to employment, insurance and rental housing. Among other provisions, a consumer may submit a dispute directly to an entity that provided information to a consumer reporting agency for investigation. The rules are effective July 1, 2010. The agencies, at the same time, issued an Advanced Notice of Proposed Rulemaking to identify possible additional information that entities must provide to consumer reporting agencies when furnishing credit information.

With regard to capital requirements, the federal financial agencies issued an interim final rule in June 2009 and a final rule in November 2009 specifying a 50 percent risk weight for loans modified pursuant to the Treasury's HAMP. The federal banking and thrift agencies also issued a final rule permitting a reduction in the amount of goodwill a covered financial institution must deduct from Tier 1 capital equal to an associated deferred tax liability.

The OCC initiated a review of its regulations dealing with the scope of visitorial powers under the National Bank Act, in light of the U.S. Supreme Court decision in Cuomo, Attorney General of New York v. Clearing House Association, L.L.C., et al.

In FY 2010, the OCC will continue regulatory work on implementation of Basel II capital requirements and in response to accounting standards developments. Regulatory efforts related to Treasury, the FRB and other U.S. Government actions to address the recent market crisis are also expected to continue.

The OCC's strategic objectives emphasize regulatory oversight practices that support national banks' ability to compete while maintaining safety and soundness. The OCC issued its annual publication, "2008 Significant Legal, Licensing, and Community Development Precedents for National Banks" as well as the cumulative companion edition of "Permissible Activities for a National Bank." Analysis during FY 2009 included proposed reforms of the over-the-counter derivatives markets, proposed amendments to securities laws, and permissibility of various capital and securities structures and instruments. The agency provided legal analysis for bank participation in the TARP, Term Asset Backed Securities Loan Facility (TALF) and Public-Private Investment program (PPIP) participation. The agency also reviewed affiliate transactions and lending limits topics, including expansion of Supplemental Lending Limits for qualifying banks. In FY 2010, the agency will continue to consider and issue opinions regarding the safe and sound implementation of bank activities and products. The OCC will also continue to provide case-by-case analysis, when appropriate, with respect to the enforcement of state law in cases involving national banks and their subsidiaries.

Charter Activities

The OCC made several significant licensing decisions in FY 2009 involving national bank business realignments and acquisitions. In order to address potential safety and soundness problems before they arise, the OCC may impose conditions upon bank transaction approvals covering, for example, capital and liquidity arrangements and deviations from business plans. In FY 2009, the OCC responded quickly and effectively in reviewing and making decisions on applications related to resolving problem conditions brought on by the mortgage and credit crises. The Licensing Department works closely with Supervision and Law units in consideration of the viability and legality of proposals for dealing with problem banks. Proposed restructurings that may avoid bank failures and their associated costs can include mergers, purchases and assumptions, and temporary bridge banks.

In FY 2009, the agency conditionally approved the first "shelf charter" to expand the pool of qualified bidders for troubled institutions. The new mechanism involves the granting of preliminary approval to investors for a national bank charter. Shelf charters remain inactive until such time as the investor group holding the charter is in a position to acquire a troubled institution. This process expands the pool of potential buyers available to purchased troubled institutions.

1C – Industry Outlook

Turmoil in the financial markets, the mortgage and foreclosure crises, and the long and deep recession have all added to the challenges facing the banking system. Past experience says that growth in the banking system is likely to resume when the economy emerges from the current recession. Further, the long-term trend of bank consolidation is likely to continue and will accelerate in the near term, as the credit cycle culls out weaker performers. If bank assets continue to grow at about the rate of nominal Gross Domestic Product (GDP), and if GDP growth returns to its historical average over the next five years, assets could grow and the number of banks could shrink, as shown in the following table.

	Commercial Banks		National Banks		Share of Total System Assets
	Assets ($t)	Number	Assets ($t)	Number	in Banks Over $10M
2008	12.3	7,085	8.5	1,537	71.8%
2013e[1]	15.7	6,460	10.8	1,401	85.0%

[1] e - Estimated

But the depth, breadth, and duration of this downturn suggest that when recovery does come, bank assets and loans could grow more slowly than in the recent past. The combination of recession and financial crisis has already caused widespread deleveraging among both households and firms. Most expect this to continue, reducing the rate of credit growth throughout the economy. This could limit the pace of bank lending and asset growth as the economy begins to recover, as happened after the 1990-91 recession.

Large banks will continue to dominate the industry. Banks with over $10 billion in assets now account for 80 percent of national bank system assets. This share has been increasing, and the trend is expected to continue. The financial crisis could increase consolidation among these large banks, thinning their ranks from the 86 that exist now. As several non-banks have recently been brought into the banking system, the relative size of the banking system has increased. This trend may continue as well.

Until about six years ago, national banks consistently accounted for about 56 percent of all commercial bank assets. Since then, a series of mergers and conversions have increased the national bank share to approximately 70 percent of commercial bank assets.

Risks to the banking system include continued problems in the credit markets, and a slow recovery from the real estate slump and the recession.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Office of Comptroller of the Currency	FY 2009 Obligated	FY 2010 Estimated	FY 2011 Estimated
FTE	**3,104**	**3,216**	**3,263**
Object Classification:			
11.1 - Full-time permanent	347,999	387,216	395,762
11.3 - Other than full-time permanent	8,821	9,256	9,782
11.5 - Other personnel compensation	1,820	2,301	10,623
12 - Personnel benefits	124,954	137,866	145,706
13 - Benefits for former personnel	108	195	206
21 - Travel and transportation of persons	45,246	51,552	54,484
22 - Transportation of things	2,913	2,668	2,819
23.1 - Rental payments to GSA	2,524	2,524	2,668
23.2 - Rental payments to others	35,787	37,272	39,392
23.3 - Comm, utilities, and misc charges	11,311	11,839	12,512
24 - Printing and reproduction	1,015	1,118	1,181
25.1 - Advisory and assistance services	21,095	37,219	39,336
25.2 - Other services	15,075	19,085	20,170
25.3 - Other purchases of goods and services from Govt. accounts	5,285	6,871	7,262
25.4 - Operation and maintenance of facilities	4,847	5,790	6,119
25.7 - Operation and maintenance of equip	51,926	52,335	55,312
26 - Supplies and materials	3,956	6,835	7,224
31 - Equipment	17,015	13,171	13,920
32 - Land and structures	14,112	6,320	6,679
42 - Insurance claims and indemnities	189	230	243
Total Budget Authority	**$715,998**	**$791,663**	**$831,400**
Budget Activities:			
Supervise	597,859	661,039	694,220
Regulate	94,511	104,499	109,744
Charter	23,628	26,125	27,436
Total Budget Authority	**$715,998**	**$791,663**	**$831,400**

2.3 – Resource Detail Table

	FY 2009 Obligated		FY 2010 Budget		FY 2011 Estimated		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Revenue / Offsetting Collections								
Assessments		$751,181		$800,100		$844,500		5.55%
Interest		21,525		25,300		26,600		5.14%
Other Income		1,996		1,700		1,700		0.00%
Total Revenue / Offsetting Collections		$774,702		$827,100		$872,800		5.53%
Unobligated balances, Start of year		$660,261		$671,332		$682,948		1.73%
Recoveries of prior year obligations		0		0		0		0.00%
Net transfers *(includes capital transfers)*		0		0		0		0.00%
Total Budgetary Resources Available		$1,434,963		$1,498,432		$1,555,748		3.83%
Expenses/Obligations								
Supervision	2,592	$597,859	2,671	$661,039	2,710	$694,220	1.46%	5.02%
Regulate	410	94,511	447	104,499	454	109,744	1.57%	5.02%
Charter	102	23,628	98	26,125	99	27,436	1.02%	5.02%
Total Expenses / Obligations	3,104	$715,998	3,216	$791,663	3,263	$831,400	1.46%	5.02%

2B – Appropriations Language and Explanation of Changes

The OCC receives no appropriations from Congress.

Section 3 – Budget and Performance Plan

This table lists all FY 2010 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/offices/management/budget/strategic_plan.shtml

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Estimated	FY 2011 Estimated	Percent Change
Economic competitiveness	130,624	137,180	**5.02%**
Fin. & econ.crises	661,039	694,220	**5.02%**
Total	**$791,663**	**$831,400**	**5.02%**

3A – Supervise *($661,039,000 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 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Estimated	FY 2011 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$528,622	$565,921	$597,859	$661,039	$694,220
Total Resources	**$528,622**	**$565,921**	**$597,859**	**$661,039**	**$694,220**
Budget Activity Total	**$528,622**	**$565,921**	**$597,859**	**$661,039**	**$694,220**

Supervise Budget Activity						
Measure	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011
	Actual	Actual	Target	Actual	Target	Target
Percent of national banks with composite CAMELS rating 1 or 2	96	92	90	82	90	90
Percentage of national banks that are categorized as well capitalized	99	99	95	86	95	95
Percentage of national banks with consumer compliance rating of 1 or 2	97	97	94	97	94	94
Rehabilitated national banks as a percentage of problem national banks one year ago (CAMEL 3,4, or 5)	52	47	40	29	40	40
Total OCC costs relative to every $100,000 in bank assets regulated ($)	8.89	8.39	9.22	8.81	9.22	9.22

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

Description of Performance:

Well Capitalized National Banks

The Federal Deposit Insurance Act established a system that classifies insured depository institutions into five categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) based on their capital levels relative to their risks. Through September 30, 2009, 86 percent of national banks were classified as well capitalized. This decline is reflective of the increasing number of problem national banks whose capital levels have been adversely affected by substantial asset quality problems or who may otherwise meet the minimum ratios to be considered Well Capitalized but are not considered so under Prompt Corrective Action as they are under a capital order, Cease and Desist, Formal Agreement or Prompt Corrective Action Directive to reflect increased risks to their capital. The OCC works closely with problem banks to develop rehabilitation plans. Such plans typically include directives to improve or restore capital levels. More broadly, the OCC is working with other regulators both domestically and internationally to strengthen capital standards and improve credit risk management practices.

National Banks with Composite CAMELS Rating of 1 or 2

The composite CAMELS (**C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market risk) rating reflects the overall condition of a bank. Bank regulatory agencies use the Uniform Financial Institutions Rating System, CAMELS, to provide a general framework for evaluating all significant financial, operational, and compliance factors inherent in a bank. The rating scale is 1 through 5 of which 1 is the highest rating granted. CAMELS ratings are assigned at the completion of every supervisory cycle or when there is a significant event leading to a change in

CAMELS. Through September 30, 2009, 82 percent of national banks earned composite CAMELS rating of either 1 or 2. The increase in the number of banks with lower composite CAMELS ratings is not unexpected at this stage of the credit cycle and reflects impaired asset quality and earnings that is affecting many banks. Our primary focus is to ensure that CAMELS ratings are an accurate reflection of each bank's current financial position and thus we would not take action to prematurely restore a favorable CAMELS rating even though the current distribution of ratings is below our target. As bank performance and asset quality improves, we would expect CAMELS ratings to adjust accordingly.

Rehabilitated National Banks
Problem banks ultimately can reach a point at which rehabilitation is no longer feasible. The OCC's early identification and intervention with problem banks can lead to successful remediation of these banks. The OCC recommends corrective actions to problem banks for improving their operations and, as a result, 29 percent of banks with composite CAMELS ratings of 3, 4, or 5 one year ago have improved their ratings to either 1 or 2 this year. As with the other measures, this target benchmark has been adversely affected by the underlying economic conditions facing the banking industry. The number of serious problem banks, where successful resolution is more difficult, has increased. In addition, the sharp contraction in certain segments of the economy, including the real estate sector, has resulted in a more rapid deterioration in some banks' financial condition.

National Banks with Consumer Compliance Rating of 1 or 2
To ensure fair access to financial services and fair treatment of bank customers, the OCC evaluates a bank's compliance with consumer laws and regulations. Bank regulatory agencies use the Uniform Financial Institutions Rating System, Interagency Consumer Compliance Rating, to provide a general framework for assimilating and evaluating significant consumer compliance factors inherent in a bank. Each bank is assigned a consumer compliance rating based on an evaluation of its present compliance with consumer protection and civil rights statutes and regulations, and the adequacy of its operating systems designed to ensure continuing compliance. Ratings are on a scale of 1 through 5 in increasing order of supervisory concern. National banks continue to show strong compliance with consumer protection regulations with 97 percent earning a consumer compliance rating of either 1 or 2 through September 30, 2009.

Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated
Beginning in FY 2006, the OCC implemented a performance measure—Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated—that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex national banking system. The OCC costs are those reported as total program costs on the annual audited Statement of Net Cost. Bank assets are those reported quarterly by national banks on their Reports of Condition and Income. Total national bank assets represent the growth and complexity of the national banking system. This measure supports the OCC's strategic goal of efficient use of agency resources. The

OCC's ability to control its costs while ensuring the safety and soundness of the national banking system benefits all national bank customers.

3B – Regulate *($104,499,000 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 2007 Obligated	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Estimated	FY 2011 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$91,296	$87,583	$94,511	$104,499	$109,744
Total Resources	**$91,296**	**$87,583**	**$94,511**	**$104,499**	**$109,744**
Budget Activity Total	**$91,296**	**$87,583**	**$94,511**	**$104,499**	**$109,744**

Regulate Budget Activity					
Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

There are no measures specified at this time.

3C – Charter *($26,125,000 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 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Obligated**	**FY 2010 Estimated**	**FY 2011 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$18,515	$20,212	$23,628	$26,125	$27,436
Total Resources	**$18,515**	**$20,212**	**$23,628**	**$26,125**	**$27,436**
Budget Activity Total	**$18,515**	**$20,212**	**$23,628**	**$26,125**	**$27,436**

Charter Budget Activity						
Measure	**FY 2007**	**FY 2008**	**FY 2009**		**FY 2010**	**FY 2011**
	Actual	**Actual**	**Target**	**Actual**	**Target**	**Target**
Percentage of licensing applications and notices completed within established timeframes	96	95	95	95	95	95

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, DISC – discontinued, and B - baseline

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 95 percent of applications and notices within the time standard through September 30, 2009. 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://treas.gov/offices/management/budget/

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 business changes and imperatives, and assesses its current staffing structure to identify potential recruitment challenges and skill imbalances/gaps. The agency then develops strategies to meet these challenges and approve incentives specifically designed to address them. Other strategies include: 1) using all qualified personnel on priority assignments, realizing the increasing dependence and need for "fungibility" among and within various disciplines; 2) using the midsize/community banks area as the primary entry-level recruitment, training, and development vehicle to provide a diverse bank examiner selection pool for many departments and divisions in the bureau; and 3) identifying skill gaps and using them to establish recruitment and training priorities as part of 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, 833 examiners have been hired, including 128 in FY 2009. While the OCC expects hiring to continue at current levels, strategies are being reviewed to ensure that the OCC has an integrated staffing process that allows supervision resources to be deployed to their highest and best use and maximizes staff development opportunities in alignment with the OCC's national priorities.

The OCC has focused heavily on recruiting the expertise needed to fill positions in the agency's Chief National Bank Examiner's office and Large Bank Supervision line of business. The OCC has also recognized the challenge of ensuring that it has the skill sets needed now and in the future to supervise the increasingly complex array of activities and businesses found in the national banking system. As a result, the OCC uses a framework to assess where and when specialized skills are needed and to ensure it has the staffing necessary to meet those needs. This framework, the Specialty Skills Assessment, allows the OCC to measure gaps in its current skill levels in eight critical business areas (Asset Management, Bank Information Technology, Capital Markets, Compliance, Commercial Lending, Retail Lending, Mortgage Banking, and Operational Risk) and to develop strategic plans to fill those gaps. It establishes a standard process to identify an individual's specialty skills, which can be compared to actual examination resources necessary for the effective supervision of national banks. These skill level designations are made on an annual basis. Also, on an annual basis, there is a review of the policy to ensure that the criteria used to determine assignment complexity and assess examiner skill levels in each specialty remain current and relevant as the industry evolves.

Assessment results aid examination staffing and recruiting initiatives, and provide employees and managers with a valuable tool that can be used to identify developmental opportunities to further an individual's career objectives.

In further recognition of the need to provide expert-level support related to the current financial and housing market situations, the OCC requested and was granted authority to waive the dual compensation reduction to reemploy certain annuitants. The extensive knowledge and superior skills reemployed annuitants have developed in specific specialty areas are an invaluable resource.

A second human capital goal is to develop current and future leaders who demonstrate strong strategic, people management, and technical skills. To achieve this goal, the OCC has implemented a leadership development program, LeaderTRACK, based on identified competencies. The program, which began in FY 2007, offers participants three six-month assignments, with significant managerial and supervisory roles, that will develop leadership skills rather than prepare them for a specific position. There have been ten participants in this program since its inception, eight of whom have already been placed in permanent managerial positions. 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.

The OCC operates under a merit-based pay and performance system. Annual across-the-board increases are not granted. Salary increases are awarded based on merit to reward employee performance, employee development that is relevant to the OCC's needs, and employee contributions to the OCC's priorities.

Therefore, 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 assure the agency accomplishes this goal, the OCC is nearing completion of a study of the compensation program to assess the appropriateness of the pay bands, evaluate the relationship between performance management and merit pay systems, and evaluate the current compensation policies and programs to ensure they support the OCC in attracting, retaining, and motivating a high-caliber workforce.

The OCC is confident 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 its mission.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Major IT Investments / Funding Source	Budget Activity	FY 2009 Obligated	FY 2010 Estimated	% Change from FY 09 to FY 10	FY 2011 Estimated	% Change from FY 10 to FY 11
Fiscal Management	Manage	1,920	1,930	0.52%	2,000	3.63%
Total, Major IT Investments		**$1,920**	**$1,930**	**0.52%**	**$2,000**	**3.63%**

4B – Information Technology Strategy

The OCC's capital planning process ensures that all Information Technology (IT) investments are aligned with its mission, goals, and objectives, and target architecture before a project is selected for funding. The capital planning process ensures business cases are reviewed to leverage opportunities to use existing technology, to capitalize on enterprise opportunities as well as ensure there are no redundancy in IT systems that are considered for 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 Subcommittee (TSS). Both the IRB and TSS meet regularly to select, monitor, and control IT investments. This process ensures that the overall IT strategy has adequate funding, resources, and prioritization.

Linkage to the OCC programs and strategic goals are documented in each project business case and prioritized by the IRB and TSS. Performance metrics are linked to the delivery, alignment, and achievement of the OCC strategic program objectives.

The OCC developed a Technology Vision 2012 Roadmap that aligns to the agency's core mission to ensure a safe and sound national banking system for all Americans. In addition, in FY 2009, the OCC established specific IT goals to leverage information technology as a strategic business enabler to support the OCC's strategic goals. Additionally, the OCC implemented a Modernization Vision & Strategy (MV&S) initiative. Modernization Vision & Strategy is a business-driven initiative that brings together multiple business organizations and follows best-practice methodologies to develop an IT "roadmap" based on the OCC business needs. The results of the MV&S will be integrated into the OCC target enterprise architecture and enhance the OCC's IT investment decision-making process to reduce costs and align IT with current and anticipated business needs.

FY 2010 Plans

Even though there are no new major IT initiatives planned in FY 2010, the OCC will continue to implement the OCC Technology Vision 2012 Roadmap with a focus on enterprise data analytics and information sharing, optimizing technology solutions for the mobile workforce, aligning IT investment decision making with the enterprise architecture and business objectives and managing the risk to OCC assets and improving internal efficiency and effectiveness.

To address the challenges faced by the OCC mobile workforce, the OCC will continue the Integrated-Mobile Employee Technical Refresh & Optimization (I-METRO) initiative. I-METRO will provide new laptops, PCs, and other peripheral devices and provide enhanced connectivity and mobile access. This initiative will reduce the costs of desktops, laptops and peripheral devices through a strategic sourcing service management approach. Examiners in the field will now have access to the best providers of wireless services commensurate with the geographic location of their bank examination.

The OCC will continue to modernize the agency's technical infrastructure. The Data Center Modernization & Optimization (DCM&O) initiative began in FY 2009 and focuses on the development and implementation of strategies and initiatives for infrastructure optimization. The DCM&O will maximize service delivery of the OCC data center and includes investing in human capital by addressing training needs; realigning multiple contract vehicles to better deliver core services and lower total cost of ownership for these services; and improving processes and reducing the number of servers to attain a "green" data center.

Homeland Security Presidential Directive 12 (HSPD-12)

In FY 2009, the OCC continued to develop an HSPD-12 program for SmartID card issuance and subsequent use of that card for both physical access to the OCC facilities and logical access to the OCC information systems. Among the bureau's accomplishments for FY 2009, the OCC activated and issued SmartID cards to its employee population and began contractor enrollment and activations. The OCC also successfully integrated the HSPD-12 enrollment procedures into existing on-boarding and personnel security programs. The OCC also began using HSPD-12 compliant SmartIDs for physical access at the OCC facilities and is credited with being among the first to enable Physical Access Control System (PACS) card interoperability with other federal agency issued HSPD-12 cards. In addition, during FY 2009, the OCC completed five new HSPD-12 compliant PACS installations and upgrades at the OCC facilities.

In FY 2010 the OCC will continue to install and upgrade HSPD-12 compliant PACS completing an additional 14 locations nationwide. In addition, the OCC will completely phase out existing proximity security cards, transitioning exclusively to HSPD-12 SmartID cards for all OCC employees and contractors. During FY 2010 the OCC will begin to integrate HSPD-12 policy, procedures and SmartID card usage into other existing agency processes moving towards full HSPD-12 compliance by the established Treasury and Federal milestones.

4.2 – Program Evaluation

Program Name: Bank Supervision

Assessment and Improvement Actions

- Regulatory agencies that include the OCC, OTS, FDIC, FRB, National Credit Union Administration, Federal Housing Finance Agency, and the SEC continue to share their strategic plans, performance budgets, and performance measures on a regular basis. This allows each agency to consider the approaches used by other agencies when developing or revising their goals and measures.

- The OCC and OTS, as bureaus in the Department of Treasury, continue to work together to maintain alignment of their performance measures.

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 2009	FY 2010	FY 2011		
	Actual	Estimated	Estimated	$ Change	% Change
Supervision of the Thrift Industry	$233,571	$251,145	$244,867	($6,278)	(2.5%)
Total Resources	**$233,571**	**$251,145**	**$244,867**	**($6,278)**	**(2.5%)**
Total FTE	**1,051**	**1,065**	**1,082**	**17**	**1.6%**

FY 2010 Priorities

- Comprehensive Risk Focused Examinations that Focus on Core Risk Areas,
- Strengthening Thrift Industry Guidance,
- Disaster and Emergency Preparedness,
- Global Financial Services,
- Regulatory Burden,
- Communicating the Features of the Thrift Charter, and
- Succession Planning and Management of OTS Resources.

Information regarding the Administration's comprehensive regulatory reform proposals is provided in a separate budget chapter.

Table of Contents

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). The OTS' 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 institutions; and preemption authority. The OTS is the only federal banking agency that both charters depository institutions and supervises their holding companies.

The number of thrifts supervised by OTS stood at 780 with assets of $1.07 trillion as of September 30, 2009. In addition, OTS supervised 452 holding company enterprises with approximately $5.5 trillion in U.S. domiciled consolidated assets. These enterprises owned 413 thrifts with total assets of $729 billion, or 68 percent of total thrift industry assets.

As of September 30, 2009, the majority of thrifts - 95.8 percent - held capital exceeding the "well capitalized" regulatory standards, suggesting that the industry's financial fundamentals remain solid.. Furthermore, these thrifts' combined assets represented 95.9 percent of industry aggregate assets.

<u>Office of Thrift Supervision Vision, Strategic Goals and Priorities</u>
OTS' vision is to perform and be recognized as the premier regulator of financial institutions and their holding companies. The FY 2010 budget submission is guided by the four strategic goals outlined in 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, and
- A professional, highly motivated, and diverse workforce that effectively uses OTS resources to provide exceptional service to its customers.

OTS' estimated FY 2010 budget of $251 million supports the OTS' efforts to address these key strategic issues and challenges:

- Examine, supervise, and regulate thrifts and their holding companies,
- Assess the risk profile of the institution when planning examinations and focus the examination based on the institution's risk, size, and complexity,
- Provide regulatory guidance to thrifts and their holding companies,
- Encourage thrifts to pursue loss mitigation strategies to prevent mortgage foreclosures when appropriate,
- Conduct safety and soundness examinations of savings associations every 12-18 months that incorporate an assessment of compliance with consumer protection laws and regulations,
- Promote the reduction of regulatory burden,
- Coordinate supervisory and policy development activities with domestic and foreign financial regulators,
- Continue efforts to implement the international Basel II risk-based capital framework,
- 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 including minority based institutions, and
- Address succession planning.

1B – Program History and Future Outlook

OTS is headquartered in Washington, D.C. with four regional offices located in Atlanta, Chicago, Dallas, and Jersey City. 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 70 percent of OTS' staff works in the OTS regional offices.

The President, with Senate confirmation, appoints OTS' Director for a 5-year term. OTS' Director also serves as a member of the Board of Directors of the FDIC, a member of the Federal Financial Institutions Examination Council (FFIEC), and a director of NeighborWorks® America.

The following activities highlight OTS' 2009 accomplishments and 2010 strategic priorities.

<u>Comprehensive and Risk Focused Examinations that Focus on Core Risk Areas</u>
OTS conducts comprehensive examinations combining safety and soundness and compliance reviews to eliminate multiple reviews of the same area for different purposes. OTS' examination teams issue one report of examination that covers both compliance and safety and soundness. This approach allows OTS to comprehensively assess an

institutions' 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 more efficient and has reduced regulatory burden due to its comprehensive examination approach. OTS issues one information request package prior to the start of each examination and examines lending portfolios from the compliance and safety and soundness perspectives. 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 are in favor of 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 on at least two examinations in their respective discipline prior to accreditation. OTS continually works to provide specialized training and rigorous accreditation and professional development programs to ensure OTS is capably equipped to supervise a dynamic thrift industry.

Interest Rate Risk and Credit Risks

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' enhanced Net Portfolio Value (NPV) Model provides an accurate estimate of each institution's interest rate risk profile. More importantly, the NPV model gives OTS the ability to value a much wider range of financial instruments and the capability to produce a series of reports that focus on areas such as net interest income, liquidity, and value-at-risk.

Alternative or nontraditional mortgage lending products present a unique intersection of credit and interest rate risks. OTS maintains a staff of specialists in capital markets, accounting, mortgage banking, alternative mortgage products, and credit cards to assist in identifying, assessing and mitigating interest rate and credit risks.

In addition to these risk mitigation and monitoring programs, the thrift industry's relatively high capital ratio in the aggregate acts as a further mitigating factor helping the industry address potential credit quality problems. OTS has been and will continue to work with the industry to remain focused on appropriate capital levels commensurate with the risk profile.

Compliance Risks, Anti-Money Laundering, and Financial Crimes

OTS compliance examination procedures direct institutions to identify, monitor and mitigate their compliance risks to ensure compliance with the broad range of consumer protection laws and regulations. OTS examiners regularly assess thrift institutions' compliance programs during comprehensive examinations. For example, OTS' compliance program is structured to ensure that thrifts maintain systems and controls to fight identity theft and ensure the accuracy of consumers' credit reports. OTS reviews data security at thrifts and third party technology service providers. (The Gramm-Leach-Bliley Act requires that all financial institutions establish a program to protect their customers' personal information).

As outlined in OTS' 2007-2012 Strategic Plan, a primary strategy for meeting the goal of a safe and sound thrift industry includes effective examination for potential money laundering, terrorist financing and Bank Secrecy Act (BSA) compliance issues in OTS-supervised institutions. OTS continues to examine for compliance with BSA, the USA Patriot Act, and other anti-money laundering provisions. The examination process consists of on-site examinations that are conducted every 12-18 months, supplemented by off-site monitoring and follow-up to address identified supervisory issues. OTS has expanded supervisory resources in this area by hiring additional, experienced compliance examiners and compliance specialists.

OTS has actively worked with the other federal banking agencies, the Financial Crimes Enforcement Network (FinCEN), the Office of Foreign Assets Control (OFAC), and the Conference of State Bank Supervisors (CSBS) to ensure examination consistency and to provide guidance to financial institutions for developing policies and programs to comply with anti-money laundering requirements.

FinCEN sponsors the Bank Secrecy Act Advisory Group (BSAAG), which has established several committees to discuss BSA compliance issues among regulators, the banking industry, and law enforcement. OTS' staffs serve on several of these committees. OTS is also working with the other federal banking agencies to develop an examiner risk scoping tool to enhance BSA examination efficiencies.

Strengthening Thrift Industry Guidance including Regulations on Prohibitions Relating to Unfair or Deceptive Acts and Practices

In the past, OTS has exercised its rulemaking authority in the area of unfair or deceptive acts and practices to parallel the Federal Trade Commission's (FTC's) rules. In 1985 the FTC issued its Credit Practices Rule and OTS' predecessor agency, the Federal Home Loan Bank Board (FHLBB), issued a similar rule. The Credit Practices Rule prohibits creditors from using contract provisions considered to be unfair to consumers, requires creditors to advise consumers who co-sign obligations about their potential liability, and prohibits late charges in some situations.

OTS has supplemented its Credit Practices Rule with other regulations. These rules and regulations are unique among the federal banking agencies in the way they protect consumers. For example, OTS has a long-standing Advertising Rule, which prohibits savings associations from making any representation that is inaccurate or that misrepresents its services, contracts, investments, or financial condition. In addition, OTS has imposed consumer protections, not mandated by federal law, for home loans made by federal savings associations. These protections address the regulation of late charges, prepayment penalties, and adjustments to the interest rate, payment, or term to maturity. OTS issued a Nondiscrimination Rule that exceeded the federal fair lending laws by prohibiting additional forms of discrimination.

In August 2007, OTS sought to strengthen its unfair or deceptive acts and practices (UDAP) rules and requested public comment on a broad array of issues and practices including practices related to the marketing, originating and servicing of credit cards. The effort led to the Federal Reserve Board (FRB), and the National Credit Union Administration (NCUA) joining the OTS in May 2008, to issue a proposed UDAP rule that focused on credit cards and overdraft protection programs. The UDAP rule was finalized on December 18, 2008. For credit cards, the rule prohibited: (1) increasing interest rates on existing card balances for consumers who are paying on time; (2)using billing practices that require consumers to pay finance charges on their balances from previous billing cycles; (3) charging consumers up-front fees that significantly erode the amount of available credit; and (4) applying payments first to balances with the lowest interest rates – leaving balances with higher rates accruing, thereby creating higher costs for consumers; and (5) failing to give customers a reasonable amount of time to make payments.

In 2009, Congress also focused on these practices when it enacted the Credit Card Accountability, Responsibility and Disclosure Act – or "Credit CARD Act" – which provides additional protections for consumers. For example, the Credit CARD Act includes provisions that protect young credit card users and restrict gift card fees. Moreover, because Congress has more latitude when it addresses issues through legislation than agencies have when they promulgate rules[1], the Credit CARD Act strengthens some of the protections provided by the UDAP rules. For instance, while the agencies limited up-front fees to an amount no greater than half of the credit provided, Congress limited such fees to no more than 25 percent of the credit offered.

<u>Loss Mitigation Strategies to Prevent Mortgage Foreclosures when Appropriate</u>
OTS published its first Mortgage Metrics Report in July 2008. This report presented key performance data on first lien residential mortgages serviced by thrift institutions or their affiliates, and focused on delinquencies, loss mitigation actions, and foreclosures. Since September 12, 2008, the OTS and the Office of the Comptroller of the Currency (OCC) have jointly issued the Mortgage Metrics Report on a quarterly basis. It covers 34 million loans, worth $6 trillion—about 64 percent of all mortgages in the country. The Mortgage Metrics Report provides an additional tool to help examiners assess emerging trends, identify anomalies, compare thrift institutions to the rest of the industry, evaluate asset quality and loan-loss reserve needs, and evaluate the effectiveness of loss mitigation actions.

Since we began public reporting on loan modification activities at the beginning of 2008, servicers have implemented more than 612,000 mortgage modifications. Servicers implemented 185,156 modifications in the first quarter of 2009, a 55 percent increase

[1] To issue the UDAP rules, the agencies were required to demonstrate that the relevant practices met well established standards for "unfairness" under the Federal Trade Commission Act. Among other things, these standards require the agencies to consider whether the harm caused by a practice outweighs any benefits to consumers or the market.

over the fourth quarter of 2008. Over 97,000 first quarter modifications (54 percent of the total) decreased the borrower's monthly principal and interest payment. These payment reducing modifications increased more than 7 percent from the prior quarter. 70 percent of first quarter modifications involved some combination of two or more specific actions, with most including a reduction in the interest rate and extension of maturity. Of the 185,156 modifications made in the first quarter, 70 percent included a capitalization of past due interest, fees and tax/insurance advances; 63 percent reduced interest rates; 25 percent extended the length of the loan; and 13 percent froze the interest rate rather than allow it to reset higher. The percentage of modifications that reduced monthly payments by 20 percent or more increased by almost 20 percent during this quarter.

Earlier this year, Congress adopted the Helping Families Save Their Homes Act of 2009. Section 104 of this Act requires the OTS and OCC to submit the Mortgage Metrics Report to Congress on a quarterly basis and specifically requires the following information: (1) the total number of mortgage modifications resulting in the modification of terms or combinations of terms, such as interest rate reductions, and reductions or deferrals of principal; (2) the total number of mortgage modifications resulting in changes to total monthly principal and interest payments; and (3) the total number of loans that were modified and then went into default, where the loan modification resulted in monthly payments that increased or decreased. Our first submission to Congress responded to each of these specific requests, and we will continue to provide copies of this increasingly useful information to assist in resolving the problems facing our economy.

OTS has also provided tools to consumers who are facing foreclosure and working to save their homes. In the Spring of 2009, OTS published a brochure entitled *Foreclosure Rescue Scams – How to Avoid Becoming a Victim.* The OTS developed this brochure after hearing from consumers who had been victimized by non-bank companies that promised to solve their mortgage concerns and save their homes from foreclosure. They paid significant sums of money and received virtually nothing in return.

In the brochure, OTS informs consumers that they can file a complaint with a bank's regulator to investigate their concerns at no charge. We also inform consumers about tactics fraudulent companies frequently use in foreclosure rescue scams. Institutions may obtain the brochure through the OTS website to provide to consumers who want to learn more about how to guard against such scams. We have also distributed the brochure at public events across the country such as annual conventions for the National Council of La Raza, National Council of State Housing Agencies, and the American Bankers Association Annual Compliance Conference.

Disaster and Emergency Preparedness

OTS is actively involved in initiatives to address emergency and disaster preparedness. 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 plan 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.

International Participation

The OTS continues to be involved in the development of policies and operational standards in the international arena. The agency continues to participate in meetings of the Basel Committee on Bank Supervision (BCBS), its principal subcommittees, the Policy Development Group, the Standards Implementation Group and the Accounting Task Force and their supporting working groups. Through its participation on the BCBS, the OTS continues to work with supervisors on a global basis to strengthen the regulation, supervision and risk management of the banking sector. The OTS also actively participates in the meetings and decisions of the Association of Supervisors of Banks of the Americas. OTS shares its supervisory experiences with these organizations to assist in the development of uniform global safe and sound banking principles.

Regulatory Burden

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 making changes 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 it was signed 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.

Communicating the Features of the Thrift Charter

The thrift charter provides advantages in the delivery of financial services, primarily for community-based lenders. OTS has a unique supervisory role in that it monitors and regulates all aspects of an institution's operations and holding company affiliate activities. OTS regularly attends financial services industry conferences and has developed a booth that is used to highlight aspects of its oversight program.

Succession Planning and Management of OTS Resources

Approximately, thirty-two percent of OTS' current staff will be eligible for voluntary retirement by year-end 2010. Thus, OTS faces the challenge of competing for, training, and retaining its human resources to build the workforce required for the future. To meet this need, OTS has successfully recruited 165 new examination staff members since 2006. The current retention rate for these individuals is 88 percent. OTS has developed a three-year accreditation program for all new Safety and Soundness and Compliance

Examination staff and has begun to shift its training and education needs to seasoned staff through a back-to-basics skill learning programs. To support the examination function, OTS plans to recruit up to 40 new examiners during fiscal year 2010.

To gain expertise and achieve accreditation, examiners engage in a multi-year training program, pass proficiency tests, participate in on-the-job instruction and developmental assignments, and serve as Examiner-In-Charge on at least two comprehensive examinations. During FY 2009, classroom training addressed the needs of pre-accredited examiners in their various stages of advancement. Courses included New Thrift Regulator School, Loan Analysis School, Information Technology Risks and Controls and Real Estate Appraisal Review and Management Workshop. Compliance related courses included: Introduction to Compliance Examination Schools I and II, Bank Secrecy Act/Anti-Money Laundering School, Fair Lending School, Intermediate Compliance Course and Management Workshop. OTS also offers courses and seminars in advanced examiner topics, management and leadership topics, ethics and information security. OTS' blend of regulatory and non-regulatory training and development keep OTS' employee competencies current and relevant to industry needs. During FY 2009, 36 examiners were accredited, increasing the accredited examiner staff to 450.

OTS receives no appropriated funds from Congress; its revenue is derived principally from assessments on savings associations and savings and loan holding companies. The FY 2010 projected assessment revenue is lower than FY 2009 due to the impact of ongoing industry consolidation and recent thrift failures. The bureau has experienced surpluses in recent years which led to an increase in the agency's cash reserves in excess of $200 million. Existing reserves will be sufficient to cover the FY 2010 and FY 2011 shortfalls. In addition, OTS is limiting permanent new hires and increasing term appointments to fill the need for increased supervision. Additionally, OTS is prudently managing other expenses. With efficient operations and demonstrated prudent use of funds, OTS will be able to continue supervising savings associations and holding companies while maintaining the safety and soundness of the thrift industry.

1C – Industry Outlook

The United States economy remains distressed and the thrifts and banks engaged in home mortgage financing continue to feel the impact from the economic crisis. In response to the decline in the housing market, OTS has urged thrifts to bolster reserves for potential loan losses by significantly adding to their loan loss provisions. OTS is also encouraging thrifts to strike the appropriate balance between working with distressed borrowers to restructure loans to prevent avoidable foreclosures and ensuring sufficient recoveries to avoid further erosions in capital.

The industry posted break-even results for the second quarter of 2009—a profit of $4 million, or 0.00 percent of average assets (ROA). These results were an improvement from the first quarter 2009 loss of $1.62 billion, or a negative 0.53 percent of average assets.

As of June 30 2009, OTS—regulated thrifts accrued an estimated $500 million expense for the special assessment levied by the FDIC. This expense reduced after-tax net income by an estimated $325 million, second quarter ROA by approximately 12 basis points, and year-to-date ROA by 6 basis points. A restatement of first quarter 2009 results by one large thrift increased losses by $1.6 billion and lowered first quarter ROA by 51 basis points.

The earnings improvement was primarily due to higher net interest margins, lower provisions for loan losses, higher fee income, and lower other-than-temporary impairment charges in the second quarter. Partially offsetting these improvements in earnings were lower gains on the sale of assets and higher noninterest expense.

As an annualized percent of average assets, provisions measured 1.71 percent, a decline from 1.91 percent from the previous quarter and 3.70 percent one year ago.

Despite the decline, provisions for losses remain at elevated levels. As of June 30, 2009 provisions were the sixth highest on record—higher than all other quarters except for the five preceding quarters. Loss provisioning is expected to continue at elevated levels and to dampen industry earnings until inventories of for-sale homes appreciably decline, home prices firm, and the employment picture brightens.

Although the substantial additions to loan loss reserves dampened earnings, they bolstered the industry's reserve levels to at, or near, record levels.

Capital measures for the industry continue to be strong, stable, and well in excess of minimum requirements. Equity capital at the end of the June was 10.37 percent of assets, up from 8.65 percent one year ago. At the end of the June, over 96 percent of the industry exceeded well-capitalized standards and 15 thrifts were less than adequately capitalized.

Industry assets decreased by 27 percent over the year to $1.10 trillion from $1.51 trillion reflecting the loss of several large thrift failures over the year. Thrifts remain focused on residential mortgage lending, with 39.9 percent of assets invested in 1-4 family mortgage loans at the end of June, down from 49.5 percent one year ago. Of these 1-4 family mortgage loans, 4.9 percent are home equity lines of credit, down from 7.9 percent one year ago. Holdings of consumer loans increased to 6.5 percent of assets from 5.8 percent a year ago. Multifamily mortgages decreased over the year from 4.3 percent of assets to 3.2 percent by June 30, 2009. Commercial loans increased to 5.5 percent of assets from 3.9 percent one year ago.

OTS has worked closely with the industry to maintain the integrity and viability of the thrift charter uniquely focused on consumer and community lending 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

Office of Thrift Supervision	FY 2009 Obligated	FY 2010 Estimated	FY 2011 Estimated
FTE	**1,051**	**1,065**	**1,082**
Object Classification:			
11.1 - Full-time permanent	119,806	120,875	117,853
11.3 - Other than full-time permanent	1,059	6,907	6,734
11.5 - Other personnel compensation	4	0	0
11.8 - Special personal services payments	6,963	1,506	1,468
12 - Personnel benefits	51,268	61,366	59,832
13 - Benefits for former personnel	455	201	196
21 - Travel and transportation of persons	17,804	19,502	19,014
22 - Transportation of things	324	295	288
23.2 - Rental payments to others	4,110	4,651	4,535
23.3 - Comm, utilities, and misc charges	4,666	5,653	5,512
24 - Printing and reproduction	146	222	216
25.1 - Advisory and assistance services	2,375	2,787	2,717
25.2 - Other services	5,495	5,335	5,202
25.3 - Other purchases of goods and services from Govt. accounts	5,098	5,986	5,836
25.4 - Operation and maintenance of facilities	5,009	6,941	6,768
25.7 - Operation and maintenance of equip	193	716	698
25.8 - Subsistence and support of persons	10	15	15
26 - Supplies and materials	3,359	2,819	2,749
31 - Equipment	4,234	4,173	4,069
32 - Land and structures	1,193	1,195	1,165
Total Budget Authority	**$233,571**	**$251,145**	**$244,867**
Budget Activities:			
Supervision of the Thrift Industry	233,571	251,145	244,867
Total Budget Authority	**$233,571**	**$251,145**	**$244,867**

2.3 – Resource Detail Table

Description	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated
(Dollars in Thousands)			
Summary of Revenue and Expenses:			
Revenue:			
Supervision			
Assessments	$240,112	$212,871	$217,128
Rental Income	5,661	5,400	5,508
Interest	5,516	4,295	4,381
Fees & Other	4,691	3,452	3,521
Total Revenue	$255,980	$226,018	$230,538
Expenses:			
Supervision			
Compensation & Benefits	$179,155	$190,855	$186,084
Travel & Transportation	18,128	19,797	19,302
Facilities	8,776	11,499	11,211
Other Services & Supplies	27,512	28,994	28,270
Total Expenses	$233,571	$251,145	$244,867
Net Results	$22,415	($25,127)	($14,329)

2B – Appropriations Language and Explanation of Changes

OTS receives no appropriated funds from Congress.

Section 3 – Budget and Performance Plan

This table lists all FY 2010 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: http://www.treasury.gov/offices/management/budget/strategic_plan.shtml

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Estimated	FY 2011 Estimated	Percent Change
Economic competitiveness	25,114	24,488	**-2.49%**
Fin. & econ.crises	226,031	220,379	**-2.50%**
Total	**$251,145**	**$244,867**	**-2.50%**

3A – Supervision of the Thrift Industry *($251,145,000 from reimbursable programs):* On December 9, 1996, the FFIEC adopted the CAMELS rating system (Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk) as the internal rating system to be used by the federal and state regulators for assessing the safety and soundness of financial institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. OTS assigns a composite CAMELS rating to savings associations at each examination. OTS adjusts the level of supervisory resources devoted to an association based on the composite rating. The CAMELS rating is based upon a scale of 1 through 5 in increasing order of supervisory concern.

The FFIEC first approved a uniform, interagency compliance rating system in 1980. The rating system reflects, in a comprehensive and uniform fashion, the nature and extent of a savings association's compliance with consumer protection statutes, regulations and requirements. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern.

OTS elected to combine safety and soundness and compliance examinations to attain exam efficiencies and to improve risk assessment. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process.

Capital absorbs losses, promotes public confidence and provides protection to depositors and the FDIC insurance fund. Capital provides a financial cushion that can allow a savings association to continue operating during periods of loss or other adverse conditions. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

OTS examines savings associations every 12-18 months for safety and soundness, and compliance with consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with statutory authority. When OTS identifies safety and soundness or compliance issues during its risk-focused examinations, it acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS staff often meets with the savings association's board of directors after delivery of the Report of Examination to discuss findings and recommendations.

Beginning in FY 2006, OTS included a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex thrift industry. This measure supports OTS' ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. Approximately 60 percent of all savings associations have total assets of less than $250 million and are generally community-based organizations that provide retail financial services in their local markets. The measure does not include the assets of the holding company enterprises regulated by OTS.

3.2.1 – Supervision of the Thrift Industry Budget and Performance Plan

Supervision of the Thrift Industry Budget Activity Resource Level	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated	FY 2011 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$218,129	$245,699	$233,571	$251,145	$244,867
Total Resources	**$218,129**	**$245,699**	**$233,571**	**$251,145**	**$244,867**
Budget Activity Total	**$218,129**	**$245,699**	**$225,125**	**$251,145**	**$244,867**

Budget Activity	Performance Measure	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Actual	FY 2010 Target	FY 2011 Target
OTS: Supervision	Percent of safety and soundness exams started as scheduled (%)	95	94	90	94	90	90
OTS: Supervision	Percent of thrifts that are well capitalized (%)	99	98.4	95	97	95	95
OTS: Supervision	Percent of thrifts with a compliance examination rating of 1 or 2 (%)	97	95.8	90	95	90	90
OTS: Supervision	Percent of thrifts with composite CAMELS ratings of 1 or 2 (%)	93	90	90	84	80	80
OTS: Supervision	Total OTS costs relative to every $100,000 in savings association assets regulated ($)	13.46	13.9	23.04	19.88	22.00	15.07

Description of Performance.
OTS will have met all goals relating to (1) Percent of safety and soundness exams started as scheduled, (2) A Well-capitalized thrift industry, (3) Percent of thrifts with COMPLIANCE exam ratings of “1” or “2.” The targets for these measures should probably remain the same for FY2010.

The fourth goal, Percent of thrifts with COMPOSITE ratings of “1” or “2” will be short approximately 6% of goal for FY2009 – 84% compared to the performance goal of 90%. The target will not be met due to the challenging economic environment, a housing market downturn, rising unemployment, and lower real estate values. As a result, the banks are reporting an increase in troubled assets, delinquencies, charge-offs, and reserves which have adversely impacting earnings and return on equity. As long as economic challenges continue in FY2010, it will continue to impact our institution's performance, therefore, we reduced our target to 80%.

Percent of safety and soundness exams started as scheduled.
OTS examines savings associations every 12-18 months for safety and soundness, and compliance with consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with statutory authority. When OTS identifies safety and soundness or compliance issues during its risk-focused examinations, it acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS staff often meets with the savings association’s board of directors after delivery of the Report of Examination to discuss findings and recommendations.

Percent of thrifts that are well capitalized.
Capital absorbs losses, promotes public confidence and provides protection to depositors and the FDIC insurance fund. Capital provides a financial cushion that can allow a savings association to continue operating during periods of loss or other adverse conditions. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

Percent of thrifts with compliance examination ratings of 1 or 2.
The FFIEC first approved a uniform, interagency compliance rating system in 1980. The rating system reflects, in a comprehensive and uniform fashion, the nature and extent of a savings association’s compliance with consumer protection statutes, regulations and requirements. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern.

OTS elected to combine safety and soundness and compliance examinations to attain exam efficiencies and to improve risk assessment. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process.

<u>Percent of thrifts with composite CAMELS ratings of 1 or 2.</u>
On December 9, 1996, the FFIEC adopted the CAMELS rating system (Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk) as the internal rating system to be used by the federal and state regulators for assessing the safety and soundness of financial institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. OTS assigns a composite CAMELS rating to savings associations at each examination. OTS adjusts the level of supervisory resources devoted to an association based on the composite rating. The CAMELS rating is based upon a scale of 1 through 5 in increasing order of supervisory concern.

<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' ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. Approximately 60 percent of all savings associations have total assets of less than $250 million and are generally community-based organizations that provide retail financial services in their local markets. The measure does not include the assets of the holding company enterprises regulated by OTS.

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Human capital represents OTS' primary resource for meeting its strategic objectives. Sustaining and nurturing human capital resources requires a blend of career building opportunities, 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 incorporates practical strategies to ensure that OTS has sufficient staff with the right skills to accomplish its mission. The Plan consists of four main strategic goals: Organizational Effectiveness, Recruitment and Diversity, Employee Retention and Satisfaction, and Technology Skills.

Thirty-two percent of OTS' current staff will be eligible for voluntary retirement by year-end 2010. Over the past two years OTS successfully recruited 165 new examination staff members; in addition several key specialty positions were filled. OTS' compensation program continues to enable OTS to attract, retain, and reward staff comparable to the other federal banking agencies. To support a solid business case, OTS will be recruiting up to 40 new examiners in the bank operations area during the 2010 fiscal year.

OTS continuously trains its examination staff to create a work force capable of performing multiple examination types (e.g., safety and soundness, compliance, information technology and FFIEC service provider examinations). OTS designs training programs to meet the challenges OTS faces with anticipated retirements as part of its overall succession planning program.

To meet the needs of the thrift industry, OTS seeks qualified and experienced as well as 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.

The 2008 Federal Human Capital Survey ranked OTS 39th out of more than 200 comparable government agency subcomponents for best places to work in the federal government. That rank notably improves our 192nd place finish in 2006. OTS has made numerous improvements in an attempt to enhance its benefits programs, increase employee satisfaction and promote progression within the agency. The survey scores reflect OTS's commitment to cultivating an employee-focused and performance-based culture where employees have the opportunity to develop their skills and knowledge continuously.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments							
Major IT Investments / Funding Source	Budget Activity	FY 2008 & Earlier Enacted 1/	FY 2009 Enacted	FY 2010 President's Budget	% Change from FY09 to FY10	FY 2011 Requested	% Change from FY10 to FY11
Major IT Investments		$ -	$ -	$ -	0.0	0.0	0.0
Non-Major IT Investments							
Administrative - Mixed	Supervision	$ 0.923	$ 1.807	$ 1.313	-27.3%	$ 1.346	2.5%
Examinations	Supervision	$ 1.477	$ 1.807	$ 1.688	-6.6%	$ 1.730	2.5%
Thrift Financial Data	Supervision	$ 4.834	$ 3.463	$ 3.391	-2.1%	$ 3.476	2.5%
TFR Validation	Supervision	$ 1.477	$ 1.807	$ 1.501	-16.9%	$ 1.538	2.5%
Industry Structure and Tracking	Supervision	$ 1.293	$ 1.581	$ 1.313	-17.0%	$ 1.346	2.5%
CIO Planning	Supervision	$ 1.227	$ 1.739	$ 1.647	-5.3%	$ 1.688	2.5%
Total Non-Major IT Investments		$ 11.231	$ 12.204	$ 10.853	-11.1%	$ 11.124	2.5%
Infrastructure Investments							
Treasury Consolidated Data Center & Services		$ 13.292	$ 10.349	$ 6.856	-33.8%	$ 7.028	2.5%
Treasury Consolidated Telecommunications		$ 1.948	$ 4.029	$ 4.055	0.6%	$ 4.156	2.5%
Treasury Consolidated End User Services		$ 2.789	$ 3.813	$ 2.303	-39.6%	$ 2.361	2.5%
Treasury Consolidated Security		$ 1.010	$ 1.242	$ -	-100.0%	$ -	0.0%
Total Infrastructure Investments		$ 19.039	$ 19.433	$ 13.214	-32.0%	$ 13.544	2.5%
Enterprise Architecture		$ 0.185	$ 0.244	$ 0.188	-23.0%	$ 0.193	2.5%
Total IT Investments		$ 30.455	$ 31.881	$ 24.255	-23.9%	$ 24.861	2.5%

4B – Information Technology Strategy

The OTS Information Technology Investment Review Board (IRB) provides overall direction and vision for how OTS' information technology should contribute to OTS' goals and objectives. It serves as the forum for senior OTS executives to make decisions regarding IT expenditures and investments. There was a decrease of 7 FTE's from FY2009 to FY2010 spread among the various investments. In FY2009 funds were budgeted for Network and VTC upgrades. These projects were largely completed in FY2009 and will be under maintenance in FY2010. Security personnel and other expenses have been reallocated to the infrastructure services they support (i.e., Data Center, Telecommunications, and End User Services).

OTS' Chief Information Officer is responsible for the policy, oversight, and improvement of all information systems as well as the information management and data communications used by OTS to carry out its mission. OTS' Chief Information Officer serves as the Executive Director of the IRB; OTS' 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.

Upcoming OTS IT projects in FY 2010.

<u>Infrastructure Upgrades</u> – OTS performed major information technology infrastructure upgrades to include:

- Upgrading of network switches, circuits and routers,
- Implementing a new enterprise data storage solution,
- Modernizing the email infrastructure, and
- Deploying virtualization software.

In order to ensure optimal management and control of the upgraded infrastructure, OTS implemented new change and configuration management processes.

<u>Developing a new Business Resumption Program</u> – OTS will implement an enhanced Business Resumption Program for its Mission Essential Functions. The purpose of this program is to raise our continuity of operation plan to the next level.

- A business impact analysis will be performed across OTS systems based on the Mission Essential Function analysis,
- Recovery strategies will be developed based on Recovery Point Objective and Recovery Time Objective needs,
- IT Contingency Plans will be updated for all OTS systems; and,
- Recovery strategies will be tested based on Business Resumption Program goals.

OTS has no major IT investments planned for FY 2010.

4.2 – Program Evaluation

Program Name: Thrift Supervision

Assessment and Improvement Actions:

- 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.

- Based on feedback received over the past few years, the vast majority of the industry prefers the efficiency and effectiveness of joint examinations. OTS eliminated much of the redundancy of two separate exams. OTS will fulfill its statutory examination responsibilities with fewer FTEs as a result of this change.

- During the 2007 strategic planning process, systemic risks were examined and addressed in the Plan.

- Going forward, OTS will continue to work with OCC to ensure that strategic goals are aligned. OTS will also continue to share its strategic and performance plans with other banking regulatory agencies and meet with them to discuss strategic and performance planning.

- OTS will continue to perform joint examinations while performing ongoing examinations of systemic risk and addressing any issues identified.

International Programs

The Department of the Treasury's FY 2011 budget request for International Programs is included in the State, Foreign Operations, and Other Related Programs Appropriation.

Financial Reform

In June 2009, the Administration submitted a comprehensive financial reform proposal to Congress designed to help prevent future financial crises by filling gaps in the U.S. regulatory regime and redistributing responsibilities among regulators in order to better focus on key issues that contributed to the present crisis.

The Administration's proposal employs lessons learned from the present crisis to reform and repair financial regulation on a number of fronts:

First, the proposal prevents future bailout scenarios for "Too Big to Fail" firms by creating a new Financial Services Oversight Council to monitor for threats to financial stability and by authorizing the Federal Reserve to regulate large, interconnected firms if their failure during a downturn would severely impact the functioning of financial markets. In addition, the Government would have the ability to unwind such firms in an orderly manner when they fail to protect the financial system.

Second, the proposal closes the gaps in and strengthens regulation of consumer financial products in the bank and non-bank sectors by consolidating existing consumer protection authorities to better protect consumers from unscrupulous practices – authorities that are currently spread out over seven regulators. The proposal creates a single, new regulator, the Consumer Financial Protection Agency, whose sole mission is to look out for consumers in the increasingly complex financial marketplace. Consolidation of authorities in an agency with mission focus on consumer protection will create clear accountability for providing and consistently enforcing clear rules of the road for firms offering consumer financial services.

Third, the proposal shines a light on dark pools of capital and derivatives markets, by expanding the authority of the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC), respectively, to register and regulate hedge funds and to require central clearing for over-the-counter derivatives.

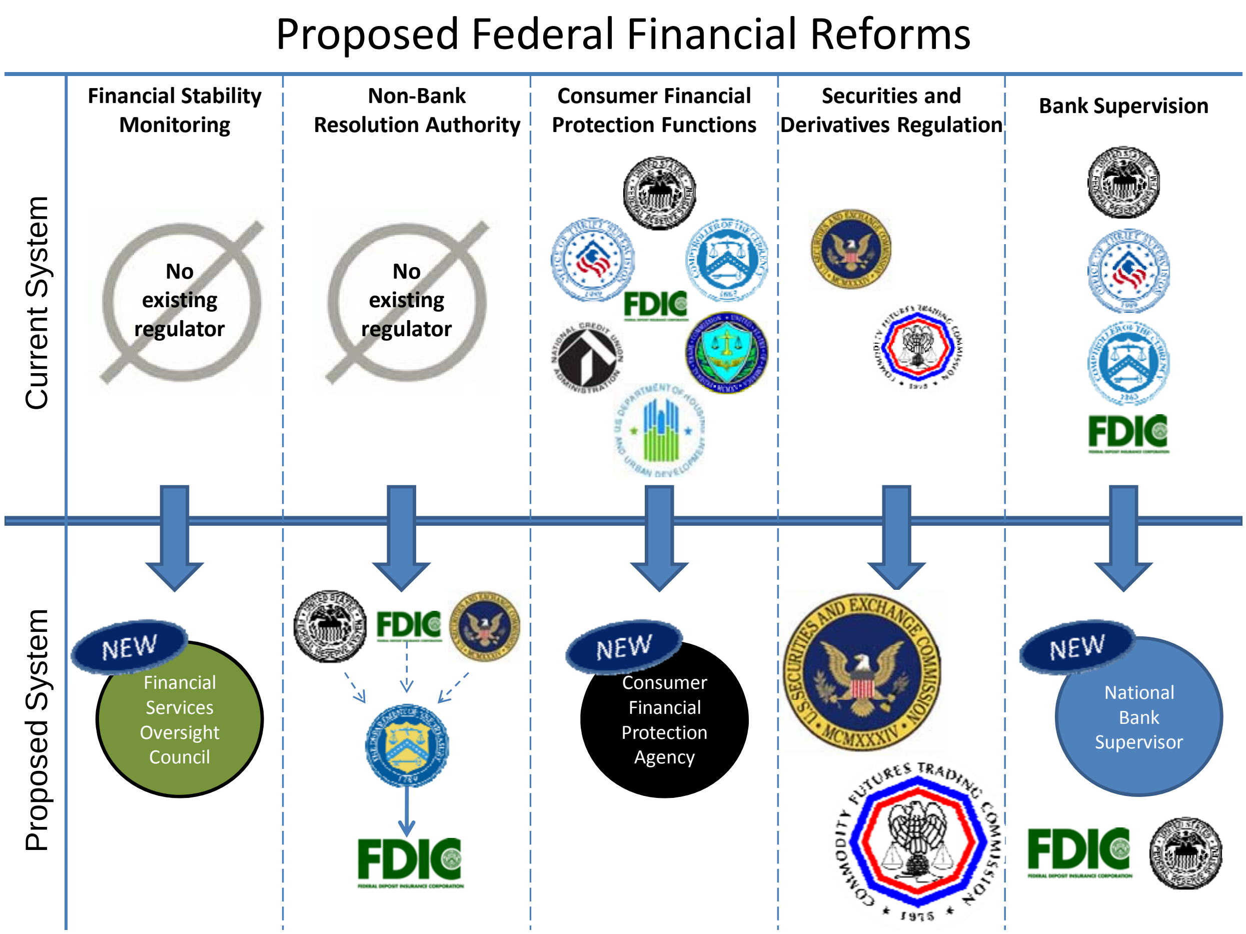
Fourth, the proposal creates a new Office of National Insurance within the Treasury Department to gather information, develop expertise, negotiate international agreements, and coordinate policy in the insurance sector. Better monitoring will help prevent the kind of intervention that AIG's failure required to preserve financial stability.

Fifth, to prevent depository institutions from selecting a corporate structure based on their preference for a particular regulator, the proposal consolidates the Office of the Comptroller of the Currency and the Office of Thrift Supervision into a single, unified National Bank Supervisor, applying the same standards of supervision to lending institutions that perform the same functions, regardless of how they choose to organize themselves.

Finally, in an effort to further strengthen and provide consistent regulation while promoting growth and innovation in the marketplace, the Administration's proposal includes numerous other reform measures. These measures include, but are not limited to, strengthening important payment, clearing, and settlement systems, enhancing credit rating agency regulation, and increasing investor protections.

The House of Representatives passed a comprehensive financial reform package in December 2009, and the Senate is expected to consider legislation in 2010. Because Congress has not yet completed its work on these historic and urgent reforms, the President's Budget reflects the Administration's proposal. Specifically, some of the functions performed by staff for the Financial Services Oversight Council and the Office of National Insurance are authorized under current authorities, and the costs are reflected directly in the Budget. In other areas where specific new resources are not needed, such as in the case of the Federal Reserve's actions on executive compensation, mortgage lending, and credit card regulation, administrative reform is underway but not specifically reflected in the Budget. The remaining reforms, which are subject to enactment of a financial reform bill, are currently included as a single amount in the Budget *Appendix*, reflecting the net impact of proposed efficiency savings, transfers, and new spending. The amounts include a budgetary placeholder for new spending and receipts from the non-bank resolution authority. Specific programmatic impacts on SEC and CFTC are discussed in each regulator's *Appendix* narrative.

The chart below illustrates the Administration's proposed changes to the U.S. financial regulatory structure.



In the areas of financial stability oversight and the resolution of non-banks, the Administration has proposed new authorities that do not exist under the current regulatory structure. In consumer financial protection and bank supervision, portions of the current authorities of multiple regulators are consolidated into fewer or a single regulator, in order to better focus Federal oversight in those areas. For securities and derivatives regulation, existing authorities have been enhanced. The overall result is a comprehensive system that addresses identified gaps in the system of U.S. financial regulation.

The IT Dashboard and Treasury's E-GOV Initiatives

IT Dashboard

The IT Dashboard is a new website enabling federal agencies and the general public to view details of federal information technology investments. To learn more about the features of the IT Dashboard and the Department of Treasury's IT investments please go to http://it.usaspending.gov/#.

Treasury E-Gov Initiatives

(Dollars in millions)	FY 2009	FY 2010	FY 2011		
Treasury E-Gov Initiatives	**Actual**	**Estimated**	**Estimated**	**$ Change**	**% Change**
Treasury Integrated Acquisition Environment (IAE)	$0.4	$0.4	$0.4	$0.0	0%
Treasury Grants.Gov	$0.1	$0.0	$0.0	$0.0	0%
Treasury IAE Grants and Loans	$0.1	$0.1	$0.1	$0.0	0%
Treasury GovBenefits.Gov	$0.3	$0.3	$0.3	$0.0	0%
Treasury Financial Management LoB	$0.1	$0.1	$0.1	$0.0	0%
Treasury E-Rulemaking	$0.5	$0.5	$0.2	-$0.3	-60.00%
Treasury Business Gateway	$0.4	$0.2	$0.2	$0.0	0%
Treasury Budget Formulation & Execution LoB	$0.1	$0.1	$0.1	$0.0	0%
Totals	$2.0	$1.7	$1.4	-$0.3	-17.65%

TREASURY INTEGRATED ACQUISITION ENVIRONMENT (IAE): 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. This E-Gov initiative is managed by the General Services Administration (GSA); GSA's UPI for this initiative is 023-30-01-02-01-0230-24.

TREASURY GRANTS.GOV: 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. This E-Gov Initiative is managed by Health and Human Services (HHS); HHS's UPI for this initiative is 009-00-01-00-01-0160-24.

TREASURY IAE GRANTS AND LOANS: The amounts listed in this business case are tracked within the IAE joint business case managed by the General Services Administration. This investment relates to Dunn and Bradstreet.

TREASURY GovBENEFITS.GOV: 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. This E-Gov initiative is managed by the Department of Labor; Labor's UPI for this initiative is 012-25-01-99-01-0020-24.

TREASURY FINANCIAL MANAGEMENT LoB: 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. This E-Gov initiative is managed by the General Services Administration (GSA); GSA's UPI for this initiative is 023-30-01-01-01-1100-24.

TREASURY E-RULEMAKING: 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 Treasury to streamline and automate the rulemaking process, improve citizen participation in the comment phases, and enhance information management processes within the Department. This E-Gov initiative is managed by EPA; EPA's UPI for this initiative is 020-00-01-16-01-0060-24.

TREASURY BUSINESS GATEWAY: 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. This E-Gov initiative is managed by the Small Business Administration (SBA); SBA's UPI for this initiative is 028-00-01-00-01-0100-24.

TREASURY BUDGET FORMULATION & EXECUTION LoB: 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. 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.