CITIZENS' REPORT

SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION

THE DEPARTMENT OF THE TREASURY

FY 2013

The United States Department of the Treasury

Our Mission

Maintain a strong economy and create economic and job opportunities by promoting 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.

Strategic Goals

Goal 1
Repair and reform the financial system and support the recovery of the housing market

Goal 2
Enhance U.S. competitiveness and promote international financial stability and balanced global growth

Goal 3
Protect our national security through targeted financial actions

Goal 4
Pursue comprehensive tax and fiscal reform

Goal 5
Manage the government's finances in a fiscally responsible manner

Priority Goals

Increase voluntary tax compliance

Increase electronic transactions with the public to improve service, prevent fraud, and reduce costs

For the online version of this report, please see:

http://www.treasury.gov

and search for "2013 Citizen's Report"

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INTRODUCTION

In fiscal year 2013, the Department of the Treasury (Treasury) took a number of actions to strengthen the United States (U.S.) economy and job creation, help struggling homeowners, monitor risks to the financial system, encourage small business lending, protect taxpayers, fight financial crimes, reinforce the international competitiveness of the U.S., and responsibly manage the U.S. government's financial resources, among other duties. Treasury performed these functions in pursuit of achieving its vital mission: maintaining a strong economy and promoting conditions that enable economic growth and stability at home and abroad, strengthening national security by combating threats and protecting the integrity of the financial system, and managing the U.S. government's finances and resources effectively.

This Citizens' Report documents Treasury's operational and financial performance during fiscal year 2013. This report also demonstrates Treasury's steady progress on the five Strategic Goals and two Agency Priority Goals outlined in the Department's Fiscal Year 2012 - 2015 Strategic Plan[1].

ORGANIZATION

Treasury is organized into the Departmental Offices, seven operating bureaus, and three inspectors general. The Departmental Offices are primarily responsible for policy formulation, while the bureaus are primarily the operating units of the organization.

DEPARTMENTAL OFFICES

Domestic Finance works to preserve confidence in the U.S. Treasury market, effectively manage federal fiscal operations, strengthen financial institutions and markets, promote access to credit, and improve financial access and education in service of America's long-term economic strength and stability.

International Affairs protects and supports U.S. economic prosperity and national security by working to help ensure the most favorable external environment for sustained jobs and economic growth in the U.S. Through bilateral and multilateral engagement, the office promotes global economic and financial stability, encourages market- determined foreign exchange rates, leverages leadership positions in the international financial institutions to advance U.S. policy priorities, and pursues free trade, open markets, and level playing fields for U.S. financial institutions doing business abroad.

Terrorism and Financial Intelligence (TFI) marshals the Department's intelligence and enforcement functions with the twin aims of safeguarding the financial system against illicit use and combating rogue nations, terrorist facilitators, weapons of mass destruction (WMD) proliferators, money launderers, drug kingpins, and other national security threats.

Economic Policy reports on current and prospective economic developments and assists in the determination of appropriate economic policies. The office is responsible for the review and analysis of domestic economic issues and developments in the financial markets.

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.

[1] Treasury 2012-2015 Strategic Plan: http://www.treasury.gov/about/budget-performance/strategic-plan/Documents/strategic-plan2012-2015.pdf

Treasurer of the United States has direct oversight over the U.S. Mint and the Bureau of Engraving and Printing. The Treasurer also chairs the Advanced Counterfeit Deterrence Steering Committee and is a key liaison with the Federal Reserve. In addition, the Treasurer serves as a senior advisor to the Secretary in the areas of community development and public engagement.

Other Offices

Internally, the Departmental Offices are responsible for overall management of Treasury. The Office of Management and the Chief Financial Officer are responsible for managing the Department's financial resources and oversees Treasury-wide programs, including human capital, information and technology, acquisition, and diversity issues.

Other offices include General Counsel, Legislative Affairs, and Public Affairs. Three inspectors general—the Office of the Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), and the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) — provide independent audits, investigations, and oversight of the Department of the Treasury and its programs.

BUREAUS

Bureaus employ approximately 96 percent of Treasury's workforce and are responsible for carrying out specific operations assigned to the Department.

The Alcohol and Tobacco Tax and Trade Bureau (TTB) collects federal excise taxes on alcohol, tobacco, firearms, and ammunition; and is responsible for enforcing and administering laws covering the production, use, and distribution of alcohol and tobacco products.

The Bureau of Engraving and Printing (BEP) develops and produces U.S. currency notes trusted worldwide.

The Financial Crimes Enforcement Network (FinCEN) safeguards the financial system from illicit use and combats money laundering and promotes national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

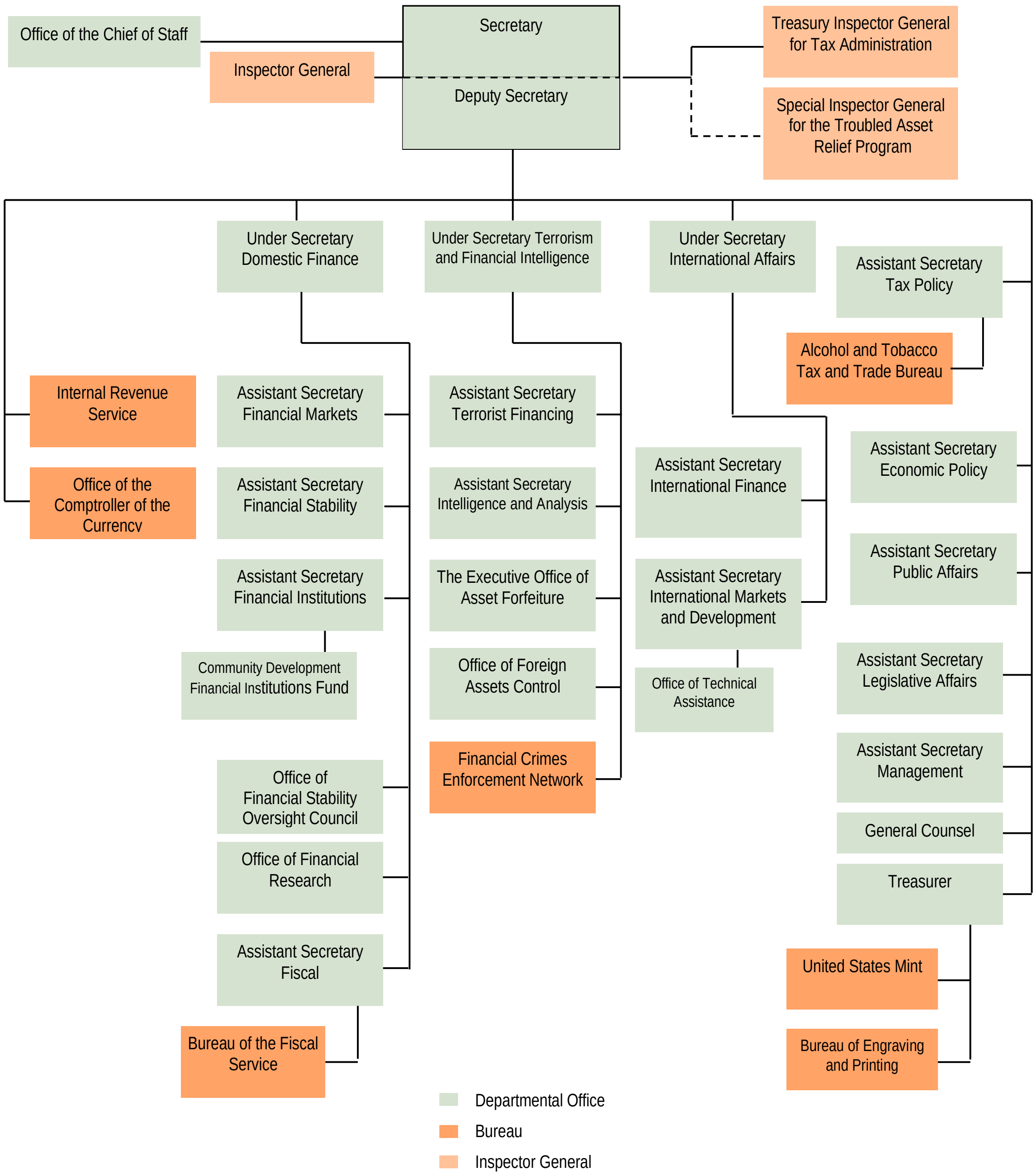
The Bureau of the Fiscal Service (Fiscal Service) provides central payment services to federal program agencies, operates the U.S. government's collections and deposit systems, provides government-wide accounting and reporting services, and manages the collection of delinquent debt owed to the U.S. government. In addition, Fiscal Service borrows the money needed to operate the U.S. government through the sale of marketable, savings, and special purpose U.S. Treasury securities and accounts for and services the public debt.

The Internal Revenue Service (IRS) is the largest of the Department's bureaus and determines, assesses, and collects the tax revenue in the United States.

The United States Mint (U.S. Mint) designs, mints, and issues U.S. circulating and bullion coins; prepares and distributes numismatic coins and other items; and strikes Congressional Gold Medals and other medals of national significance. The Mint maintains physical custody and protection of most of the Nation's gold and all of its silver assets.

The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks and federal savings associations to ensure a safe, sound, and competitive banking system that supports the citizens, communities, and economy of the United States. The OCC also supervises federal branches and agencies of foreign banks. Effective July 21, 2011, Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act, transferred to the OCC responsibility for the supervision of federal savings associations (thrifts) and rule making authority for all savings associations.

THE DEPARTMENT OF THE TREASURY ORGANIZATIONAL CHART



TREASURY FISCAL YEAR 2012-2015 STRATEGIC FRAMEWORK AND KEY PERFORMANCE INDICATORS

The strategic framework comprises the Department's goals and objectives and forms the basis for performance management within the agency.

	Strategic Goals	Strategic Objectives	Select Performance Indicators[2]
Financial	Goal 1 Repair and Reform the Financial System and Support the Recovery of the Housing Market	• Lead the Administration's efforts to continue to implement comprehensive regulatory reform to increase stability and strengthen accountability in the financial system • Effectively manage and exit emergency programs • Reform and strengthen the housing finance system • Help prevent avoidable foreclosures and support the availability of affordable mortgage credit	• Clean audit opinion on TARP financial statements (OFS) • Percentage of SIGTARP and GAO oversight recommendations responded to on time (OFS)
Economic	Goal 2 Enhance U.S. Competitiveness and Promote International Financial Stability and Balanced Global Growth	• Protect global economic and financial stability and encourage market-determined exchange rates • Promote strong international financial standards and a level playing field for U.S. financial institutions • Pursue free trade and open markets • Encourage foreign investment in the U.S. economy while ensuring national security • Enter into bilateral and multilateral tax agreements that encourage cross-border trade and investment, and promote the exchange of tax information to combat offshore tax evasion • Use leadership positions in the multilateral development banks and the International Monetary Fund to advance U.S. national security and economic interests • Provide direct assistance to developing countries working to improve public financial management, and strengthen their financial systems	• Percentage of Multilateral Development Bank grant and loan proposals containing satisfactory framework for results measurement (IA) • Average number of days to process an original permit application for a new alcohol or tobacco business (TTB)

[2]Example performance measures are provided in this table to illustrate how performance against these goals can be quantified. A full discussion of all performance measures that are reported under each goal will be provided in the "Performance by Goal" sections of this report.

	Strategic Goals	Strategic Objectives	Select Performance Indicators
Security	Goal 3 Protect our National Security through Targeted Financial Actions	• Collect, analyze, and disseminate financial and other information concerning illicit financing and national security threats • Disrupt and dismantle the financial networks of those who threaten national security or engage in illicit financing • Shape policy, laws, and regulations to safeguard the U.S. and international financial systems • Coordinate with partners, both at home and abroad, including the foreign policy, law enforcement, and intelligence communities, to combat illicit finance • Assist partner countries in developing and implementing anti-money laundering and counter terrorist financing regimes compliant with international standards	• Impact of TFI programs and activities (TFI) • Percentage of domestic law enforcement finding FinCEN's analytic reports contribute to the detection and deterrence of financial crime (FinCEN)
Management	Goal 4 Pursue Comprehensive Tax and Fiscal Reform	• Develop comprehensive proposals to reform and simplify the tax code • Increase voluntary tax compliance • Promote policies to ensure a sound fiscal footing over the medium term	• Customer service representative level of service (IRS) • Percent of individual returns processed electronically (IRS)
	Goal 5 Manage the Government's Finances in a Fiscally Responsible Manner	• Optimize the cash and debt portfolio to manage the Government's borrowing costs effectively • Expand the use of electronic transactions • Modernize financial systems and standardize accounting practices • Continuously improve our operations and processes to generate efficiency savings • Attract and retain an exceptional workforce	• Percentage collected electronically of total dollar amount of U.S. government receipts (Fiscal Service) • Amount of delinquent debt collected through all available tools (Fiscal Service)

FISCAL YEAR 2013 PERFORMANCE BY STRATEGIC GOAL

GOAL #1: REPAIR AND REFORM THE FINANCIAL SYSTEM AND SUPPORT THE RECOVERY OF THE HOUSING MARKET

In late 2008 and early 2009, the Department of the Treasury put in place a set of emergency programs to help recover from a historic financial crisis, restore confidence, and restart economic growth.

In 2010, Congress passed and the President signed into law comprehensive financial regulatory reform: the Dodd-Frank Wall Street Reform and Consumer Protection Act. Treasury has worked with the financial regulatory agencies to implement these reforms, which are helping to protect the economy and financial system by addressing key gaps and weaknesses in the pre-crisis regulatory system. These reforms will also help to protect consumers against fraud and abuse that in part contributed to the financial crisis.

Treasury has also worked to support efforts to reform the housing market. Treasury has taken leadership roles in the development of loan modification and refinancing programs designed to help prevent avoidable foreclosures and reduce mortgage costs for homeowners. At the same time, Treasury has been involved in an ongoing conversation about a path forward for the nation's housing finance system and has responsibly managed the government's investments in Fannie Mae and Freddie Mac.

SIGNIFICANT ACHIEVEMENTS

Treasury's Office of Financial Stability (OFS) has continued to make progress in winding down the Troubled Asset Relief Program (TARP)[3] and the emergency assistance for the financial system has primarily been replaced with private capital. OFS, on behalf of taxpayers, has now recovered far more of its TARP investments than most people expected when the program began. As of September 30, 2013, OFS had collected 96.2 percent of the $421.6 billion in program funds that were disbursed under TARP.

As OFS carefully winds down the investment programs under TARP, it continues to implement programs to help struggling homeowners avoid foreclosure, primarily through mortgage modifications under the Treasury housing programs. In addition to providing assistance to 1.8 million homeowners directly, these programs have set new standards and encouraged positive changes throughout the mortgage servicing industry. On May 30, 2013, the Obama Administration extended the application deadline for the Making Home Affordable Program through December 2015 in part to provide struggling homeowners additional time to access sustainable mortgage relief.

PERFORMANCE AND FACTORS AFFECTING RESULTS

For a full discussion of Treasury's efforts to repair and reform the financial system and support the recovery of the housing market, please view the Agency Financial Report for OFS available at:

http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Annual-Agency-Financial-Reports.aspx

EMERGING ISSUES

For a full discussion of the emerging issues facing Treasury's efforts to repair and reform the financial system and support the recovery of the housing market, please view the Agency Financial Report for OFS available at the URL referenced above.

[3] Troubled Asset Relief Program: http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/Pages/default.aspx

GOAL #2: ENHANCE U.S. COMPETITIVENESS AND PROMOTE INTERNATIONAL FINANCIAL STABILITY AND BALANCED GLOBAL GROWTH

Treasury works bilaterally and multilaterally to foster strong and balanced global growth, promote stable international financial markets, encourage foreign investment in the United States while protecting national security, promote a level playing field for U.S. financial institutions internationally, and enhance U.S. competitiveness. This goal is supported through the operations of the Office of International Affairs, the Office of Tax Policy, and the TTB. Promoting international growth and stability also includes Treasury's efforts to enable domestic growth and U.S. financial stability, which is supported through the efforts of the CDFI Fund, the U.S. Mint, and the BEP.

SIGNIFICANT ACHIEVEMENTS

This year Treasury's Office of International Affairs made significant progress promoting free trade, open markets, and global financial stability:

- As co-lead on financial services negotiations, Treasury continued to support the Administration in negotiating the Transatlantic Trade and Investment Partnership agreement with the European Union and a Trade in Services Agreement with 23 other like-minded countries to liberalize services trade;
- At the U.S.-China Strategic and Economic Dialogue, China committed to undertake negotiations for a high-standard U.S.-China Bilateral Investment Treaty that would aim to cover all phases of investment and all sectors. China also reaffirmed its commitment to move to a more market-determined exchange rate and; between June 2010 and October 2013, the Chinese currency appreciated by over 17 percent against the dollar on a real, inflation-adjusted basis;
- As part of its efforts to prevent financial instability in the Eurozone from spreading to the U.S. economy, Treasury encouraged European countries to implement a robust policy framework to promote economic growth and restore confidence in the European banking system. Over the period, Treasury saw a significant reduction in interest rates facing Europe's most vulnerable economies;
- As chair of the G-8 Deauville Partnership, Treasury helped lead an effort to launch a transition fund to support projects contributing to economic growth and stability, trade and investment integration, and inclusive development and job creation in the Middle East and North Africa. In fiscal year 2013, the fund approved $100 million for 24 projects in Jordan, Egypt, Libya, Morocco, Tunisia and Yemen, helping to directly support U.S. development and national security priorities in the region; and
- In fiscal year 2013, TTB worked with the Office of the U.S. Trade Representative to promote U.S. exports by working with foreign regulators to address barriers that block market access for U.S. products. For example, many major markets abroad require export certifications to accompany shipments of alcohol beverages before a product may enter those markets. In fiscal year 2013, TTB issued more than 12,000 export certificates for beer, wine, and distilled spirits. TTB also continued its work to open burgeoning markets to U.S. producers, including member economies of the Asia-Pacific Economic Cooperation forum, by educating their regulators about the U.S. system to help prevent those countries from issuing technical barriers to U.S. exports.

Also in 2013, Treasury made progress in implementing the Foreign Account Tax Compliance Act (FATCA)[4] and tax treaty negotiations:

[4] Foreign Account Tax Compliance Act: http://www.irs.gov/Businesses/Corporations/Foreign-Account-Tax-Compliance-Act-(FATCA)

- The Office of Tax Policy signed eight intergovernmental agreements under FATCA, concluded negotiations with another 15 countries, and began discussions with at numerous other countries; and
- In fiscal year 2013, Treasury signed three significant tax treaties: a protocol to the U.S.-Japan tax treaty, a protocol to the U.S.-Spain tax treaty, and a new tax treaty with Poland. Treasury also concluded negotiations on a new tax treaty with Romania and continued negotiations with Austria and Vietnam.

Treasury's achievements in supporting economic growth within the U.S. include:

- The Community Development Financial Institutions (CDFI) Fund's core program (the CDFI Program) awarded $146.7 million in funding to 148 CDFIs to provide loans, investments, financial services, and technical assistance to underserved populations and low-income communities. The CDFI Program awardees helped provide funds for projects that created or maintained 35,000 jobs; and
- The CDFI Fund completed the first round of the Bond Guarantee Program for $325 million in bonds with maturities up to 29.5 years that, when issued, are guaranteed by Treasury for community and economic development financing through. The CDFI Bond Guarantee Program was enacted through the Small Business Jobs Act of 2010, in order to provide eligible CDFIs with access to long-term capital by providing guarantees of bonds. As the administrator of the CDFI Bond Guarantee Program, the Fund completed final bond closings and issuance of guarantees during the final quarter of fiscal year 2013.

Treasury also achieved progress in managing the demand for U.S. currency, thus helping to improve financial stability:

- The BEP produced sufficient quantities of the next generation $100 note needed to support the note's initial release into worldwide circulation;
- The U.S. Mint met an 18 percent increase in demand for circulating coinage in fiscal year 2013 over an initial forecast of 9.0 billion coins; and
- In fiscal year 2013, the U.S. Mint returned $350 million to the General Fund.

PERFORMANCE AND FACTORS AFFECTING RESULTS

International Affairs Measures	FY 10	FY 11	FY 12	FY 13	FY 13 Target	FY 13 Results
Timely review of CFIUS[5] cases (%)	N/A	N/A	N/A	100.00	100.00	Met
Monitor quality and enhance effectiveness of International Monetary Fund (IMF) lending through review of IMF country programs (%)	97.00	100.00	100.00	100.00	100.00	Met
Percentage of Multilateral Development Bank grant and loan proposals containing satisfactory framework for results measurement	92.50	94.00	94.00	92.00	92.00	Met
Changes that result from project engagement (Impact) (Office of Technical Assistance Programs)[6]	3.00	3.20	3.10	3.00	3.10	Unmet
Scope and intensity of engagement (Traction) (Office of Technical Assistance Programs)[7]	3.50	3.70	3.90	3.8	3.60	Met

For both CFIUS (Treasury is the statutory Chair of the interagency committee) and IMF measures, the prioritize engagement and support of Treasury leadership contributed positively to the results. Several factors contributed to the Office of Technical Assistance Programs not realizing their fiscal year 2013 performance target for changes that result from project engagement, including: increased instability overseas; increased cost of overseas operations; increased cost of domestic operations; and funding reductions.

Alcohol Tobacco Tax and Trade Bureau (TTB) Measures	FY 10	FY 11	FY 12	FY 13	FY 13 Target	FY 13 Results
Average number of days to process an original permit application for a new alcohol or tobacco business	65.00	74.00	67.00	81.00	65.00	Unmet
Percentage of electronically filed Certificate of Label Approval applications	79.00	88.00	91.00	92.00	92.00	Met

TTB monitors its timeliness in processing permit applications through its measure of the average number of days to process an original permit application for a new alcohol or tobacco business. Undue delays in permit application processing impede economic growth, primarily in the small business sector, since taxable commodities, such as finished wine, beer, or spirits products, cannot

[5] Committee for Foreign Investment in the United States (CFIUS)
[6] Office of Technical Assistance measures are scored on a five-point scale and are averaged across all projects to provide one overall measure of OTA's performance in the categories of traction and impact.
[7] *Ibid*

be lawfully produced without a federal permit from TTB. In fiscal year 2013, TTB targeted a 65-day turnaround time for original permit applications; however, given increased demand for service from a growing industry and reduced resources, TTB averaged 81 days to process these applications. Even with greater than anticipated adoption rates for the Permits Online system, TTB does not anticipate achieving sustained reductions to its permit application turnaround time until the latter quarters of fiscal year 2015.

TTB protects U.S. consumers by ensuring that the alcohol beverage products offered at retail outlets are properly labeled and comply with federal production standards. In furtherance of Treasury's Agency Priority Goal of increasing paperless transactions, TTB met its performance level of 92 percent electronic filing for Certificates of Label Approval (COLA) applications. The ongoing rise in electronic filing is due to system improvements that track with customer feedback and which simplify the filing process for industry members.

CDFI Fund Measures	FY 10	FY 11	FY 12	FY 13	FY 13 Target	FY 13 Results
Awardees' portfolio amount of CDFI loans/investments originated ($ millions)	NA	1,228	1,298	1,978	1,200	Met
Number of jobs created/maintained by all CDFI fund programs (as reported by CDFIs)	NA	55,274	57,023	50,353	50,000	Met
Percentage of New Markets Tax Credit (NMTC) loans and investments that went to severely distressed communities	73.40	72.40	70.40	78.50	70.00	Met

A key factor that contributed to an increase in the number and amount of loans reported by CDFI awardees' portfolios was that reporting awardees had a significantly larger asset base (30 percent larger) than the prior year awardees, leading to increased lending over the projected target. Total jobs associated with lending and investing activities as reported by both CDFI and NMTC Program awardees (not including construction jobs) met the performance target, largely reflecting improved data quality for reporting project-level job outcomes for NMTC investments (due to improvement in linking multiple investments in the same project). The percentage of NMTC investments made in severely distressed communities exceeded the target largely as a result of better targeting by Community Development Entities (and it may also reflect improved targeting using new census data).

BEP and U.S. Mint Measures	FY 10	FY 11	FY 12	FY 13	FY 13 Target	FY 13 Results
Manufacturing costs for currency (Dollar costs per thousand notes produced) (BEP)	44.90	34.60	43.30	50.45	55.00	Met
Customer satisfaction index (MINT)	86.1	91.7	90.0	92.6	90.0	Met
Numismatic sales units (Million Units) (MINT)	NA	7.3	5.6	5.5	5.2	Met
Seigniorage per dollar issued (MINT)	0.49	0.45	0.21	0.24	0.17	Met

Manufacturing costs for currency notes (dollar costs per 1,000 notes) is an indicator of currency manufacturing efficiency and the effectiveness of program management. This standard is developed annually based on the past year's performance, contracted price factors, and anticipated productivity improvements. Actual performance against the standard depends on BEP's ability to meet annual spoilage, efficiency, and capacity utilization goals established for a particular product line. In fiscal year 2013, the favorable results for this metric were driven primarily by more efficient use of currency inks in the manufacturing process and improved productivity in the Bureau's currency overprinting function.

Mint sold more than 5.5 million numismatic (or collectors') units, a 5.8 percent increase above the fiscal year 2013 target of 5.2 million units. The increase mainly resulted from strong Presidential $1 Coin product sales (above forecast by 23 percent); silver coin product sales (above forecast by 26 percent); and gold and platinum coin product sales (78 percent above forecast).

In fiscal year 2013, seigniorage per dollar coin issued was $0.24, which is above the fiscal year 2013 performance target of $0.17. Performance results exceeded the target mainly due to increased Federal Reserve Bank demand for quarter dollars and dimes; lower input costs than forecast for copper, nickel, and zinc; and reduced general and administrative expenses.

EMERGING ISSUES

As Treasury strives to achieve its goals of enhanced U.S. competitiveness, balanced global growth, and international financial stability, its policy offices and bureaus face a variety of emerging issues that are environmental, operational, and managerial in nature.

Security conditions complicated ongoing work in North Africa and the increasing cost of overseas operations and budget uncertainty has the potential to reduce the effectiveness of Treasury personnel who are assigned overseas and hamper Treasury's ability to undertake international travel for critical activities like trade negotiations.

The Office of Tax Policy spends a significant amount of time and resources implementing FATCA. From a technical perspective, the U.S. government cannot offer full reciprocity under the FATCA agreements, which complicates the law's implementation.

The TTB has seen sharp increases in turnaround times for permit, label, and formula applications. Even as electronic filing rates for applications increase, TTB cannot meet the increasing demand for TTB service given the dramatic rise in small, craft alcohol producers in recent years.

The BEP faces significant manufacturing challenges caused by the complex new design of the $100 note (next generation), which have led to increased spoilage and quality issues. This has prompted BEP to partner with the Federal Reserve Board to develop a more robust quality assurance program based on best industry practices.

Finally, the U.S. Mint is facing increasing demand for circulating coinage, which required bringing on temporary workers and finding raw materials and supplies to meet delivery requirements. In circulating coinage, higher metal costs of one-cent and five-cent coins have raised production costs above the coins' face value for the eighth consecutive fiscal year. Also, the decision to cease minting and issuing $1 coins for circulation in December 2011 created challenges to circulating financial results because of reduced overall seigniorage generated by circulating coinage. Despite these challenges in circulating coinage operations, the seigniorage increased in fiscal year 2013 compared to last year, mainly due to increased demand for quarter-dollar coins and reduced general and administrative expenses.

Numismatic operations have faced a trend of declining sales for some products, such as recurring annual coin sets. The Mint's order management system is outdated, which creates challenges to the Mint's ability to meet numismatic customers' expectations for ordering Mint products online.

GOAL #3: PROTECT OUR NATIONAL SECURITY THROUGH TARGETED FINANCIAL ACTIONS

Treasury is devoted to using financial measures to track, degrade, and disrupt threats to national security from state and non-state actors, including terrorists, WMD proliferators, drug traffickers, rogue regimes, and transnational criminal organizations.

As the Department works to enhance the accessibility of the financial system to legitimate users, it also works to prevent its exploitation by illicit actors. Financial intelligence information can help identify the infrastructure of terrorist and other illicit organizations that threaten U.S. national security. It is uniquely reliable and allows Treasury to track, deter, and disrupt threats.

SIGNIFICANT ACHIEVEMENTS

The Office of Terrorism and Financial Intelligence (TFI), through its various components, supported Treasury's strategic and priority goals by implementing sanctions (via Executive Order and legislation) and by conducting other enforcement, analytic, and capacity-building work vital to protecting our national security.

In fiscal year 2013, TFI's Office of Foreign Assets Control (OFAC) tallied over 500 designations under its sanctions authorities in its efforts against weapons of mass destruction proliferators, terrorists, narcotics traffickers, transnational organized crime, persons contributing to regional violence in Africa and those who support these individuals and groups. In particular, OFAC conducted a sustained sanctions campaign against Iran, its agents, and its front companies in response to Iran's continued defiance of various United Nations Security Council resolutions. As a result, banks around the world have continued cutting off Iran from the international financial sector; this isolation has played an essential role in bringing Iran to the negotiating table.

Since fiscal year 2010, OFAC has undertaken the task of implementing 16 new executive orders and a number of new laws, while continuing the ongoing work of administering existing programs. OFAC puts great effort into working to ensure that the public has clear and accurate information on its evolving sanctions programs through a robust website, telephone, and e-hotlines, and regular public outreach conferences and events with various sectors.

In fiscal year 2013, OFAC also implemented a new online application system made available to the public for all licensing situations (this application has been very well received by the regulated public), settled several significant enforcement cases, and published an unprecedented number of guidance documents on OFAC sanctions, including implementation guidance, fact sheets, FAQs, and website brochures. The office also released a public search tool for its Specially Designated Nationals and Blocked Persons List that allows the public faster and simpler access to this list. This tool has become one of the most popular applications on the Treasury.gov domain.

TFI's Office of Terrorist Financing and Financial Crimes (TFFC) worked to strengthen global standards to combat and prevent financial crimes and terrorist financing. TFFC participated in or reviewed 18 mutual evaluations of various countries' compliance with international anti-money laundering (AML), terrorist financing, and counter-terrorist financing (AML/CFT) standards. TFFC also worked with its counterparts abroad, focusing on creating effective AML/CFT frameworks and financial regulations capable of combating terrorist financing.

Finally, the Financial Criminal Enforcement Network (FinCEN) issued interpretive guidance to clarify applicability of the Bank Secrecy Act (BSA) to administrators and exchangers of convertible currency and provided reference information to partners on emerging payment systems; implemented new processes to identify and deter money laundering through targeted enforcement actions; joined other federal and state agencies in imposing a $1.9 billion enforcement action against HSBC, the largest combined BSA and AML penalty ever imposed against any financial institution; and continued support of high priority health and tax fraud investigations, including identification of key links to third-party money launderers.

PERFORMANCE AND FACTORS AFFECTING RESULTS

TFI and FinCEN Measures	FY 10	FY 11	FY 12	FY 13	FY 13 Target	FY 13 Results
Impact of TFI programs and activities (TFI)[8]	7.4	7.6	8.1	8.3	8.3	Met
Percentage of domestic law enforcement finding that FinCEN's analytic reports contribute to the detection and deterrence of financial crime (FinCEN)	80	86	83	81	83	Unmet
Percentage of regulatory helpline customers understanding BSA guidance (FinCEN)	92	92	89	92	90	Met

During fiscal year 2013, TFI met its performance target of 8.3 (on a scale of 10) on its composite measure, "Impact of TFI Programs and Activities." TFI will continue to achieve future performance level goals by continuing customer outreach, increasing production of intelligence products, and implementing IT modernization projects.

In fiscal year 2013, TFI continued to conduct effective AML/CFT actions to protect the integrity of markets and of the global financial framework as they help mitigate the factors that facilitate financial abuse. TFI provided AML/CFT policy development, coordination, and coalition-building and worked to ensure unique access to valuable financial information and conducted all-source analysis on financial and other illicit support.

Each of these actions was supported by critical analysis of intelligence by Treasury's Office of Intelligence and Analysis (OIA). In fiscal year 2013, OIA provided intelligence analysis of regional and specific country economies, the impact of U.S. and multilateral sanctions, and targeted organizations and individuals that would threaten the U.S. Further, OIA focused upon enhancing Intelligence Community (IC) efforts to address the impact of targeted financial measures, threats to the international financial system, and efforts to diminish the potential to be a target for internal and external threats to national security.

In the customer liaison area, FinCEN measures the percentage of regulatory helpline customers who understand Bank Secrecy Act (BSA) guidance. In fiscal year 2013, FinCEN exceeded its target by 2 percent with a 92 percent satisfaction level, continuing to provide timely and valuable guidance to the financial industry. Also, modernized information technology brought opportunities to generate efficiencies and improve effectiveness through increased use of the FinCEN website and delivery channels such as webinars that also positively impacted performance.

In the intelligence area, FinCEN supports domestic law enforcement by providing analyses of BSA information. In fiscal year 2013, 81 percent of domestic law enforcement, when surveyed, indicated that FinCEN's analytic reports contribute to the detection and deterrence of financial crime, narrowly missing the 83 percent target. FinCEN attributes this missed target to decline in satisfaction with proactive products, likely resulting from its focus on other mission related priorities and types of products. FinCEN created an analyst working group to review its customers and product types and make recommendations for enhancements and broader dissemination for greater impact. FinCEN has also increased its emphasis on production of proactive

[8] This composite measure consists of three program office focus areas related to its mission and strategic goals. The composite measure consists of customer surveys, the impact of designations and identifications, compliance with and implementation of sanctions, evaluation of demonstrated action in key regions against threats and vulnerabilities to the financial system, evaluation of the development of timely and relevant US financial and economic initiatives to advance efforts to combat national security threats, and review of the private sector response in taking voluntary action to identify and safeguard against terrorist financing and money laundering threats.

products and believes it will be able to increase the percentage of customers who find its analytical products valuable with more focused products and targeted dissemination in the future.

EMERGING ISSUES

TFI has been increasingly tasked with addressing the most pressing and emerging national security issues. These up-and-coming issues have levied many additional tasks and requirements upon Treasury. To meet these challenges, TFI has worked towards recruiting and retaining a flexible, multi-skill-set workforce capable of meeting and addressing the quickly changing nature of threats in the national security arena. This effort has resulted in a workforce with the ability to quickly change focus and positively address new and rising key issues and the ever-shifting complexities of combating illicit finance, disrupting and dismantling the financial infrastructure of terrorists, and isolating their support networks.

A more tactical emerging issue related to this goal involves FinCEN's efforts to modernize technology to better support its mission. In the first quarter of fiscal year 2013, FinCEN incrementally rolled out new technology to nearly 8,000 users to include a new portal to access BSA tools, including the new FinCEN Query system. The new Query tool has much more powerful capabilities than the legacy system. As such, it introduced a significant change and learning curve for users, especially those who do not use it regularly. Users currently have access to web-based training, along with other support materials. FinCEN is also developing a comprehensive, sustainable training plan that targets external users.

GOAL #4: PURSUE COMPREHENSIVE TAX AND FISCAL REFORM

The Treasury Department leads the Administration's efforts to create and implement a tax system that is simple, fair, and fiscally responsible. Treasury is committed to comprehensive reform of the tax laws, which lowers tax rates while broadening the tax base, makes the system fairer, improves incentives for investment and production in the U.S., and helps contribute to a balanced deficit reduction plan over the medium-term.

Addressing the Nation's fiscal challenges requires reforms and fiscal policies that go beyond streamlining the corporate tax code. The Obama Administration has committed to pursuing a balanced approach to deficit reduction that strengthens our fiscal position and helps ensure that America has room to invest in education, infrastructure, and other areas critical to long term economic growth.

SIGNIFICANT ACHIEVEMENTS

Treasury's Office of Tax Policy (OTP) continued implementation of the Foreign Account Tax Compliance Act (FATCA), which aims to combat offshore tax evasion. In fiscal year 2013, OTP worked to achieve the signing of eight intergovernmental agreements, concluded negotiations on another 15, and began discussions with at least 70 other countries.

In fiscal year 2013, the Internal Revenue Service (IRS) processed more than 240 million individual and business tax returns. In addition, after 18 years, in February 2013, the Government Accountability Office (GAO) removed the IRS Business Systems Modernization program from its High-Risk List. GAO concluded that the IRS had made substantial progress in addressing security material weaknesses over the past several years and demonstrated a commitment to sustained progress.

Additionally, the IRS has made progress in the implementation of the Affordable Care Act by proposing regulations on insurance provider fees, additional Medicare tax, net investment income tax, employer responsibility provision, small business health care tax credit (2014 phase), and information reporting regulations for Marketplaces, insurers and employers. The IRS also issued final regulations on disclosure of tax data to Marketplaces, the individual responsibility provision, the patient centered outcome excise tax, and the medical device excise tax.

TTB collected more than $23 billion in excise taxes and other revenues from over 9,000 taxpayers in the alcohol, tobacco, firearms, and ammunition industries. The return on investment for TTB's Collect the Revenue program consistently exceeds 400:1 and, in fiscal year 2013, reached 457:1. Additionally, TTB has developed an effective criminal enforcement program that draws on forensic auditing and advanced investigative techniques to be responsive to diversion schemes, which vary widely and change in response to targeted enforcement efforts. In less than three years, TTB's criminal enforcement program has initiated 63 cases and identified approximately $378 million in excise tax liabilities on diverted tobacco products, as well as $116 million in seizures. TTB has successfully referred each of these cases for prosecution to the U.S. Attorney's Office.

PERFORMANCE AND FACTORS AFFECTING RESULTS

Internal Revenue Service Measures	FY 10	FY 11	FY 12	FY 13	FY 13 Target	FY 13 Result
Customer service representative level of service (IRS)	74.0	70.1	67.6	60.5	70.0	Unmet
Percentage of individual returns processed electronically (IRS)	69.3	76.9	80.5	82.5	80.0	Met

The customer service representative level of service target for fiscal year 2013 (70 percent) was established prior to sequestration. When sequestration took effect, the required funding adjustment severely hampered the IRS's ability to meet the original target. In addition, demand for toll-free service increased over the prior year by 7 percent, further straining reduced resources.

IRS met its fiscal year 2013 target for processing individual returns electronically; 82.5 percent of returns were processed electronically (2 percent above the target). This is in large part due to IRS's efforts to achieve Treasury's Agency Priority Goal of Increasing Voluntary Tax Compliance, which is discussed in detail later in this report.

EMERGING ISSUES

Since FISCAL YEAR 2010, IRS's appropriated funding has been reduced by almost $1 billion. In fiscal year 2011 and fiscal year 2012, the IRS budget allocation decreased by 0.2 percent and 2.5 percent, respectively. During fiscal year 2012, the IRS collected $2.9 trillion, using a budget of $11.8 billion, accounting for 91 percent of the total revenue that the U.S. government received that year. This substantial return on investment provides the funds that allow the U.S. government to operate. In fiscal year 2013, sequestration and an across the board rescission combined to further reduce the IRS budget by $618 million. This resulted in the IRS re-evaluating its operating levels to ensure critical programs continued to be delivered. The effects of sequestration have created significant impediments to the ability of the IRS to achieve all taxpayer service goals. The challenges created by the current budget climate will continue to impact the IRS's ability to meet performance targets, including level of service.

For the TTB, a new law introducing large federal excise tax disparities among tobacco products, combined with higher prices on tobacco products, could result in decreased consumption of tobacco, increased illicit trade, and tax avoidance schemes by manufacturers. This could indicate declining TTB tax revenues in the out years, and GAO has recommended that Congress, in consultation with the Department of the Treasury, consider options for reducing tax avoidance due to tax differentials between small and large cigars.

GOAL #5: MANAGE THE GOVERNMENT'S FINANCES IN A FISCALLY RESPONSIBLE MANNER

The Treasury Department is responsible for managing the finances of the U.S. government and maintaining public trust and confidence in U.S. and international economic and financial systems. Ensuring the Department is efficient, effective, accountable, and transparent enables the smooth, continuous operation of essential government services and enables the government to meet its financial obligations. To that end—and while supporting and maintaining governmental operations—during fiscal year 2013, Treasury focused on achieving greater cost savings for the American public, modernizing operations, and increasing productivity, effectiveness, and efficiency. Treasury has done this by developing systems, tools, and a culture of governing strategically, working smarter, and leveraging technologies.

SIGNIFICANT ACHIEVEMENTS

The Collections and Cash Management Modernization Initiative has allowed Treasury to meet its target of receiving 97 percent of its collections electronically. This initiative, which involved reengineering the processes that have been built over decades, allows the Fiscal Service to be more efficient and cost-effective in processing collections for hundreds of agency cash flows with over 400 million transactions per year worth over $3 trillion.

A significant management achievement includes Treasury's Quarterly Performance Review process, which entails quarterly review sessions conducted with bureaus and policy offices by the Deputy Secretary, serving as the Chief Operating Officer, and the Assistant Secretary for Management, serving as the Performance Improvement Officer. These sessions bring key leaders together for regular discussions focused on management challenges and priority projects, driving accountability to make and sustain improvements, align expectations and priorities across the agency, and encourage data-driven decision-making. These quarterly reviews have been recognized by OMB and GAO as a best practice.

In addition to the quarterly performance reviews, Treasury's "shared services first" approach to managing across organizational boundaries has helped improve operation effectiveness and coordination across Treasury. The Treasury Shared Services Council provides a portfolio-wide approach to shared services, providing additional transparency and accountability for cost and performance issues and a common governance structure for Treasury's multiple shared services programs.

Finally, the Department continued multiple initiatives to broaden efficiency within its procurement operations to include acquisition-related savings and high risk reduction. In fiscal year 2013, the Department exceeded its internal savings goal of $97 million by achieving more than $340 million in acquisition-related savings. Treasury also exceeded its goal of reducing high-risk contracting obligations by five percent.

PERFORMANCE AND FACTORS AFFECTING RESULTS

Bureau of the Fiscal Service Measures	FY10	FY11	FY12	FY13	FY13 Target	FY 13 Result
Percentage collected electronically of total dollar amount of U.S. government receipts	85.0	96.0	97.0	97.0	97.0	Met
Amount ($ billions) of delinquent debt collected through all available tools	NA	6.17	6.17	7.02	6.67	Met
Percentage of Treasury payments and associated information made electronically	82.2	84.3	88.3	92.5	91.0	Met
Percentage of respondents selecting the highest rating of customer satisfaction with Government Agency Investment Services	NA	60.0	60.0	61.0	61.0	Met

In fiscal year 2013, the Fiscal Service met its target for the percentage of U.S. government receipts collected electronically. On December 7, 2010, Treasury published a regulation that required businesses with an annual tax liability of at least $10,000 to pay their taxes electronically. The new requirement, combined with the Fiscal Service's efforts to transition taxpayers to electronic payments, resulted in the Fiscal Service processing approximately 138.5 million Electronic Federal Tax Payment System transactions during fiscal year 2013, sustaining the improved performance first reported three years ago, when the percentage of receipts collected electronically increased more than ten percent. With continued emphasis on the All Electronic Treasury initiative, the Fiscal Service has undertaken the Non-Tax Paperless Initiative, which is aimed at electronically processing collections and associated remittances. By processing these transactions electronically, the Fiscal Service and its agency partners will achieve greater efficiencies and afford the public more convenient methods for making their payments.

The Fiscal Service collects delinquent debt owed to the U.S. government and states, including child support debt, by providing centralized debt collection, oversight, and operational services pursuant to the Debt Collection Improvement Act of 1996 and related legislation[9]. The Fiscal Service uses two debt collection programs: Treasury Offset Program and Cross Servicing. In fiscal year 2013, the Fiscal Service collected over $7.02 billion of delinquent debt, an increase of more than 13 percent over fiscal year 2012, its highest annual collection to date. Since 1997, the Fiscal Service has collected over $62 billion in delinquent debt. Following are some accomplishments that supported the increase in delinquent debt collections:

- In 2013, the Fiscal Service continued to expand participation in state programs: 37 states including the District of Columbia now participate in the Unemployment Insurance Compensation (UIC) program, 19 more states than in fiscal year 2012. UIC collected over $326 million (an increase of more than $194 million compared to fiscal year 2012). The Fiscal Service's goal is to serve all 50 states and all of the territories participating in the programs. To realize this goal requires states to pass legislation and prioritize funding;
- In fiscal year 2013, the Fiscal Service increased the number of administrative wage garnishments, with initiated garnishment orders up 73 percent compared to fiscal year 2012;
- In 2013, through improved partial matching, the Fiscal Service collected over $220 million. Since the program began in 2010, the Fiscal Service has collected over $267 million; and

[9] Debt Collection Improvement Act of 1996: http://www.fms.treas.gov/debt/dmdcia.txt

- In 2013, the Fiscal Service improved call center operations – all collector agents went through a training/certification program and became certified collectors

In fiscal year 2013, the Fiscal Service implemented a Centralized Receivables Service (CRS) pilot – six agency programs implemented CRS with additional agency programs expected. In fiscal year 2013, CRS invoiced over $11.2 million in receivables and collected over $9.8 million in current receivables.

In support of the All Electronic Treasury initiative, the Fiscal Service continued to expand and market the use of electronic funds transfer to deliver federal payments, improve service to payment recipients, and reduce government program costs. In fiscal year 2013, the Fiscal Service made over 92 percent of its payments electronically, exceeding its performance goal of 91 percent. The Fiscal Service attributes the performance outcome to considerable success in implementing its nationwide Go Direct® campaign to encourage current check recipients to switch to direct deposit. As a result, paper checks have declined from 10.3 million per month in January 2011 to 1.97 million as of September 2013, saving millions of taxpayer dollars in the years to come.

The GAIS Program strives to provide high-quality customer service, reliable transaction processing, and accurate and timely payment distribution. In fiscal year 2013, GAIS distributed 99 percent of its principal and interest payments accurately and timely. The basis for the consistent results achieved by GAIS is the commitment to maintaining strong internal controls, effective procedures, and a well-trained staff. These effective business practices are exhibited by routinely receiving clean audit opinions with no findings or material weaknesses. In fiscal year 2013, the targeted program initiatives to support the effective management of investments and borrowings activity consisted of enhancing case management functionality for federal investments customers, presenting at federal and state conferences, and conducting customer outreach through visits to various agencies and the distribution of a customer satisfaction survey.

Office of Management (ASM) Measures	**FY 10**	**FY 11**	**FY 12**	**FY 13**	**FY 13 Target**	**FY 13 Result**
Treasury-wide footprint (Square Footage/Thousands)	37,088	37,596	37,998	37,320	n/a	n/a
Treasury-wide percentage of procurement dollars spent on small business	29.62	34.51	38.52	39.15[10]	32.00	Met

The Treasury-wide footprint is a measure of the total square footage occupied by Treasury's owned and leased buildings. Management's goal is to generally reduce total square footage over the course of several years, using space more efficiently and consuming fewer resources. Key strategies to reduce Treasury's footprint include an increased adoption of telework, hoteling, and work-space sharing in addition to improved work-station standards and office design.

The Treasury-wide percentage of procurement dollars spent on small businesses measures the percentage of total dollars obligated to small businesses and highlights Treasury's strong efforts to ensure that small businesses have the maximum practicable opportunity to provide goods and services to the U.S. government. In fiscal year 2013, according to preliminary results, Treasury spent 38.54 percent of its procurement dollars on small businesses, exceeding its target by more than six percentage points. Treasury will continue to employ proven past strategies in fiscal year 2014, including targeted small business outreach, enhanced leadership accountability, and increased intra-agency communication.

[10] Final data will not be available until early 2014. This data provided in this report is current as of 2/18/2014.

EMERGING ISSUES

Fiscal year 2013 was a challenging year from a management and planning perspective. The uncertainty stemming from the year-long continuing resolution, implementation of sequestration, and continuity planning for the lapse in appropriations disrupted normal operations and hampered performance across the Department.

Sequestration was particularly difficult. The across-the-board spending cuts forced reductions across nearly all Treasury programs, harming both taxpayers and federal employees. The IRS was especially affected, with sequestration reducing the agency's ability to provide core taxpayer services and resulting in billions of dollars in lost revenue due to fewer tax return reviews and diminished fraud detection. For example, the IRS's customer level of service (i.e. the number of taxpayers receiving assistance at assistance centers and response letters) for fiscal year 2013 was 60.0 percent, down from the 67.6 percent in fiscal year 2012 and the fiscal year 2013 planned level of 70 percent prior to sequestration. Sequestration also forced Treasury to reduce direct payments to state and municipal bond issuers, decrease assistance for development of renewable energy, and grant fewer and smaller grants to low-income and disadvantaged communities.

Sequestration had a considerable impact on Treasury employees as well, compelling Treasury bureaus to institute hiring freezes and reduce training and travel budgets. The IRS furloughed all employees for three days in fiscal year 2013. These personnel impacts can be seen through the year over year decline in Treasury employee satisfaction and engagement scores as measured by OPM's Federal Employee Viewpoint Survey.

As the Department continues to work towards increasing the percentage of collections received electronically, Treasury will continue to pursue progress despite resource and budget constraints at federal agencies; and competing priorities that reduce the abilities of our federal agencies partners to focus on moving to an all-electronic Treasury.

PERFORMANCE BY AGENCY PRIORITY GOAL

Treasury is pursuing two Agency Priority Goals for fiscal years 2012 and 2013. Performance data are available at the end of the calendar year in the Annual Performance Report, and reported quarterly on Performance.gov. A synopsis of these goals is provided below.

INCREASE VOLUNTARY TAX COMPLIANCE

Helping taxpayers understand their obligations under the tax law is critical to improving compliance and addressing the tax gap. Therefore, the IRS is committed to making tax law easier to access and understand. The IRS remains committed to improving voluntary compliance and reducing the tax gap through both taxpayer service and enforcement programs. In fiscal year 2013, the IRS processed 147.6 million individual tax returns, of which more than 121 million were filed electronically. However, while improvements were made, sequestration limited the IRS's ability to provide service and enforcement to the level desired.

The IRS continued to increase the amount of tax information and services available to taxpayers through online and social media. IRS.gov provides alternative online and self-help service options. In fiscal year 2013, taxpayers viewed IRS.gov web pages approximately 1.9 billion times as they used the website to:

- **Get forms and publications.** More than 217.5 million tax products were downloaded;
- **Link to the Electronic Federal Tax Payment System (EFTPS).** EFTPS processed more than 145 million electronic tax payments totaling more than $2.3 trillion during fiscal year 2013;
- **Get answers.** Taxpayers made more than 2.4 million visits to the Interactive Tax Assistant introduction page, which provides answers to tax law questions; and
- **Check on Refunds.** Taxpayers used "Where's My Refund?" more than 200.5 million times to check on the status of their tax refunds, an increase of 51.6 percent from 2012.

In addition, the IRS continued efforts in fiscal year 2013 to increase voluntary compliance in a variety of ways which include:

- Announced the release of an updated smartphone application "IRS2Go 3.0";
- Continued to expand the Virtual Service Delivery project, allowing assistors to interact with taxpayers virtually;
- Expanded its social media presence by adding Tumblr to its list of social media platforms;
- Deployed a web-based tool ("Where's my Amended Return?") to expand self-service features on the IRS website;
- Expanded the Law Enforcement Assistance Program, piloted in Florida in April 2012, to all 50 states and the District of Columbia to help law enforcement pursue identity thieves; and
- Announced a joint plan with the tax administrations from Australia and the United Kingdom to share tax information to pursue international tax evasion.

SIGNIFICANTLY INCREASE THE NUMBER OF ELECTRONIC TRANSACTIONS WITH THE PUBLIC

The safety, security, efficiency, and reliability of Treasury transactions are paramount to maintaining public trust. Billions of transactions, including payments to benefits recipients, savings bonds purchases, and tax collections, are executed by Treasury each year. The paper processes associated with these transactions can be slow, insecure, inaccurate, and wasteful. In an effort to improve customer service, decrease the public's vulnerability to fraud, and efficiently manage resources, Treasury approved several initiatives to move towards electronic transactions including electronic savings bonds, electronic benefit payments, and electronic tax collection. Treasury has already discontinued the issuance of paper savings bonds. Treasury has achieved its goal for benefit payments as more than 97 percent are made electronically. Treasury will continue to have more businesses pay taxes electronically rather than by paper coupon. This priority goal is related to the strategic goal of "Manage the Government's Finances in a Fiscally Responsible Manner."

PAYMENTS

In fiscal year 2013, 95.7 percent of benefit recipients were receiving their payments electronically. In support of the goal to increase electronic federal benefit payments, the Go Direct public education campaign conducted qualitative research with beneficiaries still receiving paper checks. The research was conducted to track awareness of the rule (31 CFR Part 208), which has helped to determine the likelihood that the remaining federal benefit check recipients would switch to an electronic payment method before the rule deadline of March 1, 2013.

COLLECTIONS

To achieve Treasury's goal of increasing electronic non-tax collections and remittances, the Fiscal Service embarked on the Non-Tax Paperless Initiative. The goal is to raise the electronic initiated revenue collection volume rate from the current 55-60 percent to 70 percent by 2017. This approach will involve efforts to increase awareness of available electronic options and their value, inform agencies about the need to transition their customers from paper to electronic, drive agency adoption of electronic collection processes and technologies, educate end users about the specific benefits of electronic transactions, and increase conversions from paper to electronic.

HIGHLIGHTS OF MANAGEMENT AND PERFORMANCE CHALLENGES

Annually, in accordance with the Reports Consolidation Act of 2000, OIG and TIGTA identify the most significant management and performance challenges facing the Department. These challenges do not necessarily indicate deficiencies in performance; rather, some represent inherent risks that require continuous monitoring. Treasury made progress on these issues in fiscal year 2013, and will continue to focus on resolving them during fiscal year 2014 and beyond. Refer to Section C of Part 3, Other Accompanying Information, for a detailed discussion of these challenges, listed below.

Note: SIGTARP does not provide the Secretary with an annual report on management and performance challenges. SIGTARP provides oversight of the Troubled Asset Relief Program, a program that spans several federal agencies, only as a special inspector general while the OIG and TIGTA provide oversight of the Department and IRS, respectively, and report on its management and performance challenges under the Reports Consolidation Act of 2000.

TREASURY-WIDE MANAGEMENT CHALLENGES – AS IDENTIFIED BY OIG

- Continued Implementation of Dodd-Frank
- Management of Treasury's Authorities Intended to Support and Improve the Economy
- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement
- Gulf Coast Restoration Trust Fund Administration

IRS MANAGEMENT CHALLENGES – AS IDENTIFIED BY TIGTA

- Security for Taxpayer Data and IRS Employees
- Implementing the Affordable Care Act and Other Tax Law Changes
- Tax Compliance Initiatives
- Modernization
- Fraudulent Claims and Improper Payments
- Providing Quality Taxpayer Service Operations
- Human Capital
- Globalization
- Taxpayer Protection and Rights
- Achieving Program Efficiencies and Cost Savings

FINANCIAL HIGHLIGHTS

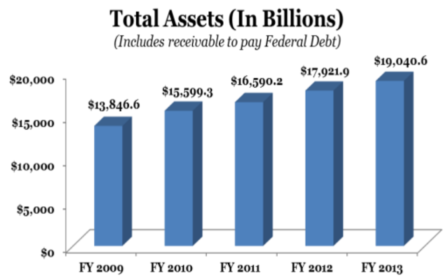


Figure 1

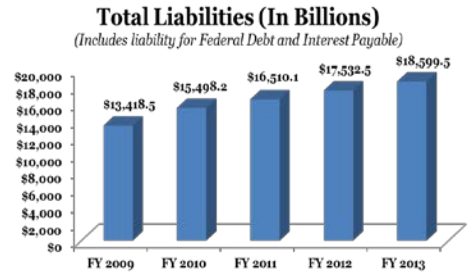
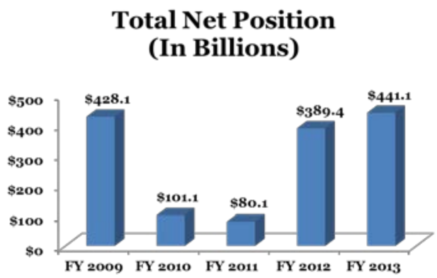


Figure 2



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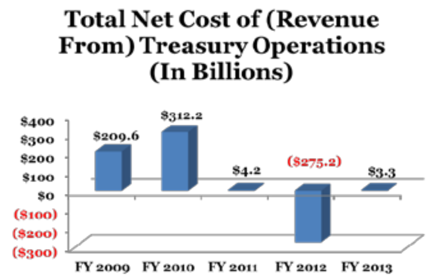

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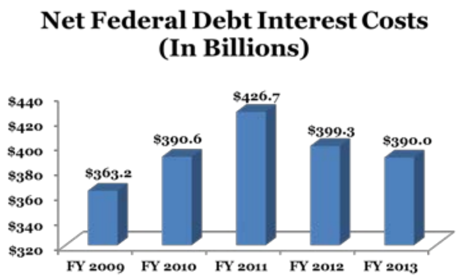

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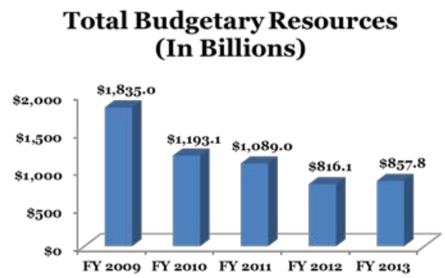

Figure 6

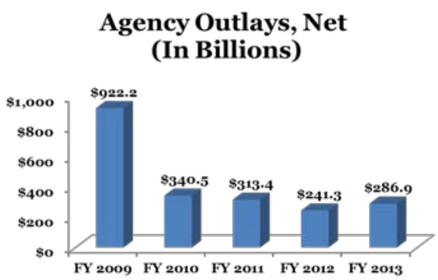

Figure 7

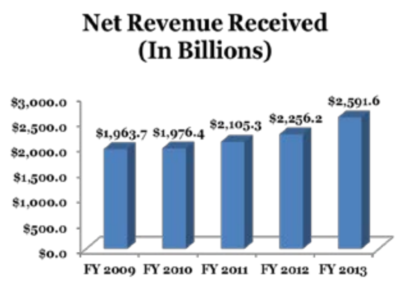

Figure 8

The financial highlights below are an analysis of the information included in the Department's consolidated financial statements that appear within the "Annual Financial Report" section of this report. The Department's principal financial statements have been prepared to report the agency's financial position and results of operations, pursuant to the requirements of 31 USC 3515(b). These consolidated financial statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by OMB. The consolidated financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

The chart below presents changes in key financial statement line items as of and for the fiscal year ended September 30, 2013 compared to September 30, 2012.

Summary Financial Information *(dollars in billions)*

		2013		2012		$ Change	% Change
Total Assets	$	**19,040.6**	$	17,921.9	$	1,118.7	6.2%
Total Liabilities	$	**18,599.5**	$	17,532.5	$	1,067.0	6.1%
Total Net Position	$	**441.1**	$	389.4	$	51.7	13.3%
Total Net Cost of (Revenue From) Treasury Operations	$	**3.3**	$	(275.2)	$	278.5	(101.2)%
Net Federal Debt Interest Costs	$	**390.0**	$	399.3	$	(9.3)	(2.3)%
GSEs Non-Entity Costs (Revenue)	$	**(126.6)**	$	5.3	$	(131.9)	(2488.7)%
Total Budgetary Resources	$	**857.8**	$	816.1	$	41.7	5.1%
Agency Outlays, Net	$	**286.9**	$	241.3	$	45.6	18.9%
Net Revenue Received (Custodial)	$	**2,591.6**	$	2,256.2	$	335.4	14.9%

Financial Overview. The Department's financial performance as of and for the fiscal year ended September 30, 2013, reflects several major trends. Most significantly, the outstanding federal debt, including interest, rose by $671.9 billion to finance the U.S. government's operations. The Department also incurred a liability at September 30, 2013, totaling $248.6 billion in connection with extraordinary debt management measures undertaken by the Department during a debt issuance suspension period (DISP) to prevent outstanding Treasury debt from exceeding the statutory debt limit. Specifically, these measures included, among other things: *(i)* suspending investments in Treasury debt securities by the Government Securities Investment Fund of the Federal Employees' Retirement System Thrift Savings Plan (TSP), Civil Service Retirement and Disability Trust Fund (Civil Service Fund), and the Postal Service Retiree Health Benefits Fund (Postal Benefits Fund); and *(ii)* redeeming early a certain amount of Treasury debt securities held by the Civil Service Fund. The $248.6 billion liability reflects the Department's obligation by statute as of September 30, 2013, to restore to the three funds the accumulated principal balance of Treasury debt securities bearing the same interest rates and maturity dates that would have been invested by these funds had the DISP not occurred (uninvested principal), as well as pay these funds the related lost interest on the uninvested principal.

Additionally, the Department amended its Senior Preferred Stock Purchase Agreements (SPSPAs) with Fannie Mae and Freddie Mac - two Government-Sponsored Enterprises (GSEs) - in 2012, which changed, among other things, the basis for determining quarterly dividends that are paid by the GSEs to the U.S. government commencing with the quarter ending March 31, 2013. As a result of the amended SPSPAs, coupled with the GSEs' long-term financial forecasts within a specific time horizon, the Department reduced its contingent liability associated with the GSE program by $9.0 billion and $288.7 billion at the end of fiscal year 2013 and 2012, respectively, via a reduction in expense.

The Department's 2013 financial performance also reflects the ongoing wind-down of the TARP programs, principally through sales of securities and principal repayments of loans made under these programs. TARP's wind-down activity included, among other things, sales of its remaining equity investments in the AIG Investment Program, Public-Private Investment Program, and Capital Purchase Program. In December 2013, the Department completed the disposition of the remaining shares of General Motors common stock held under the Automotive Industry Financing Program. The continued wind-down of the TARP programs in fiscal year 2013 drove significant fluctuations in the subsidy costs associated with these programs. Subsidy costs recorded in connection with each credit program represent the difference between the projected costs of the program and the future cash flows anticipated to be generated by the program.

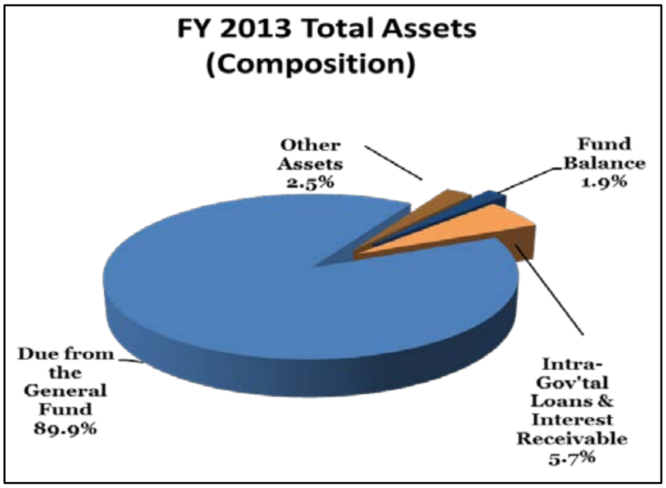

Figure 9

Total Assets of $19.0 trillion at September 30, 2013 consist of a receivable due from the General Fund of the U.S. government of $17.1 trillion, intra-governmental loans and interest receivable of $1.1 trillion, and fund balance and various other assets which totaled $823.7 billion (Figure 9). The $1.1 trillion (or 6.2 percent) increase in total assets at the end of fiscal year 2013 over the prior year is primarily due to an increase in the "Due from the General Fund of the U.S. Government" account, corresponding to increases in the following liabilities: *(i)* a $671.9 billion increase in federal debt and related interest payable and *(ii)* a $248.6 billion additional liability for the restoration of federal debt principal and interest in connection with the DISP. These additions to Treasury liabilities at the end of 2013 caused a corresponding rise in the "Due from the General Fund of the U.S. Government" asset account which represents future funds required from the General Fund of the U.S. Government to pay borrowings from the public and other federal agencies.

Intra-governmental loans and interest receivable represent loans issued primarily by the Fiscal Service to other federal agencies for their own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. This receivable grew by $179.3 billion (or 19.6 percent) to $1.1 trillion at the end of fiscal year 2013 due to increased borrowings by various federal agencies – such as the Departments of Education, Agriculture, and Housing and Urban Development – to fund their existing programs.

Other assets include, among other things, TARP and non-TARP credit program receivables due from, and other investments in certain financial institutions for which the Department provides financial assistance in an effort to stabilize financial markets. Other assets decreased by almost $5.1 billion primarily due to, among other things, the ongoing wind-down of the TARP programs through sales of securities or principal repayments of loans made under these programs. Offsetting this decrease was an increase in the fair value of the GSE investments, which primarily reflects the improved financial performance of the GSEs.

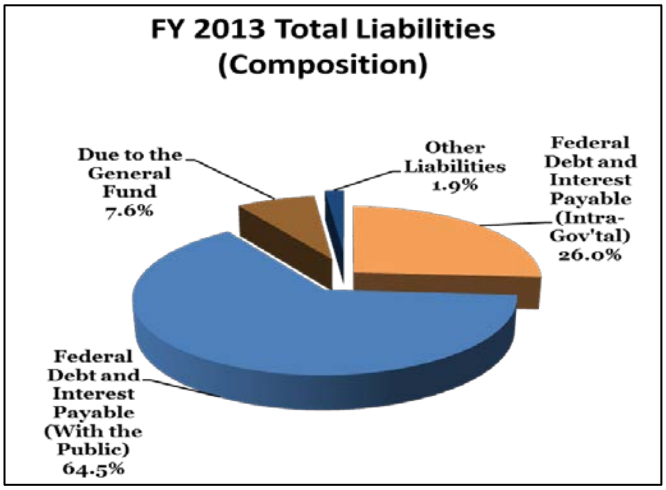

Figure 10

Total Liabilities of $18.6 trillion at September 30, 2013 principally consist of the federal debt held by the public, including interest, of $12.0 trillion, which were mainly issued as Treasury Notes and Bills (Figure 10). Liabilities also include intra-governmental liabilities totaling $6.4 trillion (of which $4.8 trillion represent principal and interest of federal debt in the form of Treasury securities held by federal agencies), and various other liabilities totaling $0.2 trillion. The $1.1 trillion (or 6.1 percent) increase in total liabilities at the end of fiscal year 2013 over the prior year is attributable to a $671.9 billion increase in federal debt, including interest, held by the public and federal agencies that was needed to finance the U.S. government's budget deficits. An additional $248.6 billion of the increase is attributable to a liability for restoration of federal debt principal and interest as of September 30, 2013. This liability relates to uninvested principal and interest owed to funds due to extraordinary measures taken by the Department during the DISP. The increase in total liabilities is also attributable to a $159.7 billion increase in the "Due to the General Fund of the U.S. Government" account, primarily as a result of an increase in intra-governmental loans and interest receivable. The Department, through the Fiscal Service, accounts for and reports on the principal borrowings from and repayments to the General Fund, as well as the related interest due to the General Fund.

Total Net Position of $441.1 billion at September 30, 2013 represents the combined total of the Department's cumulative results of operations and unexpended appropriations at the end of the fiscal year. The $51.7 billion (13.3 percent) increase in the net position at the end of fiscal year 2013 was principally attributable to a $69.3 billion increase in budgetary financing sources driven by increased appropriations primarily to fund the Department's Economic programs.

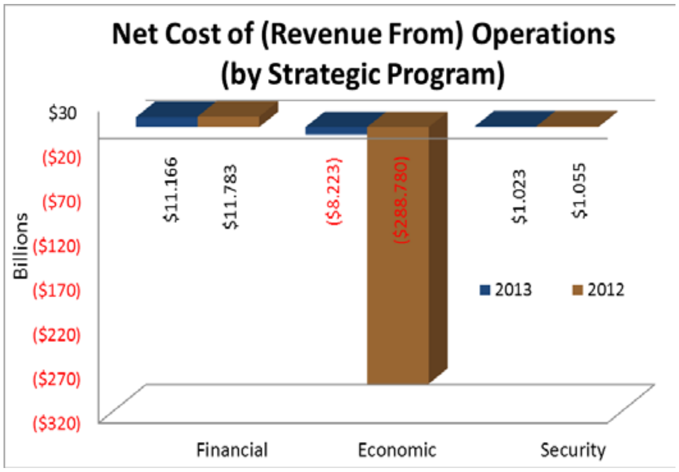

Figure 11

Net Cost of (Revenue From) Treasury Operations, as presented on the Department's Consolidated Statements of Net Cost, presents the Department's gross and net costs by strategic program. There are three main categories of strategic programs: financial, economic, and security. The Department's net cost of operations totaled $3.3 billion for 2013 compared to total net revenue from its operations of $275.2 billion for 2012. The year-over-year combined change of $287.5 in cost of operations is primarily driven by net revenue in fiscal 2012 associated with the Department's economic programs, as described below.

Economic programs generated net revenue of $8.2 billion in 2013 compared to $288.8 billion in 2012 (Figure 11). The $288.8 billion in economic programs net revenue in fiscal year 2012 was driven by a $288.7 billion reduction in the Department's estimated future liability to the GSEs in 2012, via a reduction in expense, down to $9.0 billion at the end of 2012. As a result of the new dividend payment requirement under the amended SPSPAs that commenced with the quarter ended March 31, 2013, coupled with GSEs' long-term financial forecasts within a specific time horizon, the Department reduced by $9.0 billion its estimated future liability to the GSEs in 2013, via a reduction in expense.

Net Federal Debt Interest Costs primarily reflect interest expense on the federal debt. Federal interest costs declined by $9.3 billion (or 2.3 percent) in fiscal year 2013 (Figure 5) despite the rise in the overall federal debt. The decrease in cost is primarily attributable to a decline in the intra-governmental federal debt outstanding balance, coupled with a decline in the average interest rate on intra-governmental federal debt. This decrease was slightly offset by increased expense associated with the growth in the outstanding balance of federal debt held by the public.

GSE Non-Entity Revenue totaled $126.6 billion for 2013 compared to net cost of $5.3 billion for 2012. The revenue in 2013 was primarily driven by a $77.3 billion increase in preferred stock dividends, coupled with a $30.9 billion valuation gain on GSE investments in 2013 compared to a $42.3 billion loss in 2012. These increases primarily stemmed from federal income tax benefits and other improvements in the GSEs' financial performance in 2013.

Total Budgetary Resources of $857.8 billion were higher in fiscal year 2013 (Figure 6) by $41.7 billion (or 5.1 percent) primarily due to an increase in appropriations, offset by decreases in other changes in unobligated balances, borrowing authority, and spending authority from offsetting collections. Appropriations increased $75.2 billion primarily due to increased funding needed in fiscal year 2013 to service the federal debt. Partially offsetting the increase in appropriations were reduced borrowing authority, spending authority from offsetting collections, and other changes in unobligated balances by a combined total of $34.7 billion principally due to the ongoing wind-down of the TARP programs.

Agency Outlays, Net of $286.9 billion were higher in fiscal year 2013 (Figure 7) by $45.6 billion (or 18.9 percent) primarily due to fewer collections in fiscal year 2013 from the wind-down of the TARP programs, partially offset by increased receipts of preferred stock dividends from the GSE SPSPA program.

Net Revenue Received (Custodial), representing net revenue collected by Treasury on behalf of the U.S. government, includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue. Over 90 percent of these revenues are related to income and social security taxes. Net revenue received was $2.6 trillion for fiscal year 2013, an increase of $335.4 billion (or 14.9 percent) over the prior fiscal year. This increase is attributed mainly to an increase in ordinary, capital gains, and dividend income tax rates for individuals, coupled with an increase in corporate income tax collections and a reduction in tax refunds.

CONDENSED FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets (in millions):	2013	2012
Due From the General Fund	$ 17,123,357	$ 16,202,179
Other Intra-governmental Assets	1,491,510	1,293,077
Cash, Foreign Currency, and Other Monetary Assets	148,506	145,551
Gold and Silver Reserves	11,062	11,062
Troubled Asset Relief Program (TARP) - Credit Program Receivables, Net	17,869	40,231
Investments in Government Sponsored Enterprises (GSE)	140,221	109,342
Non-TARP Investment in American International Group, Inc.	-	2,611
Reserve Position in the International Monetary Fund	17,915	21,573
Other Credit Program Receivables, Net	17,628	19,888
Taxes, Interest and Other Receivables, Net	38,602	41,463
Other Assets	33,954	34,885
Total Assets	**$ 19,040,624**	**$ 17,921,862**
Federal Debt and Interest Payable	$ 16,840,466	$ 16,168,588
Other Intra-governmental Liabilities	1,551,933	1,265,487
Liability for Restoration of Federal Debt Principal and Interest	120,356	-
Other Liabilities	86,726	98,391
Total Liabilities	**18,599,481**	**17,532,466**
Unexpended Appropriations	361,295	317,509
Cumulative Results of Operations	79,848	71,887
Total Net Position	**441,143**	**389,396**
Total Liabilities and Net Position	**$ 19,040,624**	**$ 17,921,862**

Condensed Consolidated Statements of Changes in Net Position (in millions):	2013	2012
Beginning Balance	$ 71,887	$ (262,840)
Budgetary Financing Sources	456,986	429,433
Other Financing Sources	(165,401)	50,475
Total Financing Sources	291,585	479,908
Net Cost of Treasury Operations and Non-Entity Costs	(283,624)	(145,181)
Net Change	7,961	334,727
Cumulative Results of Operations	**$ 79,848**	**$ 71,887**
Beginning Balance	$ 317,509	$ 342,978
Appropriations Received	508,448	419,130
Appropriations Used	(455,216)	(428,479)
Other	(9,446)	(16,120)
Total Budgetary Financing Sources	43,786	(25,469)
Total Unexpended Appropriations	**361,295**	**317,509**
Net Position - Year End	**$ 441,143**	**$ 389,396**

Condensed Consolidated Statements of Net Cost (in millions):	2013	2012
Net Financial Program Cost	$ 11,166	$ 11,783
Net Economic Program (Revenue)	(8,223)	(288,780)
Net Security Program Cost	1,023	1,055
Total Net Program Cost (Revenue) before Actuarial Assumptions	**3,966**	**(275,942)**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	(684)	695
Total Net Cost of (Revenue From) Treasury Operations	**3,282**	**(275,247)**
Total Net Non-Entity Costs (primarily interest on the Federal Debt)	**280,342**	**420,428**
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 283,624**	**$ 145,181**

Condensed Combined Statements of Budgetary Resources (in millions):	2013	2012
Unobligated Balance, Brought Forward October 1	$ 339,598	$ 368,954
Recoveries of Prior Year Unpaid Obligations & Other Changes	(11,312)	(27,677)
Budget Authority	529,495	474,784
Budgetary Resources	**$ 857,781**	**$ 816,061**
Obligations Incurred	$ 487,431	$ 476,463
Unobligated Balance, Brought Forward End of Year	370,350	339,598
Total Status of Budgetary Resources	**$ 857,781**	**$ 816,061**
Unpaid Obligations, Gross, Brought Forward October 1	$ 253,173	$ 272,153
Obligations Incurred	487,431	476,463
Outlays, Gross	(490,708)	(482,094)
Recoveries of Prior Year Unpaid Obligations	(15,484)	(13,349)
Uncollected Payments From Federal Sources, Brought Forward October 1	(1,004)	(1,170)
Change in Uncollected Customer Payments from Federal Sources	29	166
Obligated Balance, End of Year (Net)	**$ 233,437**	**$ 252,169**
Agency Outlays, Net (Discretionary and Mandatory)	**$ 286,858**	**$ 241,318**

Condensed Statements of Custodial Activity (in millions):	2013	2012
Sources of Custodial Revenue		
Individual and FICA Taxes	$ 2,448,546	$ 2,159,990
Corporate Income Taxes	311,994	281,462
Other Revenues	195,860	188,516
Total Revenue Received	**2,956,400**	**2,629,968**
Less Refunds	(364,788)	(373,752)
Net Revenue Received	**2,591,612**	**2,256,216**
Non-Cash Accrual Adjustment	(959)	5,543
Non-TARP Investments in American International Group, Inc.:		
Cash Proceeds from Sale of Stock	2,588	12,992
Non-Cash Market Adjustments	(2,611)	(8,251)
Total Custodial Revenue	**2,590,630**	**2,266,500**
Disposition of Custodial Revenue		
Amounts Provided to Fund Non-Federal Entities	358	386
Amounts Provided to Fund the Federal Government	2,591,254	2,255,830
Non-Cash Accrual Adjustment:		
Amounts to be Provided to the General Fund and Others	(618)	4,000
Accrual Adjustment	(341)	1,543
Non-TARP Investments in American International Group, Inc.:		
Cash Proceeds from Stock Sales Provided to Fund the Federal Government	2,588	12,992
Non-Cash Market Adjustment	(2,611)	(8,251)
Total Disposition of Custodial Revenue	**2,590,630**	**2,266,500**
Net Custodial Revenue	**$ -**	**$ -**