Departmental Summary

FY 2010 President's Budget by Function
(Dollars in Thousands)

	FY 2008	FY 2009		FY 2010		
	Enacted*	ARRA	Enacted	President's Budget	Increase/ Decrease	Percent Change
Management & Financial	$699,412	$238,000	$745,583	$808,992	$63,409	8.5%
Departmental Offices Salaries and Expenses**	248,360	131,000	278,870	302,388	23,518	8.4%
Dept-wide Systems & Capital Invest. Programs	18,710		26,975	9,544	(17,431)	-64.6%
Office of Inspector General	18,450		26,125	26,700	575	2.2%
Treasury IG for Tax Administration	140,533	7,000	146,083	149,000	2,917	2.0%
Community Development Financial Institutions Fund	94,000	100,000	107,000	243,600	136,600	127.7%
Financial Crimes Enforcement Network	85,844		91,465	102,760	11,295	12.3%
Alcohol & Tobacco Tax and Trade Bureau	93,515		99,065	105,000	5,935	6.0%
Less Offsetting Fees			0	*-80,000*	*(80,000)*	*100.0%*
Net, ATTB			99,065	25,000	(74,065)	-74.8%
Treasury Forfeiture Fund			-30,000	-50,000	(20,000)	66.7%
Fiscal Service Operations	$481,469	$0	$417,137	$426,376	$9,239	2.2%
Financial Management Service	298,598		239,785	244,132	4,347	1.8%
Bureau of the Public Debt	172,871		187,352	192,244	4,892	2.6%
Less Offsetting Fees	*10,000*		*-10,000*	*-10,000*	*0*	*0.0%*
Net, BPD	182,871		177,352	182,244	4,892	2.8%
Tax Administration	$11,094,519	$80,000	$11,522,598	$12,126,000	$603,402	5.2%
IRS Taxpayer Services	2,191,085		2,293,000	2,269,830	(23,170)	-1.0%
IRS Enforcement	4,780,000		5,117,267	5,504,000	386,733	7.6%
IRS Operations Support	3,841,109		3,867,011	4,082,984	215,973	5.6%
IRS Business Systems Modernization	267,090		229,914	253,674	23,760	10.3%
IRS Health Insurance Tax Credit Administration	15,235	80,000	15,406	15,512	106	0.7%
Total, Treasury Appropriations Committee	$12,275,400	$318,000	$12,685,318	$13,361,368	$676,050	5.3%
Treasury International Programs	$1,327,579		$1,578,000	$2,483,375	$905,375	57.4%
International Financial Institutions	1,277,289		1,493,000	2,341,305	848,305	56.8%
Technical Assistance	20,235		25,000	31,440	6,440	25.8%
Debt Restructuring	30,055		60,000	110,630	50,630	84.4%
Total	$13,602,979	$318,000	$14,263,318	$15,844,743	$1,581,425	11.1%

* The FY 2008 Enacted includes Economic Stimulus funding of $202.1 Million for the IRS and $64.2 Million for FMS.
**ARRA funding includes $123 Million for IRS and $7 Million for FMS.

Overview

The Department of the Treasury's mission is to promote the economic prosperity and financial security of the United States. Treasury operates 13 bureaus with a vast array of activities that are critical to the core functions of Federal Government, including collecting revenue and disbursing payments, managing federal finances, and protecting the financial system from threats. Treasury also plays a key role in modernizing the American financial regulatory system and ensuring effective, transparent administration of programs designed to revive and strengthen the economy.

The FY 2010 Budget requests $13.4 billion to fund the activities at the Department's nine appropriated bureaus. The request provides $676 million over the FY 2009 enacted level, a 5.3 percent increase. The request also includes $2.5 billion to support Treasury's International assistance programs.

The FY 2010 Budget has been developed in order to make significant progress towards the Department's four strategic goals:

- U.S. and World Economies Perform at Full Economic Potential
- Effectively Managed U.S. Government Finances
- Prevented Terrorism and Promoted the Nation's Security Through Strengthened Financial Systems
- Management and Organizational Excellence

The Department's proposed funding increases are targeted to address current and future economic challenges. The budget will support additional staff in Domestic Finance and Tax Policy offices, as well various management areas to ensure Treasury maintains expertise in an array of complex finance and government fields ; provide resources to strengthen tax collection; and expand the availability of affordable credit in distressed communities by significantly increasing resources for the Community Development Financial Institutions (CDFI) Fund, including funding for the Capital Magnet Fund, a new affordable housing grant program.

In addition to providing justification for the Department's appropriated bureaus, this document provides summary level information on the Department's non-appropriated bureaus and financial stability activities. Together, the appropriated and non-appropriated funding at the Department will provide the resources Treasury needs to strengthen and protect the financial system and the Department's ability to effectively manage U.S. Government finances.

FY 2010 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	$68,339	$8,113	$352,184	$12,866	$212,425	$36,374	$226,044	$15,123	$858,992	$72,476
Departmental Offices Salaries and Expenses	55,839	5,996	96,084	10,749	104,665	10,374	45,800	6,723	302,388	33,842
Dept-wide Systems & Capital Invest. Program					5,000		4,544		9,544	0
Office of Inspector General							26,700	8,000	26,700	8,000
Treasury IG for Tax Administration							149,000	400	149,000	400
Community Development Financial Institutions Fund			243,600						243,600	0
Financial Crimes Enforcement Network					102,760	26,000			102,760	26,000
Alcohol & Tobacco Tax and Trade Bureau	12,500	2,117	12,500	2,117					25,000	4,234
Fiscal Service Operations	$426,376	$256,522	$0	$0	$0	$0	$0	$0	$426,376	$256,522
Financial Management Service	244,132	234,690							244,132	234,690
Bureau of the Public Debt	182,244	21,832							182,244	21,832
Tax Administration	$11,856,572	$131,120	$0	$0	$269,428	$15,981	$0	$0	$12,126,000	$147,101
IRS Taxpayer Services	2,269,830	39,000							2,269,830	39,000
IRS Enforcement	5,306,315	44,816			197,685	15,981			5,504,000	60,797
IRS Operations Support	4,011,241	47,304			71,743				4,082,984	47,304
Business Systems Modernization	253,674								253,674	0
Health Insurance Tax Credit Administration	15,512								15,512	0
Total, Treasury Appropriations Committee [1/]	$12,351,287	$395,755	$352,184	$12,866	$481,853	$52,355	$226,044	$15,123	$13,411,368	$476,099
Treasury International Programs	2,483,375								2,483,375	0
Total, Appropriated Level	$14,834,662	$395,755	$352,184	$12,866	$481,853	$52,355	$226,044	$15,123	$15,894,743	$476,099
Non Appropriated Bureaus	$0	$0	$0	$3,632,348	$0	$0	$0	$147,968	$0	$3,632,348
Treasury Franchise Fund								147,968	0	147,968
Bureau of Engraving and Printing				591,000					0	591,000
U.S. Mint				2,030,067					0	2,030,067
Office of the Comptroller of the Currency				830,281					0	830,281
Office of Thrift Supervision				181,000					0	181,000
Subtotal, Direct $	$14,834,662		$352,184		$481,853		$226,044		$15,894,743	
Subtotal, Reimbursable $		$395,755		$3,645,214		$52,355		$163,091		$4,256,415
Total, Treasury Level	$15,230,417		$3,997,398		$534,208		$389,135		$20,151,158	

[1/] Total does not include $50 million Forfeiture Fund Reduction

U.S. and World Economies Perform at Full Economic Potential

The current economic turmoil facing the United States calls for broad and extraordinary measures. The Administration has five primary goals for Treasury's economic programs:

- Restore confidence in the strength of the U.S. financial system
- Restart the flow of credit critical to financing American households and businesses
- Preserve homeownership and avoid preventable foreclosures
- Restore net jobs creation and positive economic growth
- Safeguard taxpayer interests

The Treasury Department is committed to playing an active role in building a healthy, more stable and more competitive free-market economic system that can encourage people to invest, innovate, create jobs, and build stronger communities and better lives. In order to do so, it will require action on a scale that has not been seen in generation – and it will require more high quality people to execute this vision. The FY 2010 budget provides $8.7 million in additional funds over FY 2009 appropriated levels to significantly increase the staffing and resources available to the Office of Domestic Finance. The initiative will create two new Deputy Assistant Secretary (DAS) positions: one DAS for Housing Finance, Small Business and Consumer Issues and one DAS for Capital Markets. The two DASs will lead teams designed to support the economic research and modeling for these critical areas.

The FY 2010 Budget includes an additional $4.9 million for the Office of Tax Policy. Tax specialists are needed to ensure that the Treasury Department is able to respond to the challenges of the financial crisis, support the financial stimulus plan, and address key tax policy issues, such as climate change and health care. The new resources will provide the Department with the tools needed to respond in a more flexible manner to new challenges and to ensure policy revisions are made to support the Administration's priorities in key areas.

The Department has put in place under the Financial Stability Plan a series of financial initiatives to help lay the foundation for economic recovery, including: 1) a broad program to stabilize the housing market by encouraging lower mortgage rates and making it easier for millions to refinance and avoid foreclosure; 2) a new capital program to provide banks with a safeguard against a deeper recession; 3) a major new lending program with the Federal Reserve targeted at the securitization markets critical for consumer and small business lending; 4) a program to set up funds to provide a market for the legacy loans and securities that currently burden the financial system; and 5) a program to ensure available and affordable credit for small businesses.

Funding for the management of the $700 billion Troubled Asset Relief Program (TARP) was provided by the Emergency Economic Stabilization Act of 2008. The chart below presents the public commitments that the Department has made for the various programs handled under the TARP umbrella. The $700 billion is expected to be fully committed in FY 2009, but the programs will take several years to complete.

Emergency Economic Stabilization Act Programs

	Purchase Cap[1]
Capital Purchase Program	$218,000,000
Public-Private Investment Program[2,3]	$75,000,000
Systemically Significant Failing Institutions Program	$70,000,000
Consumer and Business Lending Initiative[2]	
TALF 1.0	$20,000,000
TALF Asset Expansion	$35,000,000
TALF for Legacy Securities	$25,000,000
Unlocking SBA Lending Markets	$15,000,000
Home Affordable Modification Program	$50,000,000
Targeted Investment Program	$40,000,000
Automotive Industry Financing Program and Auto Supplier Support Program	$35,400,000
Asset Guarantee Program[4]	$12,500,000
Estimate of Redemption	($25,000,000)
Capital Assistance and Other TBD Programs[2]	$129,100,000
Total	**$700,000,000**

[1]Amount applied to the Section 115 Purchase Cap.
[2]Subsidy rate will be revised from the current 33.33% placeholder.
[3]The TALF for Legacy Securities program categorized under the Consumer and Business Lending Initiative in this table will be implemented under the Public-Private Investment program.
[4] Loan Guarantees are expected to be $419 billion, but Treasury will be limited to a $12.5 billion second loss.

The President's FY 2010 Budget includes a $250 billion contingent reserve for further efforts to stabilize the financial system. (The reserve, which reflects a net cost to the Government, would support $750 billion in asset purchases.) The existence of this reserve in the Budget does not represent a specific request. Rather as events warrant, the Administration will work with Congress to determine the appropriate size and shape of any such efforts, and as more information becomes available the Administration will define an estimate of potential costs.

Treasury also has assumed responsibility for the Housing Government Sponsored Enterprise (GSE) Programs, using authority granted under the Housing and Economic Recovery Act of 2008 (HERA). The GSE effort consists of three different programs with respect to the two GSEs, the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Banks (FHLBs). These programs were created to support mortgage availability and financial market stability while protecting taxpayer interests. The chart below presents existing and expected disbursements for the three programs. Treasury's authority to enter into new agreements under HERA expires on December 31, 2009.

Housing Government Sponsored Enterprise Programs

(Dollars in Thousands)

		FY 2008	FY 2009	FY 2010
Program	**Activity**	**Actual**	**Estimated**	**Estimated**
Preferred Stock Purchase Agreements	Obligations	$0	$105,900,000	$41,293,000
GSE MBS Purchase Program	Securities Purchased	$5,000,000	$249,000,000	$60,000,000
GSE Credit Facility	Loan Levels	$0	$0	$0

The Budget also significantly increases funding for Community Development

Financial Institutions (CDFI) Fund, to a level of $243.6 million. Through merit-based grant programs, the CDFI Fund helps locally based financial institutions offer small business, consumer and home loans in communities and populations that lack access to affordable credit. The funding level for the CDFI Fund includes $80 million for the Capital Magnet Fund, which is a new grant program established by the Housing and Economic Recovery Act (HERA) of 2008. This important new program will increase financing for the development, preservation, rehabilitation, and purchase of affordable housing or economic development projects (such as day care centers, workforce development centers, and health care clinics) in low-income communities. CMF will complement the CDFI Fund's existing programs to support community development in low-income and underserved rural neighborhoods.

The Department's non-appropriated bureaus also play a critical role in providing the regulation and currency needed for the economy to run smoothly. The Office of the Comptroller of the Currency (OCC) supervises approximately 1,629 national bank charters and 49 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 downturn in housing and the broader economy is having an adverse effect on national banks' loan portfolios, with the levels of nonperforming and past due loans increasing. 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.

The Office of Thrift Supervision (OTS) regulated 818 thrifts at the end of the FY 2008 with total assets of $1.18 trillion; OTS also supervised 469 holding company enterprises with approximately $8.1 trillion in U.S. domiciled consolidated assets. 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 Bureau of Engraving and Printing (BEP) and the U.S. Mint are responsible for providing the nation's currency and coins, which are essential for the Federal Reserve's banking policies and for customer demands at banks and thrifts. BEP expects to produce and deliver 7.2 billion notes to the Federal Reserve System in 2010, an increase of six percent over the 2009 program. The Mint expects to produce and distribute approximately 8.5 billion coins to meet demand for circulating coins during FY 2010, a decrease of 13.1 percent over estimated FY 2009 levels.

Effectively Managed U.S. Government Finances

Collecting the revenue that funds the Federal government is a core mission of the Department of the Treasury. The Department's priorities are to enforce the nation's tax laws in a fair and uniform manner, minimize taxpayer burden, and provide service to taxpayers to maximize voluntary compliance and reduce the tax gap. The IRS serves every individual, business, and non-profit organization in the nation, and processes over 250 million tax returns annually.

The FY 2010 budget request includes $12.126 billion for the IRS, which is an increase of $603 million above the FY 2009 enacted level. This includes:

- $8 billion for the enforcement program, which is funded in the Enforcement and Operations Support appropriations. In FY 2008 direct revenue from enforcement activities totaled $56.4 billion, yielding a return on investment of over five to one for all IRS activities. Additionally, vigorous enforcement encourages voluntary compliance, further increasing revenue. This impact is conservatively estimated to be at least three times the direct revenue impact. New enforcement initiatives, totaling $332 million will allow the IRS to address underreporting of tax associated with international activities and reduce noncompliance among businesses and high-income taxpayers. These initiatives will generate $2.0 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2012.

- $3.9 billion for the taxpayer service program, which is funded in the Taxpayer Service and Operations Support appropriations. This funding will support continued improvements to both the quality and efficiency of taxpayer service, using a variety of person-to-person, telephone, and web-based methods to help people understand their tax obligations and pay their taxes. In FY 2010, the IRS will increase self-service applications, continue to ensure web navigation is user-friendly and improve the quality and accuracy of its telephone responses.

- $254 million for Business Systems Modernization. This funding will support continued investments to modernize core IT systems, giving IRS employees the technology they need to continue to administer and improve both service and enforcement. In 2009, the IRS shifted its focus from concurrent development of a database and associated applications to a strategy that focuses on completion of the core taxpayer account database. This approach will allow the IRS to accelerate data conversion to the new database while also addressing security, financial material weaknesses, and long-term architectural planning concerns. Once completed, the core database will improve the overall functionality of existing modernization systems, as well as improve overall customer service to taxpayers.

The Alcohol and Tobacco Tax and Trade Bureau (TTB) serves as the Nation's primary federal authority in the regulation of the alcohol and tobacco industries. In FY 2008, the TTB collected $14.6 billion in excise taxes, interest, and other revenues. In FY 2010 TTB is funded at $105 million, including $80 million in new user fees. The increase in user fees is attributable to the Administration's legislative proposal to transition the alcohol and tobacco regulatory system from an appropriated resources based system to a user fee based system that utilizes resources provided by licenses and other fees.

In addition to collecting revenue, Treasury's management of the Federal Government's finances includes disbursing payments, preparing public financial statements, and issuing debt. The Financial Management Service (FMS) provides central payment services to Federal Program Agencies (FPAs), operates the Federal Government's collections and deposit systems, provides government-wide accounting and reporting services, and manages the collection of delinquent debt owed to the Government. In FY 2008, FMS issued nearly 1 billion non-Defense payments worth $1.8 trillion to a wide variety of recipients (79 percent issued electronically). In addition to its normal duties, in FY 2008 FMS administered 119 million payments under the Economic Stimulus Act of 2008. In FY 2009, FMS expects to administer an additional 64 million payments under the American Recovery and Reinvestment Act. The FY 2010 Budget provides $244.1 million for FMS activities.

The Bureau of Public Debt (BPD) borrows the money needed to operate the federal government, account for the resulting debt and provide reimbursable support services to Federal agencies through the Treasury Franchise Fund. BPD annually auctions and issues more than $4.6 trillion in Treasury bills, notes, bonds and Treasury Inflation-Protected Securities (TIPS); effectively regulates the primary and secondary Treasury securities markets; 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 240 federal trust funds; and provides timely and accurate information on the public debt. The FY 2010 Budget provides $182.2, including $10 million in offsetting collections, for BPD activities.

Promoting National Security

The Treasury Department, through its Office of Terrorism and Financial Intelligence (TFI), supports 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.

TFI had a number of successes in FY 2008, which it plans to build upon for a successful FY 2009 and FY 2010. These achievements included persuading a number of the world's leading financial institutions of the risks of dealing with Iran and Iranian banks; designating and blocking key Zimbabwe regime supporters; completing actions against FARC (Revolution Armed Forces of Colombia); leading efforts within the Financial Action Task Force; and increasing collaboration with Intelligence Community.

The FY 2010 Budget provides $64.6 million for TFI activities, a four percent increase over FY 2009 appropriated levels. This funding level includes resources the Afghanistan Threat Finance Cell. In addition, the FY 2010 budget provides resources to increase the protection of the Department's IT systems from external threats and support Top Secret/SCI information technology systems.

In addition to the resources requested for TFI, Treasury requests $102.7 million for the Financial Crimes Enforcement Network (FinCEN), which is responsible for administering the Bank Secrecy Act (BSA). FinCEN enhances U.S. national security, deters and detect criminal activity, and safeguards financial systems from abuse by promoting transparency in the U.S. and international financial systems. The Budget provides additional resources to improve FinCEN's collection, storage, sharing and analysis of BSA data. This is part of a multi-year investment which will enrich and standardize BSA data to maximize value, integrate data with other tate and federal sources, deploy advanced analystical and stoarge technologies, and establish more effective security and audit technologies to enhance data confidentiallity and integrity.

Management and Organizational Excellence

Strengthening the management & infrastructure of the Treasury Department, across all bureaus, is one of the critical priorities for the FY 2010 budget. The financial crisis has strained an already thin management infrastructure. Key support functions – human resources, information technology, facilities and space, accounting and financial management – are essential services supporting the Treasury offices working on which financial recovery efforts. The Budget provides $3 million to the Department to provide IT, human resource, procurement, and financial management support. The Budget also allows $4.5 million to continue repairs to the Treasury Annex building, to ensure the safety and health of the occupants.

The Office of Inspector General is required to keep both the Secretary and the Congress fully and currently informed about the problems and deficiencies relating to the administration of department programs and operations and the necessity for corrective action. The Budget provides $26.7 million for OIG activities. The OIG is mandated to conduct a material loss review on significant bank failures; in the past, this activity has been limited to one or two reviews a year. Due to the economic crisis, OIG is facing a tenfold increase in this mandatory workload. In FY 2010, the OIG expects to complete 62 Audit products, meet all statutory audit requirements, and meet or exceed the investigative targets.

The Treasury Inspector General for Tax Administration (TIGTA) provides audits and investigative services that promote economy, efficiency, and integrity in the administration of the internal revenue laws. The FY 2010 President's Budget request for TIGTA will be used to adapt to the IRS's continuously evolving operations and mitigate intensified risks associated with modernization, security, addressing the Tax Gap, and human capital challenges facing the IRS. The Budget will also allow TIGTA to respond to threats and attacks against IRS employees, property, and sensitive information; improve the integrity of IRS operations by detecting and deterring fraud, waste, abuse or misconduct by IRS employees; and conduct comprehensive audits, inspections, and evaluations that include recommendations for monetary benefits and enhancing IRS' service to taxpayers. Finally, with these resources TIGTA will inform the American people, Congress, and the Secretary of the Treasury of problems and progress made to resolve them. The FY 2010 Budget provides $149 million for TIGTA activities.

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

Appropriation	FY 2008 Actual			FY 2009 Estimated			FY 2010 President's Budget		
	Direct	Reimb.	Total	Direct	Reimb.	Total	Direct	Reimb.	Total
Departmental Offices Salaries and Expenses	1,022	106	1,128	1,204	137	1,341	1,266	137	1,403
Administrative Expenses, Recovery Act				570		570	892		892
Office of Inspector General	103	0	103	154	0	154	154	0	154
Treasury IG for Tax Administration	781	3	784	835	3	838	835	3	838
Office of Financial Stability				134	0	134	225	0	225
Community Development Financial Institutions Fund	58	0	58	75	0	75	75	0	75
Financial Crimes Enforcement Network	311	1	312	330	1	331	331	1	332
Alcohol & Tobacco Tax and Trade Bureau	510	10	520	525	15	540	550	15	565
Financial Management Service	1,643	242	1,885	1,681	260	1,941	1,681	260	1,941
Bureau of the Public Debt	1,265	16	1,281	1,042	0	1,042	1,042	0	1,042
Internal Revenue Service	90,647	1,038	91,685	94,209	1,077	95,286	95,081	1,088	96,169
Subtotal, Treasury Appropriated Level	96,340	1,416	97,756	100,759	1,493	102,252	102,132	1,504	103,636
Working Capital Fund	0	205	205	0	205	205	0	205	205
Treasury Franchise Fund	0	767	767	0	982	982	0	965	965
Bureau of Engraving and Printing	0	2,018	2,018	0	2,075	2,075	0	2,050	2,050
U.S. Mint	0	1,908	1,908	0	1,947	1,947	0	1,979	1,979
Office of the Comptroller of the Currency	0	3,028	3,028	0	3,127	3,127	0	3,161	3,161
Office of Thrift Supervision	0	1,029	1,029	0	1,095	1,095	0	847	847
Terrorism Insurance Program	9	0	9	10	0	10	10	0	10
Special Inspector General for the TARP	0	0	0	100	0	100	150	0	150
Total	96,349	10,371	106,720	100,869	10,924	111,793	102,292	10,711	113,003

Summary of FY 2010 Increases and Decreases
(Dollars in Thousands

	DO	DSCIP	OIG	TIGTA	CDFI	FINCEN	TTB	TFF	FMS	BPD	IRS	Total
FY 2009 Enacted	$278,870	$26,975	$26,125	$146,083	$107,000	$91,465	$99,065		$239,785	$187,352	$11,522,598	$12,725,318
Across the Board Program Reduction	($1,464)		($9)	($504)	($69)	($323)	($217)		($1,174)	($944)	($13,732)	(18,436)
GAO Audit										$1,500	$10,000	11,500
Non-Pay Inflation Adjustments	1,531	0	90	318	107	495	421		808	706	31,113	35,589
Pay Annualization Adjustments	1,587	0	166	1,110	76	419	556		1,558	1,135	80,054	86,661
Pay Inflation Adjustments	3,259	0	328	2,340	136	834	1,014		3,155	2,495	148,894	162,455
Maintaining Current Levels	$4,913	$0	$575	$3,264	$250	$1,425	$1,774		$4,347	$4,892	$256,329	$277,769
Base Realignment	0	0	0	0	0	0	0		0	0	0	0
Non-Recurring Costs	0	(26,975)	0	(347)	0	(130)	0		0	0	(109,765)	(137,217)
Initiative Annualizations	1,731	0	0	0	0	0	0		0	0	0	1,731
Transfers	0	0	0	0	0	0	0		0	0	0	0
Efficiency/Savings	0	0	0	0	0	0	(1,339)		0	0	(8,360)	(9,699)
Base Reinvestments	0	0	0	0	0	0	0		0	0	2,331	2,331
Adjustments to Base	$1,731	($26,975)	$0	($347)	$0	($130)	($1,339)		$0	$0	($115,794)	($142,854)
FY 2009 Base	$285,514	$0	$26,700	$149,000	$107,250	$92,760	$99,500		$244,132	$192,244	$11,663,133	$12,860,233
Program Decreases	0	0	0	0	(2,000)	0	0		(958)	(1,734)	0	(4,692)
Program Reinvestments	(2,110)	0	0	0	0	0	0		958	1,734	0	582
Program Increases	18,984	9,544	0	0	138,350	10,000	5,500		0	0	462,867	645,245
FY 2010 President's Budget	$302,388	$9,544	$26,700	$149,000	$243,600	$102,760	$105,000		$244,132	$192,244	$12,126,000	$13,501,368
Offsetting Fees and Cancellation of Unobligated Balances	0	0	0	0	0	0	(80,000)	(50,000)	0	(10,000)	0	(140,000)
FY 2010 President's Budget less Offsetting Fees	$302,388	$9,544	$26,700	$149,000	$243,600	$102,760	$25,000	($50,000)	$244,132	$182,244	$12,126,000	$13,361,368

Departmental Offices

Mission Statement

The Departmental Offices mission is to serve the American people and strengthen America's national security by managing the U.S. Government's finances effectively, promoting economic growth and stability, and ensuring the safety, soundness, and security of the global financial system.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2008	FY 2009		FY 2010		
	Enacted	ARRA 1/	Enacted	Request	$ Change	% Change
Executive Direction	$20,749	$0	$21,619	$22,383	$764	3.53%
Economic Policies and Programs	$44,242	$0	$45,910	$44,749	($1,161)	-2.53%
Financial Policies and Programs	$29,465	$1,000	$36,038	$47,580	$11,542	32.03%
Terrorism and Financial Intelligence	$56,775	$0	$62,098	$64,611	$2,512	4.05%
Treasury-wide Management and Programs	$18,505	$130,000	$21,600	$22,779	$1,179	5.46%
Administration Programs	$78,624	$0	$91,604	$100,286	$8,682	9.48%
Total Appropriated Resources	**$248,360**	**$131,000**	**$278,870**	**$302,388**	**$23,518**	**8.43%**
Total FTE	**1,133**	**892**	**1,204**	**1,266**	**62**	**5.19%**

1/ ARRA funding includes $123 Million for IRS and $7 Million for FMS. FTE level reflects peak in FY 2010.

FY 2010 Priorities

The FY 2010 budget request supports the Departmental Offices (DO) leading role in accomplishing key Departmental priorities:

- ***U.S. and World Economies Perform at Full Economic Potential* –** The Departmental Offices will maintain America's strength and prosperity by developing and implementing policies that encourage economic growth, protect key financial infrastructure, and ensure sound and secure investment in the U.S. economy. In support of this priority, DO will increase both staff and analytical resources for the Office of Domestic Finance, particularly in the areas of housing finance, small business and capital markets.

- ***Effectively Managed U.S. Government Finances* –** The Departmental Offices will dedicate significant resources to increase staffing in the Office of Tax Policy in order to improve technical analysis, economic forecasting, and policy guidance on issues relating to Federal tax policy. The Departmental Offices will also continue implementing more efficient and refined debt management tools to produce taxpayer savings.

- ***Prevent Terrorism and Promote the Nation's Security Through Strengthened International Financial Systems* –** The Treasury Department Office of Terrorism and Financial Intelligence (TFI) safeguards the financial system against illicit use and leverages the power of the U.S. financial system and financial intelligence to combat rogue nations, terrorist facilitators, weapons of mass destruction (WMD) proliferators, money launderers, drug kingpins, and other national security threats.

- ***Management and Organizational Excellence* –** The Departmental Offices will develop integrated plans to align policies and operations in order to achieve efficiencies that maximize resources for the American people. In support of this goal and to accommodate the new staff in various policy offices, Treasury will increase staffing in key management offices.

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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 such critical areas as economic and financial policy, terrorism and financial intelligence, financial crimes, and general management. The Secretary of the Treasury has the primary role in formulating and managing the domestic and international tax and financial policies of the Federal Government. Through effective management, policies, and leadership, the Treasury Department enables the use of financial tools in the war on terror, promotes the stability of the nation's financial markets, and ensures the government's ability to collect revenue.

The Fiscal Year 2010 budget request supports DO’s leading role in accomplishing key goals:

- ***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 maintains America’s economic strength and prosperity through the development and implementation of policies that encourage overall economic growth. These policies foster innovation, enabling a growth in productivity that will raise America’s standard of living.

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

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

1B – Program History and Future Outlook

Treasury's Departmental Offices (DO) not only supports the President's economic policy agenda, but maintains diligent administrative and management support necessary for future success.

Securing America's Economic and Financial Future – The Department serves in the lead policy role in promoting a prosperous U.S. and world economy by raising standards of living and protecting the global economy and financial systems. The Department strives to maintain America's economic strength and prosperity by developing and implementing policies that encourage overall economic growth, protect the financial infrastructure, and ensure sound investment in the U.S. economy.

The ongoing housing crisis has reverberated throughout the U.S. financial system, severely impacting the U.S. economy. A lack of confidence among lenders has strained capital markets making it harder to obtain student loans, auto loans, home loans, and business loans. Restoring America's confidence in capital markets is essential to the long-term health of the U.S. economy. Significant efforts were taken by Treasury this last year to address financial market difficulties and mitigate effects on the overall economy, all in an support of the five goals of the Financial Stability Plan:.

- Restore confidence in the strength of the U.S. financial system:
    - Treasury participated in development and implementation of the *Emergency Economic Stabilization Act of 2008 (EESA)*
    - Treasury had an active role in finding solutions for troubled non-depository financial institutions, including providing direct financial assistance through EESA programs
    - Treasury provided substantial financial support to Fannie Mae and Freddie Mac
- Restart the flow of credit critical to financing American households and businesses:
    - Treasury launched the Consumer and Business Lending Initiative to help catalyze issuance of securities backed by student loans, credit cards, small businesses, auto loans, corporate and commercial real estate loans
    - Treasury established a Temporary Guarantee Program for money market funds
    - Treasury developed a program to set up funds to provide a market for the legacy loans and securities that currently burden the financial system
- Preserve homeownership and avoid preventable foreclosures:
    - Treasury participated in Federal Housing Administration modernization
    - Treasury established the Making Home Affordable Program
    - Treasury participated in the development and implementation of temporary tax relief for mortgage holders:
- Restore net jobs creation and positive economic growth:
    - Treasury participated in the development and implementation of the *American Recovery and Reinvestment Act of 2009*
- Safeguard taxpayer interests:

- Treasury implemented a series of reforms to improve the transparency, accountability and oversight of EESA
- Treasury instituted executive compensation reforms for those institutions receiving EESA funding

The Treasury Department is committed to playing an active role in building a healthy, more stable, and more competitive economic system that encourages people to invest, innovate, create jobs, and build stronger communities and better lives.

To accomplish this mission and because of the unprecedented economic downturn, it has and will require action on a scale that has not been seen in a generation – and it will require more high quality people to execute this vision. This budget request provides the resources needed to increase staffing in the policy offices that support financial stability activities.

Treasury also coordinated the U.S. policy agenda for the U.S.-China Strategic Economic Dialogue. Key achievements during the December 2007 and June 2008 meetings included:

- Launching of bilateral investment treaty negotiations to help open new opportunities for U.S. and Chinese investors;
- Signing of a Ten-Year Energy and Environment Cooperation Framework focused on creating a new energy-efficient model for sustainable economic development;
- Reaching agreements to further open financial markets in the areas of banking, insurance, and securities;
- Expanding coordination on management of product quality and food safety;
- Expanding efforts to address economic imbalances related to trade, investment, and exchange rates; and
- Establishing guidelines to improve transparency in administrative rule-making and innovation policy.

Managing the Government's Finances – Managing the U.S. government's monetary resources is Treasury's primary mission. Many critical aspects of this function fall under the scope of DO, including the determination of domestic and international economic policy and debt management.

In fiscal year 2008 as part of the Cash Debt Management Modernization Initiative, Domestic Finance introduced the New Treasury Automated Auction Processing System (NTAAPS). The Department conducted more than 200 auctions, resulting in the issuance of over $5.6 trillion in marketable securities. Treasury successfully resumed the issuance of the 52-week bill on a monthly basis to meet increased demand for borrowing. Additionally, the minimum bid at Treasury auctions was reduced from $1,000 to $100 to broaden the potential investor pool.

Domestic Finance has successfully provided support to the President's Working Group on Financial Markets (PWG) through drafting and coordinating clearance/issuance of the PWG's *Policy Statement on Financial Market Developments* (released in March 2008).

This statement addresses financial market turmoil and related issues, such as: the mortgage origination process, ratings processes and practices regarding structured credit and other securitized credit products, and global financial institutions' risk management practices. In addition, Domestic Finance facilitated and contributed to the work of private-sector committees on issues related to private pools of capital and hedge funds, including: the *Best Practices Reports* issued for public comment by the Asset Managers' Committee and Investors' Committee in April 2008, *PWG Financial Market Preparedness Plan Update.*

To improve international tax administration, the Treasury Department is examining how best to support individual and corporate taxpayers and effectively deal with tax issues associated with globalization. In fiscal year 2008, Treasury issued guidance addressing offshore and cross-border compliance risks. Collaboration with foreign tax administrators was expanded by the addition of Japan's National Tax Agency to the Joint International Tax Shelter Information Centre, an organization created by the tax agencies of the U.S., Britain, Canada, and Australia to identify and curb abusive cross-border transactions.

***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 2008, Treasury issued a precautionary advisory and an online warning to U.S. banks about the risks of doing business with Iran. Specific attention focused on the Central Bank of Iran, which has engaged in deceptive financial conduct. The majority of the world's leading financial institutions have dramatically scaled back or severed their relationships with Iranian banks in response to the mutually reinforcing actions taken by the public and private sectors. In addition, in January 2008, Treasury designated two Zimbabwean entities and two individuals as part of an increased effort to pressure those who are aiding Robert Mugabe.

The Foreign Narcotics Designation Kingpin Act gives Treasury the authority to apply economic sanctions against foreign narcotics trafficking worldwide. In fiscal year 2008, Treasury designated 15 key commanders of FARC (Revolutionary Armed Forces of Colombia) leadership, parts of the FARC's money laundering network, senior Venezuelan officials supporting the FARC, and members of the FARC's international committee. Four successive actions throughout the year focused on disrupting FARC's money laundering operations through the international financial system.

Treasury led or co-chaired several important working groups within the Financial Action Task Force (FATF) that produced valuable guidance and reports for identifying and addressing these vulnerabilities in the international financial system, including Iran, Pakistan, Sao Tome and Principe, Turkmenistan, Uzbekistan, and Turkish occupied northern Cyprus.

Finally, Treasury enhanced its efforts to provide timely, accurate, actionable, and policy-relevant intelligence analysis on the financial underpinnings of threats to national security. This analysis took the form of tactical and strategic assessments to inform policymaking and support enforcement actions.

Producing Effective Results **–** The Department continues to provide effective management tools necessary to execute its mission. Essential components required for achieving the Department's mission include human resources, emergency planning, information technology, financial services, and procurement.

The Treasury Department provides a secure information technology infrastructure. Treasury strengthened its networks by tightening security policies and implementing safeguards to reduce exposure to Internet-based threats. In fiscal year 2008, Treasury made significant progress in strengthening security configuration management.

Treasury is committed to maintaining, collecting, using, and disseminating information necessary to carry out its mission. The newly created Office of Privacy and Treasury Records will ensure that Treasury has a system in place to serve and inform the public and will strengthen the Department's compliance with privacy and disclosure requirements.

Treasury's Office of the Assistant Secretary for Management and Chief Financial Officer (CFO), and the Office of Financial Stability (OFS) Office of the CFO are developing the financial and accounting aspects of the *Emergency Economic Stabilization Act of 2008* (EESA). The EESA has provided authority to the Secretary of the Treasury to establish the Troubled Asset Purchase Program (TARP) under OFS, 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 TARP currently includes a capital purchase program, public-private investment fund, systemically significant failing institutions program, consumer and business lending initiative, home affordable modification program, targeted investment program, automotive industry financing program, and an asset guarantee program. Treasury is addressing complex issues, such as how to:

- Value the various types of assets to be purchased under the TARP's authority;
- Model the associated cash flows related to the assets to be purchased under the TARP's authority;
- Report the TARP accurately, fairly, and transparently on the OFS' and the Department's financial statements in accordance with Generally Accepted Accounting Principles (GAAP); and
- Account for capital infusions and equity positions in financial institutions under the Capital Purchase Program.
- Measure how effectively TARP funds achieve Treasury's primary economic goals

Treasury will work with its partners to determine fair market value of the assets it purchases through the TARP program. This work began in early fiscal year 2009. Treasury plans to work closely with the Federal Accounting Standards Advisory Board (FASAB) to ensure that TARP financial reporting maintains consistency with appropriate accounting and financial reporting standards.

While there have been significant accomplishments in fiscal year 2008 and the first half of FY 2009, more work remains to be completed to implement Treasury's new authorities. The Department will exercise its stewardship, accountability, and transparency to perform its work on behalf of the American people. This work is accomplished through Treasury's talented and dedicated workforce.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Departmental Offices - S & E	FTE	Amount
FY 2009 Enacted	1,204	278,870
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$4,913
Across the Board program reduction	-	(1,464)
Non-Pay Inflation Adjustment	-	1,531
Pay Annualization	-	1,587
Pay Inflation	-	3,259
Initiative Annualization:	10	$1,731
DF - Debt Management Office Analytical Support	2	307
GSE Support	4	464
OGC - General Counsel Support for CFIUS	2	338
OIA - Counterintelligence and Security Capabilities Enhancement	3	622
Subtotal FY 2010 Changes to Base	10	$6,644
Total FY 2010 Base	1,214	285,514
Program Changes:		
Program Reinvestment:	(4)	($2,110)
International Affairs Reduction	(4)	(2,110)
Program Increases:	56	$18,984
Domestic Finance Staffing	26	8,731
Tax Policy Staffing	15	4,863
Management Staffing	13	3,000
Recovery Act Program Support	1	400
Afghanistan Threat Finance Cell and International Dues	1	790
CIO Treasury Foreign Intelligence Network (TFIN)	-	1,200
Subtotal FY 2010 Program Changes	52	$16,874
Total FY 2010 President's Budget Request	**1,266**	**302,388**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$4,913,000 / +0 FTE

Across the Board Program Reduction -$1,464,000 / +0 FTE

Across the Board Program Reduction to reflect efficiency savings.

Non-Pay Inflation Adjustment +$1,531,000 / +0 FTE

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

Pay Annualization +$1,587,000 / +0 FTE

Funds are requested for the FY 2010 cost of the January 2009 pay raise.

Pay Inflation +$3,259,000 / +0 FTE

Funds are requested for the FY 2010 pay increase.

Initiative Annualization ....+$1,731,000 / +10 FTE

DF - Debt Management Office Analytical Support +$307,000 / +2 FTE

Annualization of the FY 2009 Domestic Finance initiative to modify the debt management system and provide dedicated analytical staff.

GSE Support +$464,000 / +4 FTE
Annualization of the FY 2009 Domestic Finance initiative provided for the execution and management of the Government Sponsored Enterprises (GSE) program. The funding is used for program personnel and their administrative expenses, as well as audit and consulting services.

OGC - General Counsel Support for CFIUS +$338,000 / +2 FTE
Annualization of the FY 2009 initiative which provided legal support to the Office of the Assistant General Counsel (OGC) for IA. Additional resources will enable IA and OGC to meet the increased demand to support clients on the Treasury-chaired Committee on Foreign Investment in the United States.

OIA - Counterintelligence and Security Capabilities Enhancements +$622,000 / +3 FTE
Annualization of the FY 2009 initiative which augmented the Department's efforts to address current and emerging threats that affect its national security mission. These include: preventing espionage in the Department; thwarting adversarial threats to our personnel, programs, and facilities; and identifying and mitigating threats from compromise of Treasury critical programs or theft.

Program Reinvestment ....-$2,110,000 / -4 FTE
International Affairs Reduction -$2,110,000 / -4 FTE
The Department considers its attaché program to be a valuable asset for building relationships with foreign officials and working with local U.S. industry and agency representatives to advance U.S. interests, but it does recognize that with current economic conditions a partial amount of the funding for this program must be realigned to other offices that are focused on the domestic economic situation. The Department has identified funds in the attaché program, and will reallocate these resources to meet the increased workload on the Office of Domestic Finance for the initiative described in the program increases section below.

Program Increases ....+$18,984,000 / +56 FTE
Domestic Finance Staffing +$8,731,000 / +26 FTE
In order to meet current and future economic challenges, Treasury must maintain a vast expertise is complex finance and government fields, particularly housing finance, small business and capital markets. In support of this objective, this initiative will fund additional staff in the Office of Domestic Finance, including two new Deputy Assistant Secretary (DAS) positions: one DAS for Housing Finance, Small Business and Consumer Issues and one DAS for Capital Markets. . The two DASs will lead teams designed to support the economic research and modeling for these critical areas.

Tax Policy Staffing +$4,863,000 / +15 FTE
To ensure Treasury possesses capabilities sufficient to support rigorous analysis and implementation of revenue policy, the Budget includes funding for an additional 15 tax specialists in Treasury's Office of Tax Policy. These new tax specialists will apply tax expertise in of the following key areas: (1) the financial crisis; (2) the financial stimulus plan; (3) climate change; and (4) health care reform.

Management Staffing +$3,000,000 / +13 FTE
DO has identified a number of staffing shortfalls in the areas of Treasury-wide human capital, IT and procurement policy. The Office of the Chief Information Officer (OCIO) needs additional staff to support the increasingly sophisticated technology needs of Treasury leadership and policy offices. As the Department takes on broader and more complex financial and fiscal issues, policymakers and advisors require more IT support and programs for their work to effectively meet these needs. The new staff will support the implementation of new procurement requirements associated with the Administration's efforts for increased transparency in Federal contracting, as well as provide additional support to process large, complex IT contracts. In addition, the additional HR staff and privacy directives staff will ensure that Treasury's directives, both for HR and otherwise, are codified and made accessible to Treasury employees.

Recovery Act Program Support +$400,000 / +1 FTE
In accordance with sections 1602 and 1603 of the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Secretary is implementing two new grant programs: (1) Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Tax Credits and (2) Grants for Specified Energy Property in Lieu of Tax Credits. Funding is requested to continue the administration of these programs in FY 2010.

Afghanistan Threat Finance Cell and International Dues +$790,000 / +1 FTE
Resources are requested to provide designated Treasury staff for the Afghanistan Threat Finance Cell and support annual dues to international anti-money laundering organizations. The Afghanistan Threat Finance Cell (ATFC) was established in FY 2009 on the model of the successful Iraq Threat Finance Cell as a joint Treasury, State and Defense Department initiative. Treasury requests resources to provide one dedicated, full-time staff member for this important effort. Treasury leads the United States delegation to the Asia-Pacific Group and the Financial Action Task Force, international bodies dedicated to combating money laundering and terrorist financing, and strengthening the financial systems of member states. Treasury requests funds to support dues payments.

CIO Treasury Foreign Intelligence Network (TFIN) +$1,200,000 / +0 FTE
Provide on-going Operations and Maintenance (O&M) support for the TFIN system, including program management, O&M managed services provider contractor support, telecommunications and circuit costs, hardware and software maintenance, and technology refresh.

2.2 – Operating Levels Table

Appropriation Title: DO Salaries and Expenses	FY 2008 Enacted	FY 2009 ARRA	FY 2009 President's Budget	Cong. Action	FY 2009 Enacted	FY 2010 President's Budget	% Change FY 2009 to FY 2010
FTE	1,133		1,200	4	1,204	1,266	
Object Classification:							
11.1 Full-Time Permanent Positions..............................	$112,378	$15,000	$130,297	1,011	$131,308	$145,562	10.9%
11.3 Other than Full-Time Permanent Positions.............	2,781	50,000	2,781		2,781	2,781	0.0%
11.5 Other Personnel Compensation.............................	197	1,000	197		197	197	0.0%
11.8 Special Personal Services Payments.....................	$0	0	0		0	0	0.0%
11.9 Personnel Compensation (Total).........................	$115,356	$66,000	$133,275	$1,011	$134,286	$148,540	10.6%
12.0 Personnel Benefits..	23,843	27,000	28,377		28,377	28,861	1.7%
13.0 Benefits to Former Personnel................................	0	0	0		0	0	0.0%
Pay	139,199	93,000	161,652	1,011	162,663	177,401	9.1%
21.0 Travel..	6,790	2,000	5,047		5,047	5,286	4.7%
22.0 Transportation of Things..	0				0	0	0.0%
23.1 Rental Payments to GSA.......................................	5,239		4,000		4,000	5,427	0.0%
23.2 Rent Payments to Others.......................................	0				0	-	0.0%
23.3 Communications, Utilities, & Misc..........................	7,967	17,000	14,058	54	14,112	14,889	5.5%
24.0 Printing and Reproduction......................................	2,715	4,000	2,715		2,715	2,715	0.0%
25.1 Advisory & Assistance Services.............................	51,055		37,699	3,882	41,581	47,213	13.5%
25.2 Other Services..	9,724	14,000	19,229		19,229	19,229	0.0%
25.3 Purchase of Goods/Serv. from Govt. Accts...........	18,840		22,249		22,249	22,249	0.0%
25.4 Operation & Maintenance of Facilities....................	900		900		900	900	0.0%
25.5 Research & Development Contracts......................	0		0		0	0	0.0%
25.6 Medical Care..	0				0	0	0.0%
25.7 Operation & Maintenance of Equipment.................	1,000		1,000		1,000	1,000	0.0%
25.8 Subsistence & Support of Persons.........................	0		0		0	0	0.0%
26.0 Supplies and Materials..	3,857		3,426	4	3,430	3,498	2.0%
31.0 Equipment...	1,073	1,000	1,920	24	1,944	2,581	32.7%
32.0 Lands and Structures...	0		0		0	0	0.0%
33.0 Investments & Loans...	0		0		0	0	0.0%
41.0 Grants, Subsidies...	0		0		0	0	0.0%
42.0 Insurance Claims & Indemn...................................	0		0		0	0	0.0%
43.0 Interest and Dividends……………………………….	0		0		0	0	0.0%
44.0 Refunds...	0		0		0	0	0.0%
Non-Pay	109,161	38,000	112,243	3,964	116,207	124,987	7.6%
Total Budget Authority……………………………………….	$248,360	$131,000	$273,895	$4,975	$278,870	$302,388	8.4%
Budget Activities:							
Executive Direction	$20,749		$21,592	$27	$21,619	$22,383	3.5%
Economic Policies and Programs	44,242		45,852	58	45,910	44,749	-2.5%
Financial Policies and Programs	29,465	1,000	34,737	1,302	36,038	47,580	32.0%
Terrorism and Financial Intelligence	56,775		61,710	388	62,098	64,611	4.0%
Treasury-wide Management and Programs	18,505	130,000	19,009	2,592	21,600	22,779	5.5%
Administration Programs	78,624		90,995	609	91,604	100,286	9.5%
Total Budget Authority……………………………………….	$248,360	$131,000	$273,895	$4,975	$278,870	$302,388	8.4%

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted		FY 2009 ARRA 1/		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:												
Executive Direction Programs	129	$20,273	129	$20,749			131	$21,619	132	22,383	1.15%	3.53%
Economic Policies and Programs	244	41,852	244	44,242			247	45,910	243	44,749	-1.62%	-2.53%
Financial Policies and Programs	194	29,134	194	29,465	1	$1,000	199	36,038	244	47,580	22.61%	32.03%
Terrorism and Financial Intelligence	308	51,904	308	56,775			342	62,098	346	64,611	1.17%	4.05%
Treasury-wide Management Policies and Programs	99	16,384	99	18,505	891	130,000	101	21,600	109	22,779	7.92%	5.46%
Administration Programs	160	82,630	160	78,624			185	91,604	192	100,286	4.07%	9.48%
Subtotal Newly Appropriated Resources	1,133	242,176	1,133	248,360	892	131,000	1,204	278,870	1,266	302,388	5.15%	8.43%
Other Resources:												
Offsetting Collections - Reimbursable	90	$20,931	90	$19,800	0	$0	137	$38,642	137	$33,842	0.00%	-12.42%
Subtotal Other Resources	90	20,931	90	19,800	0	0	137	38,642	137	33,842	0.00%	-12.42%
Total Resources Available for Obligation	1,223	$263,107	1,223	$268,160	892	$131,000	1,341	$317,512	1,403	$336,230	4.63%	5.90%

1/ ARRA funding will be spent in FY 2009 and FY 2010. FTE level reflects peak in FY 2010.

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, [$278,870,000 of which not to exceed $21,619,000 is for executive direction program activities; not to exceed $45,910,000 is for economic policies and programs activities; not to exceed $36,038,000 is for financial policies and programs activities; not to exceed $62,098,000 is for terrorism and financial intelligence activities; not to exceed $21,600,000 is for Treasury-wide management policies and programs activities; and not to exceed $91,604,000 is for administration programs activities: Provided, That the Secretary of the	**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.**

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] *$302,338,000: Provided* [further], That of the amount appropriated under this heading, not to exceed $3,000,000, to remain available until September 30, [2010]*2011*, is for information technology modernization requirements; not to exceed $200,000 is for official reception and representation expenses; and not to exceed $258,000 is for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Secretary of the Treasury and to be accounted for solely on his certificate: *Provided further*, That of the amount appropriated under this heading, [$5,232,000] $6,787,000, to remain available until September 30, [2010]*2011*, 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, [2010]*2011*, is for secure space requirements: [*Provided further*, That of the amount appropriated under this heading, $1,100,000, to remain available until September 30, 2010, is for salary and benefits for hiring of personnel whose work will require completion of a	

security clearance investigation in order to perform highly classified work to further the activities of the Office of Terrorism and Financial Intelligence:] *Provided further*, That of the amount appropriated under this heading, $3,400,000, to remain available until September 30, [2011]*2012*, is to develop and implement programs within the Office of Critical Infrastructure Protection and Compliance Policy, including entering into cooperative agreements: *Provided further*, That of the amount appropriated under this heading $3,000,000 to remain available until September 30, [2011]*2012*, is for modernizing the Office of Debt Management's information technology. *(Department of the Treasury Appropriations Act, 2009.)*	

2C – Legislative Proposals

From proposed FY 2010 Department of the Treasury Administrative Provisions:

Sec. 117. The Secretary is authorized to establish additional Treasury accounts for the Alcohol & Tobacco Tax and Trade Bureau, Department of the Treasury; U.S. Customs and Border Protection, Department of Homeland Security; and the Bureau of Alcohol, Tobacco Firearms and Explosives, Department of Justice, for purposes of administering refunds under 31 U.S.C. 1324.

Explanation / Background:

Improving Efficiency of Tax Refund Payments
The Internal Revenue Service (IRS), U.S. Customs and Border Protection (CBP), Alcohol & Tobacco Tax and Trade Bureau (TTB), and, in the past, the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATFE), pay tax refunds. IRS, TTB, and ATFE refund both principal and interest amounts, while CBP refunds principal only at this time. Although each of these bureaus has their respective refunds to pay, only the IRS appropriations are currently available for payment of these refunds.

The IRS appropriation was established as a permanent, indefinite appropriation in 1948 and is now codified in 31 U.S.C 1324. It is designated as Treasury account fund symbols 20X0903 (principal) and 20X0904 (interest) to be administered entirely by the IRS. The IRS administration of this appropriation encompasses the processing of warrants, recordation of budgetary entries and all appropriation year-end and monthly reporting. This arrangement, whereby multiple organizations utilize a single refund appropriation, prevents transactions relating to this appropriation from being recorded in conformance with federal accounting standards, and creates processing delays for the all agencies. As all refunds are paid out of the same IRS fund symbol, the IRS must do a monthly review of refund activity to ascertain the refund amounts applicable to each agency involved in paying refunds. This is time-consuming and inefficient. Further, the IRS administers the existing fund symbols it must request all warrant authority for payments to be made. Thus, the IRS must monitor budget authority pertaining to the other agencies involved, which requires the IRS to communicate frequently with the other agencies, which is likewise time-consuming and inefficient. The current situation also results in differences between IRS's budgetary accounts, which track all the budget activity for these fund symbols, and IRS's proprietary accounts, which track only IRS-related activity. The differences between the budgetary and proprietary accounts need to be continually tracked and reconciled monthly before the data can be finalized for financial statement purposes and for reporting to the Financial Management Service.

Impact:

The proposed legislative language will greatly improve the efficiency of the payment of various types of tax refunds and related interest.

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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Goal

Dollars in Thousands

Treasury Strategic Goal	FY 2009 Enacted	FY 2010 Request	% Change FY 2009 to FY 2010
Effectively Manage U.S. Government Finances	$53,807	$61,835	14.9%
Ensure Full Performance of U.S. and World Economies	102,226	$106,833	4.5%
Prevent Terrorism & Promote the Nation's Security	110,985	$115,039	3.7%
Dedicate to Management and Organizational Excellence	$50,494	$52,523	4.0%
Total FY 2010 Request	$317,512	$336,230	5.9%

3A – Executive Direction *($22,383,000 from direct appropriations and $1,092,000 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 a legal synergy between the financial sector and the law. In FY 2008 the Office of General Counsel was appropriated $ 9.9 million, in FY 2009 $10.5 million and in FY 2010 the President's request is $11.0 million.

3.2.1 – Executive Direction Budget and Performance Plan

Executive Direction Programs Budget Activity						
	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
Resource Level	Obligations	Obligations	Obligations	ARRA	Enacted	Request
Appropriated Resources	$16,329	$19,094	$20,273	$0	$21,619	$22,383
Reimbursable Resources	0	0	599	0	1,092	1,092
Total Resources	$16,329	$19,094	$20,872	$0	$22,711	$23,475
Budget Activity Total	$16,329	$19,094	$20,872	$0	$22,711	$23,475

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 *($44,749,000 from direct appropriations and $5,097,000 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 increase economic growth in developed and developing countries; improve financial stability in world markets; enhance the functioning of international financial institutions; and promote an open and transparent international trade and investment regime.

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

Office of Economic Policy (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 – Economic Policies and Programs Budget and Performance Plan

Economic Policy and Programs Budget Activity						
	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
Resource Level	Obligations	Obligations	Obligations	ARRA	Enacted	Request
Appropriated Resources	$31,691	$35,581	$41,852	$0	$45,910	$44,749
Reimbursable Resources	8,504	3,195	4,073	0	5,097	5,097
Total Resources	$40,195	$38,776	$45,925	$0	$51,007	$49,846
Budget Activity Total	$40,195	$38,776	$45,925	$0	$51,007	$49,846

Economic Policies and Programs Budget Activity					
Measure	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Target**	**FY 2010 Target**
Changes that result from project engagement (Impact) (Oe)	N/A	N/A	3.1	3.1	3.1
Improve International Monetary Fund (IMF) effectiveness and quality through periodic review of IMF programs (%) (Oe)	100	100	93	90	90
Number of new Free Trade Agreement (FTA) negotiations and Bilateral Investment Treaties (BIT) negotiations underway or completed (Oe)	9	7	Discontinued	Discontinued	Discontinued
Number of new trade and investment negotiations underway or completed (Oe)	N/A	N/A	14	6	2
Number of specific new trade actions involving Treasury interagency participation in order to enact, implement and enforce US trade law and international agreements (Oe)	N/A	N/A	68	30	30
Percentage of grant and loan proposals containing satisfactory frameworks for results measurement (%) (Oe)	88	92	94	90	90
Scope and intensity of engagement (Traction) (E)	N/A	N/A	3.7	3.7	3.7
US real Gross Domestic Product (GDP) growth rate (%) (Oe)	3	2.4	Discontinued	Discontinued	Discontinued
US unemployment rate (%) (Oe)	4.6	4.5	Discontinued	Discontinued	Discontinued

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

Description of Performance: The Treasury Department is committed to participating in the negotiation and implementation of international agreements, which help to remove trade and investment barriers and stimulate domestic and global growth. Treasury's Office of International Affairs advises and assists in the formulation and execution of U.S. international economic and financial policy. In FY 2008, the office met or exceeded its targets for all of its performance measures. During the year, the office modified its measure related to trade and investment negotiations to broaden its scope and added a new measure related to the enactment, implementation and enforcement of US trade law and international agreements. For FY 2009 and FY 2010, it is anticipated that completion of new international trade and investment agreements will be challenged by protectionist sentiment associated with the global recession. Commitments by G-20 nations to resume the World Trade Organization's Doha Round of trade negotiations and limit protection are extremely favorable, but the performance results of FY 2008 are likely to be unrepeatable in the current climate. Performance targets for FY 2009 and FY 2010 for both measures have consequently been set to reflect these economic challenges.

To help ensure that Multilateral Development Banks (MDB's) demonstrate results of their development assistance, MDB's closely monitor the percentage of grant and loan proposals containing satisfactory measurement frameworks. Over the past several years, most of the MDB's have made substantial progress towards developing frameworks that measure the results of their development assistance. For FY 2008, 94 percent of grant and loan proposals contained satisfactory results measurement frameworks, exceeding the Department's target of 90 percent.

In FY 2008, the Department was actively involved in reforms at international financial institutions. In particular, the Department supported the IMF's efforts to restructure its voting system to expand participation by emerging market countries, coordinate development of investment guidelines for sovereign wealth funds, and undertake comprehensive management reorganization. With the decision to increase funding for the IMF to $750 billion agreed to at the April 2009 G-20 summit, the IMF will continue to play a pivotal role in management of current and future financial crises. To assess the IMF's contribution to international financial management, the Department conducts periodic reviews of IMF program effectiveness and quality. The Department's review of IMF programs for FY 2008 yielded an improvement rate of 93 percent, exceeding the target rate of 90 percent.

In fiscal year 2008, the Office of Technical Assistance established two, new comprehensive performance measures to assess the effectiveness of assistance programs for client countries. The measures evaluate the traction advisors establish with country leadership and the impact of client country programs implemented with U.S. assistance. The measures determine traction and impact along four dimensions: country integration into the international community, country progress towards strategic goals, human and systems capacity building, and program effectiveness across government and the private sector. The measures were base-lined in fiscal year 2008. The average rating was 3.7 for traction and 3.1 for impact, out of a possible score of 5.0.

DO is continuing to work to develop meaningful performance measures for policy offices which align to the 2007-2012 Treasury Strategic Plan.

3C – Financial Policies and Programs *($47,580,000 from direct appropriations and $5,225,000 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 – Financial Policies and Programs Budget and Performance Plan

Financial Policies and Programs Budget Activity						
	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
Resource Level	Obligations	Obligations	Obligations	ARRA	Enacted	Request
Appropriated Resources	$26,308	$24,878	$29,134	$1,000	$36,038	$47,580
Reimbursable Resources	936	4,304	4,261	0	5,225	5,225
Total Resources	$27,244	$29,182	$33,395	$1,000	$41,263	$52,805
Budget Activity Total	$27,244	$29,182	$33,395	$1,000	$41,263	$52,805

Financial Policies and Programs Budget Activity					
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Audit opinion received on government-wide financial statements	1	1	Discontinued	Discontinued	Discontinued
Release federal government-wide statements on time (Oe)	1	1	1	1	1
Variance between estimated and actual receipts (%) (Oe)	3.9	2.1	4.6	5	4.5

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

Description of Performance: In FY 2008, for the fifth consecutive year, the Treasury Department's Office of Domestic Finance released the government-wide financial statements on time, and expects to meet its target for both FY 2009 and 2010. The prompt release of this statement contributes to improved transparency and accountability of government financial activities for the American public.

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 the economic stimulus package, 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, FY 2008 was a particularly challenging forecasting year. While the estimated variance of 4.6 percent was below the target variance of 5.0 percent for the year, it still fell short of the 2.1 percent variance registered for FY 2007. Achieving target variance for FY 2009 will also be affected by factors associated with the recession and initiatives to restart credit markets, although OFP is continuing efforts to improve modeling systems and receipt projections to meet forecast targets.

3D – Terrorism and Financial Intelligence *($64,611,000 from direct appropriations and $5,637,000 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 on financial and other support networks of terrorist groups, proliferators, and other key national security threats and by providing timely, accurate, and focused intelligence on the full range of economic, political, and security issues.

The Office of Terrorist Financing and Financial Crimes (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 – Terrorism and Financial Intelligence Budget and Performance Plan

Terrorism and Financial Intelligence Budget Activity						
	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
Resource Level	Obligations	Obligations	Obligations	ARRA	Enacted	Request
Appropriated Resources	$39,540	$43,115	$51,904	$0	$62,098	$64,611
Reimbursable Resources	6,987	3,934	3,866	0	5,637	5,637
Total Resources	$46,527	$47,049	$55,770	$0	$67,735	$70,248
Budget Activity Total	$46,527	$47,049	$55,770	$0	$67,735	$70,248

Terrorism and Financial Intelligence Budget Activity					
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Increase the number of outreach engagements with the charitable and international financial communities (Ot)	45	85	80	Discontinued	Discontinued
Number of countries that are assessed for compliance with the Financial Action Task Force (FATF) 40 + 9 recommendations (Ot)	5	6	12	Discontinued	Discontinued
Number of open civil penalty cases that are resolved within the statute of limitations period (Ot)	85	296	233	Discontinued	Discontinued

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

Description of Performance: Currently, DO is working to develop meaningful performance measures that will align to the 2007-2012 Treasury Strategic Plan. These new measures have been developed and are currently being reviewed for implementation.

3E - Treasury-wide Management and Programs *($22,779,000 from direct appropriations and $4,575,000 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; and financial administration (such as the formulation and management of Treasury's budget). The Department develops integrated plans to align policy and operations in order to produce maximum value for the American people.

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

Treasury-wide Management Programs Budget Activity						
	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
Resource Level	Obligations	Obligations	Obligations	ARRA 1/	Enacted	Request
Appropriated Resources	$16,674	$15,705	$16,384	$130,000	$21,600	$22,779
Reimbursable Resources	3,373	2,696	4,295	0	4,575	4,575
Total Resources	$20,047	$18,401	$20,679	$0	$26,175	$27,354
Budget Activity Total	$20,047	$18,401	$20,679	$0	$26,175	$27,354

1/ ARRA funding includes $123 Million for IRS and $7 Million for FMS.

Treasury-wide Management and Programs Budget Activity					
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Completed investigations of EEO complaints within 180 days (%) (Oe)	20	51.6	56	50	50
Injury and illness rate Treasury-wide - including DO (Oe)	1	1	1.29	Discontinued	Discontinued
Management cost per Treasury employee ($) (E)	40.59	29.64	Discontinued	Discontinued	Discontinued
Number of material weaknesses (significant management problems identified by GAO, the IGs and/or other bureaus) (Oe)	1	0	2	0	1
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)	25	29	45	30	30

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

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.

For FY 2008, DO met or exceeded its performance measures related to Equal Employment Opportunity (EEO) and Department-wide injury and illness rates. Both the percent of complainants informally contacting EEO (for the purpose of seeking counseling or filing a complaint) who participate in the Alternative Dispute Resolution process and percentage of EEO investigations completed within 180 days exceeded performance targets. In addition, the Department-wide injury and illness rate exceeded its target of 1.4, registering 1.29 (lower is better). During FY 2008 the Office of the Deputy Assistant Secretary for Human Resources / Chief Human Capital Officer (DASHR/CHCO) began using two performance measures to assess how well employee expectations align with organization performance. DASHR/CHCO also implemented its first human capital operating plan to ensure steady progress towards the goals laid out in the Human Capital Strategic Plan. These new initiatives have significantly improved insight into human capital programs and additional measures are being developed to determine the effectiveness of strategies articulated in the plan.

The Department did not meet its FY 2008 performance goal for the number of material weaknesses closed, closing two and not three weaknesses. No material weaknesses are expected to be closed for FY 2009.

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 succession plan ensures 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 2008, offices have worked to objectively monitor their progress toward program outcomes and Treasury's strategic objectives.

Enhance security of information technology

The Treasury Department strives to provide a secure information technology infrastructure. Treasury strengthened its networks by encrypting 99.8 percent of laptops, 99.7 percent of digital assistants, testing 98 percent of system contingency plans, certifying and accrediting 97 percent of systems, strengthening security policies, and implementing enhanced safeguards to reduce exposure to Internet-based threats. The

Department recognizes the importance of cyber security in fulfilling its mission. In fiscal year 2008, Treasury made significant progress in strengthening security configuration management, which was noted as a significant deficiency in fiscal year 2007. The Federal Information Security Management Act (FISMA) 2008 audit found no significant deficiencies in information security, and the Department's remaining material weakness in this area was formally closed.

Created the Privacy and Treasury Records (PTR) office
Treasury is committed to maintaining, collecting, using, and disseminating information necessary to carry out its mission. PTR was created to strengthen the Department's privacy program and records management. PTR will ensure that Treasury has a system in place to serve and inform the public, and the PTR will strengthen the Department's compliance with privacy and disclosure requirements.

Developed human capital measures
In fiscal year 2008, the Department developed two human capital performance measures. The first measure is designed to assess progress in developing a high-performance, talented, and diverse workforce; the second measure is designed to assess Treasury's standing as a highly desirable employer of choice.

Strengthen corporate leadership
The Treasury Department has made a significant effort in 2008 to promote corporate governance. In addition to daily meetings of the senior leadership team, weekly bureau head meetings, and monthly Treasury-wide council meetings, the Department has taken several actions to improve corporate management. An Executive Review Board was re-established for major IT capital investments to better engage department and bureau executive leadership in IT decision making.

The Human Capital Strategic Plan was revised, identifying the factors that will shape the future workforce environment of the agency and the corporate strategies that are needed to meet these challenges. Strategic sourcing continued to implement its corporate approach to procurement, saving thousands, and improving governance, communication, and training across the agency. A prototype Treasury performance scorecard was developed for the financial outcomes described in the Department's strategic plan.

Corporate governance activities were consistently monitored and any gaps in the process were identified. These included strategic planning, financial management, asset management, information technology, risk management, human capital, procurement, performance management, privacy and records management, and emergency/continuity program management.

3F – Administration Programs *($100,286,000 from direct appropriations and $12,216,000 from reimbursable programs):* Administration Programs provides operational support and shared services to all offices within DO, including activities such as accounting, budgeting, human resource management, information technology services, procurement services, facilities support, and travel services. Approximately one-third of this budget activity is dedicated to information technology support (desktop computers, printers, faxes, copiers, helpdesk support, etc.). Another one-third consists of shared services: GSA rent, utilities, telecommunications, printing and graphics, public transit subsidy, workers compensation, and financial system support. The final third consists of employee salaries, routine building maintenance, and custodial services.

3.2.6 – Administration Programs Budget and Performance Plan

Administration Programs Budget Activity						
	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
Resource Level	Obligations	Obligations	Obligations	ARRA	Enacted	Request
Appropriated Resources	$63,094	$75,154	$82,630	$0	$91,604	$100,286
Reimbursable Resources	0	3,028	3,837	0	17,016	12,216
Total Resources	$63,094	$78,182	$86,467	$0	$108,620	$112,502
Budget Activity Total	$63,094	$78,182	$86,467	$0	$108,620	$112,502

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.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The Departmental Offices (DO) Office of Human Resources (OHR) helps ensure the availability of human resources tools required to manage the human capital which support strategic goals and mission accomplishment. OHR does this through the provision of sound advice and guidance on matters of staff employment, retention, recognition, employee relations, benefits, performance, and development.

FY 2008 Accomplishments

HC Strategic Goal 1: Organizational Effectiveness – *To achieve organizational effectiveness; accomplish mission objectives through the alignment of human capital plans, strategies, and systems.*

- OHR used the latest results from its customer surveys and focus groups to assess the effectiveness of DO human capital initiatives and improve performance management, alternate work arrangements, and staff development programs. The revision of critical policies and procedures ensures that DO's human capital programs are efficient and in compliance with all existing regulations and statutes.

- Each program office in partnership with OHR identified employee skill gaps and developed detailed succession plans to enable Treasury headquarters to maintain talented and skilled staff necessary to accomplish its missions.

- OHR has placed a renewed emphasis on the need for staff development and workforce analysis by designing new supervisory leadership development training programs. Leadership training programs ensure that there is a qualified talent pool for senior career management positions. The Treasury Learning Management System (TLMS) has been partially implemented with full utilization targeted by October 1, 2008.

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

- OHR received an extension of its direct-hire authority for positions within the intelligence community in support of the Office of Intelligence and Analysis (OIA). OHR continues to work closely with OIA to develop new staffing tools and methods to quickly fill analyst positions to support anti-terrorist efforts.

- DO continues its exercise of excepted appointments - Presidential Management Fellows; the Student Career Experience Program; DO specific fellowship programs; and other authorities - to ensure that new talent is hired as quickly as possible. DO actively supports initiatives aimed at increasing the diversity of its workforce, including the use of student interns through organizations such as the Hispanic

National Internship Program and the Washington Internships for Native American Students (WINS).

- To remain competitive with other employers, DO continues to advocate for the use of all pay and workplace scheduling flexibilities: recruitment bonuses, superior qualifications appointments, alternative work schedules, and tele-work.

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

- OHR has continued to conduct "Benefits Brown Bag" sessions. These one-hour sessions address staff benefit programs and help employees make more informed choices.

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

- Revisions to the New Employee Orientation program will include organizational awareness, so that new employees take pride in DO's mission.

- Feedback will be solicited as to the effectiveness of human capital programs and initiatives. An automated exit survey was implemented to identify the reasons why individuals are separating from the agency. This will identify barriers to staff engagement and job satisfaction.

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

- Plans are underway with HR Connect to implement the E-OPF (Official Personnel Folder) initiative mandated by the Office of Personnel Management by FY 2010. Electronic employment files will contribute to meeting the challenges associated with employment data needs during government shutdowns, unexpected emergencies, or quick turn around requests.

- Implementation of the TLMS will provide DO employees 24 hour access to an online learning system, which will help them achieve their professional and personal development goals at no added cost to their program offices. It will also allow managers to find solutions to their succession planning efforts by identifying critical skill gaps within their programs.

- Concerted efforts have been made to encourage staff to register in the HR Connect system and update their personal information.

FY 2009 Challenges

DO faces a number of human capital challenges:

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

Strategies for Addressing Challenge

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

- Expand the use of outside resources, such as the Corporate Executive Board Recruiting Roundtable, to explore cutting edge strategies to meet DO's most challenging recruitment goals.

- Enhance workplace flexibilities and employee assistance programs to attract good applicants, increase employee job satisfaction, and retain them for years to come.

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

Strategies for Addressing Challenge

- Increase the emphasis on determining leadership bench strengths as well as supporting leadership and executive development programs that help to identify and prepare cadres of future leaders, and gain approval to hire at a level needed to continue to meet mission objectives.

- 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 hire private sector retirees who have an interest in public service.

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 staff have performance plans and are receiving timely 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.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments 1/		**FY 2007**	**FY 2008**		**FY 2009**		**FY 2010**	
Major IT Investments/Funding Source	**Budget Activity**	**Enacted**	**Enacted**	% Change from FY07 to FY 08	**Enacted**	% Change from FY08 to FY09	**Request**	% Change from FY09 to FY10
Treasury Foreign Intelligence Network (TFIN)	Terrorism and Financial Intelligence (TFI)	$0	$3,000	N/A	$3,000	0.0%	$4,200	40.0%
Subtotal, Major IT Investments		**$0**	**$3,000**	**N/A**	**$3,000**	**0.0%**	**$4,200**	**40.0%**
Non-Major IT Investments		**$5,112**	**$6,979**	**36.5%**	**$9,018**	**29.2%**	**$9,408**	**4.3%**
Infrastructure Investments		**$0**	**$0**	**N/A**	**$0**	**N/A**	**$0**	**N/A**
Enterprise Architecture		**$0**	**$0**	**N/A**	**$0**	**N/A**	**$0**	**N/A**
Total IT Investments		**$5,112**	**$9,979**	**95.2%**	**$12,018**	**20.4%**	**$13,608**	**13.2%**

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

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. The Department effectively manages the Federal Government's finances, promotes economic opportunity at home and abroad through sound fiscal policy, works for entitlement reform, strengthens trade and investment policies, and maximizes 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 on this mission requires not only an extreme focus on protecting the security of the nation's monetary assets, but also on stimulating U.S. economic growth and strengthening 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, the IT Strategy is built on four major tenets:

1) The Department will seek to continually transform Treasury's IT organization to further enhance its enterprise efficiency and effectiveness. This will be done through an even tighter focus on IT infrastructure 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 the public, and collaboration with its partners.

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 our people, improving our processes, managing risk, and meeting customer's needs.

The Treasury Office of the Chief Information Officer (OCIO) facilitates and guides the implementation of the Department's IT strategy. OCIO also provides a range of direct IT services to the Departmental leadership offices and Treasury Bureaus. For example, OCIO operates the IT infrastructure for the Office of the Secretary, manages the Department's wide area network, and administers an array of business specific applications that make necessary data available for the Secretary to make timely decisions on yield curve and interest rates, support the Office of Intelligence Analysis with the ability to communicate timely data with the intelligence community, and facilitate the administrative operations of the Department.

The OCIO also leads department-wide IT endeavors that address common needs among the Treasury bureaus, such as Internet services, identity and access management services, content management solutions, and systems that help automate financial analysis/reporting, human resources management, and travel support.

For 2009-2010, a particular area of department-wide focus is achieving cost efficiency and performance improvements by optimizing the IT Infrastructure through use of new technologies such as virtualization and Web enablement.

4.2 – Program Assessment Table

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

OMB Major Findings/Recommendations

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

Bureau Actions Planned or Underway

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

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

Department-wide Systems & Capital Investment Programs

Mission Statement

The Department-wide Systems and Capital Investments Programs (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 and infrastructure investments.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2008	FY 2009	FY 2010		
	Enacted	Enacted	Request	$ Change	% Change
Department-wide Systems and Capital Investments Programs	$18,710	$26,975	$9,544	($17,431)	(64.62%)
Total Appropriated Resources	**$18,710**	**$26,975**	**$9,544**	**($17,431)**	**(64.62%)**
Total FTE	-	-	-	-	-

FY 2010 Priorities

- Continue to restore and repair the Treasury Annex Building;
- Implement enhancements to the Treasury Financial Intelligence Network (TFIN) system designed to improve analytic capabilities and information sharing with the Intelligence Community (IC); and,
- Enhance the protection of Treasury classified and sensitive systems, including critical infrastructure assets, through the Cyber Security 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 and infrastructure investments. In FY 2010, Treasury will make investments in the Annex building, Cyber Security program, and Treasury Foreign Intelligence Network (TFIN).

<u>Top Priorities for FY 2010</u>

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

- **Treasury Foreign Intelligence Network (TFIN)** – This initiative will provide for needed system enhancements to the TFIN application and associated support systems.

- **Cyber Security –** The Cyber Security Initiative will protect the security of Treasury systems, and related information and services.

The FY 2010 total budget for DSCIP is $9,544,000.

1B – Program History and Future Outlook

The Treasury Department has utilized DSCIP to fund stabilization and enhancement of the Treasury Secure Data Network, upgrade existing land-mobile radio equipment through the Integrated Wireless 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. Treasury's Cyber Security program has also been strengthened through DSCIP funding resulting in the recent closure of the Department-wide security material weakness and improved performance in meeting the requirements of the Federal Information Security Management Act (FISMA) and other government-wide security initiatives. These prior investments demonstrate Treasury's success in modernizing its business processes, technologies, and increasing efficiencies through the use of DSCIP funding.

Additionally, Cyber Security has implemented security enhancements to the unclassified and sensitive systems as well as improved upon its infrastructure protection but must continue to increase protection given the increasing severity of cyber threats, the continuing discovery of new vulnerabilities, and continuing need to identify and implement new cyber security technologies. Protecting the Department's classified and sensitive systems is integral to sound management of those resources and continued

ability of the Department to conduct its programs. Programmatic and technical oversight enhancements to sustain the cyber security program therefore are essential.
DSCIP funding will be used in FY 2009 to begin to replace the electrical system in the Treasury Annex Building. The current system is unable to meet the needs of a modern office building. This upgrade will allow the Department to begin work in FY 2010 on other Annex infrastructure issues, such as the elevator system.

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 as necessary. For FY 2010, proposed investments are as follows:

Annex Repair and Maintenance (ARM): The Annex Repair and Maintenance (ARM) project will enable Treasury to continue to address building and system deficiencies and thereby contributes to the achievement of the goal of ensuring management and organizational excellence. The 2010 ARM investment will build off of the similar 2009 DSCIP investments in the program.

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

Funding of TFI related activities in DSCIP will allow a robust continuation of improvements to its capabilities in performing Treasury's National Security mission. The TFIN program office requires funding to implement enhancements throughout the TFIN system to ensure it remains compliant with increased security requirements and that it retains an active interface with the intelligence community's technological development.

Cyber Security: The Department's reliance on information technology to process its classified and sensitive information and implement its critical activities makes it imperative that these resources be appropriately protected. This is made all the more challenging given the significant and evolving criminal and highly-advanced threats against these systems, the new risks posed by ever-evolving technologies, and the daily discovery of new vulnerabilities in existing commercial technologies in use throughout the Department. Cyber Security funds will be used to help ensure the protection of Treasury systems and information against these threats, identify and mitigate against vulnerabilities, provide for cyber security governance throughout the Department, ensure that all Treasury Department's Critical Infrastructure / Key Resources (CI/KR) are identified, security metrics are developed and regularly measured, evolving the Department's cyber security requirements to meet these new threats and vulnerabilities and conducting security reviews to help ensure full implementation of security measures to protect the Department. This program will provide greater protection against network intrusions, which can result in significant disruptions and delays in business activities. Funding in this area will also support reviews of selected bureau security programs and also support enhanced protection of the Department's classified systems, thus directly supporting the goal of better protecting the national security, by reducing the risk to those systems.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Department-wide Systems and Capital Investments Programs	FTE	Amount
FY 2009 Enacted	-	26,975
Changes to Base:		
Non-Recurring Costs:	-	($26,975)
Zero-based Budget	-	(26,975)
Subtotal FY 2010 Changes to Base	-	($26,975)
Total FY 2010 Base	-	-
Program Changes:		
Program Increases:	-	$9,544
Annex Repair and Maintenance	-	4,544
Cyber Security	-	3,000
Treasury Foreign Intelligence Network (TFIN)	-	2,000
Subtotal FY 2010 Program Changes	-	$9,544
Total FY 2010 President's Budget Request	-	**9,544**

2A – Budget Increases and Decreases Description

Non-Recurring Costs ....-$26,975,000 / +0 FTE

Zero-based Budget -$26,975,000 / +0 FTE

DSCIP is a zero-based budget.

Program Increases ....+$9,544,000 / +0 FTE

Annex Repair and Maintenance +$4,544,000 / +0 FTE

The Annex Repair and Maintenance (ARM) project will enable Treasury to continue to address the immediate need to correct building and system deficiencies in order to ensure the safety and health of the building occupants. The FY 2010 ARM priority will be the replacement of the existing elevators which have exceeded their life expectancy, do not meet current code requirements, and have notoriously unreliable service. This work will be possible, in part, due to the new building electrical service that is being provided under the FY 2009 funding.

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

The Cyber Security program protects the security of Treasury classified and systems, and related information and services. This Department-wide program supports: the comprehensive security policy, governance, and performance management framework to protect cyber assets throughout the Department; identification of new security technology priorities and development and coordination of implementation strategies amongst all Bureaus to protect the Departmental cyber assets, including critical infrastructure resources, against attacks and other threats; protection of classified systems and information through the National Security Program; and operation of both the Department-wide cyber security program for sensitive systems and the Treasury Computer Security Incident Response Center.

<u>Treasury Foreign Intelligence Network (TFIN) +$2,000,000 / +0 FTE</u>
For FY 2010, DSCIP funding is required to enhance the high priority, classified intelligence capabilities of TFIN, including application development designed to comport with changes that the Office of the Director for National Intelligence (ODNI)/CIO makes to the IC enterprise architecture to facilitate more timely intelligence information sharing and analysis.

2.2 – Operating Levels Table

Bureau: Department-wide Systems and Capital Investments Programs	FY 2008 Enacted	FY 2009 President's Budget	Congressional Action Including Rescission	FY 2009 Enacted Level	Proposed Reprogrammings	FY 2009 Proposed Operating Level	FY 2010 Requested Level	% Change FY 2009 to FY 2010
FTE	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0.00%**
Object Classification:								
21 - Travel and transportation of persons	40	5	0	5	0	5	0	-100.00%
23.1 - Rental payments to GSA	200	0	0	0	0	0	0	0.00%
25.1 - Advisory and assistance services	1,000	1,000	0	1,000	0	1,000	5,000	400.00%
25.2 - Other services	14,000	11,527	0	11,527	0	11,527	0	-100.00%
25.3 - Other purchases of goods and services from Govt. accounts	1,970	2,000	0	2,000	0	2,000	0	-100.00%
25.7 - Operation and maintenance of equip	500	400	0	400	0	400	0	-100.00%
26 - Supplies and materials	200	25	0	25	0	25	0	-100.00%
31 - Equipment	800	500	0	500	0	500	0	-100.00%
32 - Land and structures	0	11,518	0	11,518	0	11,518	4,544	-60.55%
Total Budget Authority	**$18,710**	**$26,975**	**$0**	**$26,975**	**$0**	**$26,975**	**$9,544**	**-64.62%**
Budget Activities:								
Department-wide Systems and Capital Investments Program	18,710	26,975	0	26,975	0	26,975	9,544	-64.62%
Total Budget Authority	**$18,710**	**$26,975**	**$0**	**$26,975**	**$0**	**$26,975**	**$9,544**	**-64.62%**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:										
Department-wide Systems and Capital Investments Programs	0	$10,546	0	$18,710	0	$26,975	0	9,544	0.00%	-64.62%
Subtotal Newly Appropriated Resources	0	10,546	0	18,710	0	26,975	0	9,544	0.00%	-64.62%
Other Resources:										
Available multi-year/no-year funds	0	$8,827	0	$10,088	0	$11,747	0	$13,000	0.00%	10.67%
Subtotal Other Resources	0	8,827	0	10,088	0	11,747	0	13,000	0.00%	10.67%
Total Resources Available for Obligation	0	$19,373	0	$28,798	0	$38,722	0	$22,544	0.00%	-41.78%

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT-WIDE SYSTEMS AND CAPITAL INVESTMENTS PROGRAMS Federal Funds **GENERAL AND SPECIAL FUNDS:** For development and acquisition of automatic data processing equipment, software, and services for the Department of the Treasury, [$26,975,000] *$9,544,000*, to remain available until September 30, [2011] *2012*: *Provided*, That [11,518,000] *$4,544,000* is for repairs to the Treasury Annex Building: *Provided further*, That these funds shall be transferred to accounts and in amounts as necessary to satisfy the requirements of the Department's offices, bureaus, and other organizations: *Provided further*, That this transfer authority shall be in addition to any other transfer authority provided in this Act: *Provided further*, That none of the funds appropriated shall be used to support or supplement ``Internal Revenue Service, Operations Support" or ``Internal Revenue Service, Business Systems Modernization". *(Department of the Treasury Appropriations Act, 2009.)*	No legislative changes requested.

2C – Legislative Proposals

DSCIP has no legislative proposals for FY 2010.

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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2009 Enacted	FY 2010 Request	Percent Change
Accountability & transparency	6,000	(0)	**-100%**
Aligned organization	13,575	4,544	**-66.53%**
National security	4,400	2,000	**-54.55%**
U.S. & intl financial systems	3,000	3,000	**0.00%**
Total	**$26,975**	**$9,544**	**-64.62%**

3A – Department-wide Systems and Capital Investments Programs *($9,544,000 from direct appropriations):*

The purpose of DSCIP is to improve Departmental infrastructure and modernize business processes through strategic use of information technology in order to achieve operational efficiency and effectiveness. All of the DSCIP efforts provide tangible benefits in their specific areas to produce an improved overall environment for the Department of the Treasury. Improvements to the Treasury Annex will allow the department to maximize the utility of the facility while ensuring that Treasury employees are working in a safe and secure environment. The Departmental Cyber Security program enables Treasury to protect the sensitive information entrusted to the Department by the public, while also ensuring the availability of IT resources necessary for Treasury to perform its missions. Investments in TFIN facilitate Treasury's contributions to national security.

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 2010.

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

Department-wide Systems and Capital Investments Programs Budget Activity 1/					
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$11,774	$24,608	$10,546	$26,975	$9,544
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$11,774**	**$24,608**	**$10,546**	**$26,975**	**$9,544**
Budget Activity Total	**$11,774**	**$24,608**	**$10,546**	**$26,975**	**$9,544**

1/ Obligation columns reflect obligations made with funding enacted in that fiscal year, and do not include multi-year balances.

Annex Repair and Maintenance - The 90-year old Treasury Annex, owned by the Department, is considered an American treasure; the building is part of the Lafayette Square National Register Historic District. The FY 2010 proposed funding for the Annex Repair and Maintenance (ARM) project will enable Treasury to address the immediate need to correct critical building and system deficiencies to ensure the safety and health of the occupants. The FY 2010 ARM priorities include correcting failing systems, primarily focusing on an overhaul of the elevator system.

Cyber Security - Cyber Security funds will be used to ensure that Treasury addresses new and advanced threats to its systems and ability to protect its information and critical services, all Treasury Department's Critical Infrastructure / Key Resources (CI/KR) are identified and associated security weaknesses identified and mitigated, security performance is continuously monitored for all sensitive and classified systems, and that greater protection is implemented against network intrusions thereby mitigating the risk of significant disruptions and delays in the Department's business activities. Funding in this area will also support security reviews of selected bureau security programs and systems, the comprehensive Department-wide cyber security policy, governance and performance management framework to protect cyber assets, and developing technical strategies to implement key Administration security initiatives, and support enhanced protection of the Department's classified systems, thus directly support the goal of better protecting the national security, by reducing the risk to those systems.

Treasury Foreign Intelligence Network (TFIN) - The TFIN system is the Department's only SCI-level information system that receives and stores information used to and produce daily intelligence analysis for senior Treasury policymakers as well as actionable intelligence for use by other agencies within the Intelligence Community (IC). The system enables analysts to provide critical insights into the threats to economic stability in countries/regions important to U.S. interests and policy objectives, and to assess financial vulnerabilities, impact of sanctions, and threats to critical financial infrastructure. Program management goals will be achieved through establishment and timely, diligent monitoring of meaningful cost, schedule, and performance metrics focused on supporting the Treasury's intelligence mission by ensuring reliable, secure, efficient, effective, and technologically current IT infrastructure and software applications.

Key TFIN performance metrics include: user satisfaction with system (as assessed through a survey); timeframes for responding to and resolving user service requests and identified problems; percent of time the system is available to users; security compliance levels (as related to incident reporting and resolution, system and data recovery times, and successful backups); and variance from cost and schedule baselines.

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

Section 4 – Supporting Materials

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 on 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 customer's needs.

Office of Inspector General

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2008	FY 2009	FY 2010		
	Enacted	Enacted	Request	$ Change	% Change
Audit	$12,658	$20,116	$20,559	$443	2.2%
Investigations	$5,792	$6,009	$6,141	$132	2.2%
Total Appropriated Resources	**$18,450**	**$26,125**	**$26,700**	**$575**	**2.2%**
Total FTE	**112**	**154**	**154**	**-**	**-**

FY 2010 Priorities

Ensure the effectiveness and integrity of Treasury programs:

- Complete 100 percent of mandated audits on time, including requirements related to financial statements, information security, and failed financial institutions;
- To the extent resources are available after addressing mandated work, focus on programs of high risk, to include those that address the safety and soundness of the Nation's financial markets, terrorist financing and money laundering, the security of Treasury's information systems, and Treasury's management of 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 OIG conducts audits and investigations of all non-IRS Treasury offices in accordance with the Inspector General Act, as amended, to (a) promote economy, efficiency, and effectiveness in the administration of Treasury programs and operations; (b) prevent and detect fraud, waste, and abuse in Treasury programs and operations; and (c) keep the Secretary and the Congress fully and currently informed about problems, abuses, and deficiencies in Treasury programs and operations. 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 (1) audits of the Department's financial statements, (2) information security, 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. Five of those programs and operations are discussed below. This list is not all inclusive, and risks change over time and circumstance.

Programs to Ensure the Safety and Soundness of the Nation's Financial Markets – The wave of bank failures that started in 2008 underscore the need for increased audit coverage of a more prospective nature. Material loss reviews are a backward look at the quality of supervision as it relates to the failed institution under review. The OIG believes that it is important for regulators to address emerging risks in financial markets and products. The subprime mortgage crises was a costly lesson that serves to remind us that regulators need to anticipate, recognize, and control business practices that create unreasonable risk.

Another area that the OIG believes requires vigorous oversight is Treasury's responsibilities under the Housing and Economic Recovery Act of 2008 (HERA). Treasury has taken on an important role to complement the Federal Housing Finance Agency's (FHFA) September 2008 decision to place Fannie Mae and Freddie Mac in conservatorship. Specifically, Treasury did three things. First, Treasury agreed to purchase senior preferred stock in the companies as necessary to ensure that each company maintains a positive net worth. Second, it established 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 third, to further support the availability of mortgage financing for millions of Americans, Treasury initiated a temporary program to purchase new mortgage backed securities issued by the companies. The financial commitment to Fannie and Freddie is significant. In February 2009, Treasury announced that it was amending the preferred stock purchase agreements, contractual agreements between Treasury and the conservatorships designed to ensure that each company maintains a positive net worth, to $200 billion each from their original level of $100 billion each. Treasury also announced that based on preliminary disclosures for the last quarter of 2008, total funding provided to Freddie Mac could approach $50 billion and total funding for Fannie Mae could approach $16 billion under the preferred stock purchase agreements.

HERA also created the Capital Magnet Fund (CMF) to be administered by Treasury's Community Development Financial Institutions (CDFI) Fund. The CMF is 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 primarily related to affordable housing but also allow ancillary economic development activities. The Congressional Budget Office estimates 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.

Programs to Promote Economic Recovery - With the enactment of the American Recovery and Reinvestment Act of 2009 (Recovery Act), Treasury was provided with, among other things, over $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 (CDFI) Fund received $100 million to supplement its fiscal year 2009 funding round for qualified program applicants. In March 2009, we initiated work at Departmental Offices and the CDFI Fund to proactively review the controls over the award and monitoring of its Recovery Act funding. We intend to continue this work during FY 2010. Additionally, we plan to work with the Department's Senior Accountable Official for execution of Treasury's responsibilities under the Recovery Act to ensure that there is an appropriate overall level of accountability, control, and oversight established for expenditure of Recovery Act funds.

Programs to Combat Terrorist Financing and Money Laundering – Treasury faces unique challenges in carrying out its responsibilities under the Bank Secrecy Act (BSA) and USA PATRIOT Act to prevent and detect money laundering and terrorist financing. To effectively prevent and detect financial crimes and terrorist financing it is necessary to have: (1) strong control environments at financial institutions that ensure that business is conducted with reputable parties, and large currency transactions and suspicious activities are properly and timely reported to Treasury, (2) strong federal and state regulatory agencies that examine and enforce BSA and USA PATRIOT Act requirements at financial institutions, and (3) strong analytical capacity to identify and refer to law enforcement leads provided through reports filed by financial institutions.

While FinCEN is the Treasury bureau responsible for administering BSA, it relies on other Treasury and non-Treasury agencies to enforce compliance with the Act's requirements. The Office of Foreign Assets Control (OFAC), the Treasury office responsible for administering U.S. foreign sanction programs, also relies on other

Treasury and non-Treasury agencies to ensure compliance with OFAC requirements. Past audits and Congressional hearings have surfaced serious regulatory gaps in the detection of and/or timely enforcement action against financial institutions for BSA and related violations. Furthermore, with the current distress facing so many financial institutions throughout our country, we believe that 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.

Efforts to Ensure the Security of Treasury's Information Systems -- The Department faces serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards, and guidelines. In its FY 2008 Federal Information Security Management Act (FISMA) independent audit, the OIG continued to report deficiencies in the Department's information security programs and practices.

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. While the OIG has reported that Treasury was able to complete a high priority national security system upgrade, the upgrade was delayed. Treasury also failed to implement other major system develop efforts successfully, such as BSA Direct and IRS's web-based Electronic Fraud Detection System.

Investigative priorities for FY 2010 are:

- 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 instances of fraud, or impropriety in failed banks regulated by OCC or OTS.
- 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 the U.S. Mint's Coin Redemption and Bureau of Engraving and Printing's Currency Redemption Programs are 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 2010 are $26,700,000 from direct appropriations, and $8,000,000 from reimbursable agreements for contract audits of other Treasury bureaus.

Office of Inspector General's Fiscal Year 2010 Budget Request

The Inspector General Reform Act (Pub. L. 110-409), was signed by the President on October 14, 2008. Section 6(f)(1) of the Inspector General Act of 1978, 5 U.S.C. app.3, was amended to require certain specifications concerning Office of Inspector General (OIG) budget submissions each fiscal year.
Each Inspector General (IG) is required to transmit a budget request to the head of the establishment or designated Federal entity to which the IG reports specifying

- the aggregate amount of funds requested for the operations of the OIG,
- the portion of this amount requested for OIG training, including a certification from the IG that the amount requested satisfies all OIG training requirements for that fiscal year,
- the portion of this amount necessary to support the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

Following the requirements of the Act, the OIG of the Department of the Treasury submits the following information relating to the OIG's requested budget for FY 2010:

- the aggregate budget request for the operations of the OIG is $26,700,000,
- the portion of this amount needed for OIG training is $550,000.

The amount requested for training satisfies all OIG training needs for fiscal year 2010.

1B – Program History and Future Outlook

In FY 2008, the OIG completed 64 audit products, completed 100 percent of statutory audits on time, reviewed 2,584 allegations of waste, fraud, and abuse, opened 84 investigations, and referred 93 investigations for criminal prosecution, civil ligation, or administrative action.

In FY 2009 the OIG expects to complete 60 audit products, and to complete all statutory audits on time. After a thorough review, the OIG has dropped its previous Investigations performance measure, which only measured the number of cases referred., . OIG has implemented two new measures for FY 2009. The new measures are: the percentage of all cases closed during fiscal year that were referred for criminal/civil prosecution or Treasury Administrative action; and the 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. The new measures will provide a more reliable and qualitative measure of the OIG's investigative accomplishments.

In FY 2010, the OIG expects to complete 62 audit products, to meet all statutory audit requirements, and to meet or exceed its investigative targets.

In FYs 2007 and 2008, the OIG met mandated audit requirements while focusing its self-initiated audit resources to address the major management and performance challenges identified by the Inspector General. As a result of an increasing number of bank failures, the OIG has been required to dedicate significant resources to conduct mandated material loss reviews.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Office of Inspector General	FTE	Amount
FY 2009 Enacted	154	26,125
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$575
Across the Board program reduction	-	(9)
Non-Pay Inflation Adjustment	-	90
Pay Annualization	-	166
Pay Inflation Adjustment	-	328
Subtotal FY 2010 Changes to Base	-	$575
Total FY 2010 Base	154	26,700
Total FY 2010 President's Budget Request	**154**	**26,700**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$575,000 / +0 FTE

Across the Board program reduction -$9,000 / +0 FTE

This amount reflects a calculated across the board program reduction.

Non-Pay Inflation Adjustment +$90,000 / +0 FTE

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

Pay Annualization +$166,000 / +0 FTE

Funds are requested for the FY 2010 cost of the January 2009 pay raise.

Pay Inflation Adjustment +$328,000 / +0 FTE

Funds are requested for the January 2010 pay raise.

2.2 – Operating Levels Table

Bureau: Office of Inspector General	FY 2008 Enacted	FY 2009 President's Budget	Congressional Action Including Rescission	FY 2009 Enacted Level	Proposed Reprogrammings	FY 2009 Proposed Operating Level	FY 2010 Requested Level	% Change FY 2009 to FY 2010
FTE	**112**	**115**	**39**	**154**	**0**	**154**	**154**	**0.00%**
Object Classification:								
11.1 - Full-time permanent	10,765	11,303	1,795	13,098	0	13,098	16,200	23.68%
11.3 - Other than full-time permanent	60	65	35	100	0	100	70	-30.00%
11.5 - Other personnel compensation	500	515	35	550	0	550	500	-9.09%
11.8 - Special personal services payments	0	0	0	0	0	0	775	0.00%
12 - Personnel benefits	2,775	2,894	467	3,361	0	3,361	4,022	19.67%
21 - Travel and transportation of persons	475	450	200	650	0	650	500	-23.08%
23.1 - Rental payments to GSA	1,326	1,240	585	1,825	0	1,825	1,525	-16.44%
23.2 - Rental payments to others	0	0	0	650	0	0	0	0.00%
23.3 - Comm, utilities, and misc charges	439	500	150	0	0	650	600	-7.69%
24 - Printing and reproduction	15	15	10	25	0	25	20	-20.00%
25.2 - Other services	385	450	1,862	2,312	0	2,312	500	-78.37%
25.3 - Other purchases of goods and services from Govt. accounts	975	1,013	541	1,554	0	1,554	1,038	-33.20%
25.6 - Medical care	40	42	6	50	0	50	50	0.00%
25.7 - Operation and maintenance of equip	225	250	50	300	0	300	300	0.00%
26 - Supplies and materials	150	244	106	350	0	350	250	-28.57%
31 - Equipment	320	375	925	1,300	0	1,300	350	-73.08%
Total Budget Authority	**$18,450**	**$19,356**	**$6,769**	**$26,125**	**$0**	**$26,125**	**$26,700**	**2.20%**
Budget Activities:								
Audit	12,661	13,280	6024	20,116	0	20,116	20,559	2.20%
Investigations	5,789	6,076	745	6,009	0	6,009	6,141	2.20%
Total Budget Authority	**$18,450**	**$19,356**	**$6,769**	**$26,125**	**$0**	**$26,125**	**$26,700**	**2.20%**

2.3 – Appropriations Detail Table

Dollars in Thousands

Appropriation Detail Table
(Dollars in Thousands)

Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Audit	72	$12,512	72	$12,658	111	$20,116	111	$20,559	0.00%	2.20%
Investigations	31	5,897	40	5,792	43	6,009	43	6,141	0.00%	2.20%
Subtotal New Appropriated Resources	103	$18,409	112	$18,450	154	$26,125	154	$26,700	0.00%	2.20%
Other Resources:										
Offsetting Collections - Reimbursable	0	6,052	0	6,300	0	7,381	0	8,000	0.00%	8.39%
Transfer in of Multi-year Funds/50%Balance	0	60	0	61			0			
Subtotal Other Resources	0	$6,112	0	$6,361	$0	$7,381	0	$8,000	0.00%	8.39%
Total Resources Available for Obligation	103	$24,521	112	$24,811	154	$33,506	154	$34,700	0.00%	3.56%

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY OFFICE OF INSPECTOR GENERAL Federal Funds **SALARIES AND EXPENSES:** For necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, not to exceed $2,000,000 for official travel expenses, including hire of passenger motor vehicles; of which not to exceed $100,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General of the Treasury [$26,125,000] *$26,700,000* of which not to exceed $2,500 shall be available for official reception and representation expenses. (Omnibus Appropriations Act, FY 2009)	

2C – Legislative Proposals

The OIG has no legislative proposals.

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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2009 Enacted	FY 2010 Request	Percent Change
Accountability & trans	33,506	34,700	**3.5%**
Total	**$32,425**	**$34,700**	**3.5%**

3A – Audit *($20,559,000 from direct appropriations and $8,000,000 from reimbursable programs):* The Office of Audit conducts audits and produces more than 60 products annually; it provides firsthand, unbiased perspectives and recommendations for improving the economy, efficiency, and effectiveness of Treasury programs and operations. The Office of Audit has recently been challenged to keep up with an increasing number of bank failures that require dedicated resources to conduct mandated material loss reviews. The requested funding will better enable OIG to meet those requirements. The requested funding will also be used by OIG to provide initial oversight of more than $4 billion for low-income housing projects and specified energy properties grants authorized by the American Recovery and Reinvestment Act (Recovery Act). The Office 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 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Enacted**	**FY 2010 Request**
Appropriated Resources	$11,549	$11,561	$12,658	$20,049	$20,559
Reimbursable Resources	$2,009	$1,795	$6,498	$6,300	$8,000
Total Resources	**$13,558**	**$13,356**	**$19,156**	**$26,349**	**$28,559**
Budget Activity Total	**$13,558**	**$13,356**	**$19,156**	**$26,349**	**$28,559**

Audit Budget Activity					
Measure	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Target**	**FY 2010 Target**
Number of completed audit products (Ot)	57	64	64	60	62
Percent of statutory audits completed by the required date (%) (E)	100	100	100	100	100

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

Description of Performance: In FYs 2007 and 2008, the Office of Audit completed 128 audit products, identified potential monetary benefits totaling nearly $7 million for bureaus and programs, and completed all statutory audits by the required deadlines. The Office of Audit plans to complete 62 audits in FY 2010, though the increasing number of required material loss reviews may very well impact its ability to meet that target. In FYs 2007 and 2008, the Office of Audit met all statutory audit requirements before the statutory deadline.

3B – Investigations *($6,141,000 from direct appropriations):* The Office of Investigations prevents, detects and investigates complaints of fraud, waste and abuse. This includes the detection and prevention or deterrence of employee misconduct and fraud, or related financial crimes within or directed against Treasury. The Office refers its cases to the Department of Justice, state or local prosecutors for criminal prosecution or civil litigation, or to agency officials for corrective administrative action. Additionally, investigative oversight also extends to that of performing quality assurance reviews of the Treasury's police operations at BEP and the U.S. Mint.

The Office of Investigations has shifted its resources to address matters involving allegations of fraud and impropriety in instances of bank failure when the Office of the Comptroller of the Currency (OCC) or the Office of Thrift Supervision (OTS), as the regulatory entities, failed to take the necessary action to prevent bank failure.

With the advent of the Capital Magnet Fund (CMF), the Office of Investigations faces greater challenges and anticipated increases in grant fraud and the need to identify strengths and weaknesses in Community Development Financial Institutions (CDFI) Fund. Compliance and oversight of dispersed grant funds to ensure that CDFI funds provided are being used in accordance with the grant award.

The Office of Inspector General (OIG) is proactively investigating instances in which individuals attempt to purchase real estate or motor vehicles using fraudulent promissory notes and bonds containing the Secretary's name and the U.S. Treasury lettering. 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 allow proper investigation of bank and economic fraud and help restore tax payer confidence in Treasury institutions and programs.

3.2.2 – Investigations Budget and Performance Plan

Investigations Budget Activity					
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$5,281	$5,292	$5,792	$6,076	$6,141
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$5,281**	**$5,292**	**$5,792**	**$6,076**	**$6,141**
Budget Activity Total	**$5,281**	**$5,292**	**$5,792**	**$6,076**	**$6,141**

Investigations Budget Activity					
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Percentage of all cases that were accepted by prosecutors, referred for agency action, or closed during fiscal year and were completed within 18 months of case initiation (Oe)				Baseline	70
Percentage of all cases closed during fiscal year that were referred for criminal/civil prosecution or Treasury Administrative action (%) (E)				Baseline	70

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

Description of Performance: In FY 2006, the Office of Investigations reviewed 489 allegations of waste, fraud, and abuse, and opened 129 investigations, and referred 144 investigations for criminal prosecution, civil litigation, or administration action.. Investigations led to nearly $600,000 collected in fines, restitution, recoveries, and settlements.

In FY 2007, the Office reviewed 450 allegations of waste, fraud, and abuse, opened 130 investigations, and referred 188 investigations for criminal prosecution, civil litigatioin, or administrative action, including 64 one-time referrals from a GAO investigation into Metrocheck fraud, and 10 one-time referrals from a cyber initiative. Investigations led to nearly $700,000 collected in fines, restitution, recoveries, and settlements.

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 its performance measure methodology, and has developed better and more realistic measures by which to gauge its investigative performance. These new measures went into effect in FY 2009, and will be evaluated throughout the year.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

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

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

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments 1/								
Major IT Investments / Funding Source	Budget Activity	FY 2007 & Earlier Enacted 2/	FY 2008 Enacted	% Change from FY07 to FY08	FY 2009 Enacted	% Change from FY08 to FY09	FY 2010 Request	% Change from FY09 to FY10
				N/A		N/A		N/A
Subtotal, Major IT Investments		$0	$0		$0		$0	
Non-Major IT Investments	Audit Investigations	$1,290	$450	-65.1%	$650	44.4%	$500	-23.1%
OIG STEADY STATE OPERATING COSTS								
Infrastructure Investments			$0					
Enterprise Architecture			$0					
Total IT Investments		$1,290	$450	-65.1%	$650	44.4%	$500	-23.1%

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 2007 and any previous years.

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 manufacturer. 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 is not susceptible to computer attacks and terrorist activities. Maintaining the OIG IT infrastructure and its IT security program at an acceptable level of functionality 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 ongoing upgrades of tools and technologies.

4.2 – Program Assessment Table

Not applicable to the OIG.

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

Treasury Inspector General for Tax Administration

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2008	FY 2009		FY 2010		
	Enacted	ARRA	Enacted	Request	$ Change	% Change
Audit	$52,959	$5,600	$55,186	$56,289	$1,103	2.0%
Investigations	$87,574	$1,400	$90,897	$92,711	$1,814	2.0%
Total Appropriated Resources	**$140,533**	**$7,000**	**$146,083**	**$149,000**	**$2,917**	**2.0%**
Total FTE	**835**	**-**	**835**	**835**	**-**	**-**

FY 2010 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;
- Responding to threats and attacks against IRS employees, property, and sensitive information;
- Improving the integrity of IRS operations by detecting and deterring fraud, waste, abuse and misconduct by IRS employees;
- Conducting comprehensive audits, inspections, and evaluations that include recommendations for monetary benefits and enhancing IRS' service to taxpayers; and
- Informing the American people, Congress, and the Secretary of the Treasury of problems and progress made to resolve them.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Inspector General for Tax Administration (TIGTA) was created by Congress as a part of the *Internal Revenue Service Restructuring and Reform Act of 1998* (RRA 98). TIGTA's audits and investigations protect and promote the fair administration of the American tax system. 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 other tax professionals; provide for infrastructure security; and protect the IRS from external attempts to threaten or corrupt the administration of the tax laws. TIGTA'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 nearly $3 trillion in tax revenue in an effective and efficient manner using a system that is just and equitable.

TIGTA's FY 2010 Budget request is $149,000,000, an increase of 2.0 percent above the FY 2009 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;
- Responding to threats and attacks against IRS employees, property, and sensitive information;
- Improving the integrity of IRS operations by detecting and deterring fraud, waste, abuse or misconduct by IRS employees;
- Conducting comprehensive audits, inspections, and evaluations that include recommendations for monetary benefits and enhancing IRS' service to taxpayers; and
- Informing the American people, Congress, and the Secretary of the Treasury of problems and progress made to resolve them.

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.

In FY 2010, TIGTA faces the challenge of adapting its oversight activities to address increasingly complex and high-risk issues associated with IRS operations. Some of these issues include detection and investigation of fraud and electronic crime, review of procurement activities, safeguarding taxpayer privacy, and an increasing number of requests for IRS program reviews from Congress and other IRS stakeholders. Each of these issues presents significant challenges for 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 2010:

- the aggregate budget request for the operations of TIGTA is $149,000,000,
- the portion of this amount needed for TIGTA training is $2,536,000.

The amount requested for training satisfies all TIGTA training needs for fiscal year 2010.

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 efficient and equitable application of the Nation's tax laws, and thereby ensure that this critical source of Federal revenue is prudently and fairly administered and secure from internal and external threats. Oversight activities are explicitly designed to identify high-risk systemic inefficiencies in IRS operations and investigate exploited weaknesses in tax administration.

TIGTA continues to provide comprehensive coverage and oversight of all aspects of the IRS' operations. In FY 2008, TIGTA's overall accomplishments included:

Ensuring Taxpayer Privacy and Security: Millions of taxpayers entrust the IRS with sensitive financial and personal data, which is processed and stored by IRS computer systems. This trust is the cornerstone of the Nation's voluntary tax compliance system. However, increased connectivity of computer systems, the increasingly volatile threat environment resulting from increased terrorist and hacker activity, and increasing reports of identity theft from both the private and public sectors emphasize the importance of protecting taxpayer data. In FY 2008, TIGTA's Office of Audit (OA) issued reports addressing network and database security risks and provided the IRS with recommendations to improve controls in both areas.

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 Federal prosecution, termination of employment, or other disciplinary action. Since enactment of the *Taxpayer Browsing Protection Act* in August 1997, TIGTA investigations have resulted in more than 2,000 adverse personnel actions taken by the IRS and 196 criminal prosecutions for UNAX violations through September 2008.

Although TIGTA's audit efforts examine a wide range of IRS computer systems and address overall computer and physical security at the IRS, investigative efforts prior to FY 2008 monitored only one IRS system of records, the Integrated Data Retrieval System (IDRS), containing confidential taxpayer information. Over the past three years, TIGTA initiated an average of 468 criminal investigations that involved UNAX per year. TIGTA's proactive program for identifying UNAX was responsible for the initiation of between 50 and 59 percent of these UNAX investigations. Of the proactively identified UNAX leads closed in FY 2008, 89 percent were substantiated by TIGTA investigators as UNAX violations and 28 percent resulted in the identification of further potential criminal violations, including falsification of records, fraud, embezzlement and identity theft. Last year, TIGTA established an investigative group to keep pace with the IRS' modernization efforts. As the IRS currently utilizes over 240 computer applications which may contain sensitive IRS employee and taxpayer information and is continuing a vigorous implementation of modernized systems, TIGTA is now better positioned to provide appropriate oversight of those efforts, and to investigate the criminal violations committed by those who abuse the new systems.

Tax Compliance: TIGTA's increased community outreach efforts have helped the IRS to deliver quality customer service to taxpayers and the tax practitioner community. TIGTA worked diligently to make contact with large segments of the IRS workforce and other external entities. By doing so, TIGTA developed relationships with these groups that assist in identifying crimes against the IRS and taxpayers. The outreach efforts resulted in increased reports of bribery, UNAX violations, and other offenses that undermine effective tax administration. Between October 2007 and September 2008, TIGTA provided presentations to more than 69,000 IRS employees and external entities. Specifically, TIGTA's Office of Investigations (OI) provided integrity and fraud awareness presentations to revenue officers and revenue agents at their continuing professional education conferences. During this same period, OI worked to educate tax professionals by providing 72 awareness presentations to tax practitioners and preparers at professional conferences.

Advising Congress: Between October 1, 2007 and September 30, 2008, TIGTA provided 4 testimonies, 19 briefings, and 25 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 our audit and investigative functions and provides TIGTA with additional flexibilities and capabilities to meet its mission and address increasing requests for IRS program reviews from Congress and other IRS stakeholders. The scope of the group's efforts ranges from answering Congressional concerns to evaluating IRS' ability to administer the tax laws. I&E will 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, we expect its influence in overseeing tax administration to grow and its service of informing interested parties to expand.

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.

Audit Outcomes: TIGTA's audits not only focus on the economy and efficiency of IRS functions, but also the protection of taxpayers' rights. TIGTA strives to protect the integrity of America's tax system. Among other significant tax administration related issues, TIGTA reports have identified opportunities for the IRS to enhance its tax compliance initiatives, including improved identification of unreported self-employment taxes and consistent use of penalties to promote fairness in the tax system and encourage voluntary compliance. Between October 1, 2007, and September 30, 2008, TIGTA issued 179 reports identifying approximately $2.4 billion in potential financial benefits (i.e., cost savings, increased/protected revenue, taxpayer rights and entitlements, and inefficient use of resources). These reports also impacted approximately 5.7 million taxpayers' accounts in areas such as taxpayer burden, rights and entitlements, taxpayer privacy and security, protection of resources/reliability of information, and increased revenue/revenue protected. These audits returned $53 for each $1 invested in FY 2008.

Investigative Outcomes: OI investigates threats to America's tax system which could impede the collection of revenues or which could erode public confidence. Between October 1, 2007, and September 30, 2008, 78 percent of the 3,662 closed investigations generated results, including 1,569 cases of employee misconduct referred for potential disciplinary action and 171 cases accepted for prosecution. Unauthorized access to confidential tax information remains a significant problem for the IRS. During the same period, TIGTA opened 434 new UNAX cases and closed 491 cases, 471 of which resulted in personnel action against IRS employees.

Inspections and Evaluations Outcomes: I&E provided regular status reports on the IRS' private debt collection initiative and produced analysis related to the recent flooding of the IRS headquarters. Additionally, I&E has reported on several pertinent issues including *Protecting Hardcopy Personally Identifiable Information from Identity Theft, Enhancing Controls to Further Strengthen Lockbox Bank Oversight, and Preventing Abuses of Religious Compensatory Time*. 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 2009 Enacted	835	146,083
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$3,264
Across the Board Program Reduction	-	(504)
Non-Pay Inflation Adjustment	-	318
Pay Annualization	-	1,110
Pay Inflation Adjustment	-	2,340
Non-Recurring Costs:	-	($347)
No obligation to fund CIGIE	-	(347)
Subtotal FY 2010 Changes to Base	-	$2,917
Total FY 2010 Base	835	149,000
Total FY 2010 President's Budget Request	**835**	**149,000**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$3,264,000 / +0 FTE

Across the Board Program Reduction -$504,000 / +0 FTE

This amount reflects a calculated across the board program reduction.

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

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

Pay Annualization +$1,110,000 / +0 FTE

Funds are requested for the FY 2010 cost of the January 2009 pay raise.

Pay Inflation Adjustment +$2,340,000 / +0 FTE

Funds are requested for the January 2010 pay raise.

2.2 – Operating Levels Table

Bureau: Inspector General for Tax Administration	FY 2008 Enacted	FY 2009 ARRA	FY 2009 President's Budget	Congressional Action Including Rescission	FY 2009 Enacted Level	Proposed Reprogrammings	FY 2009 Proposed Operating Level	FY 2010 Requested Level	% Change FY 2009 to FY 2010
FTE	**835**	**0**	**835**	**0**	**835**	**0**	**835**	**835**	**0.00%**
Object Classification:									
11.1 - Full-time permanent	75,901	4,501	78,314	0	78,314	0	78,314	80,624	2.95%
11.3 - Other than full-time permanent	576	0	576	0	576	0	576	593	2.95%
11.5 - Other personnel compensation	9,398	497	9,131	0	9,131	0	9,131	9,443	3.42%
12 - Personnel benefits	25,226	1,603	26,298	0	26,298	0	26,298	27,109	3.08%
21 - Travel and transportation of persons	4,552	301	4,834	0	4,834	0	4,834	4,694	-2.90%
22 - Transportation of things	24	0	24	0	24	0	24	24	0.00%
23.1 - Rental payments to GSA	8,024	0	8,952	0	8,952	0	8,952	9,143	2.13%
23.2 - Rental payments to others	282	0	288	0	288	0	288	288	0.00%
23.3 - Comm, utilities, and misc charges	8,688	0	2,570	0	2,570	0	2,570	2,570	0.00%
24 - Printing and reproduction	8	0	8	0	8	0	8	8	0.00%
25.1 - Advisory and assistance services	1,152	0	1,175	0	1,175	0	1,175	1,135	-3.40%
25.2 - Other services	921	0	986	0	986	0	986	921	-6.59%
25.3 - Other purchases of goods and services from Govt. accounts	0	0	6,695	347	7,042	0	7,042	6,710	-4.71%
25.4 - Operation and maintenance of facilities	407	0	407	0	407	0	407	407	0.00%
25.5 - Research and development contracts	0	0	0	0	0	0	0	0	0.00%
25.7 - Operation and maintenance of equip	1,252	0	1,277	0	1,277	0	1,277	1,232	-3.52%
26 - Supplies and materials	1,170	98	1,193	0	1,193	0	1,193	1,164	-2.43%
31 - Equipment	2,750	0	2,805	0	2,805	0	2,805	2,732	-2.60%
42 - Insurance claims and indemnities	150	0	150	0	150	0	150	150	0.00%
91.0 - Confidential Expenditures	52	0	53	0	53	0	53	53	0.00%
Total Budget Authority	**$140,533**	**$7,000**	**$145,736**	**$347**	**$146,083**	**$0**	**$146,083**	**$149,000**	**2.00%**
Budget Activities:									
Audit	52,959	5,600	55,055	131	55,186	0	55,186	56,289	2.00%
Investigations	87,574	1,400	90,681	216	90,897	0	90,897	92,711	2.00%
Total Budget Authority	**$140,533**	**$7,000**	**$145,736**	**$347**	**$146,083**	**$0**	**$146,083**	**$149,000**	**2.00%**

2.3 – Appropriations Detail Table

Dollars in Thousands

2.3 Appropriation Detail Table

(Dollars in Thousands)

This chart displays total resources available by budget activity, including funding and FTE.

Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted		FY 2009 ARRA		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Audit	349	$50,852	349	$52,959	0	$5,600	349	$55,186	349	$56,289	0.00%	2.00%
Investigations	486	89,161	486	87,574	0	1,400	486	90,897	486	92,711	0.00%	2.00%
Subtotal New Appropriated Resources	**835**	**$140,013**	**835**	**$140,533**	**0**	**$7,000**	**835**	**$146,083**	**835**	**$149,000**	**0.00%**	**2.00%**
Other Resources:												
Offsetting Collections - Reimbursable	3	1,266	3	900	0	0	3	900	3	1,300	0.00%	44.44%
Subtotal Other Resources	**3**	**$1,266**	**3**	**$900**	**0**	**$0**	**3**	**$900**	**3**	**$1,300**	**0.00%**	**44.44%**
Total Resources Available for Obligation	**838**	**$141,279**	**838**	**$141,433**	**0**	**$7,000**	**838**	**$146,983**	**838**	**$150,300**	**0.00%**	**2.26%**

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION Federal Funds General and Special Funds: **SALARIES AND EXPENSES** For necessary expenses of the Treasury Inspector General for Tax Administration, in carrying out the *Inspector General Act of 1978, as amended*, including purchase (not to exceed 150 for replacement only for police-type use) and hire of passenger motor vehicles (*31 U.S.C. 1343 (b)*); services authorized by *5 U.S.C. 3109*, at such rates as may be determined by the Inspector General for Tax Administration, not to exceed $6,000,000 for official travel expenses; and not to exceed $500,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General for Tax Administration [$146,083,000] $149,000,000; and of which not to exceed $1,500 shall be available for official reception and representation expenses. (*Department of the Treasury Appropriations Act, 2009*)	

2C – Legislative Proposals

TIGTA does not have any legislative proposals for FY 2010.

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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2009 Enacted	FY 2009 Recovery	FY 2010 Request	Percent Change
Accountability & trans	146,983	7,000	150,300	**2.3%**
Total	**$146,983**	**$7,000**	**$150,300**	**2.3%**

3A – Audit *($56,289,000 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 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. Moreover, implementation of TIGTA audit recommendations results in cost savings and increased or protected revenue, reduction of taxpayer burden, protection of taxpayer rights and entitlements, protection of taxpayer privacy, and protection of IRS resources.

OA strategically evaluates IRS programs, activities, and functions 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.

As of September 30, 2008, 179 audit reports produced potential financial benefits of approximately $2.4 billion and potentially impacted approximately 5.7 million taxpayer accounts in areas such as taxpayer burden, rights and entitlements, taxpayer privacy and security, protection of resources/reliability of information, and increased revenue/revenue protected. These reports included the following aspects of tax administration:

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.

Self-employment tax is estimated to make up about $39 billion or 11 percent of the total gross tax gap, making it one of the largest components of the tax gap. An FY 2008 OA audit recommended that the IRS improve its processes for identifying taxpayers who are subject to but do not pay self-employment taxes. The report estimated that the IRS could assess an additional $39 billion in Social Security and Medicare taxes over a five-year period by making the changes recommended in the report.

In a similar vein, the IRS established a Withholding Compliance Task Force in January 2004 that estimated approximately $7.6 billion of potentially collectible taxes is lost annually to withholding non-compliance. An FY 2008 audit aimed at evaluating the effectiveness of the IRS' actions on under withheld tax compliance cases estimated that the IRS could potentially have realized $34.5 million in additional tax withholding if the Withholding Compliance Program ensured employers complied with notice instructions.

TIGTA will continue to work with the IRS to identify other opportunities to reduce the tax gap and improve the efficiency and effectiveness of America's tax system.

Quality of Taxpayer Services: During FY 2008, there was a great deal of public and Congressional interest in the IRS implementation of the *Economic Stimulus Act of 2008*. Because of the visibility of the program, the potential risks associated with the program, and the rapid implementation of the program, TIGTA auditors were actively involved in monitoring key aspects of this program. During OA's review of the IRS' planning efforts, issues were brought to IRS management's attention while the audit was being conducted. This level of cooperation enabled the IRS to address potential problems immediately.

An audit of the financial management of Low Income Tax Clinics revealed that additional guidance and oversight was necessary to ensure that grantees properly manage and report on their use of grant funds. OA recommendations have resulted in changes to this program to strengthen oversight of this program.

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

TIGTA audits identified a variety of security threats in IRS computer systems. For example, OA identified approximately 1,800 internal web servers on the IRS network which had not been approved for connection to the network as well as approximately 2,100 internal web servers that had at least one security vulnerability. In another audit, a scan of IRS databases identified 369 installation accounts which had blank passwords or which used the default passwords. These audits provide recommendations which enhance information system security.

Procurement: OA found that the IRS' use of performance-based acquisitions was well below goals established by the Federal Government in part as a result of a lack of experienced personnel. IRS management has distributed a memorandum encouraging program office management to emphasize the use of performance-based acquisitions and encouraging training.

OA also conducted a trend analysis of common issues and findings identified in previously issued invoice and voucher audits which found that the control environment was ineffective and did not prevent overpayments to contractors. In response to OA's audits, IRS Procurement has developed a Guidebook for Acquisition Practices that provides a detailed process for reviewing invoices and vouchers.

Human Capital: TIGTA audits have examined IRS human capital programs. As the result of OA recommendations, the IRS is developing a strategic leadership succession plan as well as a comprehensive, agency-wide workforce planning process.

Other Resources: TIGTA receives $551,000 in reimbursement to support activity related to Defense Contract Audit Agency audits conducted on behalf of the IRS and other activity conducted on behalf of the Department of the Treasury.

3.2.1 – Audit Budget and Performance Plan

Audit Budget Activity						
	FY 2006	**FY 2007**	**FY 2008**	**FY 2009**		**FY 2010**
Resource Level	**Obligated**	**Obligated**	**Obligated**	**ARRA**	**Enacted**	**Request**
Appropriated Resources	$48,916	$49,087	$50,852	$5,600	$55,186	$56,289
Reimbursable Resources	$915	$300	$539	$0	$500	$551
Total Resources	**$49,831**	**$49,387**	**$51,391**	**$5,600**	**$55,686**	**$56,840**
Budget Activity Total	**$49,831**	**$49,387**	**$51,391**	**$5,600**	**$55,686**	**$56,840**

Budget Activity	**Performance Measure**	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**		**FY 2010**
		Actual	**Actual**	**Actual**	**ARRA**	**Target**	**Target**
Audit	Percentage of audit products delivered when promised to stakeholders (%) (Oe)	0	68	65	65	65	65
Audit	Percentage of recommendations made that have been implemented (%) (Oe)	0	90	85	83	83	83

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

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

Additionally, TIGTA makes recommendations designed to improve administration of the Federal tax system. The IRS must implement these recommendations in order for our work to produce financial or non-financial benefits. This measure assesses TIGTA's effect on improving the IRS' accountability, operations, and services. Since the IRS needs time to act on recommendations, TIGTA utilizes the Department's Joint Audit Management Enterprise System to track the percentage of recommendations made four (4) years ago that have been implemented, rather than the results of our activities during the fiscal year in which the recommendations are made. TIGTA is able to track its recommendations that have not been implemented by the IRS. TIGTA also has a formal process with the IRS for closing out unimplemented recommendations for which circumstances may have changed, or for when the IRS has taken alternative corrective measures that address concerns identified by TIGTA.

3B – Investigations *($92,711,000 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: The IRS' ability to deliver taxpayer service, enforce tax laws effectively, and collect the proper amount of taxes can be undermined by employee misconduct. Over 50 percent of TIGTA's current investigations involve alleged employee misconduct. These investigations of employee misconduct allegations include extortion, theft, taxpayer abuse, false statements, and financial fraud. In addition, an integral part of the employee integrity program involves investigations of unauthorized access to confidential taxpayer records by IRS employees.

Employee and Infrastructure Security: In 1998, the President designated IRS operations as a critical infrastructure.[1] TIGTA meets the challenge of maintaining IRS employee and infrastructure security by conducting investigations in reaction to incidents in which IRS employees, facilities, and infrastructure are sabotaged, threatened, or assaulted. Potential threats to tax administration are identified by TIGTA's administration of a Criminal Intelligence Program that utilizes law enforcement and intelligence resources to proactively identify individuals and groups who may pose a threat to tax administration.

Congressional concern regarding the magnitude of uncollected revenue has prompted the IRS to intensify enforcement activities. Heightened enforcement is likely to cause a rise

[1] *Presidential Decision Directive NSC-63.*

in external threats to IRS employees and infrastructure. Both TIGTA's proactive and reactive initiatives are critical to mitigating such future risks. OI currently participates on the Federal Bureau of Investigation (FBI) Joint Terrorism Task Forces and conducts criminal intelligence gathering to uncover and track external threats to tax administration from individuals, anti-government groups, and terrorists. From FY 2005 through the end of FY 2008, OI initiated 609 investigations of assaults and/or threats made against IRS employees, and 196 investigations of assaults and/or threats made against IRS facilities.

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

In FY 2010, OI expects major IRS programs to be at high risk for corruption of Federal tax administration and thus require intensified oversight. Particularly important to TIGTA are phishing scams that falsely depict e-mails from the IRS.[2] Such schemes attempt to retrieve a user's Social Security number and banking information by replicating an official IRS seal and/or requesting information required for depositing tax refunds. The IRS, with investigative support provided by OI, has identified 3,810 phishing sites between November 2005 and October 2008. Oversight in this area is necessary to ensure that misuse of the IRS name, impersonation of an IRS employee, and identity theft incidents are resolved properly.

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. During FY 2008, OI conducted 51 investigations into bribery by non-IRS employees. In addition, OI conducted 169 investigations of attempts to manipulate or corrupt IRS systems and operations, and 605 investigations into fraud and other related activities.

Current resources committed to addressing external security risks include four special agents working full-time and 35 special agents working part-time on domestic terrorism. The office also includes one intelligence analyst gathering information to protect against external threats. OI presently oversees security for the top 15 at-risk IRS locations, as identified by IRS Physical Security and Emergency Preparedness. Proactive measures in this area are critical to preventing breaches of security and deterring threats in future years.

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

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[2] 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.

Other Resources: TIGTA receives $749,000 in offsetting collections and reimbursements to support activity related to the Inspector General Criminal Investigator Academy and other activity conducted on behalf of the Department of the Treasury.

3.2.2 – Investigations Budget and Performance Plan

Investigations Budget Activity						
Resource Level	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 ARRA**	**FY 2009 Enacted**	**FY 2010 Request**
Appropriated Resources	$82,686	$83,427	$89,161	$1,400	$90,897	$92,711
Reimbursable Resources	$711	$627	$727	$0	$400	$749
Total Resources	**$83,397**	**$84,054**	**$89,888**	**$1,400**	**$91,297**	**$93,460**
Budget Activity Total	**$83,397**	**$84,054**	**$89,888**	**$1,400**	**$91,297**	**$93,460**

Budget Activity	**Performance Measure**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 ARRA**	**FY 2009 Target**	**FY 2010 Target**
Investigations	Percentage of results from investigative activities (%) (Oe)	79	81	78	78	78	78

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

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

Description of Performance: Examples of the types of results generated from investigative activities include: bribes offered by taxpayers to compromise IRS employees; manipulation of IRS systems and programs through the use of bogus liens and IRS financial reporting instruments; and impersonation of IRS officials. As of September 30, 2008, actual performance has exceeded expectations (actual performance was 78 percent, while the target was 76 percent). These results are indicative of OI’s continuous focus on quality investigative activities.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

TIGTA's human capital strategy is consistent with the goals, vision, and priorities of the Department. One of the major goals of the Department is to "be an organization that values its people." The objective associated with this goal is to "ensure a high-quality, diverse, and motivated workforce with the knowledge, skills, and abilities needed to produce quality products in an efficient and effective manner." To support this goal, TIGTA's performance management program differentiates levels of employee performance, incorporates TIGTA's strategic goals and objectives, and holds employees accountable for performance. During FY 2010, TIGTA will continue implementation of the updated Strategic Human Capital Plan developed during FY 2009.

Over the past ten years, TIGTA's employee population has declined 17%. 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 2008 to 784. One of the most significant human capital challenges facing TIGTA is the impending retirement tidal wave. Approximately 38 percent of all TIGTA employees will be retirement eligible by September 30, 2011. This is especially troubling since the skills required of our auditors, investigators, 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. FTE attrition further reduces opportunities to examine high-risk areas and thereby reduces financial benefits from audit recommendations and impacts fewer taxpayer accounts. Unabated attrition would also require TIGTA to curtail, delay, and/or fail to initiate reviews of high-risk areas and/or eliminate entire programs. Succession planning efforts are aimed at addressing these potential risks to TIGTA's operations.

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' modernization effort and its increasingly computerized operating systems and environment, TIGTA faces critical skill gaps. Auditors and criminal investigators with strong analytical skills and experience using business intelligence tools to identify fraud and other improprieties in IRS computer systems are needed.

To help address these challenges, TIGTA implemented in FY 2009 a bureau-wide electronic learning management system containing a skills assessment program that identifies the critical skills needed for each of TIGTA's major occupations and provides a means to assess resident skill levels. TIGTA will 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 enhance its Senior Executive Service development program to grow future leaders within the organization.

While the nature and sensitivity of TIGTA’s work limits the possible use of on-site contractors, most of the routine human resources, 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 / Major IT Investments / Funding Source		Budget Activity	FY 2007 & Earlier Enacted 2/	FY 2008 Enacted	FY 2009 Budget Request	% Change from FY08 to FY09	FY 2010 Request	% Change from FY09 to FY10
	1/							
Subtotal, Major IT Investments			**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Performance and Results Information System (PARIS)		TIGTA: Audit and Investigations Activity	**$1,000**	**$1,000**	**$1,000**	0.0%	**$574**	-42.6%
PARIS Property Module (PPM)		TIGTA: Audit and Investigations Activity	**$500**	**$500**	**$500**	0.0%	**$149**	-70.2%
Non-Major IT Investments		TIGTA: Audit and Investigations Activity	**$1,500**	**$1,500**	**$1,500**	**0.0%**	**$723**	**-51.8%**
TIGTA End User Systems and Services		TIGTA: Audit and Investigations Activity	**$2,450**	**$8,000**	**$8,293**	3.7%	**$2,678**	-67.7%
Telecommunications Systems and Services		TIGTA: Audit and Investigations Activity	**$1,329**	**$3,100**	**$3,300**	6.5%	**$2,465**	-25.3%
Data Center Systems and Services		TIGTA: Audit and Investigations Activity	**$267**	**$1,000**	**$1,000**	0.0%	**$4,003**	300.3%
IT Security	**3/**	TIGTA: Audit and Investigations Activity	$0	$750	$0	-100.0%	$0	0.0%
Infrastructure Investments	**4/**	TIGTA: Audit and Investigations Activity	**$4,046**	**$12,850**	**$12,593**	**-2.0%**	**$9,146**	**-27.4%**
Consolidated Enterprise Content Management	**5/**	TIGTA: Audit and Investigations Activity	**$0**	**$0**	**$129**	**0.0%**	**$0**	**-100.0%**
Consolidated Identity Management	**5/**	TIGTA: Audit and Investigations Activity	**$0**	**$0**	**$128**	**0.0%**	**$0**	**-100.0%**
Enterprise Architecture		TIGTA: Audit and Investigations Activity	**$250**	**$250**	**$250**	**0.0%**	**$275**	**10.0%**
Total IT Investments		TIGTA: Audit and Investigations Activity	**$5,796**	**$14,600**	**$14,600**	**0.0%**	**$10,144**	**-30.5%**

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

4B – Information Technology Strategy

The Office of Information Technology (OIT) provides a full suite of information technology products and services on behalf of TIGTA. All OIT activities are focused on providing effective and secure access to data sources that are critical to the successful completion of TIGTA's mission. OIT 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: OIT provides traditional end-user systems services for all TIGTA employees. This includes the provisioning of personal computers, productivity software, electronic mail and other local area network services, such as network storage for effective data backup and recovery. OIT end user systems and services are based on a standardized tool suite for internal TIGTA business operations. This tool suite is augmented to provide specialized software tools that permit auditors, investigators, and inspection and evaluation personnel to access and analyze data residing on a wide variety of IRS and other governmental information systems. OIT monitors these tools to ensure security and availability, and to determine when technology maintenance and refreshment activities are needed for effective protection of TIGTA-accessed data.

OIT 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: OIT supports a Wide Area Network (WAN) 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. The WAN provides adequate bandwidth for internal and external data transmissions while providing secure access to TIGTA resources, and other governmental computer networks and entities. For example, the WAN provides a secure interconnection between TIGTA and the IRS that is used for electronic data exchange as well as for cost-effective access to IRS information systems. The WAN also enables secure, remote access from alternative work locations, supporting an award-winning telework program. TIGTA also operates a Land Mobile Radio (LMR) system that permits investigators to safely conduct field operations with reliable wireless communication devices.

Data Center Systems and Services: OIT operates information systems at various offices. In accordance with the OIT Strategic Plan and continuing cost containment measures, OIT is consolidating information technology services, where feasible, into data center facilities. The consolidation effort is designed to increase information system and resource utilization, and eliminate unneeded redundancies while improving TIGTA's ability to support core audit and investigative activities. As part of a TIGTA data center, OIT 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: OIT provides *Financial Information Systems Management Act* (FISMA) support services to TIGTA. This support comes in three areas. The first support area is Information Integrity. OIT 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. OIT 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: Although OIT prides itself on delivering a full set of IT support and services to TIGTA auditors and investigators, some administrative applications and services are better delivered at departmental and governmental levels. To support future authentication demands of those applications, TIGTA intends to manage the TIGTA aspect of identity management in concert with the IRS, the Department and the Federal government. TIGTA currently maintains the production of its own non-Homeland Security Presidential Directive-12 (HSPD-12) credentials using HSPD-12 processes and procedures and will migrate to departmental HSPD-12 solutions as they become available. In accordance with Department guidance, TIGTA HSPD-12 costs are reported to IRS for inclusion in a consolidated departmental investment.

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 to the business processes the applications serve. As a result, these investments are not included in TIGTA ECM, but remain with their associated IT infrastructure. As the Department ECM initiative presents opportunities, TIGTA will evaluate transition to those document, record, content and tracking, and workflow management functions.

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

4.2 – Program Assessment Table

Not applicable to TIGTA.

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

Community Development Financial Institutions Fund

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2008	FY 2009		FY 2010		
	Enacted	ARRA	Enacted	Request	$ Change	% Change
Community Development Financial Institutions Program	$52,250	$90,000	$59,750	$113,600	$53,850	90.1%
New Markets Tax Credit Program	$4,120	$67	$4,200	$4,203	$3	0.1%
Bank Enterprise Award Program	$20,000	$0	$22,000	$22,000	$0	-
Native Initiatives	$8,000	$8,000	$8,500	$10,000	$1,500	17.6%
Capital Magnet Fund	$0	$0	$0	$80,000	$80,000	100.0%
Administration	$9,630	$1,933	$10,550	$13,797	$3,247	30.8%
Financial Education and Counseling	$0	$0	$2,000	$0	($2,000)	(100.0%)
Total Appropriated Resources	**$94,000**	**$100,000**	**$107,000**	**$243,600**	**$136,600**	**127.7%**
Total FTE	**75**	**-**	**75**	**84**	**9**	**12.0%**

/1The CDFI Fund will seek to implement additional reforms to the BEA program to enhance the capacity of CDFI banks, and to strengthen partnerships between small community banks and CDFIs.
/2 The Administration budget activity excludes resources to administer the New Markets Tax Credit program.

FY 2010 Priorities

- To certify qualified entities as Community Development Financial Institutions (CDFIs) and Community Development Entities (CDEs) so that these organizations may be eligible to compete for assistance under the CDFI Fund's programs.
- To expand access to credit, capital and financial services in low-, very low- and extremely-low income communities in the United States through expansion of awards to eligible CDFIs, including those serving rural and Native American communities.
- To increase the availability of quality low-income housing in distressed communities through the new Capital Magnet Fund.
- To encourage private sector investment in CDEs and CDFIs through competitive allocation of New Markets Tax Credits
- To implement additional reforms to the Bank Enterprise Award program to enhance the capacity of CDFI banks, and to strengthen partnerships between small community banks and CDFIs.
- To enhance compliance monitoring of prior year awardees in each CDFI Fund program and conduct strategic research to analyze the impact and outcomes of the CDFI Fund's programs, including the effect of changing economic conditions.

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: Certification. To certify CDFIs and Community Development Entities (CDEs) so that they may participate in the CDFI Program, the Native American CDFI Assistance (NACA) Program, and the New Markets Tax Credit (NMTC) Program. At the beginning of FY 2009, the CDFI Fund has certified 808 entities as CDFIs and 3,424 entities as CDEs.

Priority 2: CDFI Program Awards. To expand access to credit, capital and financial services in low-, very low- and extremely low-income communities in the United States through expansion of awards to eligible CDFIs, including those serving rural and Native American communities. The CDFI Fund will accomplish this goal by providing merit-based grant awards to high-quality CDFIs through the CDFI Program and the Native American CDFI Assistance (NACA) Program. To date, the CDFI Fund has made a total of $657 million in awards through the CDFI and NACA programs.

Priority 3: Capital Magnet Fund. To increase the availability of quality low-income housing in distressed communities through the new Capital Magnet Fund program (CMF). CMF grants will attract private capital and increase investment in affordable housing and economic development projects in disadvantaged communities.

Priority 4: New Markets Tax Credit Program. To encourage private sector investment in low-income communities through the competitive allocation of tax credit authority to Community Development Entities (CDEs). To date, the CDFI Fund has awarded $19.5 billion of investment authority to CDEs through the NMTC Program.

Priority 5: Bank Enterprise Award program. The CDFI Fund will seek modifications to the BEA Program to enhance the capacity of CDFI banks, and to strengthen partnerships between community banks and CDFIs.

Priority 6: Performance Monitoring and Evaluation. To enhance compliance monitoring activities for the suite of CDFI Fund programs, and analyzes the impact of CDFI Fund grant awards in distressed communities, including how changing economic conditions have affected the operating environment of the CDFI Fund’s programs and altered the supply and demand for capital and financial services in underserved communities.

1B – Program History and Future Outlook

Starting with FY 2010, the CDFI Fund will administer four grant programs in support of community development finance: the CDFI Program; the NACA Program; a redesigned Bank Enterprise Award Program; and the CMF. The CDFI Fund also administers tax credit allocation authority through the NMTC Program. In addition to administering these programs, the CDFI Fund certifies organizations as CDFIs and CDEs, contracts with third-party entities to provide training and technical assistance to CDFIs, and conducts strategic research and program evaluations.

FY 2007 is the most recent year for which complete program results data is available. In that year, CDFI Program awardees reported that over 9,100 businesses were financed as a result of CDFI Fund awards in FY 2008, helping to create or retain over 29,000 full-time equivalent jobs. These CDFIs financed over 1,000 commercial real estate properties and over 4,000 units of affordable housing. They also financed home purchases for over 2,400 homebuyers, established bank accounts for over 800 “unbanked” persons, and provided financial literacy and other counseling to over 132,000 clients.

FY 2007 NMTC Program awardees reported that, in FY 2008, $2.19 billion was invested in real estate projects in target communities, helping to develop or rehabilitate 21 million square feet of real estate and create 81,000 construction jobs. These awardees made an additional $1.15 billion of loans and investments to businesses in low-income communities, helping to create or retain 25,000 full time equivalent jobs.

In FY 2008, the CDFI Fund:

- Reviewed 170 applications requesting a total of $200 million through the Financial Assistance (FA) Component of the CDFI Program, and made 66 awards totaling $52 million;
- Reviewed 55 applications requesting a total of $5.2 million through the Technical Assistance (TA) Component of the CDFI Program, and made 23 awards totaling $2 million;
- Reviewed 45 applications requesting a total of $17 million through the NACA Program, and made 29 awards totaling $8.2 million;
- Reviewed 60 applications requesting a total of $49 million through the BEA Program, and made 52 awards totaling $20 million; and
- Reviewed 239 applications requesting a total of $21.3 billion in investment authority through the NMTC Program, and made 70 awards totaling $3.5 billion.

The CDFI Fund has also made significant progress enhancing program administration business processes, enabling the fund to make award disbursements more quickly and at lower cost. Award disbursements during the first quarter of FY 2008 were 63% higher than the previous first quarter of FY 2007 for the CDFI Program. Disbursements for the NACA Program also increased 31% over the prior year period. These increases reflect improvements in business efficiencies in the disbursement system, ensuring awardees receive funds faster.

In FY 2009, the CDFI Fund anticipates further efficiency gains in award disbursements as a result of the waiver of the matching funds requirement included in the FY 2009 American Recovery and Reinvestment Act (Recovery Act) for CDFI and NACA Program awardees in that year.

Future Challenges

To improve the impact of grant awards, the CDFI Fund needs to conduct a more rigorous analysis of low-income markets and the effectiveness of CDFIs in serving those markets. The Fund must ensure that its limited resources reach communities most in need of financial assistance. To this end, the CDFI Fund will work to strengthen its research capabilities and foster an application review process that results in the most effective allocation of grant awards.

The CDFI Fund will also implement a completely new program in FY 2010, the Capital Magnet Fund, authorized by the Housing and Economic Recovery Act of 2008. The CMF will facilitate investment in the development, rehabilitation and purchase of affordable housing for low-, very low- and extremely low-income persons through a competitive grant application process. To successfully implement this important program, the CDFI Fund will need to increase its staff resources; research and implement best practices in the housing industry; develop application and review materials; market the program to ensure highest possible participation; select the highest caliber awardees; and implement rigorous compliance and evaluation protocols.

Finally, the CDFI Fund also faces many challenges in administration of its programs, including the transition of its award administration activities to the Grants Management Line of Business (GMLoB), and transition to the shared service provider model for financial management and information technology services. Establishing uniform requirements through the GMLoB supports end-to-end grants management activities that promote citizen access, customer service, and agency financial and technical stewardship. Certain federal agencies provide these grant processing functions for their grant-making federal agency customers. This transition process will require a complete evaluation of the CDFI Fund’s award activities, from application to award, to determine which activities can be transitioned, and the most efficient process for making the transition.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Community Development Financial Institutions Fund	FTE	Amount
FY 2009 Enacted	75	107,000
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$250
Across the Board Program Reduction	-	(69)
Non-Pay Inflation Adjustment	-	107
Pay Annualization	-	76
Pay Inflation Adjustment	-	136
Subtotal FY 2010 Changes to Base	-	$250
Total FY 2010 Base	75	107,250
Program Changes:		
Program Decreases:	-	($2,000)
Financial Counseling Grants program	-	(2,000)
Program Increases:	9	$138,350
CDFI program	-	53,850
Native Initiatives	-	1,500
Capital Magnet Fund	-	80,000
Capital Magnet Fund Implementation	6	1,300
Research, Evaluation & Performance	2	850
Transition to Departmental Offices' IT LAN	2	850
Subtotal FY 2010 Program Changes	9	$136,350
Total FY 2010 President's Budget Request	**84**	**243,600**

2A – Budget Increases and Decreases Description

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

Across the Board Program Reduction -$69,000 / +0 FTE

The CDFI Fund continues to focus on improving the efficiency of its operations through a disciplined process of productivity improvement.

Non-Pay Inflation Adjustment +$107,000 / +0 FTE

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

Pay Annualization +$76,000 / +0 FTE

Funds are requested for the FY 2010 cost of the January 2009 pay raise.

Pay Inflation Adjustment +$136,000 / +0 FTE

Funds are requested for the January 2010 pay raise.

Program Decreases ....-$2,000,000 / +0 FTE

Financial Counseling Grants program -$2,000,000 / +0 FTE

The CDFI Fund will discontinue the financial counseling grants pilot program, begun in FY 2009, and reinvest these resources in its existing financial assistance and technical assistance grants programs.

Program Increases ....+$138,350,000 / +9 FTE

CDFI program +$53,850,000 / +0 FTE

The FY 2010 budget request seeks to increase funding to support the increased demand for CDFI Program grants. CDFIs use these grants 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 leverage CDFI Program awards by approximately 15:1. 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.

Native Initiatives +$1,500,000 / +0 FTE

Through the Native Initiatives, the CDFI Fund assists Native Communities (Native American, Alaskan Native and Native Hawaiian communities) to overcome certain barriers to financial services. The CDFI Fund achieves these objectives through two principal strategies: (i) the NACA Program, which provides financial assistance and technical assistance awards to new or existing Native CDFIs, and (ii) a complementary series of training programs, called Expanding Native Opportunities, that foster the development of new Native CDFIs, strengthen the operational capacity of existing Native CDFIs, and guide Native CDFIs in the creation of important financial education and asset building programs for their communities. The budget requests an additional $1.5 million, bringing the total program funding to $10 million.

Capital Magnet Fund +$80,000,000 / +0 FTE

The CMF, authorized by the Housing and Economic Recovery Act of 2008, is a program to be 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 $99 million in FY 2010. Given the current economic conditions, it is unlikely that funds will be available through this avenue in FY 2010. The budget requests $80 million in funding to begin this important program, which will stimulate the economy in the nation's most distressed neighborhoods. Grants awarded through the CMF will attract private capital and increase investment in affordable housing projects that are currently stalled due to the tightening of the credit market.

Capital Magnet Fund Implementation +$1,300,000 / +6 FTE

These resources will enable the CDFI Fund to hire additional grants and program compliance staff with expertise in programs designed to facilitate affordable housing and related investments.

Research, Evaluation & Performance +$850,000 / +2 FTE

Given the rapid restructuring of the nation's finance, housing and community development sectors, funding through the CDFI Fund's programs is being deployed in a dramatically changing market environment which requires strategic research to assess and monitor. Such research on shifting and emerging market conditions is essential to understand the current and future development prospects of underserved and economically distressed communities so that policy makers and administrators can frame policy operations and target program resources most efficiently. Several research initiatives are planned, including: (i) an evaluation and redesign of the BEA Program with an emphasis on encouraging private financial institutions' investments in CDFIs; (ii) the development of performance metrics for the CMF; (iii) strategic research to analyze how changing economics and demographic conditions have affected the operating environment of the CDFI Fund's programs.

Transition to Departmental Offices' IT LAN +$850,000 / +2 FTE
In FY 2010, the CDFI Fund will transition from its separate information technology LAN to a shared service provided model, leveraging the Department of Treasury Departmental Offices LAN capabilities. This transition will result in a one time cost estimated at $1.5 million.

2.2 – Operating Levels Table

Bureau: Community Development Financial Institutions Fund	FY 2008 Enacted	FY 2009 ARRA	FY 2009 President's Budget	Congressional Action Including Rescission	FY 2009 Enacted Level	Proposed Reprogrammings	FY 2009 Proposed Operating Level	FY 2010 Requested Level	% Change FY 2009 to FY 2010
FTE	**75**	**0**	**75**	**0**	**0**	**0**	**75**	**84**	**12.00%**
Object Classification:									
11.1 - Full-time permanent	5,660	1,324	6,545	1,823	6,230	0	6,230	8,223	31.99%
12 - Personnel benefits	1,470	326	1,701	97	1,619	0	1,619	2,060	27.24%
21 - Travel and transportation of persons	119	0	120	7	114	0	114	119	4.39%
22 - Transportation of things	20	0	20	0	20	0	20	20	0.00%
23.1 - Rental payments to GSA	1,411	0	1,465	(17)	1,447	0	1,447	1,553	7.33%
23.2 - Rental payments to others	193	0	117	99	189	0	189	190	0.53%
23.3 - Comm, utilities, and misc charges	317	0	472	0	332	0	332	368	10.84%
24 - Printing and reproduction	20	0	20	0	20	0	20	20	0.00%
25.1 - Advisory and assistance services	2,484	350	2,104	(27)	2,522	0	2,522	1,023	-59.44%
25.2 - Other services	1,008	0	330	737	630	0	630	1,035	64.29%
25.3 - Other purchases of goods and services from Govt. accounts	867	0	952	269	911	0	911	867	-4.83%
25.5 - Research and development contracts	0	0	0	0	0	0	0	1,500	0.00%
26 - Supplies and materials	106	0	107	12	111	0	111	111	0.00%
31 - Equipment	75	0	75	0	75	0	75	111	48.00%
33 - Investments and loans	2,170	0	100	0	530	0	530	800	50.94%
41 - Grants, subsidies, and contributions	78,080	98,000	14,492	62,443	92,250	0	92,250	225,600	144.55%
Total Budget Authority	**$94,000**	**$100,000**	**$28,620**	**$65,443**	**$107,000**	**$0**	**$107,000**	**$243,600**	**127.66%**
Budget Activities:									
Community Development Financial Institutions Program	52,250	90,000	14,592	34,043	59,750	0	59,750	113,600	90.13%
New Markets Tax Credit Program	4,120	67	4,203	0	4,200	0	4,200	4,203	0.07%
Bank Enterprise Award Program	20,000	0	0	21,400	22,000	0	22,000	22,000	0.00%
Native Initiatives	8,000	8,000	0	10,000	8,500	0	8,500	10,000	17.65%
Capital Magnet Fund	0	0	0	0	0	0	0	80,000	0.00%
Administration	9,630	1,933	9,825	0	10,550	0	10,550	13,797	30.78%
Financial Education and Counseling	0	0	0	0	2,000	0	2,000	0	-100.00%
Total Budget Authority	**$94,000**	**$100,000**	**$28,620**	**$65,443**	**$107,000**	**$0**	**$107,000**	**$243,600**	**127.66%**

2.3 – Appropriations Detail Table

Dollars in Thousands

(Dollars in Thousands)

Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted		FY 2009 ARRA		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Community Development Financial Institutions Program		$52,886		$52,250		$90,000		$59,750		$113,600		90.13%
New Markets Tax Credit Program	15	4,120	15	4,120		67	15	4,200	15	4,203		
Bank Enterprise Award		19,981		20,000				22,000		22,000		0.00%
Native Initiatives		7,327		8,000		8,000		8,500		10,000		17.65%
Capital Magent Fund										80,000		
Administration	38	8,997	60	9,630		1,933	60	10,550	69	13,797	15.00%	30.78%
Financial Education/Counselling								2,000		0		
Subtotal New Appropriated Resources	**53**	**$93,311**	**75**	**$94,000**		**$100,000**	**75**	**$107,000**	**84**	**$243,600**	**12.00%**	**127.66%**
Other Resources:												
Recoveries		658		500				500		500		
Unobligated Balance		1,533		986				986		500		-49.29%
Offsetting Collections		600		500				500		500		
Available multi-year/no-year funds		50		402				402		402		
Subtotal Other Resources	0	$2,841	0	$2,388			0	$2,388	0	$1,902		-20.35%
Total Resources Available for Obligation	53	$96,152	75	$96,388		$100,000	75	$109,388	84	$245,502	12.00%	124.43%

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, *$243,600,000* to remain available until September 30, [2010] *2011*, of which [$8,500,000] *$113,600,000* shall be for *the Community Development Financial Institutions Program; of which $10,000,000 shall be for* financial assistance, technical assistance, training and outreach programs, designed to benefit Native [American, Native Hawaiian, and Alaskan Native] communities and provided primarily through qualified community development lender organizations with experience and expertise in community development banking and lending in Indian country, Native American organizations, tribes and tribal organizations and other suitable providers[, $2,000,000 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)], *notwithstanding sections 4707(d) and 4707(e) of title 12, United States Code; and of which $80,000,000 shall 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 1331 of the Housing and Economic Recovery Act of 2008 ("HERA"; Public Law 110-289), to support financing for affordable housing and economic development projects: Provided further, That section 1339(h)(3) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by section 1131 of HERA, shall be applied by substituting the term "at least 10 times the grant amount or such other amount (including none) that the Secretary may require" for "at least 10 times the grant amount"; and* up to [$14,750,000]*$18,000,000* may be used for administrative expenses, including administration of the New Markets Tax Credit[, up to $7,500,000 may be used for the cost of direct loans, and up to $250,000 may be used for administrative expenses to carry out the direct loan program: Provided, That the cost of direct loans, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: Provided further, That these funds are available to subsidize gross obligations for the principal amount of direct loans not to exceed $16,000,000]*Program*. (Department of the Treasury Appropriations Act, 2009.)	The proposed changes include a waiver, for FY 2010, of the 5-year cap and the matching funds requirements for the CDFI and NACA programs; in addition, the CMF leveraging requirement is proposed for modification for FY 2010.

2C – Legislative Proposals

For purposes of the CDFI Fund's FY 2010 appropriations, the CDFI Fund is requesting a waiver of the statutory cap on award amounts (12 U.S.C. 4707 (d)) and a waiver of the matching funds requirements (12 U.S.C. 4707 (e)) for the FY 2010 funding rounds, given the current need to stabilize the economy.

Award Cap Waiver

The CDFI Fund proposes waiving the 3-year, $5 million cap (12 U.S.C. 4707(d)(1)-(2)) for FY 2010. The FY 2010 Budget includes a significant increase in CDFI Program resources, and the CDFI Fund requires the option to use some of the additional resources to fully fund high quality applicants that received awards in previous resources. Due to additional resources made available through the Recovery Act, and the increase of the FY 2010 budget request, the Administration supports waiving the award cap.

Matching Fund Waiver

The second proposal waives the CDFI Programs matching funds provision in 2010, which requires applicants to match awards on a 1:1 basis with private funding. Given current credit market conditions, CDFIs may find it difficult to obtain affordable private credit. Under this proposal, highly qualified CDFIs will be able to apply even if they are struggling to find a private match. Given the market challenges in the credit and equities markets, many CDFIs are encountering a significant contraction of capital support to obtain matching funds.

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 Administration supports waiving the matching funds requirement to enable all CDFIs that are able to serving distressed communities to be eligible to apply regardless of the market conditions that have impacted the ability to obtain matching funds.

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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2009 ARRA	FY 2009 Enacted	FY 2010 Request	Percent Change
Economic competitiveness	100,000	107,000	243,600	**127.66%**
Total	**$100,000**	**$107,000**	**$243,600**	**127.66%**

3A – Community Development Financial Institutions Program *($113,600,000 from direct appropriations):* The CDFI Program enables the CDFI Fund to carry out its mission of expanding the capacity of financial institutions to provide credit, capital and financial services to underserved populations and communities in the United States. The CDFI Program also addresses Treasury's strategic objective to increase economic growth and create jobs. The program comprises three components: Financial Assistance, Technical Assistance, and Training.

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

In FY 2009, the CDFI Fund received an additional $90 million for the CDFI Program under the American Recovery and Reinvestment Act (the Recovery Act). With these additional resources, the CDFI Fund will make awards in two phases in FY 2009. The entirety of the Recovery Act awards would be awarded in June of 2009 to CDFIs that had applied under the regular FY 2009 funding round. Disbursements would be made within 60 days after award announcement. This accelerated schedule, combined with the waiver of the matching funds requirement for FY 2009 CDFI Program awardees will enable the fund to make all Recovery Act awards and disbursements before the end of fiscal 2009. An additional application round was opened to invite applicants to apply for CDFI Program awards made with the funds that were initially appropriated. These awards are anticipated to be made in September of 2009.

Other Resources: Additional resources available for the CDFI Program in FY 2009 total $1,902,000, including $1,402,000 in available prior-year balances and $500,000 in offsetting collections.

3.2.1 – Community Development Financial Institutions Program Budget and Performance Plan

Community Development Financial Institutions Program Budget Activity						
	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
Resource Level	**Obligated**	**Obligated**	**Obligated**	**ARRA**	**Enacted**	**Request**
Appropriated Resources	$30,268	$31,881	$52,886	$90,000	$59,750	$113,600
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$30,268**	**$31,881**	**$52,886**	**$90,000**	**$59,750**	**$113,600**
Budget Activity Total	**$30,268**	**$31,881**	**$52,886**	**$90,000**	**$59,750**	**$113,600**

Budget Activity	Performance Measure	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
		Actual	**Actual**	**Actual**	**ARRA**	**Target**	**Target**
Community Development Financial Institutions Program	Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance ($ millions) (Oe)	1,400	778	621	NA	635	1391
Community Development Financial Institutions Program	Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI program awardees (Oe)	22,329	35,022	29,539	76,000	44,000	85,000

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

Description of Performance: In FY 2008, the CDFI Fund leveraged $621 million in private and non-CDFI Program dollars, which was less than the target of $750 million. The shortfall was due to two reasons: (i) in FY 2008 there was a decrease in the amount of FA disbursements compared to that which was projected; and (ii) the calculated leverage ratio decreased from $21:1 to $19:1. The leverage ratio will change over time due to changing macroeconomic conditions and because of changes in the size and composition of the group of CDFIs that provide leverage information every year. In addition, different CDFIs have varying abilities to raise equity and borrow against equity, and, moreover, each CDFI invests in varying types of project with different project leverage.

In FY 2008, the CDFI Fund created or maintained 29,539 full-time equivalent jobs in underserved communities, a slight improvement over its goal of 28,676 jobs.

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

Through 2009, the CDFI Fund has been authorized to issue to CDEs allocation authority totaling $26 billion, including $3 billion that was authorized under the Recovery Act. Six award rounds have been completed to date, corresponding to tax credit allocations supporting $19.5 billion in private sector capital. In 2009, the CDFI Fund is authorized to make a total of $6.5 billion in awards -- $3.5 billion through its standard authorization, plus an additional $3 billion that was authorized under the Recovery Act. Of the Recovery Act authority, per the authorizing statute, $1.5 billion will be awarded to CDEs that applied under the 2008 NMTC allocation round. The CDFI Fund intends to announce these awards in May of 2009. The remaining $1.5 billion will be added to the pool of allocation authority available in the 2009 round, bringing that total up to $5 billion. The CDFI Fund intends to announce the awardees under its 20009 round in October of 2009.

The FY 2010 budget request will fund the costs required to administer the NMTC Program (because it is a tax credit program, there is no required program funding such as with the CDFI Fund’s monetary award programs).

3.2.2 – New Markets Tax Credit Program Budget and Performance Plan

New Markets Tax Credit Program Budget Activity						
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 ARRA	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$3,968	$4,258	$4,120	$67	$4,203	$4,203
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$3,968**	**$4,258**	**$4,120**	**$67**	**$4,203**	**$4,203**
Budget Activity Total	**$3,968**	**$4,258**	**$4,120**	**$67**	**$4,203**	**$4,203**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 ARRA	FY 2009 Target	FY 2010 Target
New Markets Tax Credit Program	Community Development Entities' annual investments in low-income communities ($ billions) (Oe)	2	2.5	3.3	NA	2.5	2.5

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

Description of Performance: In FY 2008, the CDFI Fund awarded to CDEs a total of $3.5 billion in investment authority, providing recipients the ability to raise this amount of capital to invest in low-income communities. As stated above, due to additional Recovery Act resources, the CDFI Fund will made additional awards totaling $1.5 billion to applicants that had applied in 2008. These new awards will be made in May of 2009.

As reported in FY 2008 (based on reporting for program year 2007 results), CDEs exceeded the anticipated $2.5 billion in Qualified Low-Income Community Investments (QLICIs), by closing $3.3 billion in QLICIs. The CDFI Fund will continue to analyze the increasing rate that allocatees raise equity and make qualified investments, and use this analysis to set appropriate targets going forward.

As also reported in FY 2008 (based on reporting for program year 2007 results), the NMTC Program created or maintained 105,900 jobs. Of this amount, 80,959 jobs pertained to real-estate development /rehabilitation projects (i.e. categorized as “construction”) and 24,941 jobs were associated to non real-estate projects (i.e. categorized as “business-support”).

3C – Bank Enterprise Award Program *($22,000,000 from direct appropriations):* The BEA Program was created in 1994 to encourage FDIC-insured financial institutions (i.e., banks and thrift institutions) to increase their investments in low-income communities and in CDFIs. BEA Program awards are made available through annual application rounds. The CDFI Fund instituted program changes in 2009 requiring most awardees to reinvest their award dollars in support of CDFIs or in additional qualifying low-income community activities. In FY 2010, the CDFI Fund will seek to make additional reforms to the BEA Program to enhance the capacity of CDFI banks, and to strengthen partnerships between community banks and CDFIs. The CDFI Fund will work with

Congress, the Office of Management and Budget and other stakeholders in the development of proposed reforms, and seek Congressional approval as appropriate.

3.2.3 – Bank Enterprise Award Program Budget and Performance Plan

Bank Enterprise Award Program Budget Activity						
	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
Resource Level	Obligated	Obligated	Obligated	ARRA	Enacted	Request
Appropriated Resources	$13,286	$12,551	$19,981	$0	$22,000	$22,000
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$13,286**	**$12,551**	**$19,981**	**$0**	**$22,000**	**$22,000**
Budget Activity Total	**$13,286**	**$12,551**	**$19,981**	**$0**	**$22,000**	**$22,000**

Budget Activity	Performance Measure	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
		Actual	Actual	Actual	ARRA	Target	Target
Bank Enterprise Award	Increase in community development activities over prior year for all BEA program applicants ($ millions) (Oe)	318	227	232	NA	202	210

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

Description of Performance: The CDFI Fund received 60 applications requesting just over $49 million in FY 2008, compared to 61 applications requesting approximately $29 million in FY 2007. The CDFI Fund selected 52 FDIC-insured institutions to receive approximately $20 million in awards. The FY 2008 applicants are headquartered in 19 states and the District of Columbia, compared to the 18 states represented in the prior year.

FY 2008 applicants provided $275.5 million in qualified loans or investments in distressed communities, $66.4 million in qualified loans, deposits and technical assistance to CDFIs, and $7.5 million in qualified equity investments and grants to CDFIs.

FY 2008 BEA awardees increased their qualified community development activities by $232 million over the prior year.

- $178.1 million increase in loans and investments in distressed communities;
- $46.5 million increase in loans, deposits, and TA to CDFIs; and
- $7.5 million increase in equity investments or grants.

BEA awards are made based on an increase in the applicant's community development financing activity from one year to the next. In FY 2009, the CDFI Fund issued a revised interim rule for the BEA Program that requires 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). The CDFI Fund intends to continue to work closely with the Department and with the OMB to implement further reforms to this program targeted at enhancing the capacity of CDFI banks, and to strengthen partnerships between community banks and CDFIs.

3D – Native Initiatives *($10,000,000 from direct appropriations):* Through the Native Initiatives, the CDFI Fund assists Native Communities (Native American, Alaskan Native and Native Hawaiian communities) to overcome certain barriers to financial services. The CDFI Fund achieves these objectives through two principal strategies: (i) the NACA Program, which provides financial assistance and technical assistance awards to new or existing Native CDFIs, and (ii) a complementary series of training programs, called Expanding Native Opportunities, that foster the development of new Native CDFIs, strengthen the operational capacity of existing native CDFIs, and guide Native CDFIs in the creation of important financial education and asset building programs for their communities.

In FY 2009, the CDFI Fund received an additional $8 million for the NACA Program under the American Recovery and Reinvestment Act (the Recovery Act). The CDFI Fund developed an implementation plan under which the entirety of the Recovery Act awards would be awarded in June of 2009 to CDFIs that had applied under the appropriated funding round; with disbursements made within 60 days after award announcement. An additional application round was opened to invite other applicants to apply for CDFI Program awards made with the funds that were initially appropriated. These awards are anticipated to be made in September of 2009.

3.2.4 – Native Initiatives Budget and Performance Plan

Native Initiatives Budget Activity						
	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
Resource Level	Obligated	Obligated	Obligated	ARRA	Enacted	Request
Appropriated Resources	$5,416	$5,816	$7,327	$8,000	$8,500	$10,000
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$5,416**	**$5,816**	**$7,327**	**$8,000**	**$8,500**	**$10,000**
Budget Activity Total	**$5,416**	**$5,816**	**$7,327**	**$8,000**	**$8,500**	**$10,000**

Budget Activity	Performance Measure	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
		Actual	Actual	Actual	ARRA	Target	Target
Native Initiatives	Annual percentage increase in the total assets of Native CDFIs (%) (Oe)	182	19	19	NA	15	15

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

In FY 2008 NACA reported a 19% increase in the total assets of Native CDFIs from the target of 15%.

3E – Capital Magnet Fund *($80,000,000 from direct appropriations):* The Capital Magnet Fund was enacted through the Housing and Economic Recovery Act of 2008. Through the Capital Magnet Fund, the CDFI Fund will carry out a competitive grant program for CDFIs and nonprofit organizations (if their principal purposes is the development or management of affordable housing) to attract private capital for increased investment in affordable housing and economic development projects (such as day care centers, workforce development centers, and health care clinics) in extremely low-, very low-, and low-income communities CMF will complement the CDFI Fund's existing programs to stabilize or revitalize a low-income and underserved rural areas. The Act established the Capital Magnet Fund as a program that will be administered by the CDFI Fund.

3.2.5 – Capital Magnet Fund Budget and Performance Plan

Capital Magnet Fund Budget Activity						
	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010
Resource Level	Obligated	Obligated	Obligated	ARRA	Enacted	Request
Appropriated Resources	$0	$0	$0	$0	$0	$80,000
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$0**	**$0**	**$0**	**$0**	**$0**	**$80,000**
Budget Activity Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$80,000**

Description of Performance: Performance measures for this program are under development.

3F – Administration *($13,797,000 from direct appropriations):* This budget activity encompasses the CDFI Fund's operational support and management activities for each of the grant and tax credit programs it administers. This includes finalizing the terms of assistance agreements with awardees, making disbursements, and monitoring awardee compliance with the terms of their three-year award assistance and seven-year allocation agreements.

The CDFI Fund administration will enhance compliance monitoring of prior year awardees in each CDFI Fund program in FY 2010. 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 engages 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 the CDFI Fund's programs as well determine how changing economic conditions have affected the operating environment of the CDFI Fund's programs and altered the supply and demand for capital and financial services in underserved and economically distressed communities.

In FY 2010, 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. The CDFI Fund will transition to the Departmental Offices' IT LAN.

3.2.6 – Administration Budget and Performance Plan

Administration Budget Activity						
	FY 2006	**FY 2007**	**FY 2008**	**FY 2009**		**FY 2010**
Resource Level	**Obligated**	**Obligated**	**Obligated**	**ARRA**	**Enacted**	**Request**
Appropriated Resources	$9,429	$9,410	$8,997	$1,933	$10,550	$13,797
Reimbursable Resources	$0	$0	$0	$0	$0	$0
Total Resources	**$9,429**	**$9,410**	**$8,997**	**$1,933**	**$10,550**	**$13,797**
Budget Activity Total	**$9,429**	**$9,410**	**$8,997**	**$1,933**	**$10550**	**$13,797**

Description of Performance: 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.

The CDFI Fund has made significant progress in enhancing program administration business processes, enabling the fund to make award disbursements more quickly and at lower cost. Award disbursements during the first quarter of FY 2008 were 63% higher than the previous first quarter of FY 2007 for the CDFI Program. Disbursements for the NACA Program also increased 31% over the prior year period. These increases reflect improvements in business efficiencies in the disbursement system, ensuring awardees receive funds more quickly.

In FY 2009, the CDFI Fund anticipates further efficiency gains in award disbursements as a result of the waiver of the matching funds requirement included in the FY 2008 American Recovery and Reinvestment Act (Recovery Act) for CDFI and NACA Program awardees in that year.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The 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.

Recruitment and Diversity

Beginning in FY 2008 the CDFI Fund began backfilling its vacant positions. A number of positions were reallocated to the CDFI Fund's Compliance Monitoring and Evaluation unit to emphasize the need to increase monitoring awardee and allocatee compliance with the terms of their assistance agreements, including a greater emphasis on a risk-based approach which will entail more site visits.

The CDFI Fund's Office of the Director established formal recruitment strategies, policies and procedures intended to provide guidance to managers in recruiting the best candidates in the public and private sector. These "best practice" procedures include structured interviews, standardized questions, and a diverse interview panel. The CDFI Fund has seen a significant difference in the quality of the candidates it is recruiting, and these procedures will continue to be used throughout FY 2010.

Given the diversity of the CDFI Fund program's and constituents, the CDFI Fund is dedicated to recruiting a diverse pool of employees to replicate the populations it serves. As part of the Director's initiatives during FY 2009 and FY 2010, the CDFI Fund will be reaching out to organizations such as the Hispanic National Internship Program, the Washington Internships for Native American Students (WINS), Historical Black Colleges and Universities, and to trade organizations who represent those with disabilities. The CDFI Fund is also dedicated to recruiting individuals from the community and economic development community who share a common interest in the customers it serves. With the assistance of Departmental Offices, Office of Human Resources, the CDFI Fund has taken the opportunity to utilize a number of excepted service opportunities to recruit good talented individuals to help further its mission and its desire to increase its diversity.

In addition to recruiting diverse employees, the CDFI Fund continues to ensure that employees are up-to-date with the proper training in diversity, in addition to sexual harassment, EEO, ethics and integrity awareness training. As part of the CDFI Fund's dedication to its employees, all managers are required to attend a series of sessions that provides extensive information on all the topics listed above.

Employee Retention and Satisfaction

In FY 2008, the CDFI Fund implemented an Employee Recognition and Award program designed to establish continual improvement of the Fund's programs and operations through motivation and reward of its employees in keeping with its vision: an America win which all people have access to affordable credit, capital and financial services. The Employee Recognition and Award Program is designed to acknowledge employee contributions over and above that expected with "Quality" performance and is to be used in conjunction with the performance awards granted as part of the annual performance review process. 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.

The CDFI Fund Director has also continued monthly "Brown Bag" lunches with line staff in order to stay connected to their needs and thoughts. 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.

Beginning in FY 2007, the Office of the Director began establishing a collaborative relationship with the Departmental Offices National Treasury Employees Union (NTEU) Chapter. Today, employees have been properly designated as bargaining and non-bargaining unit employees so that those who are bargaining eligible may take advantage of the services provided to them. CDFI-NTEU relations continue to be productive and collaborative. Both entities have worked closely to respond to employee concerns and needs.

Organizational Effectiveness

During FY 2007 and FY 2008, the CDFI Fund underwent an awards process review to standardize policies and procedure and to bring more efficiency into the organization. In late FY 2008 the CDFI Fund implemented the new programmatic Standard Operating Procedures. Since implementation the CDFI Fund has significantly reduced the time it takes to process awards, particularly for the FY 2009 application rounds. The CDFI Fund anticipates an even better outcome during FY 2010.

As part of a comprehensive skills assessment conducted by an outside contractor of CDFI Fund Employees, the CDFI Fund is currently implementing several recommendations that will continue into FY 2010. The CDFI Fund is currently working with an 8 (a) vendor identified by Treasury's office of Small and Disadvantaged Business Utilization to provide position description consultation for all positions at the CDFI Fund to accurately reflect the roles and responsibilities of its employees. The vendor has been tasked with developing a position description plan that will provide numbers and types of positions, career ladder clarification, accurate roles and responsibilities and levels of authority, correct series numbers (if needed), statements of differences, and classification principles.

In addition to reviewing position descriptions, the CDFI Fund is currently developing mandatory Individual Development Plans (IDP) for all employees to assist them with their career goals and to achieve mission critical programs. The IDP's will correlate with the new performance plans established by Departmental Offices in FY08 and the newly established position descriptions. This project is intended to assist with organizational efficiency during FY 2010, which will be a busy and successful year for the CDFI Fund.

The Office of the Director is also working with an independent training organization to provide coaching and mentoring to all CDFI Fund managers. In addition to providing coaching and mentoring, the organization will provide 360 degree feedback simulations and will concentrate on personal skills, style and communication. The CDFI Fund is dedicated to providing training for the further development of their employees while achieving the goal of providing excellent service to its customers.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments								
Major IT Investments / Funding Source	Budget Activity	FY 2007 & Earlier Enacted	FY 2008 Enacted	% Change from FY07 to FY08	FY 2009 President's Budget	% Change from FY08 to FY09	FY 2010 Requested	% Change from FY09 to FY10
None								
Subtotal, Major IT Investments		0	0		0		0	
Community Investment Impact System (CIIS)	Community Development Financial Institutions and New Markets Tax Credit Program	670	414	-38.2%	427	3.1%	450	5.4%
Non-Major IT Investments		670	414	-38.2%	427	3.1%	450	5.4%
CDFI Infrastructure (Telecommunications)	Community Development Financial Institutions, New Markets Tax Credit Program, Bank Enterprise Awards Program, and Native Initiatives Program	350	0	-100.0%	0		0	
CDFI Infrastructure (Office Automation)	Community Development Financial Institutions, New Markets Tax Credit Program, Bank Enterprise Awards Program, and Native Initiatives Program	3,440	1,966	-42.8%	2,179	10.8%	2,584	18.6%
CDFI Infrastructure (IT Security)	Community Development Financial Institutions, New Markets Tax Credit Program, Bank Enterprise Awards Program, and Native Initiatives Program	360	364	1.1%	0	-100.0%	80	
CDFI Infrastructure (Infrastructure)	Community Development Financial Institutions, New Markets Tax Credit Program, Bank Enterprise Awards Program, and Native Initiatives Program	290	335	15.5%	335	0.0%	355	6.0%
Infrastructure Investments		$4,440	$2,665	-40.0%	$2,514	-5.7%	$3,019	20.1%
None								
Enterprise Architecture								
Total IT Investments		$5,110	$3,079	-39.7%	$2,941	-4.5%	$3,469	18.0%

4B – Information Technology Strategy

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

As described previously, the CDFI Fund faces many challenges in administration of its programs and plans to take steps in FY 2010 to address a number of these challenges. Specifically, the CDFI Fund is transitioning its award administration activities to the Grants Management Line of Business (GMLoB), and moving toward a shared service provider model for financial management and information technology services. As part of this transition process, the CDFI Fund will conduct a complete evaluation of its award activities, from application to award, to determine which activities can be transitioned, and the most efficient process for making the transition.

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

4.2 – Program Assessment Table

Program Evaluation

Program Name:	CDFI Fund: Finance and Technical Assistance
Year Evaluated:	FY 2004
Rating:	Adequate

OMB Major Findings/Recommendations

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

Bureau Actions Planned or Underway

1. The Fund is not taking any action related to the duplication/redundancy finding because:
   a. Fewer than 10 states administer CDFI programs and none of these state programs fully meets the capital needs of the CDFIs in its state. Furthermore, CDFIs in 40 states do nothave access to any state CDFI program.
   b. There are too few private sector equity investments available to meet CDFIs' needs for capital.

2. The Fund has built the IT system needed to set a target for the second long-term measure.

3. The Fund conducted the analysis needed, set the baseline for the efficiency measure and began measuring progress in FY 2006.

4. The Fund made disaggregated data available to the publid in January 2005 and will continue to do so annually.

5. A contract to evaluate the program was awarded in FY 2005 and is currently underway.

Program Evaluation

Program Name: New Markets Tax Credit (NMTC)
Year Evaluated: FY 2004
Rating: Adequate

OMB Major Findings/Recommendations

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

Bureau Actions Planned or Underway

1. 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.
2. NMTC Program allocatees submitted data in June 2005 that the Fund needed in order to set performance measure targets. The Fund set targets and began measuring its achievements in FY 2005.
3. The Fund conducted the analysis needed, set the baseline for the efficiency measure and began measuring progress in FY 2006.
4. In FY 2005 the Fund issued an RFP for an independent evaluation of the program and the multi-year evaluation began in the last quarter for FY 2006.

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

Financial Crimes Enforcement Network

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2008	FY 2009	FY 2010		
	Enacted	Enacted	Request	$ Change	% Change
BSA Administration and Analysis	$76,889	$82,287	$93,444	$11,157	13.6%
Regulatory Support Programs	$8,955	$9,178	$9,316	$138	1.5%
Total Appropriated Resources	**$85,844**	**$91,465**	**$102,760**	**$11,295**	**12.3%**
Total FTE	**321**	**330**	**331**	**1**	**0.3%**

FY 2010 Priorities

- 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.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

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

The BSA requires financial institutions to file reports and maintain records on certain types of financial activity and to establish appropriate internal controls to guard against money laundering, terrorist financing, and other types of illicit finance. These reports and records have a high degree of usefulness in criminal, tax, and regulatory matters. Documents filed by businesses pursuant to the BSA requirements are heavily used by law enforcement agencies, both domestically and through exchanges with international counterparts, to identify, detect and deter money laundering, whether it is in furtherance of a criminal enterprise, terrorism, tax evasion or other unlawful activity. FinCEN also serves as the nation's financial intelligence unit (FIU). A 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 information includes suspicious or unusual financial activity reported by the financial sector.

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

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

The total resources required to support FinCEN for FY 2010 are $105,760,000 including $102,760,000 for direct appropriation and $3,000,000 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 international anti-money laundering and counter terrorist financing efforts and cooperation; and networking people, entities, ideas, and information.

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

In FY 2008, FinCEN published guidance relating to the anti-money laundering program rule for dealers in precious metals, precious stones, or jewels, as well as several pieces of guidance to further clarify the definition of money services businesses (MSBs). FinCEN also published a notice of proposed rulemaking in the Federal Register that would simplify the existing currency transaction reporting exemption regulatory requirements, and the bureau continues to work towards presenting a final rule.

Also in FY 2008, FinCEN published three strategic assessments describing findings from Suspicious Activity Report (SAR) analysis to provide feedback to industry, regulatory, and law enforcement stakeholders. The assessments identified reporting trends and patterns and described vulnerabilities and typologies gleaned from reviewing SAR records: after the first year of mandated reporting by certain insurance companies; reporting suspected money laundering activities in the residential real estate sector; and describing mortgage loan fraud.

Additionally, in FY 2008, FinCEN worked to publish the draft rule on Chapter 10 and redefinition of MSBs. This is an effort to overhaul BSA regulations for inclusion in the new Code of Federal Regulations chapter to provide greater clarity in regulations and make them easier for industry to follow, as well as more intuitive and responsive to industry feedback.

FinCEN's future plans in the <u>regulatory area</u> 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 crimes, FinCEN will:

- Continue its outreach initiative to the largest fifteen depository institutions in the U.S. and expand this to include additional financial service industries; and
- Continue to support more consistent application of the BSA across industries.

FinCEN's efforts in the <u>analytical area</u> focus on developing products and services to help law enforcement better utilize resources to enhance detection and deterrence of domestic and international money laundering, terrorism financing, and other illicit activity. This includes exchange of information with counterpart foreign government FIUs in 107 countries that are members of the Egmont Group.

In FY 2008, FinCEN continued to enhance its support to law enforcement agencies by focusing on actionable analyses targeted at high-priority money laundering and terrorist financing targets. This effort was enhanced through collaborative efforts with Customs and Border Protection, the Border Patrol, Immigration and Customs Enforcement, and the Coast Guard. Additionally, FinCEN published two comprehensive technical reference guides for law enforcement officials (PayPal and MoneyGram).

FinCEN continued to work with its Egmont Group partners to develop actionable intelligence concerning illicit money flows and provided technical assistance and training to Egmont Group candidates and members. FinCEN increased collaboration with the Mexican FIU that involved analytical training, multiple on-site visits, support of information technology updates, and joint analytical projects.

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

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

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 2008, FinCEN began the process to retire magnetic media filing, maximized BSA E-Filing capabilities and BSA data validation, and implemented data quality measures to improve its management of BSA data and increase coordination and communication with its federal stakeholders. The bureau also continued initial planning associated with the previously announced multi-year information technology modernization initiative. FinCEN implemented a new public website in May 2008 that improved navigation and allows customers to more easily find the information needed and created a more flexible and sustainable site structure. And finally, in FY 2008, FinCEN increased law enforcement access to BSA information through additional MOUs with U.S. Attorney's Offices.

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:

- Increase BSA utilization by improving BSA information management and analysis;
- Develop, enhance, or acquire technology to proactively identify, extract and analyze specific datasets, entities or subject networks;
- Upgrade information technology to better retrieve and share BSA information with a growing user population; and
- Continue information technology enhancement.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Financial Crimes Enforcement Network	FTE	Amount
FY 2009 Enacted	330	91,465
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$1,295
Across the Board Program Reduction	-	(453)
Non-Pay Inflation Adjustment	-	495
Pay Annualization	-	419
Pay Inflation Adjustment	-	834
Subtotal FY 2010 Changes to Base	-	$1,295
Total FY 2010 Base	330	92,760
Program Changes:		
Program Increases:	1	$10,000
Implement Information Technology Modernization	1	10,000
Subtotal FY 2010 Program Changes	1	$10,000
Total FY 2010 President's Budget Request	**331**	**102,760**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$1,295,000 / +0 FTE

Across the Board Program Reduction -$453,000 / +0 FTE

FinCEN continues to focus on improving the efficiency of its operations through a disciplined process of productivity improvement.

Non-Pay Inflation Adjustment +$495,000 / +0 FTE

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

Pay Annualization +$419,000 / +0 FTE

Funds are requested for the FY 2010 cost of the January 2009 pay raise.

Pay Inflation Adjustment +$834,000 / +0 FTE

Funds are requested for the January 2010 pay raise.

Program Increases ....+$10,000,000 / +1 FTE

Implement Information Technology Modernization +$10,000,000 / +1 FTE

This request supports initial FinCEN efforts to modernize the BSA technical environment. FinCEN is working on prioritizing multiple efforts within the overall modernization initiative, and considering potential modular approaches to improving BSA data and analysis capabilities. In FY 2007, FinCEN developed a strategy to modernize the BSA data architecture to better serve its internal and more than 10,000 external users that rely on accurate, timely, and reliable BSA data to identify money laundering, terrorist financing, tax evasion, and vulnerabilities in the financial industry. The modernization will reengineer the BSA data architecture, update antiquated infrastructure required to support data capture and dissemination, implement innovative web-services and enhanced electronic-filing, and provide analytical tools. This investment will begin to enrich and standardize BSA data to maximize value, evaluate and deploy advanced analytical technologies, and establish more effective security technologies to enhance data confidentiality and integrity within FinCEN's environment. FinCEN's current technology environment has not kept pace with today's USA PATRIOT Act requirements. The number of institutions falling under the purview of the BSA has grown exponentially in the last six years and FinCEN anticipates continued robust growth in the future. The current technology environment is ill-equipped to meet 21st century realities and unable to quickly adapt to changing financial indicators and patterns of illicit activity. This funding request is a crucial component for promoting cost efficiency across several sectors of the USG and for meeting the needs of a modernized financial services industry.

2.2 – Operating Levels Table

Bureau: Financial Crimes Enforcement Network	FY 2008 Enacted	FY 2009 President's Budget	Congressional Action Including Rescission	FY 2009 Enacted Level	Proposed Reprogrammings	FY 2009 Proposed Operating Level	FY 2010 Requested Level	% Change FY 2009 to FY 2010
FTE	**321**	**343**	**0**	**330**	**0**	**330**	**331**	**0.30%**
Object Classification:								
11.1 - Full-time permanent	31,531	33,092	0	33,092	0	33,092	34,453	4.11%
11.3 - Other than full-time permanent	284	284	0	284	0	284	294	3.52%
11.5 - Other personnel compensation	526	526	0	526	0	526	545	3.61%
12 - Personnel benefits	8,433	9,030	0	9,030	0	0	9,075	0.00%
13 - Benefits for former personnel	0	0	0	0	0	9,030	0	-100.00%
21 - Travel and transportation of persons	1,190	1,216	0	1,216	0	1,216	1,153	-5.18%
23.1 - Rental payments to GSA	5,117	5,343	0	5,343	0	5,343	5,380	0.69%
23.2 - Rental payments to others	1,328	1,434	0	70	0	70	71	1.43%
23.3 - Comm, utilities, and misc charges	0	0	0	1,364	0	1,364	1,399	2.57%
24 - Printing and reproduction	400	450	0	450	0	450	454	0.89%
25.1 - Advisory and assistance services	1,815	1,815	0	1,815	0	1,815	1,830	0.83%
25.2 - Other services	11,758	13,136	0	13,266	0	13,266	13,178	-0.66%
25.3 - Other purchases of goods and services from Govt. accounts	12,706	14,198	0	14,198	0	14,198	14,445	1.74%
25.4 - Operation and maintenance of facilities	960	960	0	960	0	960	968	0.83%
25.6 - Medical care	145	153	0	153	0	153	155	1.31%
25.7 - Operation and maintenance of equip	4,815	5,003	0	5,003	0	5,003	5,056	1.06%
26 - Supplies and materials	409	444	0	444	0	444	449	1.13%
31 - Equipment	4,427	4,251	0	4,251	0	4,251	13,855	225.92%
Total Budget Authority	**$85,844**	**$91,335**	**$0**	**$91,465**	**$0**	**$91,465**	**$102,760**	**12.35%**
Budget Activities:								
BSA Administration and Analysis	76,889	82,157	0	82,287	0	82,287	93,444	13.56%
Regulatory Support Programs	8,955	9,178	0	9,178	0	9,178	9,316	1.50%
Total Budget Authority	**$85,844**	**$91,335**	**$0**	**$91,465**	**$0**	**$91,465**	**$102,760**	**12.35%**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted		FY 2009 Enacted		FY 2010 Baseline		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
BSA Administration and Analysis	303	$68,606	321	$76,889	329	$82,287	330	$93,444	0.30%	13.56%
Regulatory Support Programs		8,942		8,955		9,178		9,316		1.50%
Subtotal New Appropriated Resources	303	$77,547	321	$85,844	329	$91,465	330	$102,760	0.30%	12.35%
Other Resources:										
Recoveries		741		741		407		407		0.00%
Offsetting Collections - Reimbursable		4,310		5,251	1	6,000	1	3,000		-50.00%
Available multi-year/no-year funds		7,152		7,343		14,300		14,000		-2.10%
Transfers In/Out		221		225		225		225		0.00%
Subtotal Other Resources	0	$12,424	0	$13,560	1	$20,932	1	$17,632	0.00%	-15.77%
Total Resources Available for Obligation	303	$89,971	321	$99,404	330	$112,397	331	$120,392	0.30%	7.11%

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY FINANCIAL CRIMES ENFORCEMENT NETWORK Federal Funds **SALARIES AND EXPENSES:** For necessary expenses of the Financial Crimes Enforcement Network, including hire of passenger motor vehicles; travel and training expenses of non-Federal and foreign government personnel to attend meetings *including for course development* 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, [$91,465,000] *$102,760,000* of which not to exceed [$16,340,000] *$26,085,000* shall remain available until September 30, [2011] *2012*; and of which [$9,178,000] *$9,316,000* shall remain available until September 30, [2010] *2011*: Provided, That funds appropriated in this account may be used to procure personal services contracts.	The new language would specifically allow FinCEN to fund travel and training expenses of non-Federal and foreign government personnel to obtain the necessary expertise required to develop and prepare training materials to meet its mission. This language will specifically allow FinCEN to gather course development resources from state and local organizations, public and private, non-profit institutions, public and private business, and foreign government personnel.

2C – Legislative Proposals

FinCEN does not have any legislative proposals for FY 2010.

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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2009 Enacted	FY 2010 Request	Percent Change
U.S. & intl financial sys	97,465	105,760	**8.51%**
Total	**$97,465**	**$105,760**	**8.51%**

3A – BSA Administration and Analysis *($93,444,000 from direct appropriations and $3,000,000 from reimbursable programs):* This activity comprises FinCEN's efforts to administer the BSA, including promulgating regulations, providing outreach and issuing guidance to the regulated industries, providing oversight of BSA compliance, initiating enforcement actions, and, with the IRS, managing the information filed by the regulated industries, as well as analytic activities. Internationally, FinCEN promotes the development of anti-money laundering regimes through training and technical assistance. Analytical programs include support to U.S. law enforcement and international FIUs in combating financial crime by facilitating the exchange of investigative information; identifying foreign and domestic money laundering and terrorist financing trends, patterns, and techniques; and liaison with and support of intelligence initiatives within the intelligence community and within Treasury. This activity also incorporates efforts to support large-scale, complex law enforcement investigations involving terrorist financing, money laundering, and other financial crimes.

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

In the global arena, FinCEN's activities include: supporting international initiatives to educate other jurisdictions about the BSA regulatory regime; working to establish international anti-money laundering/counter-terrorist financing regulatory standards and norms; and improving the expertise and capabilities of personnel with anti-money laundering/counter-terrorist financing missions.

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

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

Other Resources: Offsetting collections and reimbursements totaling $3,000,000 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 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Enacted**	**FY 2010 Request**
Appropriated Resources	$64,458	$64,780	$68,606	$82,287	$93,444
Reimbursable Resources	$4,473	$0	$4,310	$6,000	$3,000
Total Resources	**$68,931**	**$64,780**	**$72,916**	**$88,287**	**$96,444**
Budget Activity Total	**$68,931**	**$64,780**	**$72,916**	**$88,287**	**$96,444**

Budget Activity	**Performance Measure**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Target**	**FY 2010 Target**
BSA Administration and Analysis	Percent of federal and state regulatory agencies with memoranda of understanding/information sharing agreements (%) (Ot)	0	0	41	45	51
BSA Administration and Analysis	Percent of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system (%) (Oe)	0	0	64	66	68
BSA Administration and Analysis	Percentage of bank examinations conducted by the Federal Banking Agencies indicating a	8	5.2	2.5	5.2	5.2

	systemic failure of the anti-money laundering program rule (%) (Oe)					
BSA Administration and Analysis	Percentage of customers satisfied with the BSA E-Filing (%) (Ot)	92	94	93	90	90
BSA Administration and Analysis	Percentage of FinCEN's Regulatory Resource Center customers rating the guidance received as understandable (%) (Ot)	94	91	94	90	90
BSA Administration and Analysis	The percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable (%) (Oe)	77	82	83	80	80
BSA Administration and Analysis	Average time to process enforcement matters (in years) (E)	1	1.1	0.7	1	1

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

In the regulatory area, FinCEN's goal to provide financial institutions with understandable guidance is critical to institutions establishing anti-money laundering programs that comply appropriately with the BSA. FinCEN's goal was to maintain a 90 percent satisfaction level and it surpassed the target with 94 percent of 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 through imposition of civil money penalties when appropriate. Timely enforcement action is essential to deter non-compliance with the BSA. In FY 2008, FinCEN surpassed its target of an average time to process enforcement matters of 1.0 years with an average time of 0.7 years.

In the analytical area, FinCEN supports domestic law enforcement and international FIU partners by providing analyses of BSA information, and measures the percentage of customers finding FinCEN's analytical 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 2008, FinCEN surpassed its target of 79 percent with 83 percent of its customers finding the analytic products highly valuable.

In the efficient management, safeguarding, and use of BSA information, FinCEN conducts a survey of the users of the BSA E-Filing system to determine the overall satisfaction level and to identify where improvements are needed. The FY 2008 target was to maintain at least a 90 percent satisfaction level, and FinCEN surpassed its target with 93 percent.

3B – Regulatory Support Programs *($9,316,000 from direct appropriations):* This activity supports implementation, strengthening and clarification of the programmatic (anti-money laundering, Customer Identification Program, and suspicious activity reporting), recordkeeping, and reporting requirements of the BSA for financial institutions subject to those requirements. FinCEN will continue efforts with the IRS, especially related to the money services business (MSB) industry to ensure compliance, respond to public inquiries, distribute forms and publications, and support collection and maintenance of BSA information. This may include enhancing the capability to correct identified data quality issues, enhance electronic filing, potentially explore overall forms design, and other related enhancements to the BSA collection and dissemination systems. These resources also fund IRS BSA compliance activities for non-bank financial institutions, especially related to the MSB industry.

3.2.2 – Regulatory Support Programs Budget and Performance Plan

Regulatory Support Programs Budget Activity					
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$8,436	$8,436	$8,941	$9,178	$9,316
Reimbursable Resources	$0	$0	$0	$0	$0
Total Resources	**$8,436**	**$8,436**	**$8,941**	**$9,178**	**$9,316**
Budget Activity Total	**$8,436**	**$8,436**	**$8,941**	**$9,178**	**$9,316**

FinCEN achieved the following quantifiable results in FY 2008:

- Increased the number of registered MSBs to 38,594 as of October 11, 2008. FinCEN plans to maintain or exceed this level by FY 2010;
- Continued to analyze SARs on a monthly basis for indications of possible unregistered MSBs, coordinating with law enforcement and state regulatory agencies on appropriate outreach, and continue efforts to educate MSBs regarding requirements for registration by publishing guidance and participating in industry outreach events. From September 2002 through August 2008, 5,423 individuals/entities suspected of being engaged in unregistered MSB activity have been identified through a review of SARs filed by depository institutions; and
- Continued to investigate methods for measuring the extent of BSA compliance among MSBs.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

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

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

In terms of competitive sourcing, FinCEN submitted its FY 2008 FAIR Act Inventory to the Department in April 2008, and continues to rely upon the private sector to perform commercial activities, especially in the information technology environment.

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

FinCEN leaders and managers effectively manage people and sustain a learning environment that drives continuous improvement in performance. In FY 2008, FinCEN continued to strengthen the skills of its current leaders and promote leadership skills at all levels. Mandatory training for all supervisors/managers included a two day class on *Making the Most of Performance Appraisals* in October 2007, and two days on *Essential Supervisory Skills* in May and August 2008, which covered EEO and employee discipline topics. Nine webinars on a wide range of leadership topics were also offered, and six employees participated in government sponsored leadership development programs.

FinCEN estimates that 25 percent of the current workforce will be eligible for retirement between now and FY 2011. To confront this management challenge, the bureau is emphasizing leadership development activities at all levels. The Leadership Development Program Directive, formalized in August 2008, defines essential training for new managers and continuing education requirements for all managers. The directive promotes growth, commitment, and empowerment for executives, managers and supervisors through: the use of assessment tools, required new supervisor/manager training, leadership training and continuing education.

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

FinCEN also has a complementary Awards and Recognition Program, which includes an annual Director's Awards and Recognition Program. In FY 2007, 78 percent of the workforce was rated above the fully successful level and were appropriately recognized, while 1.4 percent was rated below fully successful and appropriate remedial actions were taken.

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

- Continued participation in the Treasury Diversity Council and its support group;
- Maintained a Diversity Advisory Committee;
- 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;
- Conducted a Diversity Day Training Conference for all employees;
- Provided mandatory EEO training to all Managers and Supervisors;
- Partnered with diverse academic groups to attract student interns of diverse backgrounds; and
- Established contacts with special interest groups to attract applicants from diverse populations.

FinCEN is committed to developing defined paths for career progression, mentoring and coaching programs to identify and grow talent, and enhancing the skills of existing employees. In FY 2008, FinCEN conducted a skills gap assessment for its mission critical Regulatory Specialists and Law Enforcement Liaison Specialists. Using the results of those skills gap assessment, training development plans were created for those mission critical occupations along with its mission critical Intelligence Research Specialist. A comprehensive BSA Training Program was deployed and in-house training focused on high level analytic training to close skills gaps. In January 2008, a Rotational Assignment Program was created. It provides temporary rotational assignments within and outside of the bureau to its highly qualified and highly motivated employees who wish to make a significant contribution to the bureau and to further their own learning and career development. Since January 2008, seven FinCEN offices made rotational opportunities available in their offices. Eight employees were selected for those rotations. Two external organizations, the Office of Foreign Assets Control and the Customs and Border Protection's National Targeting Center-Cargo each offered to host a FinCEN employee as a rotational opportunity.

In May 2008, FinCEN deployed the Treasury-wide Treasury Learning Management System (TLMS) to enable employees to manage their own learning, and supervisors to electronically manage subordinates' learning requests and progress. Employees now access training opportunities, on-line courses, external training requests, and their own training histories 24 hours a day, seven days a week. FinCEN can efficiently disseminate bureau-wide announcements of training and professional development linked to necessary actions, mandatory training, and OPM-required data. Full access to unabridged contents of 20,000 books on business and technical topics are available in a searchable, collaborative environment through the TLMS.

Additionally, FinCEN took advantage of various hiring authorities and flexibilities within the last year. For example, in FY 2008, ten students were hired under the Student Temporary Employment Program (STEP); 4 in FY 2007, and 16 in FY 2006. FinCEN utilized the Veterans Employment Opportunity Act (VEOA) and the Veteran Rehabilitation Act (VRA) by making two appointments over the past two years. As reported in the Quarterly Hiring Timeline Report over the last four quarters, FinCEN averaged 40.25 days, which is under the 45 day hiring timeframe.

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

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments Major IT Investments / Funding Source	Budget Activity	FY 2006 Enacted	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Request	FY 2010 Request
BSA Information Technology Modernization						14.0
Cross Border Major						2.8
Major IT Investments	**BSA Administration and Analysis**	**0.0**	**0.0**	**0.0**	**0.0**	**16.7**
Non-Major IT Investments	**BSA Administration and Analysis**	**10.4**	**11.4**	**17.3**	**18.1**	**9.8**
Infrastructure Investments	**BSA Administration and Analysis**	**8.3**	**8.5**	**9.7**	**9.8**	**11.4**
Enterprise Architecture	**BSA Administration and Analysis**	**0.1**	**0.2**	**0.4**	**0.4**	**0.3**
Total IT Investments	**BSA Administration and Analysis**	**18.8**	**20.1**	**27.4**	**28.3**	**38.1**

4B – Information Technology Strategy

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

National and global law enforcement agencies depend on accurate, timely, and reliable financial information from FinCEN to track money trails, identify money laundering, and unravel terrorist financing networks.
In 2007, the number of BSA reports filed was slightly over 18 million, with approximately 1.3 million SARs for all covered industries. FinCEN recognizes the enormous obligation on one of its critical stakeholders—regulated financial institutions. Feedback from financial institutions, obtained through a 2007 survey on E-filing, indicated that FinCEN needs to streamline how it captures information through the various forms and simplify means to submit information.

Based on the growing need to reduce the obligation on the financial institutions while increasing the quality and timeliness of the information provided to the bureau's stakeholders, FinCEN began documenting an information technology modernization vision and strategy (IT MV&S) in FY 2007, resulting in an Enterprise Transition Strategy (ETS). This strategy spans all of the bureau's lines of business and serves as the organization's roadmap for aligning its IT portfolio with its business objectives and processes.

As a result of the IT MV&S effort, FinCEN has developed a multi-year strategic vision, which focuses on two keys aspects—information management and analysis and stakeholder relations and collaboration. By establishing an enterprise-wide information management and analysis framework, FinCEN will be equipped with better decision-making ability and control of BSA data collection and processing, as well as improved data quality and integrity.

In FY 2008, FinCEN and IRS continued to forge their partnership towards a modernized environment. In mid 2008, the Modernization Executive Group (MEG) was created and currently serves as the highest level, integrated governing body in support of BSA information management and is tri-chaired by the Treasury Chief Information Officer, the IRS Deputy Commissioner, and the FinCEN Director. Once established, the MEG chartered the Executive Steering Committee (ESC) , made up of seven voting members from IRS, FinCEN, and the Departmental Office, to ensure BSA modernization objectives are met, risks are managed appropriately, and expenditure of enterprise resources is fiscally sound. The MEG also requested an independent assessment of the current system of record for BSA data be performed to determine if portions could be reused in the modernized environment. The assessment concluded that the current system of record, WebCBRS, could not be used to support the capabilities identified in the modernized BSA environment. Those results were presented to and agreed upon by the MEG, and as a result, IRS and FinCEN are partnering to develop new strategies to deliver all of the critical components required to meet the needs of BSA stakeholders.

Lastly, FinCEN's BSA IT Modernization program supports the Treasury FY 2007-2012 Strategic Plan's national security strategic goal, enables FinCEN to meet their statutory requirements, closes the known gaps and provides more efficient filing for industry, reduces costs to industry and Government, and makes information more accessible and useful to about 300 external agencies at the Federal and State level.

4.2 – Program Assessment Table

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

OMB Major Findings/Recommendations

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

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

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

Bureau Actions Planned or Underway

1. FinCEN will look at ways to reduce filing burden on the financial community, including streamlining reporting obligations and increasing feedback and notices to filers. Progress will be tracked and reported to stakeholders/published by FinCEN. In Q4 FY 2008 SAR Acknowledgement feature was communicated to the Data Management Council. The SAR Acknowledgment concept of operations and high-level requirements document were completed by September 2008. Due to system constraints with WebCBRS, this feature will not be implemented until late FY 2009. Implement Adobe Forms for E-Filing in Q3 FY 2009.

2. 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 2008 the WebCBRS Release to correct selected high-priority data quality issues covered 19 items and 456 closed items. There were 387 items of which 8 were urgent. In FY 2009 implement two WebCBRS releases to correct selected high priority data quality issues. Report on number of closed data quality issues in Q4 FY 2009.

3. 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 Q4 FY 2008 the stakeholder forum strategy was in progress. Due to resource constraints, a forum will not occur until FY 2009. Provide SAR Acknowledgement E-Filing requirements to ECC-Detroit and finalize implementation plan in Q1 FY 2009. Implement Adobe Forms for E-Filing in Q3 FY 2009.

Evaluation Name: Bank Secrecy Act (BSA) Analysis
Year Evaluated: FY 2006
Rating: Adequate

OMB Major Findings/Recommendations

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

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

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

Bureau Actions Planned or Underway

1. Evaluating the feasibility of better assessing law enforcement impact of FinCEN's products. The feasibility study was completed in FY 2008. A decision was made to focus efforts on a development and implementation of a more collaborative process for intake, evaluation, and prioritization of customer requests that will enhance FinCEN's understanding of customer needs and customer's understanding of products and services. A new action plan has been developed for this effort. These actions complete FinCEN's response to this recommendation.

2. Developing measures of the impact of FinCEN's efforts to strengthen anti-terrorist financing and anti-money laundering programs worldwide. A survey was administered to technical assistance customers during Q3 and Q4 of FY 2008. These same impact questions were incorporated into the Foreign Investigative Case Report survey to provide a more comprehensive measure of FinCEN's impact on international AML/CFT efforts. Based on the results, FinCEN established a baseline and set future targets considering both the results of technical assistance and case support. These actions, and the establishment of a measure, complete FinCEN's response to this recommendation.

3. 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 discuss/solicit feedback on the proposal. In FY 2009, upon

completion of the comment period, the concept of operations plan will be updated and implementation will begin.

Evaluation Name: Bank Secrecy Act (BSA) Administration
Year Evaluated: 2006
Rating: Results Not Demonstrated

OMB Major Findings/Recommendations

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

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

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

Bureau Actions Planned or Underway

1. Developing measures of the impact of program activities on preventing the misuse of the financial system by those engaged in illicit activities. A survey was developed and conducted in FY 2008 and baseline performance was established. To further enhance performance measures, FinCEN refined their measure monitoring the number of federal and state regulatory agencies with information sharing agreements reflecting progress toward FinCEN's target of 130. These actions, and the previous establishment of measures, complete FinCEN's response to this recommendation.

2. FinCEN will meet with staff from the Office of Information and Regulatory Policy (OIRA) to discuss the tools and methods they employ when making cost/benefit decisions related to regulations. FinCEN met with OIRA in the third quarter of FY 2008 to discuss regulatory impact analysis. These actions complete FinCEN’s response to this recommendation.

3. 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 will facilitate the clearance process for a Notice of Proposed Rulemaking (NPRM) and an Advanced Notice of Proposed Rulemaking (ANPRM) to revise the money services business rules.

4. 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 has 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.

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

Alcohol and Tobacco Tax and Trade Bureau

Mission Statement

Our mission is 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 2008	FY 2009	FY 2010		
	Enacted	Enacted	Request	$ Change	% Change
Collect the Revenue	$47,693	$50,523	$52,500	$1,976	3.9%
Protect the Public	$45,822	$48,542	$52,500	$3,959	8.2%
Total Appropriated Resources	**$93,515**	**$99,065**	**$105,000**	**$5,935**	**6.0%**
Total FTE	**544**	**525**	**537**	**12**	**2.3%**

Note: FY 2010 Total Appropriated Resources includes $80 million in offsetting receipts collections from fee revenues. To the extent that these allocations differ from the Budget, the reader should refer to the figures presented in this document.

FY 2010 Priorities

- Collect the roughly $22 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 required to introduce alcohol beverage products into the marketplace.
- Conduct investigations to effectively administer the Internal Revenue Code and Federal Alcohol Administration Act provisions with the objective to minimize tax fraud and diversion risks.
- Complete audits of large and at-risk taxpayers who pay federal excise taxes.
- Conduct field investigations of alcohol and tobacco industry members regarding permit applications, consumer complaints, Federal Alcohol Administration Act trade practice violations, tax fraud, and alcohol beverage product integrity verifications.
- Promote e-filing of industry member data, including taxpayer operational reports and tax returns, as well as Certificate of Label Approval applications.
- Detect counterfeit alcohol and tobacco products, as well as those industry products diverted from lawful channels, and collect the taxes rightfully due on these products.
- Enhance the TTB Regulatory and TTB Tax System by adding new features, improving functionality, and streamlining the label approval process to enable industry members to bring their products to market sooner.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

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

In fiscal year (FY) 2010, 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 products, people, and companies in the alcohol beverage marketplace.
  - Enforce compliance with Federal laws related to the issuance of permits to industry members and the production, labeling, advertising, and marketing of alcohol products.
  - Utilize electronic government solutions to reduce taxpayer burden and improve service with online filing for permit applications and formula submissions, business activity reports, claims, applications, Certificates of Label Approval, and other forms.
  - Perform appropriate testing, laboratory analyses, and review documents of regulated commodities to ensure product safety and integrity.
  - Review and act on labels and formulas for domestic and imported beverage alcohol products and maintain public access to approved Certificates of Label Approval.
  - Respond to industry and consumer complaints.
  - 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 2010 are $109,234,000, including $25,000,000 from direct appropriations, $80,000,000 from special fund receipts (annual fees) and $4,234,000 from offsetting collections, mainly from the Puerto Rico cover-over program.

1B – Program History and Future Outlook

Program History - TTB has two primary 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 $15 billion in tax revenue annually, making TTB the third largest tax collection agency in the federal government. With the passage of the Children's Health Insurance Program Reauthorization Act legislation, the anticipated annual revenues will climb to $22 billion.

The excise taxes collected by TTB come from approximately 8,500 businesses, and the taxes are imposed and collected at the producer and importer levels of operations. Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. Approximately 200 of the largest taxpayers account for 98 percent of the annual excise tax collected. In FY 2008, the majority of taxes collected were from alcohol (51 percent) and tobacco (47 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, any illegal entities, individuals operating outside the excise tax system, developing a balanced field approach of audits and investigations that targets non-compliant industry members, and establishing an identifiable presence within the industry that encourages voluntary compliance.

Alcohol and tobacco taxes collected by TTB are remitted to the Department of the Treasury General Fund. Firearms and ammunition excise taxes are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

The investments in this activity resulted in the following performance highlights and accomplishments during FY 2008:

- Collected $14.6 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries.
- Expanded the e-filing program to allow all excise taxpayers to file and pay taxes and file monthly operational reports electronically through the Pay.gov system. In FY 2008, more than 98 percent of TTB's tax receipts were collected and processed electronically.
- Improved voluntary compliance among taxpayers with greater than $50,000 in annual excise tax obligations to a compliance rate of 94 percent in FY 2008, measured in terms of timely and accurate tax payments remitted without Agency intervention.

- Processed $381 million in cover-over payments to Puerto Rico and the Virgin Islands. Federal excise taxes collected on all imported rum, and on rum produced in Puerto Rico and the Virgin Islands and subsequently brought into the United States, are “covered-over” (or paid into) the treasuries of Puerto Rico and the Virgin Islands.
- Processed $283 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.
- Also analyzed 457 tobacco product samples for tax classification and rulemaking support. TTB laboratories review formulations and analyze alcohol and tobacco products to determine compliance with TTB tax and classification regulations.
- Established a Tobacco Laboratory to support TTB’s tobacco rulemaking, diversion and counterfeit investigations, and tax classification efforts. The Tobacco Laboratory became a member of the World Health Organization’s Tobacco Laboratory Network, a global tobacco testing network of laboratories from more than 100 countries.
- Completed audits and investigations that recovered almost $20 million in additional tax, penalties, and interest from industry members in FY 2008.

This table displays the amount of Federal excise tax collections at the Bureau from FY 2004 – 2008 by revenue type.

Revenue Type	2004	2005	2006	2007	2008
Alcohol	$6,995,540,000	$7,074,145,000	$7,183,012,000	$7,232,154,000	$7,420,906,000
Tobacco	$7,434,037,000	$7,409,689,000	$7,350,770,000	$7,194,097,000	$6,852,009,000
Firearms Ammunition Mfg	$216,006,000	$225,818,000	$249,578,000	$287,835,000	$312,622,000
Special Occupational Taxes 1/	$100,562,000	$10,190,000	$2,895,000	$2,808,000	$448,000
TOTALS	**$14,746,145,000**	**$14,719,842,000**	**$14,786,255,000**	**$14,716,894,000**	**$14,585,985,000**

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

Economic Impact and Tax Collections from the Alcohol Industry

Studies of the wine,[1] distilled spirits,[2] and beer industries [3] disclosed that the annual economic impact from those businesses on the U.S. domestic economy is rapidly approaching $500 billion (Wine - $162 billion; Beer - $189 billion; and Distilled Spirits - $103 billion) and represents 3 to 4 percent of the GDP. 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 FY 2009 – FY 2010. TTB envisions that in the next few years the increase in new alcohol businesses will be most prominent in the number of new alcohol fuel plants (ethanol), wineries, craft breweries, and craft distilleries.

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[1] “*The Impact of Wine, Grapes and Grape Products on the American Economy 2007*,” MKF Research LLC.

[2] “*The National Trade Association Representing Producers and Marketers of American’s Favorite Brands of Distilled Spirits,*” Distilled Spirits Council of the United States.

[3] “*The Beer Industry Economic Contribution Study* Prepared for The Beer Institute,” Guerrilla Economics, LLC, April 2007.

Firearms and Ammunition Excise Tax (FAET) Collections
Firearms and ammunition excise taxes are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937. The firearms and ammunition industry continues to grow. Federal excise tax collections on firearms and ammunition have increased from $193 million in FY 2003 to $313 million during FY 2008, an increase of $120 million over the past 6 years, or a 62 percent growth in federal FAET revenues. The increase in reported tax revenue can be attributed to industry growth, effective outreach initiatives at the bureau, and the presence of field audits which continues to promote voluntary taxpayer compliance.

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 46,200 alcohol and tobacco businesses. Under this activity, TTB enforces federal laws related to the issuance of permits to industry members and the production, importation, exportation, labeling, advertising, and marketing of alcohol products. TTB conducts these activities through investigations, application reviews, laboratory testing, and educational programs. TTB works with industry, foreign and state governments, and other interested parties to make it easier to comply with regulatory requirements and to maintain the appropriate level of oversight to ensure public safety. Education, partnerships, and open communication are paramount strategies in facilitating compliance with regulatory requirements.

The investments in this budget activity have resulted in the following performance highlights and accomplishments during FY 2008:

- Approved 105,000 of the 133,000 Certificate of Label Approval (COLA) applications received; the remaining 28,000 (21 percent) were either rejected, returned for correction, withdrawn, expired, or surrendered. About 62 percent of COLA applications were filed electronically through COLAs Online. This proprietary TTB system has been in operation since 2003.
- Issued approximately 5,200 original and 21,700 amended permits in FY 2008. TTB averaged 64 days to process perfected permit applications. TTB protected consumers by screening permit applicants, analyzing market samples, reviewing labels for accuracy, and investigating unfair trade practices.
- Evaluated more than 5,900 beverage alcohol formulas and processed 13,500 nonbeverage product formulas and samples. The laboratory also analyzed 2,500 beverage alcohol samples in support of audits and investigations, and the product integrity, pre-import, ABSP, 5010 tax credit, and consumer complaints programs.
- Implemented the Alcohol Beverage Sampling Program (ABSP) to validate the proper labeling of distilled spirits products in order to better protect consumers. In the first year, the TTB Laboratory analyzed 54 products to determine if the contents of the bottle matched the label description. This program enables TTB to be proactive rather than reactive to potential threats to the food supply.
- Tobacco Diversion: issued cease and desist letters to tobacco importers operating without permits. By comparing the Customs ACE database with TTB's Integrated Revenue Information System (IRIS), TTB determined that 105 entities, or 22 percent of tobacco importers, were importing product illegally. These importations totaled more than 1.5 million kilograms of tobacco products and approximately $30 million in federal excise tax.

- Signed a Memorandum of Understanding (MOU) with China's General Administration of Quality Supervision, Inspection, and Quarantine to ensure a long-term economic partnership with China. The MOU establishes a consistent channel for information exchange on imported and exported alcohol and tobacco products and facilitates compliance in trade.
- Conducted about 900 field application investigations of industry members regarding applications, consumer complaints, tax fraud, trade practice violations, and product and labeling integrity verifications. Included in these investigations are roughly 400 field investigations on the most high-risk permit applications to ensure objectives of the Anti-Terrorism Act of 2001 were met.

Specific Challenges in FY 2010

Increase in Federal Tobacco Excise Taxes
On February 4, 2009, the Children's Health Insurance Program Reauthorization Act was signed into law. The Act directly impacts TTB in that it raises the federal excise taxes on tobacco products and contains new tobacco permitting and enforcement provisions. Additionally, the Act directs the Secretary of the Treasury to conduct a study into the magnitude of tobacco smuggling in the United States and to submit to Congress recommendations on reducing tobacco smuggling.

The Act raises the federal excise tax on all tobacco products. It is estimated that the new provisions will increase revenues collected by TTB by $31.3 billion over the 2009-2013 period. The January 2009 macroeconomic forecast from the Congressional Budget Office anticipates an FY 2010 increase in revenue of $7.1 billion.

The new tax rates remove the discrepancy between small cigars and cigarettes at the federal level, but there is still incentive to misclassify cigarettes as small cigars in order to avoid payments under the Tobacco Master Settlement Agreement. Additionally, the large difference in rates between pipe and roll-your-own tobacco are likely to encourage diversion where there was none previously. The Act will also require manufacturers and importers of processed tobacco and blunts to obtain permits. The new permittees are subject to the all present-law permit, inventory, reporting and recordkeeping requirements.

TTB's enforcement of the floor stocks tax involves taxpayer education concerning the requirement and how to comply with it, evaluation and reconciliation of required report submissions with submitted floor stocks tax returns and payments, and field visits to verify that the payments are consistent with the floor stocks on hand. The bureau must conduct outreach to educate and provide guidance to roughly 400,000 businesses since the majority of those entities affected by the floor stock tax are not permittees, but retail operations subject to the tax.

Also, the Act directs the Secretary of the Treasury to conduct a study into the magnitude of tobacco smuggling in the United States and to submit recommendations on reducing tobacco smuggling to Congress no later than February 4, 2010. The study is to include a review of federal tax receipts lost due to smuggling and the role of imported tobacco products in the illicit tobacco trade in the United States. Additionally, there is an expectation that problems arising from the disparity in the tax rates between pipe and roll-your-own tobacco will be included in the study.

Law Enforcement
TTB has criminal enforcement authority, and is dependent upon the interest and availability of other agencies to supply law enforcement resources to pursue its criminal tax cases. The law enforcement challenges on the alcohol and tobacco industries revolve principally around tax fraud and label fraud. Tax fraud issues have also arisen in the firearms and ammunition industry. Tax fraud in these industries, through unlawful diversion or other means, represents an extremely high risk to federal revenue while at the same time presenting a lucrative funding source for organized crime and terrorists. In addition to the projected $1 billion in lost revenue attributable to tax fraud, domestic alcohol and tobacco trade label fraud also represents a serious threat to the economic stability of the alcohol trade. In particular, counterfeit alcohol beverages bearing 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 being sold. Typically, the consumer deception involves counterfeit high end products. Unlawful trade practices present a similar threat to free commerce because such practices undermine healthy small business activity and limit consumer choices by allowing influential producers to unlawfully interference with the supply chain.

Alcohol Fuel Plants (AFPs)
TTB has issued approximately 1,600 active alcohol fuel plant permits. These developments present a serious concern for TTB because of the possibility for significant revenue losses that would result from unlawful diversion. 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 strategic priorities, especially regarding TTB's investigative forces. TTB expects to lose 40 percent of its workforce by 2010 due to retirements and other attrition. To mitigate these losses, TTB continues to use the personnel interventions identified in the Pay Demonstration Program to enable the bureau to improve its capacity to recruit, develop, and retain high-caliber employees. TTB uses tailored approaches designed, developed, and implemented specifically for the bureau's continuing and evolving needs in order to meet mission requirements and remain competitive for highly skilled talent. Continuation of the Pay Demonstration authority is a key component in TTB's ability to close skill gaps in mission critical occupations. The FY 2010 budget proposes to continue this program for an additional year.

Rulemaking
Over the next few years TTB anticipates continued industry and interest group petitions, inquiries, and other expressions of interest in more detailed beverage labeling. An advance notice of proposed rulemaking published in mid-2005 on the labeling and advertising of wines, distilled spirits, and malt beverages sought comments on various labeling issues including, among others, information panels, alcohol content, and allergen labeling; this generated over

19,000 comments. In July 2006, TTB published in the Federal Register an interim rule setting forth standards for voluntary allergen labeling of alcohol beverages concurrently with a notice of proposed rulemaking for mandatory allergen labeling for alcohol beverages. In FY 2009, TTB will consider the feasibility of adopting mandatory allergen labeling requirements.

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 a statement that includes alcohol content expressed as a percentage of alcohol by volume. The new regulations would also specify reference serving sizes for wines, distilled spirits, and malt beverages based on the amount of beverage customarily consumed as a single serving rather than based on a definition of a standard drink. The purpose of these proposed regulatory changes is to ensure that beverage alcohol labels provide consumers with adequate information about the products they are consuming. A final rule on this matter has been prepared and is under review for approval prior to publication.

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 2009 Enacted	525	99,065
Changes to Base:		
Base Realignment:	-	$0
Base Realignment from Collect the Revenue	-	(990)
Base Realignment to Protect the Public	-	990
Maintaining Current Levels (MCLs):	-	
Across the Board Program Reduction	-	(1,556)
Pay Annualization	-	556
Pay Inflation Adjustment	-	1,014
Non-Pay Inflation Adjustment	-	421
Subtotal FY 2010 Changes to Base	-	$435
Total FY 2010 Base	525	99,500
Program Changes:		
Program Increases:	12	$5,500
Annual Licensing and Registration Fee Program	12	5,500
Subtotal FY 2010 Program Changes	12	$5,500
Total FY 2010 President's Budget Request	**537**	**105,000**
Special Receipts (Annual Fees)	(410)	(80,000)
Total FY 2010 President's Budget Request (Net)	**127**	**25,000**

2A – Budget Increases and Decreases Description

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

Base Realignment from Collect the Revenue -$990,000 / +0 FTE

Realignment of funds from the Collect the Revenue budget activity based on historical spending patterns. The funding realignment equally splits financial resources between TTB's budget activities.

Base Realignment to Protect the Public +$990,000 / +0 FTE

Realignment from Collect the Revenue to Protect the Public.

Maintaining Current Levels (MCLs) .... +$435,000 / +0 FTE

Across the Board Program Reduction -$1,556,000 / +0 FTE

TTB continues to focus on improving the efficiency of its operations through a disciplined process of productivity improvement.

Non-Pay Inflation Adjustment +$421,000 / +0 FTE

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

Pay Annualization +$556,000 / +0 FTE

Funds are requested for the FY 2010 cost of the January 2009 pay raise.

Pay Inflation Adjustment +$1,014,000 / +0 FTE

Funds are requested for the January 2010 pay raise.

Program Increases ....+$5,500,000 / +12 FTE
Annual Licensing and Registration Fee Program +$5,500,000 / +12 FTE
Legislation will be proposed to establish a permanent program for fiscal year 2010 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 $105 million in annual fee revenues from approximately 350,000 businesses. $5.5 million is the estimated cost 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 350,000 annual fee bills
2) Processing approximately 60,000 to 80,000 non-compliance letters
3) Maintaining the registry of the client database for the 350,000 businesses
4) Responding to customer inquiries (claims, waiver requests, etc.)
5) Accounting for the annual fee collections and processing of the revenues

Program Operating Costs	FY 2010 Requested
Salaries and Benefits (12 FTE)	$1,200,000
Contractor Support	$2,000,000
Printing and Postage of Annual Fee Bills	$700,000
Information Technology, Lock Box Fees and General/Program Administration	$1,600,000
TOTAL Implementation Costs	**$5,500,000**

The roughly 350,000 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 nonbeverage domestic drawback claimants.
Alcohol Annual Licensing and Registration Fees—Regulatory Implementation
Amendments to the TTB regulations would be necessary to implement this statutory program. At a minimum, the regulations 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 ....-$80,000,000 / -410 FTE
Annual Fees -$80,000,000 / -410 FTE
For 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

Bureau: Alcohol and Tobacco Tax and Trade Bureau	FY 2008 Enacted	FY 2009 President's Budget	Congressional Action Including Rescission	FY 2009 Enacted Level	Proposed Reprogrammings	FY 2009 Proposed Operating Level	FY 2010 Requested Level	% Change FY 2009 to FY 2010
FTE	**544**	**525**	**0**	**525**	**0**	**525**	**537**	**2.29%**
Object Classification:								
11.1 - Full-time permanent	43,640	44,940	0	44,940	0	44,940	47,008	4.60%
11.5 - Other personnel compensation	778	778	0	778	0	778	794	2.06%
11.8 - Special personal services payments	0	0	0	0	0	0	0	0.00%
12 - Personnel benefits	11,525	11,235	0	11,235	0	11,235	11,704	4.17%
21 - Travel and transportation of persons	3,363	3,000	0	3,000	0	3,000	3,015	0.50%
22 - Transportation of things	101	101	0	101	0	101	102	0.99%
23.1 - Rental payments to GSA	4,981	5,219	0	5,219	(449)	4,770	4,796	0.55%
23.3 - Comm, utilities, and misc charges	4,931	5,050	0	5,050	0	5,050	5,594	10.77%
24 - Printing and reproduction	378	386	0	386	0	386	567	46.89%
25.2 - Other services	21,733	22,131	165	22,296	(6,710)	15,586	18,886	21.17%
25.3 - Other purchases of goods and services from Govt. accounts	0	0	0	0	7,159	7,159	7,459	4.19%
26 - Supplies and materials	670	670	0	670	0	670	673	0.45%
31 - Equipment	1,415	3,390	2,000	5,390	0	5,390	4,402	-18.33%
Total Budget Authority	**$93,515**	**$96,900**	**$2,165**	**$99,065**	**$0**	**$99,065**	**$105,000**	**5.99%**
Budget Activities:								
Collect the Revenue	47,693	49,420	1,103	50,523	(990)	49,533	52,500	5.99%
Protect the Public	45,822	47,480	1,103	48,542	990	49,532	52,500	5.99%
Total Budget Authority	**$93,515**	**$96,900**	**$2,165**	**$99,065**	**$0**	**$99,065**	**$105,000**	**5.99%**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted		FY 2009 Enacted		FY 2010 Budget Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Collect the Revenue	256	$46,758	277	$47,693	268	$50,523	64	$12,500	-76.10%	-75.26%
Protect the Public	256	46,758	267	45,822	257	48,542	63	12,500	-75.49%	-74.25%
Subtotal New Appropriated Resources	512	$93,515	544	$93,515	525	$99,065	127	$25,000	-75.80%	-74.76%
Other Resources:										
Offsetting Collections - (Annual Fees)	0	0	0	0	0	0	410	80,000	100.00%	100.00%
Offsetting Collections - Reimbursable	10	3,755	15	3,755	15	5,154	15	4,234	0.00%	-17.85%
Available multi-year/no-year funds										
Transfers In/Out										
Subtotal Other Resources	10	$3,755	15	$3,755	15	$5,154	425	$84,234	2733.33%	1534.34%
Total Resources Available for Obligation	522	$97,270	559	$97,270	540	$104,219	552	$109,234	2.27%	4.81%

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY ALCOHOL AND TOBACCO TAX AND TRADE BUREAU Federal Funds	
<u>SALARIES AND EXPENSES:</u> For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, ***[$99,065,000] $105,000,000***; 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;*** 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 assista nce to State and local agencies with or without reimbursement: Provided, ***That [of the amount appropriated under this heading, $2,000,000, to remain available until September 30, 2010, is for information technology management] 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***	Legislation will be proposed to establish a permanent program for fiscal year 2010 and each fiscal year thereafter, requiring the payment of annual licensing and registration fees.

year 2010, so as to result in a fiscal year 2010 appropriation from the general fund estimated at $25,000,000: Provided further, That any amount received in excess of $80,000,000 in fiscal year 2010 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. 115. Section 122(g) (1) of Public Law 105-119 as amended (5 U.S.C. 3104 note), is further amended by striking [“10 years”] *“12 years”* and inserting [“11 years”] *“12 years”*.	TTB proposes to continue the Pay Demonstration Program by amending the language to extend the program for one additional year.

Note: The following are corrections with reference to General Provision below that is found in the Budget:
Section 303(b), line 3, refers to section 301(b); the correct reference is section 301(c).
Section 303(g)(1), line 5, refers to section 305(c); the correct reference is section 305(d).
Section 303(g)(2), line 4, refers to section 305(c); the correct reference is section 305(d).

"§ 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(b) 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, or beer 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.
"(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, or beer 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 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, or beer 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 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 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 or retail dealer in beer, selling in liquidation his entire stock of liquors in one parcel or in parcels embracing not less than his entire stock of distilled spirits, of wines, or of beer to any other dealer, shall be deemed to be a wholesale dealer in liquors or a wholesale dealer in beer, as the case may be, by reason of such sale or sales.
"(g) Sales to limited retail dealers.—
"(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(c).
"(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(c).
"(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.—
"(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.
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"(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.
"(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, or
retail dealers in beer, 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 or
retail dealers in beer 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)(3) 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)(3)
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.

2C – Legislative Proposals

Extend Pay Demonstration Program

TTB proposes to continue the Pay Demonstration Program (Pay Demo) by amending the General Provision language to extend the program for one additional year. This project was established to enhance 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.

Annual Licensing and Registration Fees
The Budget proposes language establishing a permanent program for FY 2010 and each fiscal year thereafter, requiring members of the alcohol industry 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, and industrial alcohol businesses.

Benefits to Industry: In general, regulation of the beverage alcohol industry benefits retailers, wholesalers, breweries, wineries, distilleries, 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 products are not contaminated, misbranded, or illegally marketed, and prevent dishonest persons from entering into the alcohol distribution system. This promotes fair competition among all industry members. Regulation of these industries also protects the public against adulterated alcohol 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 nonbeverage products, and tax-free and denatured alcohols to ensure that all taxes due on alcohol are collected.
- Regulating the production, packaging, and storage of alcohol 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 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, the annual estimated offsetting receipt collections will be less, but it is anticipated that the annual collections from this program will reach $105 million each year.

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 (CPI), 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 and Beer	$300
Wholesaler Dealers in Liquors and Beer	$500
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

Certain exemptions and exceptions of the annual fee may apply to certain business as outlined under the legislative proposal.

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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2009 Enacted	FY 2010 Request	Percent Change
Economic competitiveness	51,119	54,617	**6.84%**
Revenue collected	53,100	54,617	**2.86%**
Total	**$104,219**	**$109,234**	**4.81%**

3A – Collect the Revenue *($12,500,000 from direct appropriations, $40,000,000 from special fund receipts (annual fees), and $2,117,000 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 2010 budget request enables the continuation of efforts to achieve the performance targets supporting TTB's strategic goal of providing the most effective and efficient system for the collection of all revenue that is rightfully due, eliminating or preventing tax evasion and other criminal conduct, and providing high quality service while imposing the least regulatory burden.

Offsetting Collections…………………………………………………Total $2,117,000
Non-Federal Sources (Puerto Rico)……………………………………..$1,408,000
Federal Sources (Laboratory Services)………..……………..…………..…..$27,000
Federal Sources (Departmental Offices- OFS/OTI)..………..……...$682,000
.
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 $381 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 Alcohol Tobacco Firearms and Explosives Agency, and agreements with the Department of the Treasury Office of Financial Stability, and Office of Technical Assistance.

Special Receipts Fund (Annual Fees)…………………………………………..$40,000,000
The Budget proposes to establish a permanent program requiring alcohol industry participants to pay annual fees to TTB, and permitting the bureau to use those fees to cover the costs of its 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 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$49,618	$46,215	$46,758	$50,523	$52,500
Reimbursable Resources	$935	$1,512	$1,878	$2,577	$2,117
Total Resources	**$50,553**	**$47,727**	**$48,636**	**$53,100**	**$54,617**
Budget Activity Total	**$50,553**	**$47,727**	**$48,636**	**$53,100**	**$54,617**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Collect the Revenue	Amount of revenue collected per program dollar (E)	N/A	N/A	313	300	260
Collect the Revenue	Percentage of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue) (Oe)	N/A	N/A	940	92	92
Collect the Revenue	Cumulative percentage of excise tax revenue audited over 3 years (%) (Oe)	93	16	Discontinued	N/A	N/A
Collect the Revenue	Percentage of voluntary compliance in filing tax payments timely and accurately (in terms of number of compliant industry members) (%) (Oe)	75.95	75.00	Discontinued	N/A	N/A
Collect the Revenue	Percentage of voluntary compliance in filing tax payments timely and accurately (in terms of revenue) (%)	87.20	86.00	Discontinued	N/A	N/A
Collect the Revenue	Percentage of total tax receipts collected electronically (%) (E)	98.00	98.00	Discontinued	N/A	N/A
Collect the Revenue	Resources as a percentage of revenue (%) (E)	0.31	0.31	Discontinued	N/A	N/A

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

Description of Performance:

In FY 2008, TTB met all of its performance measures under Collect the Revenue, while showing continued improvements in performance scores. TTB continues to collect nearly $15 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 and the filing information is both accurate and reliable. The “amount of revenue collected per program dollar” measure shows that the benchmark $313 collected for every dollar spent on Collect the Revenue activities continues to showcase TTB as one of the most efficient tax collection agencies in the world.

3B – Protect the Public *($12,500,000 from direct appropriations, $40,000,000 from special fund annual receipts, and $2,117,000 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. TTB conducts investigations, application reviews, laboratory testing, and educational programs in support of its mission. TTB works with industry, other federal and state governments, and other interested parties to make it easier to comply with regulatory requirements, while maintaining the appropriate level of oversight to ensure public safety. Innovation, partnerships, and open communication are paramount to achieving this strategic goal.

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

Users of specially denatured alcohol 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 lab reviews the formula and analyzes samples to grant or deny the action requested by the applicant.

TTB also protects the consumer by monitoring alcohol products and investigating incidents of suspected unsafe conditions or product deficiencies related to production and labeling. 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 $2,117,000
Non-Federal Sources (Puerto Rico)……………………………………...$1,408,000
Federal Sources (Laboratory Services)………..………..……………...$27,000
Federal Sources (Departmental Offices- OFS/OTI).………….……..$682,000

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 $381 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 Alcohol Tobacco Firearms and Explosives Agency, and agreements with the Department of the Treasury Office of Financial Stability, and Office of Technical Assistance.

Special Receipts Fund (Fees)………………………………………..$40,000,000

The Budget proposes to establish a permanent program requiring alcohol industry participants to pay annual fees to TTB, and permitting the Bureau to use those fees to cover the costs of its 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 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Enacted**	**FY 2010 Request**
Appropriated Resources	$40,597	$44,403	$46,757	$48,542	$52,500
Reimbursable Resources	$765	$1,512	$1,877	$2,577	$2,117
Total Resources	**$41,362**	**$45,915**	**$48,634**	**$52,119**	**$54,617**
Budget Activity Total	**$41,362**	**$45,915**	**$48,634**	**$52,119**	**$54,617**

Budget Activity	**Performance Measure**	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Target**	**FY 2010 Target**
Protect the Public	Percent of electronically filed Certificate of Label Approval applications (%) (E)	38.00	51.00	62.00	53.00	54.00
Protect the Public	National Revenue Center customer service results (Oe)	N/A	N/A	90.00	85.00	85.00
Protect the Public	Average number of days to process an original permit application at the National Revenue Center (E)	N/A	N/A	64.00	72.00	78.00
Protect the Public	Percentage of importers identified by TTB as illegally operating without a federal permit	N/A	N/A	22.00	20.00	19.00
Protect the Public	Percentage of permit applications (original and amended) processed by the National Revenue Center within 60 days (%) (E)	86.00	85.00	Discontinued	N/A	N/A
Protect the Public	Percentage of COLA applications processed within nine calendar days of receipt	44.00	42.00	Discontinued	N/A	N/A
Protect the Public	Unit cost to process a Wine COLA	N/A	34	Discontinued	N/A	N/A
Protect the Public	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	N/A	15	Discontinued	N/A

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

Description of Performance:

In revising its suite of performance measures, TTB added two original measures in FY 2008 to indicate the bureau's level of success in meeting its consumer protection mission goals. Evaluation also resulted in the discontinuation of three performance measures that represented outdated operating conditions, one of which was replaced with a new customer-oriented measure and another that was updated with revised methodology.

In FY 2008, the TTB National Revenue Center (NRC) initiated a customer survey to measure satisfaction with processing times and the level of service provided to the industry. The survey solicits feedback in two areas: 1) how well specialists assist applicants in filing for an original or amended permit, and 2) service to industry members who file claims to recover taxes paid on nonbeverage alcohol or overpayments of tax. Based on responses captured by the NRC through telephone interviews, TTB earned a composite score of 90 percent on customer satisfaction for permits and claims processing.

The bureau met its performance measure on the percent of electronically filed certificate of label approval (COLA) applications, which in FY 2008 reached 62 percent of all applications. TTB also chose to discontinue the measure, "Percentage of COLA applications processed within nine calendar days of receipt," in FY 2008. The nine-day standard for processing COLA applications, set in the 1990's, is no longer representative of staffing or workload levels, given that the number of COLA applications has risen 25 percent in the past three years alone.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

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

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

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

Succession planning is a strategic priority for TTB's future transitioning, especially as it relates to the Bureau's mission critical positions. TTB expects to lose approximately 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. TTB has roughly 132 participants in the Pay Demo project that function in mission critical positions such as chemists, industry analysts, auditors, and information technology specialists.

During FY 2008, TTB:

- Developed and executed an FY 2008 Federal Human Capital Survey Action Plan. Actions included the establishment of a Partnership Council with the National Treasury Employees Union (NTEU), implementation of a new performance management system for General Schedule (GS) employees, and initiation of a new Emerging Leaders Program. Also, preliminary feedback from the joint Treasury/Office of Personnel Management (OPM) evaluation of our human resources program was positive and indicated an overall effective program rating.
- Played a crucial role in Treasury's testing and roll out of the Treasury Learning Management System (TLMS). TTB implemented TLMS by providing training to all TTB staff to ensure all internal and external training is tracked and recorded, and supervisors are able to create ad hoc reports of training.
- Finalized a comprehensive Pay Demo policy order for TTB and negotiated with NTEU prior to publication.
- Administered the 2008 Federal Human Capital Survey for TTB in coordination with Treasury and the Office of Personnel Management.

- Underwent the Department of the Treasury's first audit of the Treasury Bureau's Equal Employment Opportunity (EEO) Programs. Preliminary feedback indicated positive results and an overall effective EEO/Diversity Program.
- Completed the OPM 2008 Performance Appraisal Assessment Tool (PAAT) evaluation and reporting. Overall feedback from Treasury on TTB's GS performance management program was very positive.
- Continued to exceed the Treasury hiring goal of 45 days with an annual overall average of 33 days to hire.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Dollars in Thousands

Information Technology Investments								
Major IT Investments / Funding Source	Budget Activity	FY 2007 Enacted	FY 2008 Enacted	% Change from FY07 to FY08	FY 2009 Enacted	% Change from FY08 to FY09	FY 2010 Requested Funding	% Change from FY09 to FY10
Subtotal, Major IT Investments		0	0	0.0%	0	0.0%	0	0.0%
Non-Major IT Investments	Collect the Revenue/Protect the Public	2.850	3.980	39.6%	4.480	12.6%	4.480	0.0%
Infrastructure Investments	Collect the Revenue/Protect the Public	15.514	14.915	-3.9%	17.258	15.7%	16.260	-5.8%
EITIO			11.483		13.826		12.828	
WCF			3.432		3.432		3.432	
Enterprise Architecture	Collect the Revenue/Protect the Public	0.477	0.491	2.9%	0.644	31.2%	0.644	0.0%
Total IT Investments	Collect the Revenue/Protect the Public	18.841	19.386	2.9%	22.382	15.5%	21.384	-4.5%

4B – Information Technology Strategy

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

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

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

4.2 – Program Assessment Table

Program Name: Collect the Revenue
OMB Major Findings/Recommendations
1. The Collect the Revenue program has a clear purpose and is well designed to achieve its goals.
2. The program has developed adequate long-term performance measures with ambitious targets and timeframes.
Bureau Actions Planned or Underway
1. TTB is updating its Web site to enhance search and navigation; improve content and format; employ plain language principles; and redesign the TTB.gov homepage.
2. TTB is analyzing the results of the first comprehensive TTB-sponsored seminar and implementing changes and improvements to subsequent seminars.

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

Financial Management Service

Mission Statement

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

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2008	FY 2009	FY 2010		
	Enacted	Enacted	Request	$ Change	% Change
Payments	$210,152	$147,717	$150,395	$2,678	1.8%
Collections	$19,804	$21,521	$21,911	$390	1.8%
Government-wide Accounting and Reporting	$68,642	$70,547	$71,826	$1,279	1.8%
Total Appropriated Resources	**$298,598**	**$239,785**	**$244,132**	**$4,347**	**1.8%**
Total FTE	**1,692**	**1,500**	**1,500**	**0**	0.0%

Note: The FY 2008 Enacted Column includes $64 Million in Economic Stimulus Funds.
The Debt Collection program is funded through reimbursable revenues.

FY 2010 Priorities

- Provide timely, accurate, and efficient disbursement of Federal 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.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

FMS' vision is: World class delivery of government financial management services.

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

FMS' Strategic Goals, as reflected in the FY 2010 priorities, are to:

- Provide timely, accurate, and efficient disbursement of Federal payments.
- Provide timely, accurate and efficient collection of Federal Government receipts.
- Maximize collection of delinquent debt owed to the Government.
- Produce timely and accurate financial information that contributes to the improved quality of financial decision making.
- Be a great place to work.

FMS provides critical services to millions of United States taxpayers and other customers. It embodies Treasury's leadership strategy to create value for the American people, provide responsible and effective stewardship over the Government's finances, and focus on quality service, results and innovation. The breadth and scope of FMS' programs are enormous. The impact of its programs on the economy and the American public is significant. FMS' activities touch millions of American citizens, virtually every Federal Program Agency (FPA) and state governments 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 income tax refunds, Social Security benefits, veterans' benefits and other Federal payments to individuals and businesses. FMS also administers the world's largest collection system, collecting over $3.1 trillion in FY 2008. FMS provides cash management guidance to FPAs, maintains the Government's accounting books, and compiles and publishes government-wide financial information used to monitor the Government's financial status. Finally, FMS serves as the Government's central debt collection agency for delinquent non-tax debt.

1B – Program History and Future Outlook

The Payments program develops and implements Federal payment policy and procedures, issues and distributes payments, promotes the use of electronics in the payment process, and assists agencies in converting payments from paper checks to Electronic Funds Transfer (EFT). This includes controlling and providing financial integrity to the payments process through reconciliation, accounting, and claims activities. It also includes special payments such as Federal Emergency Management Agency payments. In FY 2008, FMS issued nearly 1 billion non-Defense payments worth $1.8 trillion to a wide variety of recipients, such as those who receive Social Security benefits, IRS tax refunds and veterans' benefits. Seventy-nine percent of all payments disbursed were issued via direct deposit. In addition, FMS issued an additional 119 million Economic Stimulus Payments valued at over $96 billion. Over 36 percent of the Stimulus Payments were issued by direct deposit.

Streamlining the payments processes while continually investing in state-of-the-art technology is integral in processing payments accurately, timely, and more safely and securely for the taxpayer. The Payment Application Modernization (PAM) Project is an effort to replace the current mainframe-based software applications that are used to disburse approximately 1 billion federal payments annually with a total dollar value of $1.5 trillion. Ultimately, PAM will be a single application that will generate check, wire transfer, and ACH payments for federal program agencies (FPAs), including Social Security, IRS, Veteran's Affairs, as well as others.

In FY 2010, FMS will continue to expand the use of electronic media to deliver Federal payments. Electronic media provides a safer, more secure and reliable method of payment for recipients. In addition, electronic payments also decrease the number of paper checks issued, minimizing costs and inefficiencies associated with the delivery of non-electronic benefits.

The Collections program collects revenues needed to operate the Federal Government through the effective management of the Government's collections infrastructure. In FY 2008, FMS collected a record $3.2 trillion, of which 80 percent was collected electronically, through a network of more than 9,000 financial institutions. Dollar revenues collected in FY 2008 exceeded those collected in FY 2007. 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.

FMS is in the middle of a comprehensive effort to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. This effort, Collections and Cash Management Modernization (CCMM), will improve financial performance by enabling FMS and government agencies to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes.

In FY 2010, FMS will continue to expand the use of electronic collection mechanisms using the most advanced and secure collection technologies that are flexible enough to accommodate the varying needs and technical sophistication of all taxpayers and FPAs. In addition, FMS will work to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. Currently, collection agents report collections information to many FPAs and multiple U.S. Treasury systems. To collect this information, the FPAs and U.S. Treasury systems interface with 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 via transaction brokering, data warehousing, and business intelligence. The single touch point will enable the standardization and consolidation of collections information and eliminate redundancies in the Federal Government's collections reporting processes. FMS will also continue to focus on security oversight efforts at financial agent processing facilities and banking institutions as a way to proactively identify security control weaknesses and detect and deter fraud, waste, theft and unauthorized access associated with the collection of Government remittances and protection of sensitive information.

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

In FY 2008, FMS collected a record $5.9 billion in delinquent debt. This includes $1.5 billion in Economic Stimulus payment offsets which is comprised of $840 million for child support debts and $664 million for delinquent non-tax and state tax debt. Debt referrals from creditor agencies were at 100 percent of eligible debt at the end of FY 2008.

As a result of FMS' continued program improvements, total collections since the enactment of the DCIA in 1996 are over $37.4 billion through FY 2008. In FY 2010, FMS will continue to enhance FedDebt, a comprehensive system that integrated FMS' previous collection tools: Cross-Servicing and the Treasury Offset Program (TOP). This reduces redundancies, improves data integrity, and provides agencies direct online access. FMS will also continue to roll out Debt Check, an online program used to help agencies bar delinquent debtors from obtaining new loans or loan guarantees. In addition, the Centers for Medicare and Medicaid Services (CMS) offset and the Railroad Retirement Board levy program began in FY 2009. The Postal Service is also scheduled to begin offsetting and levying vendor payments in late 2009.

The Government-wide Accounting and Reporting program maintains the Federal Government's books and accounts for its monetary assets and liabilities by operating and overseeing the Government's central accounting and reporting system. For FY 2008, FMS released the Financial Report of the United States Government (FR) 75 days after the fiscal year-end for the fifth consecutive year. The FR presents a picture of government-wide finances that complements the traditional Federal Government budget information. To support the accelerated release of the FR, Treasury continues to release the Monthly Treasury Statements (the monthly public source of budgetary results) on the eighth workday of each month. With this release schedule, agency financial managers are better able to verify and use the data in their own reports.

In FY 2010, FMS will continue to revamp and implement government-wide accounting processes to provide more useful and reliable financial information on a regular basis. FMS has two major initiatives which will modernize long standing Federal accounting processes and provide agencies with methodologies and tools to improve the accuracy and consistency of their financial data.

FMS is building and implementing a system to improve the exchange of financial information among FMS, FPAs, OMB and the banking community. Once completed, this program, the Government-wide Accounting (GWA) Modernization Program will replace current government-wide accounting functions and processes that are both internal and external to FMS. In FY 2009 and beyond, FMS will continue working with FPAs to implement the new GWA system 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. This initiative will result in significant savings throughout Government as agencies will no longer have to prepare month-end reports classifying all of their disbursement and collection transactions or perform reconciliations on statements of differences associated with month-end reporting.

In FY 2010, FMS will continue moving forward on the FIRST initiative. This initiative integrates budget and financial reports from FPAs. FIRST will improve the consistency of the budgetary and proprietary accounting data recorded in agency financial statements and reported to FMS through its trial balance. FIRST is designed to provide authoritative information, contained in Treasury's central accounting system, to the agencies, to facilitate the reconciliation process for specific intra-governmental transactions.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Financial Management Service	FTE	Amount
FY 2009 Enacted	1,500	239,785
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$4,347
Across the Board Program Reduction	-	(1,174)
Non-Pay Inflation Adjustment	-	808
Pay Annualization	-	1,558
Pay Inflation Adjustment	-	3,155
Subtotal FY 2010 Changes to Base	-	$4,347
Total FY 2010 Base	1,500	244,132
Total FY 2010 President's Budget Request	**1,500**	**244,132**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$4,347,000 / +0 FTE

Across the Board Program Reduction -$1,174,000 / +0 FTE

FMS continues to focus on improving the efficiency of its operations through a disciplined process of productivity improvement.

Non-Pay Inflation Adjustment +$808,000 / +0 FTE

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

Pay Annualization +$1,558,000 / +0 FTE

Funds are requested for the FY 2010 cost of the January 2009 pay raise.

Pay Inflation Adjustment +$3,155,000 / +0 FTE

Funds are requested for the January 2010 pay raise.

2.2 – Operating Levels Table

Bureau: Financial Management Service	FY 2008 Enacted	FY 2009 President's Budget	Congressional Action Including Rescission	FY 2009 Enacted Level	Proposed Reprogrammings	FY 2009 Proposed Operating Level	FY 2010 Requested Level	% Change FY 2009 to FY 2010
FTE	**1,692**	**1,500**	**0**	**1,500**	**0**	**1,500**	**1,500**	**0.00%**
Object Classification:								
11.1 - Full-time permanent	119,955	124,208	336	124,544	0	124,544	127,561	2.70%
11.3 - Other than full-time permanent	1,500	1,500	0	1,500	0	1,500	1,540	2.67%
11.5 - Other personnel compensation	3,000	3,000	0	3,000	0	3,000	3,081	2.70%
11.8 - Special personal services payments	0	0	0	3,508	0	3,508	3,603	2.71%
12 - Personnel benefits	26,200	29,888	105	30,975	0	30,975	31,703	2.70%
13 - Benefits for former personnel	175	175	0	175	0	175	180	2.86%
21 - Travel and transportation of persons	1,603	1,503	0	1,503	0	1,503	1,511	0.53%
22 - Transportation of things	195	195	0	275	0	275	278	1.09%
23.1 - Rental payments to GSA	13,500	13,500	0	13,500	0	13,500	13,635	1.00%
23.2 - Rental payments to others	365	670	0	670	0	670	677	1.04%
23.3 - Comm, utilities, and misc charges	61,964	11,413	0	10,351	0	10,351	10,455	1.00%
24 - Printing and reproduction	500	500	0	500	0	500	505	1.00%
25.1 - Advisory and assistance services	4,800	6,002	0	6,002	0	6,002	6,062	1.00%
25.2 - Other services	28,892	19,035	0	18,759	0	18,759	18,574	-0.99%
25.3 - Other purchases of goods and services from Govt. accounts	7,037	6,000	0	2,768	0	2,768	2,795	0.98%
25.4 - Operation and maintenance of facilities	1,000	500	0	500	0	500	505	1.00%
25.7 - Operation and maintenance of equip	7,500	8,005	0	8,005	0	8,005	8,085	1.00%
26 - Supplies and materials	8,446	3,600	0	3,600	0	3,600	3,636	1.00%
31 - Equipment	11,441	9,100	0	9,100	0	9,100	9,191	1.00%
32 - Land and structures	475	500	0	500	0	500	505	1.00%
42 - Insurance claims and indemnities	50	50	0	50	0	50	50	0.00%
Total Budget Authority	**$298,598**	**$239,344**	**$441**	**$239,785**	**$0**	**$239,785**	**$244,132**	**2.00%**
Budget Activities:								
Payments	210,152	147,445	272	147,717	0	147,445	150,395	2.00%
Collections	19,804	21,481	40	21,521	0	21,481	21,911	2.00%
Government-wide Accounting and Reporting	68,642	70,418	129	70,547	0	70,418	71,826	2.00%
Total Budget Authority	**$298,598**	**$239,344**	**$441**	**$239,785**	**$0**	**$239,785**	**$244,132**	**2.00%**

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Payments*	901	$171,686	1,112	$210,152	963	$147,717	963	$150,395	0.00%	1.81%
Collections	148	23,103	137	19,804	135	21,521	135	21,911	0.00%	1.81%
Debt Collection	0	0	0	0	0	0	0	0	0.00%	0.00%
Gov. Accounting and Reporting	408	72,420	443	68,642	402	70,547	402	71,826	0.00%	1.81%
Subtotal New Appropriated Resources	1,456	$267,209	1,692	$298,598	1,500	$239,785	1,500	$244,132	0.00%	1.81%
Other Resources:										
Recoveries										
Offsetting Collections - Reimbursable	429	206,425	428	215,179	441	228,010	483	234,690	9.52%	9.17%
Available multi-year/no-year funds										
Transfers In/Out										
Subtotal Other Resources	429	$206,425	428	$215,179	441	$228,010	483	$234,690	9.52%	2.93%
Total Resources Available for Obligation	1,885	$473,634	2,120	$513,777	1,941	$467,795	1,983	$478,822	2.16%	2.36%

*FY 2008 Obligations includes $36.9M and 8 FTE associated with the Economic Stimulus Payments

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, [$239,785,000] *$244,132,000* of which not to exceed $9,220,000 shall remain available until September 30, [2011] 2012, 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, 2009]*	

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 Treasury of the United States. In 1998, Treasury received a permanent, indefinite appropriation to reimburse the FRBs for the services they provide as fiscal agents on behalf of Treasury. Since the FRBs support each FMS program activity, the performance measures listed in the Salaries and Expense section of this budget apply to the work done by the FRBs. FMS estimates that the cost of FRB services for FY 2010 will be approximately $321 million.

Financial Agent Services Permanent, Indefinite Appropriation - Congress has given the Secretary of the Treasury longstanding, broad discretion to deposit money in financial institutions and to obtain banking services by designating financial institutions to act/serve as Financial Agents (FA) of the United States Government. The services are in support of programs such as Electronic Federal Tax Payment System (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, 12.U.S.C. 90 and 265. In FY 2004, Treasury received a permanent indefinite appropriation to pay for these services.

FMS estimates that the cost of FA services for FY 2010 will be approximately $609 million, which includes $12.5 million for Government Sponsored Enterprise - Mortgage Backed Securities (GSE-MBS) administrative costs. Of this amount, approximately $50 million is reimbursed from other government agencies and deposited into the General Fund.

Table 2.4 – Permanent, Indefinite Appropriations

(Dollars in Thousands)

Permanent, Indefinite Appropriation	2008 Enacted	FY 2009 Request	FY 2010 Request
Federal Reserve Bank	$295,000	$305,000	$321,000
Financial Agent Services*	$426,000	$593,000	$609,000

* FY 2010 includes $12.5 million for the Government Sponsored Enterpise - Mortgage Backed Securities administrative costs.

** Approximately $50 million is reimbursed from other FPAs and deposited into the General Fund.

2C – Legislative Proposals

Authorize Post-Levy Due Process for Levies Under the Federal Payment Levy Program

To ensure the payment and collection of taxes, the IRS is authorized to take various collection actions, including Federal tax levies. Before a tax levy can be issued, however, the IRS must provide the taxpayer with notice and an opportunity for an administrative collection due process (CDP) hearing, and for judicial review. An exception to the requirement for pre-levy CDP proceedings applies to levies issued to collect a Federal tax liability from a State tax refund. This exception was recently expanded to include levies issued to collect Federal employment taxes under specified conditions. In these contexts, the taxpayer is provided an opportunity for a CDP hearing within a reasonable period of time after the levy.

This proposal would further expand the exception to the requirement for pre-levy CDP proceedings to include levies issued to collect Federal tax liabilities from Federal vendor payments under the Federal Payment Levy Program. As with the current exceptions, the taxpayer would be provided an opportunity for a CDP hearing within a reasonable period of time after the levy. This proposal is estimated to result in an additional $1.2 billion in collections over ten years.

The Federal Payment Levy Program is an automated process that matches Federal tax liabilities against payments disbursed by the Federal Government, including payments to Federal contractors. Under the current process, when a match occurs, IRS issues the CDP notice but cannot levy payment until the CDP requirements are complete.   By this time the payment has already been made and the opportunity for levy is diminished. This proposal would remedy this situation by allowing the IRS to levy the payment at the time the payment is identified as is currently done to levy State tax refunds and to collect Federal employment taxes.

Technical Correction to Allow IRS to Levy 100% of All Vendor Payments to Collect Delinquent Taxes

Section 6331 (h) of the Internal Revenue Code was amended in 2005 to allow the Internal Revenue Service to levy up to 100 percent of Federal vendor payments. Before this change, the maximum was 15 percent. The current language, which was intended to cover all Federal vendor payments, refers to payments for "goods and services."   This has been interpreted to exclude payments for the purchase or lease of real estate. Therefore, a technical correction is proposed to ensure that all Federal vendor payments are covered. This proposal is estimated to result in an additional $845 million in collections over ten years.

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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2009 Enacted	FY 2010 Request	Percent Change
Financial information	77,666	75,403	**2.4%**
Payments	286,299	293,048	**2.4%**
Revenue collected	107,830	110,371	**2.4%**
Total	**$467,795**	**$478,822**	**2.4%**

3A – Payments *($150,395,000 from direct appropriations and $137,057,000 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 activity also includes controlling and providing financial integrity to the payments process through reconciliation, accounting and claims activities. Included in this activity is the claims activity which settles claims against the United States. These claims result from Federal Government checks that have been forged, lost, stolen or destroyed. FMS collects monies from those parties liable for fraudulent or otherwise improper negotiation of Government checks. It also includes processing claims and reclamations for EFT payments.

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

Direct deposit offers Federal benefit payment recipients ease and convenience, and protects against fraud and identity theft. Direct deposit also generates significant cost savings to the Government over paper checks. This is attributable to consumable inventory and postage costs which are mitigated with each EFT payment. However, FMS faces challenges in increasing growth in electronic payments. As the Government prepares for the huge increase in retiring baby boomers in the near future, it is critical that FMS dramatically increase use of direct deposit for issuing benefit payments. To help with this endeavor, FMS began a nationwide campaign called “Go Direct” to encourage current check recipients to switch to direct deposit. In its extremely successful third year, over 901,000 conversions were attributed to the Go Direct campaign, saving millions of dollars for the United States Treasury in the years to come. As of January 2009, the total number of conversions obtained since the inception of the campaign is over 2.5 million.

Additionally, in April FY 2008, FMS implemented a branded debit card program, Direct Express, which provides an electronic option for those Federal check recipients who do not have bank accounts to receive their Federal benefit payments. FMS is working with the Social Security Administration and others to develop and implement the program. As of the end of January 2009, over 308,000 beneficiaries had signed up for Direct Express.

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

- *Stored Value Card (SVC)*: This is a smartcard, similar to a credit/debit card, using an encrypted computer chip to process "electronic money" stored on the card. This program is aimed at reducing the float-loss 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 to September 2008, over 13.5 million EFT transactions with a dollar value in excess of $2 billion were processed via the SVC programs.

- *Automated Standard Application for Payments (ASAP.gov):* ASAP is a web-based payment system developed by FMS in coordination with the Federal Reserve Bank of Richmond. Through this all electronic payment system, grantee organizations receiving Federal funds, including states, universities, for-profit, and non-profit entities, draw from accounts pre-authorized by Federal agencies. ASAP is one of two systems authorized by the Chief Financial Officer's Council to disburse civilian grant payments on behalf of program agencies. ASAP is also used to reimburse certain financial agents that are performing financial services for FMS and other Federal agencies. Twenty-five Federal agencies use ASAP and the total CY 2008 disbursements were $482 billion.

- *Payment Application Modernization (PAM):* The PAM project is an effort to replace the current mainframe-based software applications that are used to disburse approximately 1 billion federal payments annually with a total dollar value of $1.5 trillion. Ultimately, PAM will be a single application that will generate check, wire transfer, and ACH payments FPAs, including Social Security, IRS, Veteran's Affairs, as well as others. In addition to standardization, FMS is modernizing the technologies employed in the development of the system, using commercial software products where feasible. Additionally, the project incorporates new and enhanced functionality to support improvements in the payment process. PAM implemented Release 1.0 in FY 2008 consisting of functionality to process Social Security Supplemental Income (SSI) ACH monthly payments. Release 2.0, SSI Check monthly processing, was implemented in February 2009.

Other Resources:
Offsetting collections and reimbursements totaling $137,057,000 are collected for disbursement of federal agency payments to beneficiaries, including Social Security payments, Railroad Retirement Board payments, tax refunds and the Department of Veterans Affairs benefit payments.

3.2.1 – Payments Budget and Performance Plan

Payments Budget Activity					
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$142,979	$147,055	$171,686	$147,717	$150,395
Reimbursable Resources	$134,400	$132,712	$130,853	$138,584	$137,057
Total Resources	**$277,379**	**$279,767**	**$302,539**	**$286,301**	**$287,452**
Budget Activity Total	**$277,379**	**$279,767**	**$302,539**	**$286,301**	**$287,452**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Payments	Percentage of paper check and electronic funds transfer (EFT) payments made accurately and on-time (%) (Oe)	100	100	100	100	100
Payments	Percentage of Treasury payments and associated information made electronically (%) (Oe)	77	78	79	80	81
Payments	Unit cost for Federal Government payment ($) (E)	0.37	0.39	0.39	0.40	0.40
Payments	Number of electronic payments in thousands (Ot)	74,980	767,172	793,822	808,727	831,828
Payments	Number of checks in thousands (Ot)	219,054	214,777	205,604	203,604	201,380

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

Description of Performance: FMS disburses payments to a wide variety of recipients, such as those who receive Social Security Administration payments, Internal Revenue Service tax refunds, and the Department of Veterans Affairs benefits. In FY 2008 FMS issued nearly 1 billion non-Defense payments, with a dollar value of approximately $1.8 trillion. More than 79 percent of these transactions were issued by Electronic Funds Transfer (EFT). In addition, FMS issued 119 million Economic Stimulus Payments valued at over $96 billion, 36 percent of which were issued by direct deposit. In FY 2009, FMS is targeting the percentage of electronic payments to be 80 percent.

3B – Collections *($21,911,000 from direct appropriations and $113,000 from reimbursable programs):* The Collections activity collects revenues needed to operate the Federal Government through the management of the Federal Government's collections infrastructure. FMS collected a record of $3.2 trillion in FY 2008 through a network of more than 9,000 financial institutions. It also manages the collection of Federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines and proceeds from leases. FMS establishes and implements collection policies, regulations, standards and procedures for the Federal Government. The majority of dollar collections are made electronically. In FY 2008, 80 percent of dollar collections were electronic. FMS set its FY 2010 target for the percentage collected electronically at 80 percent.

FMS develops and operates a variety of collection mechanisms and systems to meet program agency needs. It has initiated a comprehensive effort, CCMM, to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. This effort will improve financial performance by enabling FMS and Government agencies to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes. Additionally, it will improve timeliness by providing FPA's 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 electronics in the collections process and assist agencies in converting collections from paper to electronic media with programs such as:

- *Electronic Federal Tax Payment System (EFTPS)* - This is an accurate, secure and convenient way to collect all Federal tax payments, including corporate, excise and employment taxes and 1040 quarterly estimated taxes, via the internet or a telephone voice response system. EFTPS collects 82 percent of United States tax dollars and is required for businesses with annual Federal tax obligations above $200,000. 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 close to 30.5 million in FY 2008, a reduction of 10 percent as compared to FY 2007. 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 2008, more than 98 million payments were processed through EFTPS, which represents an 8.7 percent increase over FY 2007.

- *Pay.gov* - Pay.gov is a system allowing individuals and businesses to make non-tax payments to Federal agencies over the internet. Pay.gov provides collections, form submittal, bill presentment, and agency financial reporting services. Since inception in FY 2000 and through March 2009, Pay.gov has processed approximately 47 million transactions valued at over $162.9 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 online 24 hours a day, seven days a week. Pay.gov, which has been implemented with 128 Federal agencies representing 483 cash flows, collected $48.7 billion in FY

2008 and $37.9 billion in FY 2007. 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 FMS' goal of increasing electronic collections and reducing collection costs. In FY 2008, more than 6.9 million items received over the counter, representing more than $12.8 billion, were processed through check conversion or truncation. Additionally, through FY 2008 more than 31 million items received through the mail at lockboxes, representing more than $15.6 billion, were similarly processed. FMS' target is that all paper checks remitted to the Federal Government will be converted or truncated and processed electronically by the end of FY 2010.

3.2.2 – Collections Budget and Performance Plan

Collections Budget Activity					
Resource Level	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Enacted**	**FY 2010 Request**
Appropriated Resources	$18,291	$19,649	$23,103	$21,520	$21,911
Reimbursable Resources	$0	$0	$141	$0	$113
Total Resources	**$18,291**	**$19,649**	**$23,244**	**$21,520**	**$22,024**
Budget Activity Total	**$18,291**	**$19,649**	**$23,244**	**$21,520**	**$22,024**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Collections	Percentage collected electronically of total dollar amount of Federal government receipts (%) (Oe)	79	79	80	80	80
Collections	Unit cost to process a federal revenue collection transaction ($) (E)	1.10	1.19	1.20	1.27	1.25

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

Description of Performance: In FY 2008, FMS collected a record $3.2 trillion through a network of more than 9,000 financial institutions. The majority of the dollar amounts of FMS collections were made electronically – 80 percent of the $3.2 trillion collected. Approximately 56 percent of the transactions in FY 2008 were made electronically. In FY 2008, taxpayers paid more than $2.1 trillion using EFTPS, just slightly higher than FY 2007 which correlates to an increase of 9 percent in the number of payments, to over 98 million. FMS stepped up its efforts in FY 2008 to work with Federal agencies to promote the use of electronics in the collections process and assists agencies in converting collections from paper to electronic media.

3C – Debt Collection *($93,397,000 from reimbursable programs):* FMS collects delinquent Government and child support debt by providing centralized debt collection, oversight and operational services to FPAs and states as required by the Debt Collection Improvement Act of 1996 and related legislation. The services include, but are not limited to, collecting delinquent debts through Cross-Servicing and offsetting Federal payments, providing a database for use as a tool for barring delinquent debtors, providing post-judgment collection, advising and educating agencies on improving debt management, and referrals to the Department of Justice.

In FY 2010, FMS will continue to enhance FedDebt, a comprehensive system that integrated FMS' previous collection tools: Cross-Servicing and the Treasury Offset Program (TOP). The TOP FedDebt function compares the names and Taxpayer Identifying Numbers (TINs) of debtors with the names and TINs of recipients of Federal payments. If there is a match, the Federal payment is reduced, or "offset," to satisfy the overdue debt. Cross-Servicing 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, and use of private collection agencies.

FedDebt, which integrates the payment offset and cross-servicing applications, provides FPAs with batch and online capabilities for all users, via a single sign-on interface and will employ a common file format for submitting Cross-Servicing or TOP debts. FedDebt provides a single platform for debt business applications, a single entry portal, a web-based customer interface, and a single database for reporting. FedDebt eliminates many labor-intensive processes and hard-copy data exchanges for Federal agency customers and service partners. FMS will continue developing FedDebt by implementing a service-oriented architecture.

FMS is working to incorporate additional payment types into the payment offset and levy programs. This effort is directed primarily at increasing collections of debt, especially tax debt owed by contractors and vendors. The Defense Finance and Accounting Service is currently in the process of levying civilian salaries. In addition, the Centers for Medicare and Medicaid Services offset program will begin in early 2010, as will the Railroad Retirement Board levy program. The Postal Service is also scheduled to begin taking vendor payment offsets and levies in late 2009. In addition, enhancements of collection tools such as Administrative Wage Garnishment and Debt Check, an online database used to assist agencies in barring delinquent debtors from obtaining new loans or loan guarantees, will improve program performance.

3.2.3 – Debt Collection Budget and Performance Plan

Debt Collection Budget Activity					
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$5,393	$0	$0	$0	$0
Reimbursable Resources	$28,312	$67,611	$74,705	$86,247	$93,397
Total Resources	**$33,705**	**$67,611**	**$74,705**	**$86,247**	**$93,397**
Budget Activity Total	**$33,705**	**$67,611**	**$74,705**	**$86,247**	**$93,397**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Debt Collection	Amount of delinquent debt collected per $1 spent ($) (E)	39.97	53.55	54.82	43.00	43.00
Debt Collection	Amount of delinquent debt collected through all available tools ($ billions) (Ot)	3.34	3.76	4.41	3.90	3.70
Debt Collection	Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral (%) (Ot)	95	100	99	97	97

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

Description of Performance: In FY 2008, FMS collected a record $5.9 billion in delinquent debt, including $1.5 billion from Economic Stimulus payment offsets, which exceeded our FY 2008 target of $3.4 billion. The amount collected includes $2.8 billion in past due child support, $2.3 billion in Federal non-tax debt, and over $778 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 2008. As a result of the continued program improvements, collections have steadily increased to more than $37.4 billion since the enactment of the Debt Collection Improvement Act of 1996. In calendar year 2008, the Internal Revenue Service referred an additional $45.4 billion of tax debts for continuous levy, a 17 percent increase over calendar year 2007.

3D – Government-wide Accounting and Reporting *($71,826,000 from direct appropriations and $4,123,000 from reimbursable programs):* The Government-wide Accounting and Reporting activity maintains the Federal Government's books and accounts for its monetary assets and liabilities by operating and overseeing the Government's central accounting and reporting system. It also works with Federal agencies to adopt uniform accounting and reporting standards and systems and provides support, guidance and training to assist FPAs in improving their government-wide accounting and reporting responsibilities. FMS gathers and publishes government-wide financial information which is used in establishing fiscal and debt management policies and is also used by the public and private sectors to monitor the Government's financial status. Publications include: the Daily Treasury Statement, the Monthly Treasury Statement, the Treasury Bulletin, the Combined Statement of the United States Government, and the Financial Report of the United States Government (FR).

FMS is building and implementing a system to improve the exchange of financial information among FMS, FPAs, OMB and the banking community. Once completed, this program, the Government-wide Accounting (GWA) Modernization Program, will comprehensively replace current government-wide accounting functions and processes that are both internal and external to FMS. In FY 2009 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. The new 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. This initiative will result in significant savings throughout Government as agencies will no longer have to prepare month-end reports classifying all of their disbursement and collection transactions or performing reconciliations on statements of differences associated with this month-end reporting.

FMS is taking significant steps to address the material weaknesses found in the compilation process of Financial Report (FR) of the United States Government, including:

- Requiring comprehensive accounting data from agencies on a quarterly basis that will allow FMS to better analyze the data for consistency and completeness.

- Providing agencies with authoritative data to reconcile inter-agency transfers and other transactions that agencies report to the central accounting system.

- Using the Chief Financial Officers (CFO) Council, 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.

- Organized a General Fund Team to analyze intra-governmental activity that must be reported to offset agency reporting with the General Fund of the United States 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 2010, FMS will continue moving forward on the Financial Information and Reporting Standardization (FIRST) initiative. This initiative integrates budget and financial reports from FPAs. FIRST will improve the consistency of the budgetary and proprietary accounting data recorded in agency financial statements and reported to FMS through its trial balance. FIRST is designed to provide authoritative information, contained in Treasury's central accounting system, to the agencies, to facilitate the reconciliation process for specific intra-governmental transactions.

3.2.4 – Government-wide Accounting and Reporting Budget and Performance Plan

Government-wide Accounting and Reporting Budget Activity					
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$67,338	$64,954	$72,420	$70,548	$71,826
Reimbursable Resources	$0	$1,122	$726	$3,179	$4,123
Total Resources	**$67,338**	**$66,076**	**$73,146**	**$73,727**	**$75,949**
Budget Activity Total	**$67,338**	**$66,076**	**$73,146**	**$73,727**	**$75,949**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Government wide Accounting and Reporting	Percentage of Government-wide accounting reports issued accurately (%) (Oe)	100	100	100	100	100
Government wide Accounting and Reporting	Percentage of Government-wide accounting reports issued timely (%) (E)	100	100	100	100	100
Government wide Accounting and Reporting	Unit cost to manage $1 million dollars of cash flow ($) (E)	8.50	10.36	8.96	12.38	11.77

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

Description of Performance: FMS issues 100 percent of its government-wide accounting reports accurately and timely. For the fifth consecutive year, FMS released the *Financial Report of the United States Government* (FR) 75 days after the fiscal year-end. In FY 2007, Government Accountability Office (GAO) issued an unqualified opinion on the 2007 Statement of Social Insurance and acknowledged and noted improvements with regard to consistency with agency information in the Balance Sheet the Statement of Net Cost and in the note disclosures that are directly linked to the amounts on these principal financial statements. They also acknowledged the progress made in conforming with GAAP and in the development and implementation of corrective action plans and milestones for certain internal control weaknesses.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

FMS' strategic management of human capital is consistent with its mission, vision and priorities supporting 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. FMS has taken steps to improve the quality of its professional workforce. A Human Capital Strategic Plan has been developed to identify current structure weaknesses and build upon its strengths. Achieving the following objectives will support and strengthen its work force:

- Strategic Alignment: A human capital strategy is aligned with FMS' mission, goals, organizational objectives, and is integrated into the strategic plans, performance plans and budgets.

- Workforce Planning & Deployment: FMS is citizen-centered, delayered, mission-focused, and leverages E-Government and competitive sourcing.

- Leadership & Knowledge Management: Leaders and managers effectively manage people, ensure continuity of leadership, and sustain a learning environment that drives continuous improvement in performance. Succession strategies result in a diverse leadership talent pool that is continually updated.

- Results-Oriented Performance Culture: FMS has a diverse, results-oriented, high performance workforce. It has a performance management system and awards program that effectively holds employees accountable, links individual/team/unit performance to organizational goals and desired results.

- Diversity: FMS demonstrates its commitment to diversity by recognizing the contributions of all employees and by understanding the strengths that arise from the broad range of backgrounds, cultures, customs, and beliefs. FMS has processes in place to sustain diversity and to address under-representation particularly in mission-critical occupations and leadership positions.

- Talent: FMS has significantly reduced mission-critical skills, knowledge and competency gaps. FMS is making significant progress and demonstrates continued improvement in meeting agreed-upon hiring timeline goals, i.e., the 45-day hiring model.

- Accountability: Human capital decisions are guided by a data-driven results-oriented planning and accountability system.

Through these objectives FMS has strengthened its human capital position. Proactive identification and filling of vacant positions is a part of recruiting and retaining new talent. Student intern program authorities are used extensively to attract talent from some of the best colleges and universities.

FMS has action plans to attain and maintain the right number of people with the right skills to accomplish the mission. It continually manages the ongoing challenge of recruiting and retaining highly skilled individuals in critical areas, including Accountants (with strong analytical skills) and IT Specialists. These challenges have increased with heightened competition from the private sector. In addition, there is ongoing position management and assessment of FTE distribution. As vacancies occur, they are reviewed to determine whether the position should be back-filled, the FTE be redirected as appropriate, or the FTE be eliminated. This is how FMS counters the possibility of either a surplus or deficiency of staff in certain job occupations.

Through FY 2010, 22 percent of FMS' current employees are eligible for Optional Retirement and 41 percent are eligible for Discontinued Service or Early Retirement. Strategies are in place to close skill-gaps and fill staffing requirements in mission-critical occupations. This includes use of all pay incentives within budget constraints (e.g., Recruitment and Retention Incentives) and specialized employee development programs: SES Candidate Development, Project Management Certification, Management Preparatory Development, Federal Career Intern Program, Leadership, and Mentoring.

Another strategy to manage staffing needs is use of contractors and/or outsourcing. FMS supplements its workforce with contractors in security, building maintenance, IT support and various finance functions provided by the Bureau of the Public Debt. Government collections are outsourced to financial institutions and Federal Reserve Banks who serve as financial and fiscal agents of the Treasury Department.

FMS believes that a diverse workforce is vital to achieve its mission. It monitors recruitment and diversity goals to improve areas of under-representation and actively supports programs and initiatives to recruit minority college students. The following programs have been established to ensure a diverse workforce:

- SES candidate program was developed to create a diverse group of future senior executives.
- Special emphasis programs were expanded and Equal Employment Opportunity and diversity awareness training was instituted.
- Hispanic recruitment was enhanced through the increased use of Hispanic Associations of Colleges and Universities interns, which created a gateway for new Hispanic employees.

In addition, FMS has increased participation in the Washington Internship for Native Students program as well as the Department of Labor's Workforce Recruitment Program for students with disabilities. FMS continues to use the Federal Career Internship Program to facilitate and accelerate general hiring of qualified and talented minority student interns. FMS has a solid and viable Human Capital Strategy to fulfill its mission.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments (in $ Thousands)	Budget Activity	FY 2007 & Earlier Enacted	FY 2008 Enacted	% Change from FY07 to FY08	FY 2009 President's Budget	% Change from FY08 to FY09	FY 2010 Requested	% Change from FY09 to FY10
Automated Standard Application for Payments (ASAP)	Payments	11,115	2,234	-79.9%	2,422	8.4%	2,340	-3.4%
Debt Management Accounting System (DMAS)	Debt Collection	0	0	0.0%	0	0.0%	0	0.0%
Deposit and Data Management (DDM)	Collections	1,886	1,226	0.0%	1,276	0.0%	1,310	2.7%
FMS EFTPS (Electronic Federal Tax Payment System)	Collections	1,234	638	N/A	659	3.3%	682	3.5%
FedDebt	Debt Collection	0	0	0.0%	0	0.0%	0	0.0%
Financial Information and Reporting Standardization (FIRST)	Government-wide Accounting	7,491	6,039	-19.4%	7,342	21.6%	8,315	13.3%
Government-Wide Accounting and Reporting Modernization (GWA)	Government-wide Accounting	96,072	10,011	-89.6%	9,595	-4.2%	9,785	2.0%
International Treasury Services (ITS.gov)	Payments	1,650	332	0.0%	341	2.7%	351	2.9%
Internet Payment Platform (IPP)	Payments	824	300	0.0%	308	2.7%	318	3.2%
Intra-Governmental Payment and Collection (IPAC)	Government-wide Accounting	4,604	500	-89.1%	552	10.4%	568	2.9%
PACER	Payments	13,459	2,489	-81.5%	2,631	5.7%	2,714	3.2%
Pay.gov	Collections	2,082	545	-73.8%	569	4.4%	573	0.7%
Payment Application Modernization (PAM)	Payments	25,221	12,085	-52.1%	12,123	0.3%	12,858	6.1%
Secure Payment System (SPS)	Payments	20,332	4,431	-78.2%	3,901	-12.0%	3,988	2.2%
Treasury Check Information System (TCIS)	Payments	6,376	836	-86.9%	854	2.2%	871	2.0%
Subtotal, Major IT Investments		192,346	41,666	-78.3%	42,573	2.2%	44,673	4.9%
Non-Major IT Investments [2/]		16,145	7,286	-54.9%	8,701	19.4%	7,207	-17.2%
Infrastructure Investments [3/]		40,112	20,056	-50.0%	23,200	15.7%	25,369	9.3%
Enterprise Architecture		1,800	1,400	-22.2%	1,400	0.0%	1,370	-2.1%
Total IT Investments [4/]		250,403	70,408	-71.9%	75,874	7.8%	78,619	3.6%

1/ ITS.gov was changed from a non-major to a major investment in FY 2009

2/ In FY 2009, the number of Non-Majors reporting increased to 17 investments.

3/ Figures provided for FY 2009 include funding amounts for the Treasury Web Application Infrastructure (TWAI) platform that were not included in previous years.

4/ Infrastructure reporting requirements changed in FY 2009, which resulted in changes to FY 2009 and FY 2010 figures.

4B – Information Technology Strategy

The FMS IT Strategy addresses all bureau information resource management. It focuses on technology and how it supports FMS' Strategic Planning Goals. The FMS Strategic Plan is a long-range plan that supports the economic policies and mission of the Department of the Treasury for payments, collections, government-wide accounting and reporting, and collection of delinquent debt.

FMS has an established governance process that selects, evaluates, and monitors new and existing IT investments. FMS IT Governance Process complies with Department of the Treasury and OMB's requirements for Capital Planning and Investment Control, and Enterprise Architecture. Before projects are started or a major change implemented, there is a formal approval process beginning with the Division Information Officers (DIO) Council. Each project provides the DIO Council with project business case documentation, which describes the project, documents benefits, shows start-up costs, full life-cycle costs, other systems impacted, programmatic impact, and platforms that will be used. Costs include all project costs including contracts, FTE, hardware, and software. The FMS governing bodies, including the DIO Council and Architecture Review Board (ARB), review each investment to ensure compliance with FMS' target architecture, use of existing infrastructure, and shared resources (e.g. document imaging and Single Sign On).

At least once a year, each FMS project is presented to the DIO Council. Current cost, schedule, and performance goals status for the project is presented. Any project that is not within acceptable cost, schedule, and performance goals must provide the DIO Council with a project remediation plan detailing the steps it plans to implement to get the investment back within acceptable ranges. The project is also required to provide the DIO Council with quarterly cost, schedule, and performance updates.

The FMS process includes recommendations by the DIO council for approval/disapproval of all IT investments and major enhancements. The FMS executive board (EB) must also approve all large scale IT projects and it conducts quarterly reviews of all FMS investments with Exhibit 300s.

4.2 – Program Assessment Table

Program Name: Debt Collection
OMB Major Findings/Recommendations
1. Develop a more ambitious long-term performance measure.
2. Set interim targets and describe interim actions necessary to achieve the long-term performance measure.
3. Level fund the debt collection program for FY 2005.
4. Propose legislation to increase and enhance debt collection opportunities.
Bureau Actions Planned or Underway
1. FMS establishes annual performance measures for collections and referrals of debt by agencies. Listed are examples of collection tools and initiatives used by FMS to achieve long-term measures: • Administrative Wage Garnishment (AWG) • DebtCheck • Continuous Agency Outreach • President's Management Agenda (PMA) • Receivables Reporting
2. A Federal Contractor Tax Compliance Task Force consisting of FMS, IRS, and the Center for Medicare and Medicaid Services is examining the issue of how best to incorporate CMS payments to Medicare providers into the Federal Payment Levy Program.
3. FMS supports numerous legislative proposals which will enable FMS to significantly enhance our debt collection opportunities. Listed are proposals passed into Law in 2008: • Offset and Levy of CMS (Medicare) Payments: The Medicare bill, H.R. 6331, P.L. 110-275, allows FMS to offset CMS payments for nontax and child support debts and sets a timetable for payment levy. • Ten-Year Statute of Limitations for Offset: The Farm Bill, contains the elimination of the 10-year statute of limitations for offset of nontax payments. • Offset to Collect Unemployment Compensation Debts: The SSI Extension bill, H.R. 2608, P.L. 110-328, contains a provision to allow offset of federal tax refunds to collect past due state unemployment compensation debts resulting from
4. The debt 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 2008 FMS collected a record $4.41 billion. For FY 2009, FMS has a target of $3.5 billion in collections and in FY 2010 $3.7 billion.

Program Name: Government-wide Accounting and Reporting

OMB Major Findings/Recommendations

1. The program must develop a baseline for its efficiency performance measure. While FMS has unit cost, timeliness, and accuracy measures in its internal and external performance reporting that are used to manage for improved efficiency, at the time of this PART evaluation, a baseline for the new unit cost measure had yet not been established.

2. More work needs to be done in order to ahieve a clean opinion on the Financial Report of the U.S. Government. Improvement is needed on material weakness in the areas of accounting data compilation/consolidation and reconciliation of intragovernmental reporting differences.

Bureau Actions Planned or Underway

1. FMS has developed a baseline for the efficiency performance measure that measures the unit cost to manage one million dollars of cash flow.
2. FMS will continue to move forward with the two major initiatives which will modernize long standing Federal accounting processes and provide agencies with methodologies and tools to improve the accuracy and consistency of their financial data:

• The Government-wide Accounting (GWA) Modernization project is a multi-year project which will replace existing government-wide accounting functions and processes. FMS' goal is to provide applications and tools that allows agencies to convert to the new process when their systems are ready. We will also provide a tool that allows agencies to phase in GWA processing and use an incremental approach to allow for efficient planning and scheduling of resources and testing in manageable parts. FMS will be working with non-Treasury disbursed agencies to develop a process to allow GWA reporting of Intra-Governmental Payment and Collection (IPAC) transactions, as well as continue to work with FMLoB to implement common government accounting classification.

• FMS will continue the Financial Information and Reporting Standardization (FIRST) project which will integrate budget and financial reports from Federal Program Agencies and continue with the development for this initiative.
3. FMS will continue working with closely with OMB and Federal agencies to address unreconciled intra-governmental transactions. FMS requires quarterly intragovernmental data from the agencies and compiles reports that match intra-governmental differences for the agencies to better reconcile their accounts. Treasury has taken the lead to eliminate intra-governmental differences resulting from fiduciary transactions and FMS is doing the same for other intra-governmental transaction categories. The results of these efforts have been promising, but will not be verified until the agencies submit their data for the FR compilation process. FMS works closely with the Central Reporting Transformation Team (CRTT) and a sub-group (the Intra-gov Buy/Sell team) to improve the data exchanged between agencies when they enter into a intragov buy/sell transaction.

4. FMS is taking significant steps to address the material weaknesses found in the compilation process of Financial Report (FR) of the United States Government, including:

• Working closely with agencies to reconcile differences between agency budgetary and proprietary reporting that effects the FR.
• 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(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.
• Organized a General Fund Team to analyze intragovernmental activity that must be reported to offset agency reporting with the General Fund.
• 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.

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

Bureau of the Public Debt

Mission Statement

To borrow the money needed to operate the federal government, account for the resulting debt and provide reimbursable support services to federal agencies.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation	FY 2008	FY 2009	FY 2010		
	Enacted	Enacted	Request	$ Change	% Change
Wholesale Securities Services	$23,828	$23,438	$24,492	$1,054	4.5%
Government Agency Investment Services	$15,745	$17,723	$16,264	($1,459)	(8.2%)
Retail Securities Services	$135,690	$139,109	$142,645	$3,536	2.5%
Summary Debt Accounting	$7,608	$7,082	$8,843	$1,761	24.9%
Total Appropriated Resources	**$182,871**	**$187,352**	**$192,244**	**$4,892**	**2.6%**
Total FTE	**1,371**	**1,042**	**1,042**	**0**	0.00%

Note: The FY 2010 Budget Request includes $10 million in projected user fee collections.

FY 2010 Priorities

- Protect and strengthen Treasury's borrowing capabilities.
- Improve tools for educating and communicating with our large investors.
- Position Treasury to eliminate new issues of paper savings bonds.
- 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.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Bureau of the Public Debt's vision is to lead the way for responsible, effective government through commitment to service, efficient operations, openness to change and values-based behavior. In carrying out its mission and vision, Public Debt annually auctions and issues more than $4 trillion in Treasury bills, notes, bonds and Treasury Inflation-Protected Securities (TIPS); effectively administers the regulations that govern the primary and secondary Treasury securities markets; 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 240 federal trust funds; and provides timely and accurate information on the public debt.

In support of Treasury's strategic outcome of financing the government at the lowest possible cost over time, Public Debt's top priority is to ensure the most efficient systems are in place to conduct borrowing operations and deliver securities services to investors. To this end, in FY 2008, Public Debt introduced an enhanced auction system. The new Treasury Automated Auction Processing System (TAAPS) provides improved bid-entry, quicker and easier access to data and greater reliability and security. The bureau also continues to enhance its TreasuryDirect system where retail customers can purchase and manage their holdings of Treasury securities over the internet.

Public Debt's major operational initiative is to consolidate all Government Agency Investment Services 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, federal investments and borrowings functions are operating from the same automated platform and the effort to merge the State and Local Government Series (SLGS) program is underway.

Positioning Treasury to eliminate new issues of paper savings bonds is an important goal for Public Debt's retail program. 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, Public Debt will enhance its system and processes to attract investors to TreasuryDirect as their preferred way to buy and hold savings bonds.

The retail program also places a high priority on improving the quality and efficiency of its customer service. Supporting this initiative is a multi-year vision to create a new service environment known as Treasury Retail E-Services (TRES). In the new environment, Public Debt and Federal Reserve Bank servicing sites will share common systems and databases. Customers will have access to a wide range of communication channels, many of which will encourage self-service to the greatest extent possible. This ambitious initiative promises a seamless experience for customers and increases efficiency by eliminating duplicative processes and creating more opportunities for customer self-service.

With its resources, Public Debt:

- Conducts more than 200 marketable securities auctions annually, resulting in the issuance of more than $4 trillion in Treasury bills, notes, bonds and TIPS;
- Administers in excess of $4 trillion in Government Account Series (GAS) investments, which amounts to approximately 40 percent of the public debt;
- Manages some 6,300 active SLGS securities accounts valued at nearly $260 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 $250 billion in federal agency borrowings from Treasury in nearly 80 funds;
- Accounts for and reports on the balance and composition of more than $10 trillion in public debt, the single largest liability on the federal government's balance sheet, and reconciles more than $85 trillion 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 2010 are $214,076,000, including $192,244,000 from direct appropriations, of which $10,000,000 are user fees, and $21,832,000 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, Public Debt 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.

In FY 2008, Public Debt implemented a new auction system. The Treasury Automated Auction Processing System (TAAPS) fully automates the announcement, auction and issuance of marketable securities. At the same time, TAAPS provides greater speed and flexibility to Treasury debt managers in bringing new types of securities to market and implementing policy changes, such as offering 52-week Treasury bills and selling marketable securities in $100 – rather than $1,000 – increments. By eliminating manual processes, the system supports error-free auction results. Going forward, Public Debt will upgrade TAAPS to keep pace with changes in technology, ensuring 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, Public Debt 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, including 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 to 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, Public Debt 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.

Together, these initiatives will enable Public Debt's customers to optimize the management of their investments.

Providing quality customer service through efficient and effective business processes remains a key goal for the retail program. In FY 2010, Public Debt will be in the first stages of developing the Treasury Retail E-Services customer service environment that will allow its representatives to respond to customers more quickly and thoroughly. Also in FY 2010, Public Debt will enhance TreasuryDirect to simplify the process to give electronic savings bonds as gifts.

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, Public Debt will work to modernize its system used for public debt accounting by migrating common financial information to a shared service solution. Public Debt will begin defining requirements to reengineer business processes that best support the needs of the Summary Debt Accounting program. Ultimately, this will reduce operational risks, while standardizing system, business and data elements.

Although not supported by appropriated funding, Public Debt's franchising 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 2009, ARC expects to use 971 FTE to service 70 customers and generate $148 million in revenue. In FY 2010, ARC projects revenue of $147 million and FTE levels to be unchanged.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Bureau of the Public Debt	FTE	Amount
FY 2009 Enacted	1,042	187,352
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$4,892
GAO Audit	-	1,500
Non-Pay Inflation Adjustment	-	706
Pay Annualization	-	1,135
Pay Inflation Adjustment	-	2,495
Across the Board program reduction	-	(944)
Subtotal FY 2010 Changes to Base	-	$4,892
Total FY 2010 Base	1,042	192,244
Program Changes:		
Program Decreases:	-	($1,734)
Government Agency Investment Services System (GAISS) Savings	-	(1,734)
Program Reinvestment:	-	$1,734
Hot-site Disk Storage Replacement	-	498
Intrusion Detection and Security Infrastructure Refresh and Update	-	338
Mainframe Software Upgrade	-	598
Trusted Internet Connection Initiative	-	300
Subtotal FY 2010 Program Changes	-	$0
Total FY 2010 President's Budget Request	**1,042**	**192,244**
User Fees	-	(10,000)
Total FY 2010 President's Budget Request (Net)	**1,042**	**182,244**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$4,892,000 / +0 FTE

Across the Board program reduction -$944,000 / +0 FTE

BPD continues to focus on improving the efficiency of its operations through a disciplined process of productivity improvement.

GAO Audit +$1,500,000 / +0 FTE

Resulting from the amendment to Public Law 110-323, which authorizes the reimbursement of annual financial statement audit costs to the Government Accountability Office (GAO), the Bureau of the Public Debt seeks $1,500,000 to reimburse the GAO for auditing the financial statements compiling the transactions and balances relating to the outstanding public debt.

Non-Pay Inflation Adjustment +$706,000 / +0 FTE

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

Pay Annualization +$1,135,000 / +0 FTE

Funds are requested for the FY 2010 cost of the January 2009 pay raise.

Pay Inflation Adjustment +$2,495,000 / +0 FTE

Funds are requested for the January 2010 pay raise.

Program Decreases ....-$1,734,000 / +0 FTE

Government Agency Investment Services System (GAISS) Savings -$1,734,000 / +0 FTE

Due to the completion of the final major development, modernization and enhancement release, Public Debt projects a $1,734,000 savings for the Government Agency Investment Services System (GAISS). Through consolidation, Public Debt will streamline the technology used for supporting this business line and standardize its internal control of processes common to all Government Agency Investment Services programs.

Program Reinvestment ....+$1,734,000 / +0 FTE

Hot-site Disk Storage Replacement +$498,000 / +0 FTE

Public Debt expects disk storage at the Kansas City disaster recovery hot-site to exceed its current service life and capacity. The current model is at over 90 percent capacity and can no longer be upgraded. New disk storage is expected to cost approximately $498,000 and will ensure continued disaster recovery capabilities for systems that support Public Debt's mission essential functions including but not limited to: payments to non-federal entities, intragovernmental payments and receipts, TreasuryDirect payments, and Daily Treasury Statement reporting.

Intrusion Detection and Security Infrastructure Refresh and Update +$338,000 / +0 FTE

Aging technology requires Public Debt to replace and upgrade the majority of its Intrusion Detection and Security Event Management Infrastructure in FY 2010. The refresh will ensure continued availability and heightened security awareness of customer systems, including GAISS, TreasuryDirect and Public Debt's website TreasuryDirect.gov.

Mainframe Software Upgrade +$598,000 / +0 FTE

Public Debt projects an increase in its mainframe processing capacity will be required in the near future. For several decades, Public Debt has successfully automated key components of its debt financing program — TreasuryDirect and TAAPS, the new auction system, are two excellent examples — that reflect a commitment to improvement through automation. As the number of transactions processed by the mainframe increases, so do operating software costs. With processing capacity needs growing at 6 percent annually, due to Retail Securities initiatives and GAIS system consolidation, a software upgrade to the mainframe is required.

Trusted Internet Connection Initiative +$300,000 / +0 FTE

All internet and external connectivity must traverse a Trusted Internet Connection Access Provider (TICAP). As a result of demonstrated capability, and commitment to E-Commerce, E-Government and franchise related initiatives, Public Debt will submit a request to support two of the trusted internet connections within the Treasury TICAP. Public Debt will procure security devices and support at a cost of $300,000 in order to meet 100 percent of the capabilities.

Adjustments to Request User Fee ....-$10,000,000 / +0 FTE

User Fees -$10,000,000 / +0 FTE

For $100 account maintenance fees that Public Debt charges to account holders in the Legacy Treasury Direct system with an account balance of more than $100,000 in par value.

2.2 – Operating Levels Table

Bureau: Bureau of the Public Debt	FY 2008 Enacted	FY 2009 President's Budget	Cong. Action including Rescission	FY 2009 Enacted Level	Proposed Reprogrammings	FY 2009 Proposed Operating Level	FY 2010 Requested Level	% Change FY 2009 to FY 2010
FTE	1,371	1,371	-	1,371	(329)	1,042	1,042	0.00%
Object Classification:								
11.1 Full-Time Permanent Positions....................	$79,716	$84,003	216	$84,219	(20,369)	$63,850	65,422	2.46%
11.3 Other than Full-Time Permanent Positions....	213	218	-	$218	297	$515	528	2.52%
11.5 Other Personnel Compensation....................	2,989	3,065	-	$3,065	(983)	$2,082	2,133	2.45%
11.8 Special Personal Services Payments...........	-	-	-	$0	31,891	$31,891	32,676	2.46%
11.9 Personnel Compensation (Total)..............	$82,918	$87,286	216	$87,502	10,836	$98,338	$100,759	2.46%
12.0 Personnel Benefits.......................................	22,522	24,453	82	24,535	(6,064)	18,471	19,680	6.55%
13.0 Benefits to Former Personnel.......................	250	50	-	50	(20)	30	40	33.33%
21.0 Travel...	1,661	1,673	-	1,673	(373)	1,300	1,338	2.92%
22.0 Transportation of Things..............................	90	91	-	91	(10)	81	85	4.94%
23.1 Rental Payments to GSA.............................	6,762	7,262	-	7,262	2,816	10,078	10,705	6.22%
23.2 Rent Payments to Others.............................	2	2	-	2	-	2	2	0.00%
23.3 Communications, Utilities, & Misc.................	14,197	14,339	-	14,339	(3,802)	10,537	10,502	-0.33%
24.0 Printing and Reproduction............................	1,687	1,747	-	1,747	(297)	1,450	1,573	8.48%
25.1 Advisory & Assistance Services....................	344	346	-	346	2	348	362	4.02%
25.2 Other Services...	29,037	26,249	-	26,249	152	26,401	27,490	4.12%
25.3 Purchase of Goods/Serv. from Govt. Accts…	10,376	10,448	-	10,448	936	11,384	11,853	4.12%
25.4 Operation & Maintenance of Facilities...........	868	874	-	874	18	892	929	4.15%
25.5 Research & Development Contracts............	-	-	-	-	-	-	-	
25.6 Medical Care..	22	22	-	22	-	22	23	4.55%
25.7 Operation & Maintenance of Equipment........	3,906	3,933	-	3,933	6	3,939	4,101	4.11%
25.8 Subsistence & Support of Persons...............	-	-	-	-	-	-	-	
26.0 Supplies and Materials.................................	2,255	2,263	-	2,263	(807)	1,456	1,830	25.69%
31.0 Equipment..	5,752	5,792	-	5,792	(3,294)	2,498	862	-65.49%
32.0 Lands and Structures...................................	220	222	-	222	(99)	123	108	-12.20%
33.0 Investments & Loans....................................	-	-	-	-	-	-	-	
41.0 Grants, Subsidies...	-	-	-	-	-	-	-	
42.0 Insurance Claims & Indemn.........................	2	2	-	2	-	2	2	0.00%
43.0 Interest and Dividends……………………….	-	-	-	-	-	-	-	
44.0 Refunds..	-	-	-	-	-	-	-	
Total Budget Authority…………………………………	$182,871	$187,054	$298	$187,352	$0	$187,352	$192,244	2.61%
Budget Activities:								
Wholesale Securities Services	$23,828	21,047	34	21,081	2,357	23,438	$24,492	4.50%
Government Agency Investment Services	15,745	14,497	24	14,521	3,202	17,723	$16,264	-8.23%
Retail Securities Services	135,690	144,194	229	144,423	(5,314)	139,109	$142,645	2.54%
Summary Debt Accounting	7,608	7,316	11	7,327	(245)	7,082	$8,843	24.87%
Total Budget Authority…………………………………	$182,871	$187,054	$298	$187,352	$0	$187,352	$192,244	2.61%

2.3 – Appropriations Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted 1/		FY 2009 Enacted 1/		FY 2010 Baseline 1/		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Wholesale Securities Services	158	$21,350	179	$23,828	130	$23,438	133	$24,492	2.31%	4.50%
Government Agency Investment Services	115	15,445	118	15,745	99	17,723	88	$16,264	-11.11%	-8.23%
Retail Securities Services	943	127,079	1,017	135,690	774	139,109	773	$142,645	-0.13%	2.54%
Summary Debt Accounting	50	6,793	57	7,608	39	7,082	48	$8,843	23.08%	24.87%
Subtotal New Appropriated Resources	1,266	$170,667	1,371	$182,871	1,042	$187,352	1,042	$192,244	0.00%	2.61%
Other Resources:										
Offsetting Collections - Reimbursable	16	15,254	17	15,294		21,196		21,832	0.00%	3.00%
Available multi-year/no-year funds		3,612		4,512		2,972				
User Fees		9,733								
Recoveries				70		11				
Subtotal Other Resources	16	$28,599	17	$19,876	0	$24,179	0	$21,832	0.00%	-9.71%
Total Resources Available for Obligation	1,282	$199,266	1,388	$202,747	1,042	$211,531	1,042	$214,076	0.00%	1.20%

1/ Subtotal New Appropriated Resources include $10,000,000 in projected user fee collections.

2B – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY BUREAU OF THE PUBLIC DEBT Federal Funds Administering the Public Debt For necessary expenses connected with any public-debt issues of the United States, [$187,352,000]*$192,244,000*, 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, [2011]*2012*, for systems modernization: *Provided*, That the sum appropriated herein from the general fund for fiscal year [2009]*2010* 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 [2009]*2010* appropriation from the general fund estimated at [$177,352,000] *$182,244,000*. In addition, $90,000 to be derived from the Oil Spill Liability Trust Fund to reimburse the Bureau for administrative and personnel expenses for financial management of the Fund, as authorized by section 1012 of Public Law 101-380. *[Omnibus Appropriations Act, 2009.]*	

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 2010 is estimated at $141,814,000.

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 2010, 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 2010.

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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2009 Enacted	FY 2010 Request	Percent Change
Government financing	200,665	204,229	**1.8%**
Financial information	7,883	9,847	**24.9%**
Total	**$208,548**	**$214,076**	**2.7%**

Note: Totals for each year include $10,000,000 in projected user fee collections.

3A – Wholesale Securities Services *($24,492,000 from direct appropriations and $2,781,000 from reimbursable programs):* The Wholesale Securities Services program provides for the announcement, auction, issuance and settlement of marketable Treasury bills, notes, bonds and TIPS. It also provides an efficient infrastructure for the transfer, custody and redemption of these securities. Large market participants buy most of Treasury's marketable securities at auction. In FY 2008, Public Debt conducted more than 200 marketable securities auctions resulting in the issuance of more than $5 trillion in securities.

Public Debt began supporting Treasury on the Supplementary Financing Program (SFP) 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, apart from Treasury's current borrowing program, which provide cash for these Federal Reserve initiatives. Public Debt conducted nine SFP auctions totaling $345 billion over a two-week period in FY 2008.

Treasury's commercial book-entry system holds approximately $4.3 trillion, or 98 percent, of Treasury marketable securities. Treasury uses this system to issue most of its marketable debt, make principal and interest payments and support the active secondary market in Treasury securities. It is estimated that about $1.4 trillion per day in Treasury securities are transferred among account holders in the commercial book-entry system.

This activity directly supports the Department of the Treasury's strategic outcome of financing the government at the lowest possible cost over time. To help meet this outcome, Public Debt evaluates its business processes looking for ways to improve and strengthen contingency plans, guarantee operational readiness and enhance reporting capabilities. The bureau will also educate current and potential investors about Treasury's debt financing policies, the auction process and its securities.

Public Debt also has the responsibility of regulating the government securities market. Public Debt administers Treasury's regulations that provide investor protection and maintain the integrity, liquidity and efficiency in the government securities market under the Government Securities Act of 1986, as amended. Public Debt also administers the rules for Treasury's securities auctions and buybacks and prescribes provisions for Treasury's Fiscal Service collateral programs, including collateral eligibility and valuation. Fiscal Service collateral programs ensure that government funds on deposit or invested at commercial banks are secured.

Other Resources:
Reimbursements totaling $2,781,000 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 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$17,987	$19,475	$21,350	$23,438	$24,492
Reimbursable Resources	$1,594	$1,301	$1,494	$2,652	$2,781
Total Resources	**$19,581**	**$20,776**	**$22,844**	**$26,090**	**$27,273**
Budget Activity Total	**$19,581**	**$20,776**	**$22,844**	**$26,090**	**$27,273**

Wholesale Securities Services Budget Activity					
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Cost per debt financing operation ($) (E)	148,926	235,172	220,732	256,336	254,272
Percent of auction results released in two minutes +/- 30 seconds (%) (Oe)	100	99	100	95	95
Percent of primary dealers that are able to participate in a live auction from their disaster recovery site (%) (Ot)	N/A	N/A	N/A	10	40

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

Description of Performance: Public Debt tracks the cost per debt financing operation. Since Public Debt implemented a new auction system in FY 2008, administrative costs have reduced. In addition, due to the increased demand to meet the new government initiatives, the number of auctions has increased. Both combine for lower costs. The cost per debt financing operation is estimated at $256,336 in FY 2009 and $254,272 in FY 2010.

In FY 2008, Public Debt surpassed its efficiency target of releasing auction results within two minutes, plus or minus 30 seconds, 95 percent of the time.

In FY 2009, Public Debt will begin reporting on a new performance measure, percent of primary dealers that are able to participate in a live auction from their disaster recovery site. To date, Public Debt has discussed and received buy-in with all primary dealers on a strategic plan for business continuity. The plan outlines various operational tests and events that will strengthen overall readiness to deal with contingencies and ensure the continuity of the auction process.

Public Debt is on target for 10 percent of all primary dealers having demonstrated their readiness by 2009, 40 percent in 2010, 60 percent in 2011 and 90 percent by 2012.

3B – Government Agency Investment Services *($16,264,000 from direct appropriations and $1,847,000 from reimbursable programs):* The Government Agency Investment Services (GAIS) program supports federal, state and local government agency investments in non-marketable Treasury securities as well as federal agency borrowing from Treasury.

Public Debt offers two major non-marketable special purpose investment programs to government agencies. Government Account Series (GAS) securities are issued only to federal agencies with statutory investment authority. There are more than 240 trust and investment funds held by federal agencies. For 18 of the funds, Public Debt also maintains the investment accounts and performs additional administrative functions on behalf of the Secretary of the Treasury. These additional functions include processing receipts into and transfers out of the funds to the related federal program agencies for the purpose of administering the underlying programs that are supported by the trust funds. Some of the more recognizable federal trust funds are the four Social Security and Medicare Funds, as well as the Unemployment and Highway Trust Funds. With more than $4 trillion in investments, federal government and other entities' holdings of GAS securities make up nearly 40 percent of the public debt outstanding.

State and Local Government Series (SLGS) securities are issued to state and local government entities across the nation. At nearly $260 billion outstanding, the SLGS program is important to over 6,300 state and local government entities that use these securities to help comply with provisions of the Internal Revenue Code.

Public Debt also accounts for and reports on the principal borrowings from and repayments to Treasury for approximately 80 funds managed by other federal agencies, as well as the related interest due to Treasury. These agencies are statutorily authorized to borrow from Treasury to make loans for a broad range of purposes, such as education, housing, farming and small business support. The funds hold about $250 billion in loans and loan guarantees.

Public Debt's services in this activity directly help customers produce timely and accurate financial information that contributes to the reliability and usefulness of the government-wide financial statements. Instant access to account information has significantly simplified reconciliation and audit confirmation efforts across the country and assisted SLGS purchasers in complying with Internal Revenue Service requirements related to the issuance of tax-exempt securities.

Other Resources:
Reimbursements totaling $1,847,000 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 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$14,599	$13,903	$15,445	$17,723	$16,264
Reimbursable Resources	$3,418	$3,170	$4,279	$2,005	$1,847
Total Resources	**$18,017**	**$17,073**	**$19,724**	**$19,728**	**$18,111**
Budget Activity Total	**$18,017**	**$17,073**	**$19,724**	**$19,728**	**$18,111**

Government Agency Investment Services Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Number of Government Agency Investment Services control processes consolidated (Oe)	N/A	3	2	0	5
Cost per federal funds investment transaction ($) (E)	62.64	68.53	64.98	69.11	54.69

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

Description of Performance: Public Debt established a long-term goal to reduce the number of systems used to support GAIS. Through systems reduction, Public Debt will streamline the diversity of technology involved in supporting this business line. Additionally, this effort will allow the bureau to consolidate and standardize the internal controls over processes common to all GAIS programs. The control environment 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. This will reduce operational risks, while standardizing system, business and data elements. In the beginning of FY 2008, the number of common processes was 15. In FY 2008, Public Debt reduced the number of common processes from 15 to 13. In FY 2009 system development will continue, but the number of processes will remain the same. In FY 2010, five common processes will be consolidated leaving eight processes at the end of the fiscal year.

In the GAIS budget activity, Public Debt has an efficiency measure to track the cost per federal funds investment transaction. Federal investments are special purpose securities issued only to federal agencies that manage trust, deposit and other special funds. Public Debt handles issuing, paying interest on and redeeming the securities held by each fund, as well as handling all of the debt-related accounting and reporting for the securities on the consolidated financial statement of the federal government. Reduced system development costs coupled with increased volumes result in lower costs. Public Debt projects the cost per federal funds investment transaction to be $69.11 for FY 2009 and $54.69 for FY 2010.

3C – Retail Securities Services *($142,645,000 from direct appropriations, including $10,000,000 from user fee collections and $16,200,000 from offsetting collections and reimbursable programs):* Public Debt's Retail Securities program serves more than 50 million retail customers who have invested in marketable and savings securities directly with Treasury. Investors may hold these securities in book-entry or paper form.

Public Debt will position Treasury to eliminate new issues of paper savings bonds. While there has been no date set for withdrawing paper bonds from sale, the efforts Public Debt will undertake are designed to move investors to TreasuryDirect as their preferred way of buying and holding savings bonds. In FY 2010, Public Debt will simplify the process in TreasuryDirect to buy electronic savings bonds as gifts. Given the traditional appeal of buying savings bonds as gifts, this will be a significant step in moving customers to the system. Other efforts to transition customers will be educational in nature, such as financial literacy programs that target customers not yet accustomed to conducting financial transactions online.

In FY 2010, the retail program will also focus on improving the quality and efficiency of customer service by implementing the first phases of the new Treasury Retail E-Services (TRES) customer service environment. TRES will encourage self-service to the greatest extent possible by allowing customers online access to their own information, much like TreasuryDirect. In the new environment, all Public Debt and Federal Reserve Bank servicing sites will share common systems, databases and a call-center platform. TRES will increase efficiency by making prior transaction history available to customer service representatives, reducing the need for follow-up calls. No matter where customers live or which site receives their requests, they will receive the same high-quality service.

Other Resources:
Offsetting collections totaling $10,000,000 are collected for Legacy Treasury Direct Investor Account maintenance fees. In addition, $16,200,000 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 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Enacted**	**FY 2010 Request**
Appropriated Resources	$132,939	$133,425	$127,079	$139,109	$142,645
Reimbursable Resources	$11,873	$9,047	$9,006	$15,738	$16,200
Total Resources	**$144,812**	**$142,472**	**$136,085**	**$154,847**	**$158,845**
Budget Activity Total	**$144,812**	**$142,472**	**$136,085**	**$154,847**	**$158,845**

Retail Securities Services Budget Activity					
Measure	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Target**	**FY 2010 Target**
Cost per TreasuryDirect assisted transaction ($) (E)	4.97	6.65	8.19	9.34	9.64
Cost per TreasuryDirect Online transaction ($) (E)	3.06	3.24	4.34	4.34	4.98
Percentage of retail customer service transactions completed within 11 business days (%) (Ot)	98.00	99.43	99.86	90.00	Discontinued
Percent of retail customer service transactions completed within 5 business days (%) (Ot)	N/A	N/A	N/A	Baseline	TBD

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

Description of Performance: Public Debt has three performance measures for Retail Securities Services that include two efficiency measures and one output measure.

The first efficiency measure is the cost per TreasuryDirect assisted transaction. Although TreasuryDirect promotes self-sufficiency, there are times when assistance from a customer service representative is necessary. Representatives handle phone and email inquiries, offline authentication forms processing, conversions, changes in bank information and transactions requiring legal evidence. Public Debt projects unit costs of $9.34 in FY 2009 and $9.64 in FY 2010. While workload should remain steady or 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. Cost increases reflect additional direct and support costs to handle a continuing increase in more complex work.

The second efficiency measure is the cost per TreasuryDirect online transaction. With TreasuryDirect, investors set up accounts, purchase electronic securities and manage their holdings. Since investors have this self-service capability, Public Debt tracks the cost of online transactions, including establishing accounts, purchasing and redeeming securities and changing account information online. Public Debt projects unit costs of $4.34 in FY 2009 and $4.98 in FY 2010 since workload is sensitive to changes in market rates. When market rates are low, TreasuryDirect accounts are not likely to grow at the pace seen in prior years. Workload is expected to remain steady, while costs to operate the TreasuryDirect system should remain relatively constant.

The third measure includes the timeliness of processing retail customer service transactions, including answering phone and email inquiries, processing payments or changes to payment instructions and handling TreasuryDirect assisted transactions. In FY 2008, Public Debt completed more than 99 percent of retail customer service transactions within 12 business days, surpassing its target of 90 percent. In FY 2009, Public Debt reached the culmination of its long-term goal established in FY 2004 when it reduced the targeted timeframe to 11 business days. To further expedite service delivery, Public Debt will work to complete a progressively higher percent of retail customer service transactions within five business days from FY 2010 to FY 2014. Efficiencies gained from improved work processes and an increase in electronic transactions will allow Public Debt to meet these goals.

3D – Summary Debt Accounting *($8,843,000 from direct appropriations and $1,004,000 from reimbursable programs):* The Summary Debt Accounting program is key to meeting our responsibility to account for the more than $10 trillion of public debt and approximately $450 billion in related annual interest expenses. This program provides the overarching control structure for numerous subsidiary securities systems and reconciles more than $85 trillion of securities transactions and related cash flows handled by these subsystems annually. 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 the Federal Debt,* which report on the single largest liability in the annual *Financial Report of the United States Government*.

Public Debt is committed to maintaining excellent accounting controls to ensure the integrity of operations and the accuracy of information provided to the public. The strength of its accounting controls is reflected in the unqualified audit opinions Public Debt has consistently received on the *Schedules of the Federal Debt*.

The current system that accounts for the public debt of the United States, while still sound, presents challenges of managing an aging architecture, does not fit well within Public Debt's enterprise architecture roadmap and does not accommodate rapid change.

After determining the need to replace the current system, Public Debt has decided to seek an existing shared-service solution to which it can migrate the summary debt accounting data. This approach will offer many benefits in terms of a faster migration and reduced operational risks. Before implementing the desired technology solution however, Public Debt will engage in a thorough reengineering of the business processes to best support Summary Debt Accounting needs in the future. Public Debt expects this effort will redefine many reporting requirements, responsibilities and informational needs. Public Debt also expects to produce more consistent processes, drive improvements in the subsidiary reporting systems and ultimately create greater efficiency within its debt accounting programs at the summary and subsidiary levels.

Other Resources:
Reimbursements totaling $1,004,000 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 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$6,431	$6,769	$6,793	$7,082	$8,843
Reimbursable Resources	$570	$452	$475	$801	$1,004
Total Resources	**$7,001**	**$7,221**	**$7,268**	**$7,883**	**$9,847**
Budget Activity Total	**$7,001**	**$7,221**	**$7,268**	**$7,883**	**$9,847**

Summary Debt Accounting Budget Activity					
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Cost per summary debt accounting transaction ($) (E)	10.96	9.29	9.11	10.01	12.28
Percent of Summary Debt Accounting business processes restructured or eliminated (%) (Oe)	N/A	N/A	N/A	N/A	6.00

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

Description of Performance: Public Debt has an efficiency measure to track the cost per transaction of performing summary debt accounting, which includes reporting all financial activity related to the public debt of the United States. Issues, redemptions and interest payments on the public debt must be accounted for to calculate the amount of debt outstanding and interest paid. Public Debt projects the cost per summary debt accounting transaction to be $10.01 in FY 2009 and $12.28 in FY 2010. The projected cost per summary debt accounting transaction increases as a result of inflation, transaction volumes that are projected to remain constant and statutory requirements in FY 2010 to reimburse GAO for the *Schedules of the Federal Debt* audit.

Also beginning in FY 2010, Public Debt will implement a new performance measure directly related to its goal of migrating Summary Debt Accounting to a shared service solution by FY 2013. The measure, Percent of Summary Debt Accounting business processes restructured or eliminated, will have a FY 2010 target of 6 percent.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Public Debt's strategic management of human capital is consistent with its mission, vision and priorities and supports not only the President's Management Agenda, but also Treasury's strategic goals of *Effectively Managed U.S. Government Finances* and *Management and Organizational Excellence*.

A prime component of Public Debt's human capital strategy is operating as a values-based organization. Public Debt is known in the local and surrounding communities as a values-based organization where candidates want to work and employees want to stay. Public Debt's recognition of the need for a balanced family and work life makes it an attractive employer. In fact, according to the report, *Best Places to Work in the Federal Government 2007*, Public Debt is ranked in the top 11 percent of federal agencies. This ranking is based on results from the Office of Personnel Management's 2006 Human Capital Survey.

Public Debt has developed a comprehensive recruitment program to attract candidates with the necessary competencies to minimize skill gaps. As a part of its program, Public Debt attends several career fairs each year and solicits applications through diversity specific magazines and websites to identify and hire a talented and diverse workforce. Extensive work is done with management before and during the recruitment process to identify staffing needs and pinpoint the particular characteristics and skills necessary for Public Debt to succeed.

Public Debt relies on a full range of staffing and compensation authorities and flexibilities to recruit and retain high quality candidates. These flexibilities allow the bureau to secure talented candidates with the necessary skills to accomplish the mission. Specifically, Public Debt uses recruitment and retention incentives, superior qualifications appointments and student loan repayments to hire and retain quality candidates. The bureau has also been successful using special employment programs that provide a source of highly qualified applicants: Veterans' Recruitment Act, Federal Career Intern Program and Student Career Experience Program.

Succession planning is another important part of Public Debt's human capital strategy. Public Debt is very successful in filling senior-level positions internally. This success can be attributed, in part, to leadership development programs and knowledge transfer techniques. To cultivate leadership and management skills, Public Debt uses programs such as Senior Executive Service (SES) Candidate Development and Supervisory Excellence, a training course required of all new supervisors within the first year of selection.

Of Public Debt's GS-13 level and above workforce, 38 percent are eligible to retire by December 31, 2013. At the SES level, however, the retirement eligible rate is 62 percent. To offset the future losses in the executive ranks, Public Debt has recently selected 11 candidates to participate in the SES Candidate Development program.

Public Debt fosters a learning culture that provides employees at all levels with opportunities for continuous development. Management invests in education, training and other developmental opportunities to help employees build mission-critical competencies, both leadership and technical, benefiting the bureau.

The readiness of the bureau's workforce, including its mission critical occupations of Customer Service Specialist, Accountant and Financial Systems Analyst, is determined through skills gap assessments. These assessments determine training needs that will keep employee skills current and develop future training opportunities to prevent gaps. Training programs ensure that Public Debt employees are among the best trained in the government and remain abreast of new technologies affecting their work.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments / Major IT Investments / Funding Source	Budget Activity	FY 2006 Enacted	FY 2007 Enacted	% Change from FY06 to FY07	FY 2008 Likely Enacted	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09	FY 2010 Requested	% Change from FY09 to FY10
Government Agency Investment Services System (GAISS)/1	Government Agency Investment Services	$0	$4,447	0.0%	$4,511	1.4%	$5,493	21.8%	$3,759	-31.6%
Public Debt Accounting and Reporting System (PARS)	Summary Debt Accounting	$2,038	$1,914	-6.1%	$1,971	3.0%	$2,030	3.0%	$2,091	3.0%
SaBRe	Retail Securities Services	$4,344	$4,873	12.2%	$4,640	-4.8%	$4,795	3.3%	$4,957	3.4%
Treasury Automated Auction Processing System (TAAPS)	Wholesale Securities Services	$44,900	$47,080	4.9%	$31,623	-32.8%	$32,024	1.3%	$34,663	8.2%
Subtotal: TAAPS Appropriated Funding		$2,996	$10,570	252.8%	$11,332	7.2%	$11,783	4.0%	$12,252	4.0%
Subtotal: TAAPS Permanent Indefinite Funding		$41,904	$36,510	-12.9%	$20,291	-44.4%	$20,241	-0.2%	$22,411	10.7%
TreasuryDirect/3	Retail Securities Services	$5,013	$5,191	3.6%	$7,640	47.2%	$5,679	-25.7%	$5,887	3.7%
Subtotal: TreasuryDirect Appropriated Funding		$5,013	$5,191	3.6%	$5,389	3.8%	$5,579	3.5%	$5,787	3.7%
Subtotal: TreasuryDirect Permanent Indefinite Funding		$0	$0	0.0%	$2,251	0.0%	$100	-95.6%	$100	0.0%
Subtotal, Major IT Investments		$56,295	$63,505	12.8%	$50,385	-20.7%	$50,021	-0.7%	$51,357	2.7%
Non-Major IT Investments		$9,456	$9,581	1.3%	$9,793	2.2%	$10,008	2.2%	$10,104	1.0%
Infrastructure Investments		$24,563	$15,553	-36.7%	$15,895	2.2%	$16,375	3.0%	$16,984	3.7%
Enterprise Architecture		$200	$321	60.5%	$342	6.5%	$352	2.9%	$361	2.6%
Total IT Investments		$90,514	$88,960	-1.7%	$76,415	-14.1%	$76,756	0.4%	$78,806	2.7%

[1/] *SPSS and InvestOne merged into GAISS beginning FY07.*

[2/] *Oracle e-Business Suites is self-funded.*

[3/] *TreasuryDirect Verification Services*

4B – Information Technology Strategy

The Bureau of the Public Debt is responsible for the auctioning, issuing and accounting for the debt of the federal government. In order to ensure the success of this mission at the lowest cost to the taxpayer, the bureau has implemented and currently operates secure efficient IT investment systems that safely process a wide range of corporate and customer transactions.

Public Debt will strengthen the protection of its systems and data while continuing to accomplish our mission. Achieving this requires integrating strategic business objectives with security technology. Public Debt provides effective enterprise solutions to protect systems and data against fraud, identity theft and other cyber-crimes. Areas of focus include E-Commerce, desktop security, mobile data devices, data encryption, identification and authentication controls and continuity of operations.

Public Debt's Capital Planning and Investment Control program is a disciplined, integrated process that addresses system prioritization of new and existing IT investments, risk management, long-range planning, business objectives, alternative analysis and governance. Public Debt's quarterly enterprise architecture reviews ensure alignment of its IT investments to the strategic enterprise direction of Treasury and identify potential duplication of systems.

By tracking and reporting the progress of each investment and the performance measures achieved each quarter, Public Debt ensures its IT system portfolio is well managed, cost effective and supports the strategic goal of *Effectively Managed U.S. Government Finances*. IT investments are monitored for cost, schedule and performance variances. Investments exceeding the tolerance are placed under a corrective action plan and monitored. Through Public Debt's management of its IT system portfolio, the government's critical financing needs are met while maintaining the integrity of primary and secondary markets for Treasury securities. Public Debt's IT system portfolio is comprised of certified and accredited applications, ensuring financially secure E-Government systems.

A new automated system to process Treasury auctions was implemented in FY 2008. This IT investment is the epitome of IT system efficiencies and was designed to fully automate the announcement, auction and issuance of Treasury marketable debt. The Treasury Automated Auction Processing System brings significant improvements to the auction process such as flexibility to accommodate new policy or process needs within a three- to six-month timeframe, greater speed and efficiency in conducting real-time calculations and delivering the auction results to the public within two minutes of an auction close. The shorter, consistent release of auction results reduces the time auction bidders are exposed to the risk of adverse market movements, thereby reducing the cost of borrowing for Treasury.

The TreasuryDirect system is another example of Public Debt ensuring its IT system portfolio is well managed, cost effective, and critical to the achievement of the strategic goals and business objectives. TreasuryDirect is an internet-accessed system that offers all retail Treasury securities available to the public at one convenient location. The system is designed to maximize customer self-sufficiency and minimize off-line transaction processing by customer service personnel. By enabling investors to manage their Treasury securities holdings online, Public Debt better serves retail customers and, at the same time, manages resources more efficiently. The TreasuryDirect system continues to be enhanced using Rapid Application Development techniques that give the program manager the flexibility to quickly incorporate new functionality into the system.

4.2 – Program Assessment Table

Program Name:	Administering the Public Debt

OMB Major Findings/Recommendations

1. The Bureau of the Public Debt has a clear purpose and is well designed and managed.
2. The program meets its annual performance goals and continues to improve targets for subsequent fiscal years.
3. The Bureau of the Public Debt identifies new long-term goals to improve efficiency and effectiveness.

Bureau Actions Planned or Underway

1. By FY 2010, complete 90 percent of retail customer service transactions in 10 business days.
2. By 2012, 90% of Primary Dealers demonstrate the ability to participate in a live auction from their disaster recovery sites.
3. Consolidate Government Agency Investment Services into a single, integrated control environment by FY 2012.
4. Migrate Summary Debt Accounting to a shared service solution by FY 2013.
5. By FY 2014, significantly improve the number of retail customer service transactions completed within 5 business days.

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

Internal Revenue Service

Mission Statement

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriations	FY 2008	FY 2009		FY 2010		
Internal Revenue Service	Enacted[1]	ARRA	Enacted[2]	Request	$ Change	% Change
Taxpayer Services	$2,191,085		$2,293,000	$2,269,830	($23,170)	-1.01%
Enforcement	4,780,000		5,117,267	5,504,000	386,733	7.56%
Operations Support	3,841,109		3,867,011	4,082,984	215,973	5.59%
Business Systems Modernization	267,090		229,914	253,674	23,760	10.33%
Health Insurance Tax Credit Administration	15,235	80,000	15,406	15,512	106	0.69%
Total Appropriated Resources	**$11,094,519**	**$80,000**	**$11,522,598**	**$12,126,000**	**$603,402**	**5.24%**
FTE	**92,415**		**94,209**	**95,081**		

[1] The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which includes a transfer of $9.6M between Taxpayer Services and Operations Support and includes supplemental funding for Economic Stimulus payment of $202.1M.

[2] The FY 2009 Enacted column excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices ($123M).

FY 2010 Priorities

The Internal Revenue Service (IRS) collects the revenue that funds the government and administers the nation's tax laws. The IRS collected $2.7 trillion in FY 2008, 96 percent of total federal 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 from hundreds of millions of taxpayers that already come into the Treasury every year. The enforcement agenda vigorously pursues those who evade their responsibility to pay the taxes they owe.

In its FY 2010 request, the IRS requests additional funding for its compliance and information technology programs:

- **Enforcement –** Reducing the tax gap by investing in a strong compliance program and addressing international tax evasion
- **Information Technology** – Upgrading IRS information technology systems to streamline tax administration, protect taxpayer information, and replace aging infrastructure

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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	
Goal 1	Improve Service to Make Voluntary Compliance Easier
Goal 2	Enforce the Law to Ensure That Everyone Meets Their Obligations 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 IRS;
- Provide taxpayers with targeted, timely guidance and outreach; and
- Strengthen partnerships with tax practitioners, 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 2010 Budget Request

The FY 2010 President's Budget Request for the IRS is $12,126 million, which is $603 million or an increase of 5.2 percent over the FY 2009 enacted level. The funding request for Taxpayer Services is $2,270 million; Enforcement is $5,504 million; Operations Support is $4,083 million; Business Systems Modernization (BSM) is $254 million; and Health Insurance Tax Credit Administration (HITCA) is $16 million. The FY 2010 Budget Request funds new investments to improve compliance through enforcement, replace core technology, and improve security and performance through enhanced IT infrastructure.

The IRS $603 million increase consists of:

- $140 million for changes to the base:
  - $270 million for the pay raise, inflation, and legislated cost increase;
  - -$14 million for the government-wide reduction for productivity improvements
  - -$118 million for savings and non-recurrent activities; and
  - $2 million for reinvestments and other base adjustments.

- $463 million for program increases:
  - $332 million to reduce the tax gap by investing in a strong compliance program;
  - $108 million to address IT operational and security risks; and
  - $23 million to continue development of modernized IT systems.

The IRS requests $332 million to continue reducing the tax gap by investing in a strong compliance program. The FY 2010 initiatives will allow the IRS to address underreporting of income associated with international activities and to expand enforcement efforts on noncompliance among business and high-income taxpayers. These enforcement investments will bring in $2,050 million in new enforcement revenue each year beginning in FY 2012 once new hires are fully trained. This estimate does not account for the deterrent effect of IRS enforcement programs, which are conservatively estimated to be at least three times larger than the direct revenue impact.

The IRS requests $108 million to improve security and performance through investments in IT infrastructure. The environment and expectations surrounding taxpayer data privacy and information technology security have changed dramatically. The IRS, as a custodian of significant amounts of taxpayer data, requires funding to ensure the integrity and security of IRS systems.

The IRS requests an additional $23 million for the continued modernization of the core taxpayer account database. This effort is a critical underpinning of the next generation of IRS service and enforcement initiatives. The integration strategy includes a particular focus on enhanced information technology security practices and robust accounting and financial management controls.

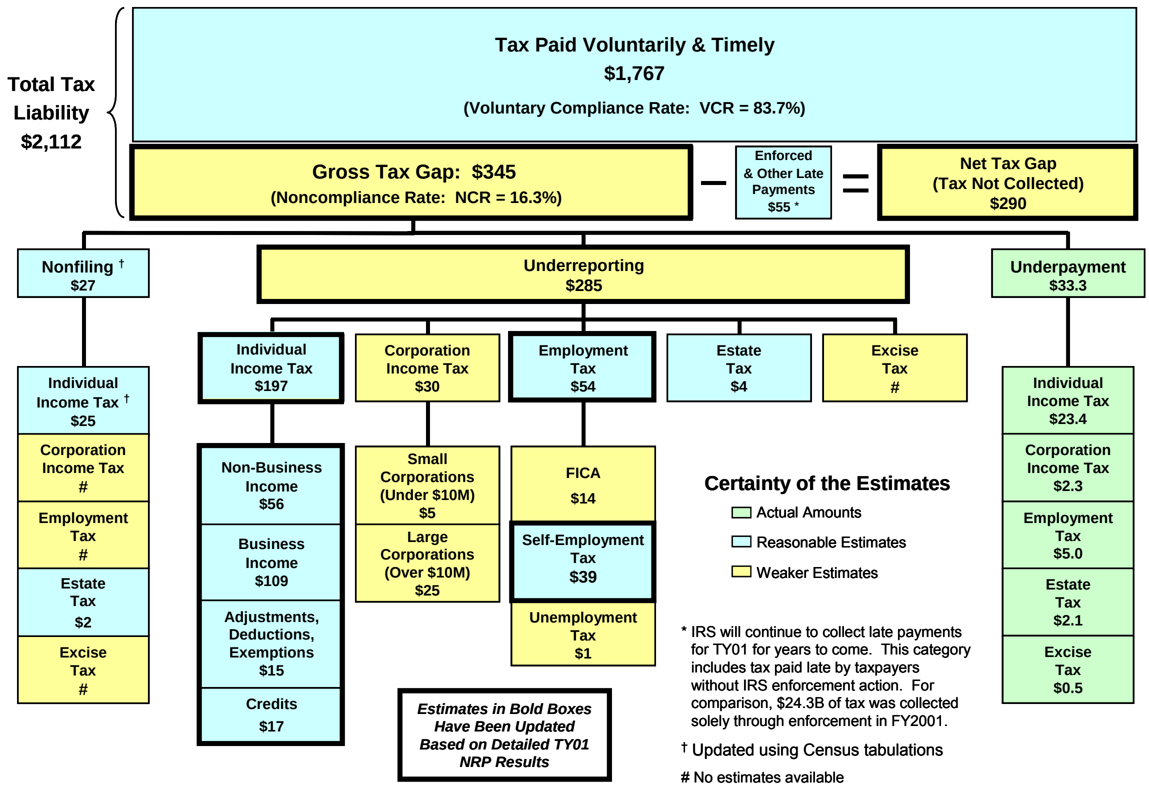
Reducing the Tax Gap

In FY 2008, the IRS collected more than $2.7 trillion in taxes (gross receipts before tax refunds), over 96 percent of total federal government receipts. Recent investments in IRS enforcement programs have yielded significant increases in enforcement revenue. Enforcement revenue has risen from $33.8 billion in FY 2001 to over $56.4 billion in FY 2008, an increase of 67 percent, for a total IRS-wide ROI of 5.2 to 1. This number reflects only the direct revenue collected and does not take into account the deterrent effects of IRS enforcement programs such as Criminal Investigation.

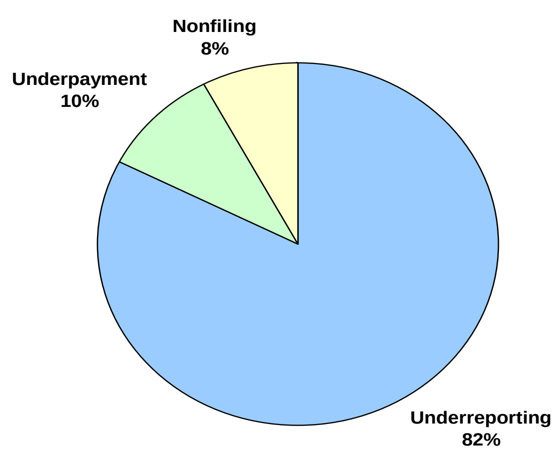
In 2006, the IRS released updated results of its first study in two decades of the difference between taxes owed and taxes actually paid on a timely basis – the “tax gap.” The IRS estimated that taxpayers initially underpaid by $345 billion in 2001 see “Tax Gap Map for Tax Year 2001” below. This equates 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 reporting on a timely return.

TAX GAP MAP for Tax Year 2001 *(in $ Billions)*



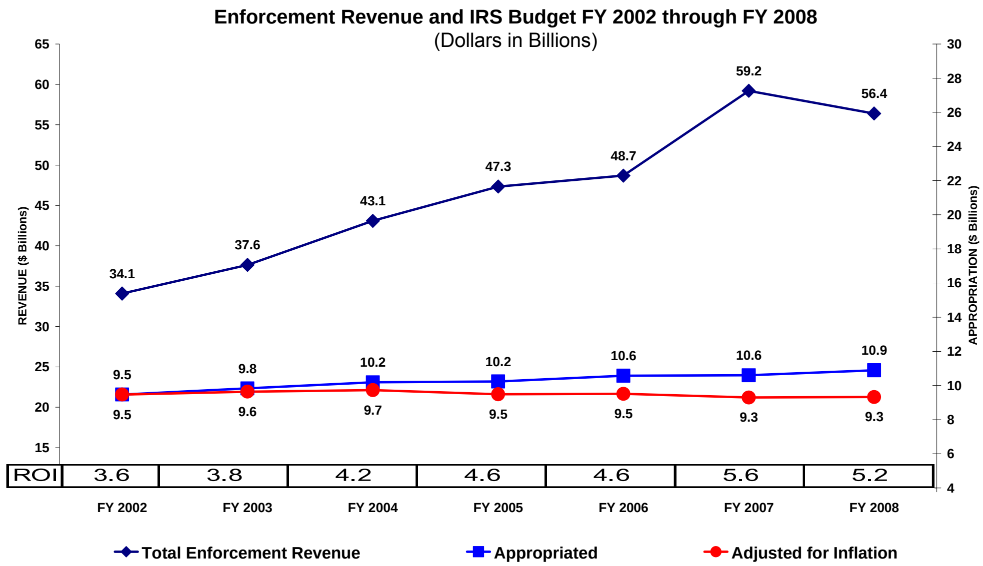
Underreporting tax liability comprises 82 percent of the gross tax gap ($285 billion). The remainder is almost evenly divided between nonfiling (8 percent) and underpaying (10 percent). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.



Noncompliance may not be deliberate and can stem from a wide range of causes, including lack of knowledge, confusion, poor recordkeeping, differing legal interpretations, unexpected personal emergencies, and temporary cash flow problems. Accordingly, helping taxpayers understand and fulfill their obligations under the tax law is a critical part of addressing the tax gap. However, some 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.

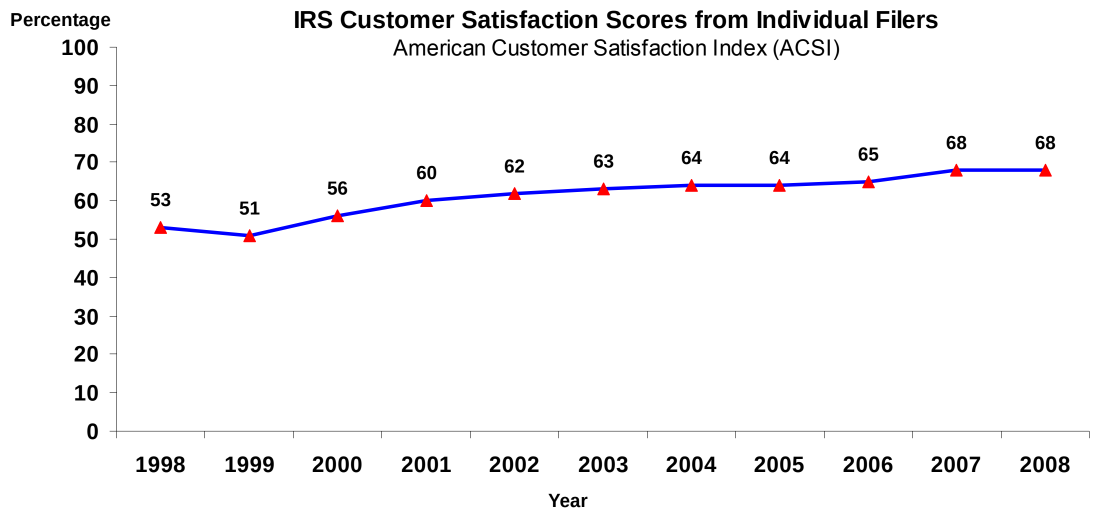
Taxpayer Service and Enforcement Programs

Although resources have remained flat (after inflation), the IRS has consistently improved customer satisfaction in its service programs and increased the efficiency of its enforcement program.



The IRS serves every individual, business, and nonprofit organization in the nation, and processes almost a quarter of a million tax returns annually. Our system of voluntary tax compliance requires the IRS to excel at taxpayer service for those who are trying to meet their obligations under the law, and enforcement programs 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 either because they do not understand their obligations under our complex tax laws, or because they seek to avoid those obligations.

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. The IRS customer satisfaction scores continue to improve (see chart below). 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.



The IRS delivered Phase 1 of the Taxpayer Assistance Blueprint (TAB) Report to Congress in April 2006. Phase 1 defined the population that uses IRS services and identified leading practices, opportunities for improvement, and a plan for additional research.

In April 2007, the IRS delivered Phase 2 of the TAB Report to Congress, which outlines a five-year strategic plan for taxpayer service that will help the IRS enhance the services delivered to taxpayers and partners. The TAB strategic plan includes performance measures, service improvement initiatives, and an implementation strategy for improving future service investment decisions.

The TAB Report provides the future direction of IRS service delivery and identifies strategic challenges, including:

- Accommodating complexity and changes to the tax code;
- Responding to the need for additional data on the causes of noncompliance;
- Expanding use of third parties;
- Adapting to the scope and diversity of the taxpaying population; and
- Keeping pace with technology and taxpayer expectations.

Increased resources for IRS enforcement programs yield a positive return on investment (ROI). As shown in the table below, the proposed IRS FY 2010 enforcement initiatives will generate $2,050 million in additional annual enforcement revenue once the new hires reach full potential in FY 2012.

Return on Investment for IRS Enforcement Initiatives

Dollars in Millions						
	First Year (FY 2010)			Full Performance (FY 2012)		
FY 2010 Enforcement Investment	Cost	Revenue	ROI	Cost	Revenue	ROI
Direct Revenue Producing Initiatives	$332.1	$611.1	1.8	$262.8	$2,049.7	7.8
Reduce the Tax Gap Attributable to International Activities	128.1	93.8	0.7	103.4	736.6	7.1
Improve Reporting Compliance of SB/SE Taxpayers	94.2	159.6	1.7	72.6	567.2	7.8
Expand Document Matching for Business Taxpayers	26.2	191.8	7.3	22.8	386.5	17.0
Address Nonfiling/Underpayment and Collection Coverage	83.6	165.9	2.0	64.0	359.4	5.6

In addition to direct revenue, IRS enforcement activities yield indirect revenue by deterring noncompliance. This effect is more difficult to measure, but it is estimated to be at least three times the direct revenue impact.

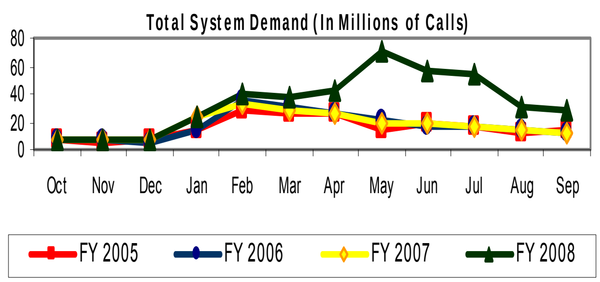
The tax law is complex, and even sophisticated taxpayers make honest mistakes on their tax returns. Accordingly, helping taxpayers understand their obligations under the tax law is a critical to improving compliance. To this end, the IRS remains committed to a balanced program of assisting taxpayers in both understanding the tax law and remitting the proper amount of tax.

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. These contacts encourage and facilitate self-sufficiency for taxpayers in meeting their tax obligations. The IRS also enforces the tax laws to ensure that non-compliant taxpayers pay their fair share. Providing excellent service to taxpayers and enforcing the tax laws in a balanced manner continues to be the IRS main focus. FY 2008 performance confirms that the IRS is making steady gains in service to America's taxpayers.

Taxpayer Service

In 2008, the IRS served taxpayers through multiple channels during the tax filing season while also delivering $94.3 billion in economic stimulus payments to 116.2 million taxpayers and successfully implementing Alternative Minimum Tax legislation enacted late in 2007. Demand for telephone services was unprecedented in 2008, as shown in the chart below, and therefore, the overall telephone level of service was 53 percent, below the target of 82 percent.



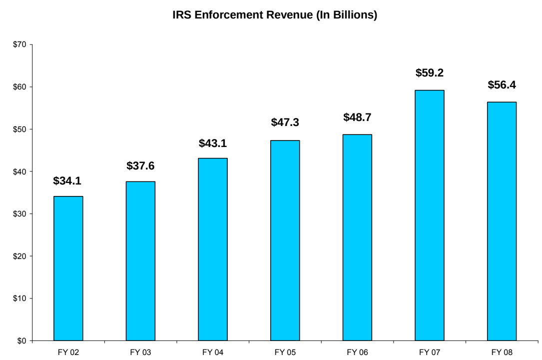
In FY 2008, there were nearly 350 million visits to IRS.gov, up over 61 percent from 215 million in FY 2007. Taxpayers visited the website to obtain information on the economic stimulus package, determine if they qualify for the Earned Income Tax Credit (EITC), and track the status of their returns using the "Where's My Refund?" feature. The IRS answered 92.4 million calls and served over 6.9 million taxpayers at 401 Taxpayer Assistance Centers. Taxpayer service improvements are reflected in increases in IRS Customer Satisfaction scores as measured by the independent American Customer Satisfaction Index showing improvement from 53 percent in 1998 to 68 percent in 2008. For the thirteenth year in a row, the number of individual returns that were filed electronically, excluding taxpayers who filed solely to claim an economic stimulus payment, increased, with over 63 of all individual income tax returns e-filed in FY 2008.

FY 2009 continues to bring significant challenges to IRS service programs. Workload remains high from taxpayers seeking assistance in resolving issues from the Economic Stimulus Act of 2008 (Public Law 110-85). At the same time, the IRS is implementing the ARRA tax provisions including among others: individual tax credits; tax incentives for business; bond incentives along with tax exempt and tax-favored bonds for economic recovery; and a tax credit to provide discounted health benefits to certain workers who have lost their jobs. IRS will be able to continue to implement and administer these critical tax programs within the levels contained in this Budget request.

Enforcement

Enforcement of the tax laws is an integral component of the IRS effort to enhance voluntary compliance and close the tax gap. IRS enforcement activities, such as examination and collection, target elements of the tax gap and remained a high priority in FY 2008, and will continue to be a high priority in the future.

In FY 2008 the IRS collected $56.4 billion in enforcement revenue.



In FY 2008, the IRS improvements in enforcement performance resulted primarily from the focus on corrosive activities of corporations, high-income taxpayers, and other major violators of the tax code. As a result, in FY 2008 IRS performance improved over FY 2007 in the following key areas:

- Increased high-income taxpayer audits almost 16 percent;
- Increased small business audits 3 percent;
- Increased tax-exempt and government entities compliance contacts 6 percent;
- Increased Automated Underreporter (AUR) contact closures by almost 4 percent; and dollars collected through AUR and information return processing by 22 percent; and
- Increased collection case closures 1.4 percent.

The IRS continued to vigorously investigate egregious tax, money laundering, and other financial crimes that adversely affect tax administration. Performance levels for the criminal investigation program remained high in FY 2008 with 4,044 completed criminal investigations and 2,144 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. In FY 2008, the IRS increased tax-exempt and government entities compliance contacts 6 percent over FY 2007 levels.

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, 2007, and 2008. In addition, 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.

Business System Modernization

IRS modernization efforts continued to focus on its core tax administration systems designed to provide more sophisticated tools to taxpayers and the IRS employees. The following highlights the IRS efforts in FY 2008 in advancing these core systems:

- *CADE* – The 2008 CADE release was delivered on time for the filing season, and over 30.6 million taxpayers were processed using a modernized account database, a substantial increase from 11.2 million in 2007;
- *Modernized e-File (MeF)* – In 2008, MeF accepted over 3.7 million returns, a 55 percent increase over the same period in 2007; and
- *Account Management Services (AMS)* **–** The 2008 releases of AMS delivered the capability to update account data on a daily cycle to over 33,000 IRS customer service representatives and provided improved customer support with new inventory and workflow functionalities.

Human Capital

In late FY 2008, the IRS Commissioner established a *Workforce of Tomorrow* task force to address recruitment and retention issues so that the IRS has the necessary leadership and workforce to address future challenges.

The IRS considers employee engagement fundamental to the overall success of the organization and believes that employee engagement is an ongoing process. The IRS conducts an annual survey to assess the level of engagement of employees. Overall satisfaction showed steady improvement from a score of 3.48 in 2002 to a score of 3.79 in 2008, on a scale of 1 to 5, with 5 being the most satisfied.

IRS job satisfaction is higher than most other federal agencies according to the Office of Personnel Management's Federal Human Capital Survey.

Section 2 – Budget Adjustments – Internal Revenue Service

The IRS Budget request for FY 2010 is $12,126,000,000 in direct appropriations and 95,081 FTE. This is an increase of $603,402,000 or 5.2 percent, and 872 FTE, over the FY 2009 enacted level of $11,522,598,000 and 94,209 FTE.

Program Summary by Appropriations Account and Budget Activity

Dollars in Thousands

Appropriations	FY 2008	FY 2009		FY 2010		
Internal Revenue Service	**Enacted[1]**	**ARRA**	**Enacted[2]**	**Request**	**$ Change**	**% Change**
Taxpayer Services	$2,191,085		$2,293,000	$2,269,830	($23,170)	-1.01%
Pre-filing Taxpayer Assistance and Education	645,253		661,000	676,063	15,063	2.28%
Filing and Account Services	1,545,832		1,632,000	1,593,767	(38,233)	-2.34%
Enforcement	4,780,000		5,117,267	5,504,000	386,733	7.56%
Investigations	592,906		603,466	637,694	34,228	5.67%
Exam and Collections	4,037,812		4,363,826	4,706,350	342,524	7.85%
Regulatory	149,282		149,975	159,956	9,981	6.66%
Operations Support	3,841,109		3,867,011	4,082,984	215,973	5.59%
Infrastructure	826,313		883,325	900,852	17,527	1.98%
Shared Services and Support	1,291,296		1,254,542	1,296,629	42,087	3.35%
Information Services	1,723,500		1,729,144	1,885,503	156,359	9.04%
Business Systems Modernization	267,090		229,914	253,674	23,760	10.33%
Health Insurance Tax Credit Administration	15,235	80,000	15,406	15,512	106	0.69%
Total Appropriated Resources	**$11,094,519**	**$80,000**	**$11,522,598**	**$12,126,000**	**$603,402**	**5.24%**
Total FTE	**92,415**		**94,209**	**95,081**		

[1] The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which includes a transfer of $9.6M between Taxpayer Services and Operations Support and includes supplemental funding for Economic Stimulus payment of $202.1M.

[2] The FY 2009 Enacted column excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices ($123M).

2.1 – Budget Adjustments Tables

Dollars in Thousands

Internal Revenue Service

	FTE[1]	Amount
FY 2009 Enacted	**94,209**	**$11,522,598**
Changes to Base:		
Maintaining Current Levels		**$256,329**
Pay Annualization		80,054
Pay Inflation Adjustment		148,894
Non-Pay Inflation Adjustment		31,113
Government-wide Reduction for Productivity Improvements		(13,732)
GAO Audit Reimbursement Pursuant to P.L. 110-323		10,000
Efficiencies/Savings	**(1,504)**	**($118,125)**
Increase e-File Savings	(182)	(8,360)
Non-Recur Savings		(27,074)
Non-Recur Stimulus Savings	(1,322)	(67,900)
Non-Recur FY09 Reduction Adjustment/Correspondence Inventory		(13,439)
Non-Recur Pension Plan		(1,352)
Reinvestment		**$2,331**
Submission Processing Consolidation (Andover)		2,331
Subtotal Changes to Base	**(1,504)**	**$140,535**
Total FY 2010 Base	**92,705**	**$11,663,133**
Program Changes:		
Enforcement Initiatives	**2,330**	**$332,160**
Reduce the Tax Gap Attributable to International Activities	784	128,064
Improve Reporting Compliance of SB/SE Taxpayers	755	94,215
Expand Document Matching for Business Taxpayers	300	26,237
Address Nonfiling/Underpayment and Collection Coverage	491	83,644
Infrastructure Initiatives	**46**	**$108,100**
Address IT Security and Material Weakness	36	90,000
Implement Return Review Program (RRP)	10	18,100
Business Systems Modernization Initiative		**$22,607**
Subtotal FY 2010 Program Changes	**2,376**	**$462,867**
Total FY 2010 President's Budget Request	**95,081**	**$12,126,000**

[1] Includes Technical FTE adjustments made since February 2008.

2A – Budget Increases and Decreases Description

Treasury Strategic Goals and Outcome

All of the IRS FY 2010 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 below shows the IRS Budget by strategic outcome.

This table lists all FY 2010 resources by Strategic Goal, Objective and Outcome outlined in the FY 2007-2012 Treasury Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

Budget by Strategic Outcome
Dollars in Thousands

Treasury Strategic Outcome	FY 2009 Enacted	FY 2010 Request	Percent Change
Revenue collected when due through a fair and uniform application of the law	11,252,550	11,856,572	5.4%
Removed and reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking, and other criminal activity on the part of rogue regimes, individuals, and their support networks	270,048	269,428	-0.2%
Total	**$11,522,598**	**$12,126,000**	**5.2%**

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 +$140,535,000 / -1,504 FTE

Maintaining Current Levels (MCLs) +256,329/ 0 FTE

Pay Adjustments and Inflation
+$260,061,000 / 0 FTE

This request funds the estimated cost of pay and benefits increases and non-pay inflation. This amount includes:

- $80,054,000 to fund annualization of the 3.9 percent January 2009 federal pay raise in FY 2010;
- $148,894,000 to fund the assumed 2.0 percent January 2010 federal pay raise; and
- $31,113,000 to fund the 1.0 percent FY 2010 non-pay inflation adjustment for items such as rent, utilities, communications, contracts, travel, supplies, and equipment.

Government-wide Reduction for Productivity Improvements
-$13,732,000 / 0 FTE

The IRS continues to improve the efficiency of its taxpayer service and enforcement programs by identifying productivity improvements that will increase the effectiveness of the organization.

GAO Audit Reimbursement Pursuant to Public Law 110-323
+$10,000,000 / 0 FTE

This adjustment will provide funds up to $10 million to reimburse the Government Accountability Office (GAO) for the audit of the IRS annual financial statements. Public Law 110-323 requires the IRS to pay this cost. In prior years, GAO conducted the financial statement audit for which it did not receive reimbursement.

Efficiencies and Savings -$118,125,000 / -1,504 FTE

Increase e-File Savings
-$8,360,000 / -182 FTE

This decrease is a result of savings from increased electronic filing (e-File), which is projected to lead to 4.6 million fewer returns filed on paper (2.9 million individual and 1.7 million business) in FY 2010. This is projected to result in a savings of 182 FTE in submission processing, generating a savings of $8.4 million. Part of this savings will be reinvested to cover the costs of *Submission Processing Consolidation (Andover)*.

The IRS continues to strive to meet the Congressional goal of electronically receiving 80 percent of all tax and information returns. By making technological advances and increasing e-filing marketing strategies, the IRS will move toward meeting its Strategic Goals. This includes expanding options for filing, payments, and communications.

Non-Recur Savings
-$27,074,000 / 0 FTE

This is the net of reductions of non-recurring, one-time costs associated with the IRS FY 2009 enforcement initiatives (e.g., ADP equipment and training).

Non-Recur Stimulus Savings
-$67,900,000 / -1,322 FTE

One-time resources were provided in FY 2009 to meet the requirements of the *Economic Stimulus Act of 2008* (Public Law 110-185). The IRS does not expect to need these funds in FY 2010.

Non-Recur FY 2009 Reduction Adjustment/ Correspondence Inventory
-$13,439,000 / 0 FTE

One-time resources were provided in FY 2009 to handle the increased adjustment/correspondence workload that resulted from diverting staff from paper correspondence to telephone service to meet the requirements of the *Economic Stimulus Act of 2008* (Public Law 110-185). The IRS expects inventory levels to return to acceptable levels in FY 2010.

Non-Recur Pension Plan
-$1,352,000 / 0 FTE

This is a decrease resulting from the funding of the one-time, non-recurring cost in FY 2009 to test the IRS ERISA (Employee Retirement Income Security Act of 1974) Residual Solution (IERS) system. This system will process the electronic Form 5500, *Annual Return/Report of Employee Benefit Plan* from the new Department of Labor ERISA Filing Acceptance system and the paper Form 5500EZ, *Annual Return of One-Participant (Owners and Their Spouses) Retirement*.

Reinvestment +$2,331,000 / 0 FTE

Submission Processing Consolidation (Andover)
+$2,331,000 / 0 FTE

Increased use of e-filing options has driven continued efforts to reduce the number of sites that process individual returns. Resources of $2.3 million from *Increase e-File Savings* will be reinvested to fund one-time separation costs associated with the September 30, 2009 closure of the Andover submissions processing site ($2.0 million) and cover redistribution/disbursement of existing furniture and equipment in Andover ($0.3 million).

This reinvestment supports two IRS operational priorities – to improve returns processing efficiency and to implement planned submission processing strategies. Included in those strategies are the downsizing of IRS paper-based operations to meet the increase in electronic submissions and the utilization of cost efficient methods to process the remaining paper workload. The ramp-down and consolidation of the Andover submissions processing site also will improve compliance by providing taxpayer services more efficiently and effectively, a key component of the tax gap strategy.

As the Andover consolidation approaches, the IRS will continue to assist employees in finding employment either in or outside the organization. The IRS makes every effort possible to place affected employees in other positions; however, the expectation that some employees will separate through Reductions in Force, Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Payment (VSIP), will cause the IRS to incur separation costs associated with the consolidation.

Program Increases
+462,867,000 / +2,376 FTE

Reduce the Tax Gap Attributable to International Activities
+$128,064,000 / +784 FTE

Initiative Summary

This initiative requests an increase of $128.1 million and 784 FTE to promote compliance with U.S. international tax provisions and to address the tax gap attributable to international transactions. The IRS needs a multi-year investment, beginning in FY 2010, to deal more effectively with increasing and complex international tax activities of individual and business taxpayers. Funding this initiative would allow the IRS to better meet the challenges of international tax administration to collect the share of tax due to the U.S. Government. This initiative will produce additional enforcement revenue of $737 million per year (yielding an ROI of 7.1 to 1) once new hires reach full performance levels in FY 2012.

The IRS needs to respond to expanding international activity by addressing the underreporting of taxes associated with international transactions, U.S. taxpayers living overseas and domestic taxpayers involved with offshore activities.

In the last few years, the IRS has observed the following trends:

- The number of multinational enterprises increased by twentyfold from 3,000 in 1990 to well over 63,000 in 2007;
- The number of filings of Form 1120, *U.S. Corporation Income Tax Return*, containing international features has increased by 87 percent from 2002 to 2007;
- Technology has enabled the growth in industrial globalization by making it easier for small and mid-market businesses to compete across borders;
- Low- and no-tax jurisdiction countries are home to 58 percent of the foreign profits of U.S. multi-nationals; and
- A 2006 U.S. Senate Permanent Subcommittee on Investigations report estimated that the IRS could lose $40-70 billion each year to low- and no-tax jurisdictions.

This IRS-wide effort to address international noncompliance will allow IRS to:

- Enhance IRS-wide coordination and effectiveness in the identification of emerging international compliance issues;
- Develop and resolve key international issues by increasing issue focus and specialization;
- Increase examination coverage on the international issues with the highest compliance risk;
- Discover international tax shelter issues;
- Identify individual taxpayers involved in offshore arrangements that are designed to shield ownership of assets and income;
- Address proliferation of ambitious tax evasion schemes through use of foreign and domestic trusts, offshore employee leasing, transfer pricing, and reinsurance schemes;
- Address the Treasury Inspector General for Tax Administration (TIGTA) concerns with the timeliness of requesting and delivering international specialist assistance in examinations with international features as well as reporting and withholding issues related to U.S. source payments to foreign persons and entities. ("Actions Are Needed to Control Risks With International Transactions Reported on Corporate Income Tax Returns," Reference Number 2008-30-114. May 2008. Washington, DC. Treasury Inspector General for Tax Administration);
- Address the 2007 Government Accountability Office (GAO) concerns with the potential in under-withholding of U.S. source income flowing to undisclosed jurisdictions and unknown recipients offshore ("Challenges in Ensuring Offshore Tax Compliance." GAO-07-823T. May 2007. Washington, DC. Government Accountability Office);
- Investigate the use of offshore tax shelters by pension plans and the diversion of exempt assets offshore; and
- Disrupt the financial structure of terrorist organizations and other financial criminal enterprises.

The IRS resources needed to carry out the international initiative are shown below.

FY 2010 Resources		
Areas of Focus	**FTE**	**Dollars (In Millions)**
Improve Identification and Coverage of International Issues and Increase Issue Specialization to Address Complex International Transactions	373	63.0
Increase Coverage of Smaller International Businesses and Individuals	113	18.0
Increase Reporting Compliance of Domestic Taxpayers with Offshore Activity	109	16.1
Further National Law Enforcement and Counterterrorism Objectives	10	5.4
Expand International Presence in Tax-Exempt and Government Sectors	16	2.4
Increase Withholding Compliance Regarding Foreign Person's U.S. Source Income	40	3.9
Expand Research and Workload Identification	2	0.5
Other Direct Costs	121	18.8
Total	**784**	**128.1**

Initiative Detail

Improve Identification and Coverage of International Issues and Increase Issue Specialization to Address Complex International Transactions (+$63.0 million / +373 FTE)

The first component of this initiative will allow the IRS to combine the skills of Revenue Agents (RAs) with international and financial products experts and economists to address the global nature of tax administration. This initiative will:

- Expand the identification and coverage of international and cross-border transactions of large and mid-size corporations, pass-through entities, and individuals;
- Increase the examination coverage of small foreign corporations, pass-through entities, and individuals engaged in multinational transactions; and
- Address the reporting and withholding issues that indentify U.S. source income flowing to foreign recipients.

Increasingly, U.S. entities are engaging in cross-border transactions, developing complex multinational structures, and using the tax treaty network to lower their effective worldwide tax rate with both appropriate as well as abusive methods. International features on U.S. tax returns have now become the norm rather than an exception. The IRS is taking steps to increase its international expertise and ability to address the compliance challenges of globalization by increasing the training of domestic agents to identify significant international issues. This initiative will allow the IRS to increase and realign international examiners to match directly the industry and geography they serve and to identify and address risk on international issues more quickly.

The IRS will improve its ability to ensure proper tax reporting of these complex transactions. The following are just a few of the indicators of risk that challenge how the IRS approaches international tax administration:

- In 2005, 26 percent of filings by active foreign corporations owned by U.S. taxpayers represented low- and no-tax jurisdictions;
- The amount of Foreign Tax Credit (FTC) claimed has increased 95 percent from $40.9 billion in 2002 to $79.8 billion in 2006;
- U.S. taxpayers reporting transfers to and from foreign trusts, as well as receipts of certain foreign gifts, have increased dramatically;
- According to the latest estimates from the Department of State, over seven million U.S. citizens live abroad. In the last 10 years, 4.7 million U.S. citizens have renewed their passports at U.S. Embassies and Consulates indicating long-term residence and employment overseas; and
- Outsourcing of both management and service jobs to low wage countries continues with an estimated 3.3 million U.S. jobs expected to move to China and India by 2015.

Given the increasing globalization of individual and business taxpayers, the IRS must improve its identification and coverage of international issues on returns of domestic taxpayers and increase examination coverage of all international tax returns. The IRS will accomplish this by enhancing the international technical expertise of the workforce, hiring additional economists and international finance experts, and increasing issue focus and specialization. Some of the key tax issues arising from businesses operating worldwide include:

- Transfer pricing;
- Foreign tax credit generators;
- Abusive transactions involving hybrid instruments;
- Foreign earnings repatriation;
- Valuation issues;
- Transfers of property (tangible and intangible); and
- Potential tax shelters.

The additional International Examiners will address approximately 3,572 international issues in FY 2010, 4,286 in FY 2011 and 5,357 in FY 2012. This component of the initiative will generate additional revenue of $27.3 million in FY 2010, $342.9 million in FY 2011, and $612.0 million in FY 2012.

Increase Coverage of Smaller International Businesses and Individuals (+$18.0 million / +113 FTE)

The second component of this initiative requests additional International RAs and Tax Compliance Officers (TCOs) to increase the IRS coverage of the Foreign Resident Compliance Program (FRC). The FRC addresses:

- U.S. citizens and residents who reside overseas or in U.S. Territories;
- Businesses with assets of less than $10 million that maintain books and records overseas;
- Nonresident aliens and corporations;
- Expatriates who have given up their citizenship; and
- Employees of foreign governments and international organizations in the U.S.

The tax issues arising with these international taxpayers include:

- Withholding and income tax on foreign athletes and entertainers;
- Taxation of expatriates;
- Tax issues arising from foreign tax credits;
- Noncompliance with tax treaty provisions;
- U.S. territory self-employment tax and tax credits;
- Foreign earned income exclusion;
- High-income nonfilers;

- U.S. businesses with permanent establishments in foreign jurisdiction;
- Penalties associated with the failure to file required international forms; and
- Employees of foreign governments and international organizations.

In FY 2010, additional RAs will increase the IRS ability to examine an additional 775 individual returns and 475 business returns in the FRC program. Additional specially trained TCOs will increase IRS coverage of U.S. and nonresident alien individuals engaged in international transactions. In FY 2010, the additional TCOs will examine 1,500 additional individual returns. The additional revenue expected for FY 2010, FY 2011 and FY 2012 respectively is $19.1 million, $31.9 million and $44.1 million.

Increase Reporting Compliance of Domestic Taxpayers with Offshore Activity (+$16.1 million / +109 FTE)

The third component of this initiative focuses on domestic taxpayers with offshore activity. Financial privacy laws in certain foreign jurisdictions pose a significant hurdle to IRS compliance efforts. These jurisdictions deliberately attract foreign businesses with government policies that minimize or mitigate taxes. The IRS is particularly concerned about offshore secrecy jurisdictions that:

- Offer the instant formation and management of foreign trusts, international business companies (IBC), and other special purpose entities;
- Lack transparency as they offer banking and financial secrecy by law and by custom (enforced by civil and criminal penalties including incarceration);
- Shield the beneficial owner of an entity, transaction or asset; and
- Do not exchange tax information with the United States.

A few offshore secrecy jurisdictions have Tax Information Exchange Agreements (TIEA) in place as a means for the U.S. to receive information. However, the IRS cannot take full advantage of a TIEA in situations where the U.S. person’s identity is unknown. In addition, even where the U.S. is able to secure information about a U.S. taxpayer, the TIEA do not provide for assistance with the collection of U.S. taxes from foreign-based assets.

To take advantage of TIEA while addressing offshore activities, the IRS plans to establish two new domestic taxpayer offshore activity groups to fill gaps in geographic areas. The additional specially trained RAs will uncover use of offshore credit cards, disguised corporate ownership, and brokering activities.

In the first year, the additional FTE will generate an estimated 1,069 additional examinations with revenue of $37.5 million. Additional examinations expected in FY 2011 and FY 2012 are 1,136 and 1,145, respectively. The additional revenue generated for FY 2011 and FY 2012 is $54.7 million and $58.3 million, respectively.

The IRS needs additional FTE in the Excise Tax program to address the cascading tax on foreign insurance companies. This work is estimated to contain over 3,000 insurance entities. Other areas of focus include the foreign airlines ticket tax, foreign-based fuel refineries with contracts with U.S. suppliers, and imported heavy truck issues with Canada and Mexico.

The additional FTE in the Excise Tax program will generate an estimated 402 additional closures in FY 2010 with revenue of $1.6 million. Additional closures expected in FY 2011 and FY 2012 are 422 and 426, respectively. The additional revenue generated for FY 2011 and FY 2012 is $2.7 million and $3.3 million, respectively.

This initiative also will fund the anticipated growth of collection activities resulting from increases in small and large business examination assessments, foreign investment transactions, and withholding compliance for nonresident aliens with independent personal service income. This additional examination activity will require additional Revenue Officers (RO) in collection.

In FY 2010, the ROs, Tax Specialists, and Tax Examiners will resolve approximately 1,075 additional Tax Delinquency Investigations (TDI) and an additional 1,941 Tax Delinquency Accounts (TDA) generating additional revenue of $8.3 million. Additional TDA resolutions of an estimated 2,004 and 2,067 are expected in FY 2011 and FY 2012, respectively, and additional TDI resolutions of 1,110 and 1,145 are expected in FY 2011 and FY 2012. The additional potential revenue generated for FY 2011 and FY 2012 is $14.4 million and $18.9 million, respectively.

Further National Law Enforcement and Counterterrorism Objectives (+$5.4 million / +10 FTE)

The fourth component of this initiative will allow the IRS to double the number of Criminal Investigation (CI) attachés, placing seven assistant CI attachés in established foreign posts of duty in Ottawa, Bogota, Mexico City, Barbados, Hong Kong, London, and Frankfurt, and will establish three new foreign posts of duty in Beijing, China; San Jose, Costa Rica; and Sydney, Australia. CI attachés will aggressively combat abusive foreign tax schemes and other tax evasion schemes. Further, they are an important component in supporting the Department of the Treasury's objective of "Pre-empted and neutralized threats to the international financial system and enhanced U.S. national security."

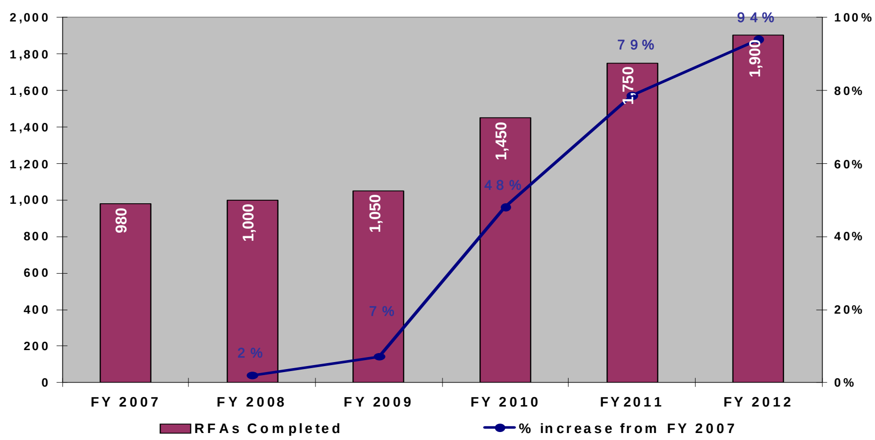
By their very nature, counterterrorism investigations involving terrorist financing have many overseas components. The attachés are crucial in processing requests for assistance involving these overseas components. These cases generally involve fundraising that originates in the US and then the money is moved offshore through various layers, including parallel banking systems such as "hawalas" through multiple countries. The attachés work in supporting these counterterrorism investigations preempts and neutralize threats to US national security by identifying and seizing funds and assets bound for terrorist organizations.

As an example, CI's most important contribution to the national effort to combat terrorism occurred when it was tasked with taking the lead in the Treasury-directed effort to identify and trace assets of the former Iraqi regime for repatriation to the Iraqi people.

Criminal Investigation Special Agents operating in Iraq, Jordan, the United Kingdom, Syria, Denmark, Switzerland, and Qatar identified over $6 billion in assets outside Iraq that were subsequently frozen. Of these assets, more than $1.9 billion have been repatriated to date.

The IRS expects to reduce significantly the turn around time and the backlog of Requests For Assistance (RFA) on international issues. Increasing the number of CI attachés in foreign posts directly supports the IRS efforts to combat international tax evasion schemes and terrorism by responding to RFAs in a timely manner.

Requests for Assistance (RFA) Completion



In addition to contributions made to tax administration efforts, CI attachés have contributed to the success of the IRS asset forfeiture program. One of the most effective means of dismantling criminal enterprises is the seizure and forfeiture of their assets. Criminal Investigation attachés facilitated the seizure of $150.0 Million in assets in FY 2007 and $19.5 million assets in FY 2008. During FY 2008, CI attachés were also instrumental in the facilitation and administration of over $266.0 million in pending asset seizures and forfeitures resulting from prior year investigations. These monies have not yet been forfeited back to the United States due to ongoing case issues.

A significant positive effect on tax compliance exists when the media reports successful criminal enforcement actions. The study, "IRS Criminal Investigation—Measuring the Marginal Monetary Effect of Criminal Investigation Convictions," dated May 24, 2006 by Professor Jeffrey A. Dubin of the California Institute of Technology, concluded that every dollar spent on criminal tax enforcement results in an additional $60 of revenue.

Expand International Presence in Tax-Exempt and Government Sectors (+$2.4 million / +16 FTE)

The fifth component of this initiative allows the IRS to expand its international presence in the tax-exempt and government sectors. The IRS will:

- Discover and investigate offshore tax shelters used by pension plans;
- Identify and investigate the diversion of exempt assets to offshore corporations or individuals for non-charitable purposes;
- Increase the coverage of government entities located in U.S. possessions and improve the reporting requirement of Form 1042; *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons;*
- Provide education and outreach to federal agencies in U.S. possessions; and
- Develop regulations to respond to the growing divergence between the tax laws of the U.S. and its territories or possessions.

Historically, the IRS has had a low enforcement presence in international tax compliance for tax-exempt and government entities. This initiative would result in approximately 250 new international tax audits of tax-exempt and government entities annually, significantly increasing coverage in this emerging area. By providing additional coverage of targeted compliance risks, these efforts ensure tax expenditures relating to tax-exempt and government entities are spent in accordance with their public purpose.

Increase Withholding Compliance Regarding Foreign Person's U.S. Source Income (+$3.9 million / +40 FTE)

The sixth component of this initiative requests additional funding and FTE to process approximately 6.2 million paper and electronic Forms such as 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding* and Forms 1042-T, *Annual Summary and Transmittal of Forms 1042-S.*

The most efficient and effective tool that the IRS can use to ensure compliance is automatic matching of these payments to annual income tax return data. The Forms 1042-S can be used to determine whether tax is owed on U.S. source income flowing to an offshore locality by determining the identity of the recipients. The matching program will reconcile the Forms 1042 and 1042-T with the Forms 1042-S to ensure the information on these forms agrees.

A recent GAO report recommended a systematic analysis of the Forms 1042-S to target enforcement efforts, assess the Treasury's exposure, and help policymakers decide whether changes need to be made to improve determinations of tax benefits. ("Challenges in Ensuring Offshore Tax Compliance." GAO-07-823T. May 2007. Washington, DC Government Accountability Office).

Expand Research and Workload Identification (RWI) ($0.5 million/ 2 FTE)

The seventh component of this initiative will increase staffing to allow RWI to take full advantage of the new complex e-filing data. RWI will build advanced models and filter algorithms in an environment that allows the IRS to assess risk at the individual taxpayer level. This will include subsidiaries, controlled foreign corporations, disregarded entities, partnerships, and trust vehicles.

Other Direct Costs

The IRS Appeals division ($3.9 million/ 22 FTE) will address international transactions on large, complex business returns as well as returns from smaller corporations and individuals with significant international activity. The IRS will need additional Appeals Officers to work the increased number of international issues. In addition, Appeals requires additional International Specialists, Economists, Financial Products Specialists, and Tax Computation Specialists.

The IRS Office of Chief Counsel ($14.7 million/ 97 FTE) will provide legal advice and assistance. This is a result of expected increases in examination and litigation activities involving highly complex and abusive international transactions, Advanced Pricing Agreements (APA), and the need for assistance with Competent Authority. In addition, emerging issues and transactions of interest continue to increase requiring further Counsel involvement.

Counsel workload continues to increase in the following areas:

- Assisting Issue Management Teams (IMT) address complex and highly structured abusive transactions including the Foreign Tax Generators;
- Addressing the increasing number of emerging issues and transactions of interest;
- Developing issues along with the audit team in transactions such as Hedge Funds and Cost Sharing transactions;
- Providing published guidance and involvement in the compliance initiative due to the increase in the number and complexity of global transactions;
- Developing a closer relationship with treaty partners;
- Joining the Office of Tax Shelter Analysis in reviewing and categorizing disclosures relating to reportable transactions filed by taxpayers and material advisors;
- Contributing to transfer pricing compliance with Large and Mid-Size Business (LMSB) field and Competent Authority personnel through the Advance Pricing Agreement Program;
- Supporting the Aggressive Tax Planning (ATP) Design Team under Organization for Economic Cooperation and Development (OECD) Working Party 8; and
- Participating with the Joint International Tax Shelter Information Centre.

In FY 2010, the additional FTE will allow Counsel to close more cases to help narrow the tax gap as shown in the following chart.

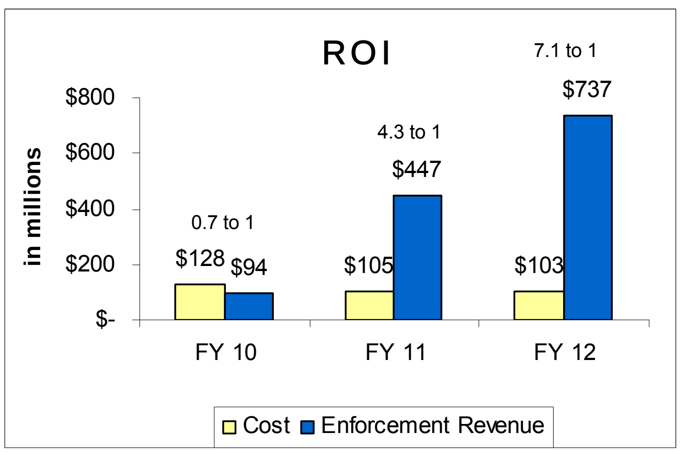
Projected Counsel Closures

Program	Advanced Case Resolution	Published Guidance	Enforcement Advice and Assistance	Tax Court Litigation	Treaties, Legislation, Congressional & Executive Correspondence	Training and Public Outreach
Initiative Projected Closures Increases	15 APA	33	595	525	124	16,700 hours

The Taxpayer Advocate office ($0.2 million and 2 FTE) will address the expected increase in workload arising from this initiative.

Expected Benefits

In FY 2012, when the new hires reach full performance level, the IRS expects that this initiative will generate $737 million of additional annual enforcement revenue.



Improve Reporting Compliance of Small Business/Self Employed (SB/SE) Taxpayers +$94,215,000 / +755 FTE

Initiative Summary

This initiative requests an increase of $94.2 million and 755 FTE to address and improve compliance among small business and self-employed taxpayers in the tax gap element of reporting compliance. Additional enforcement revenue of $567.2 million per year (yielding an ROI of 7.8 to 1) will be produced once new hires reach full potential in FY 2012 by increasing examinations of businesses and high-income and specialty program returns and by increasing audits involving flow-through entities.

The overall gross tax gap is estimated at $345 billion, reflecting a noncompliance rate of 16.3 percent. Of that amount, 75 percent, or $257 billion, is attributable to small business taxpayers. Underreporting is estimated at $285 billion and constitutes nearly 83 percent of the tax gap. This initiative will maintain the balanced coverage approach of all taxpayer segments with a focus on effectively addressing high-risk tax gap areas.

Initiative Detail

Underreporting Compliance (+$82.6 million / +670 FTE)

The Underreporting Compliance portion of the tax gap reflects the underreporting of income and the overstatement of deductions on returns filed timely. This portion of the tax gap is comprised of four major components: individual income tax, employment tax, corporate income tax, and estate and excise taxes. Overall underreporting of individual income tax and employment tax constitutes over 70 percent of the gross tax gap. Individual income tax underreporting totals $197 billion, $109 billion of which is attributed to understated net business income.

Another $56 billion represents underreported non-business income such as wages, tips, interests, dividends, and capital gains. Employment tax accounts for an additional $54 billion of the underreporting tax gap with $39 billion representing self-employment tax.

In FY 2010, this investment will increase staff resources by 390 Revenue Agents (RAs), 110 Tax Compliance Officers (TCOs), 80 Specialty Field Examination attorneys, RAs and TCOs, and 90 Correspondence Examination Customer Service Representatives.

Field Examination

The RAs will continue to 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 ATAT program will continue to identify new schemes and examine complex listed transactions such as in the Global Settlement Initiative, which has so far resulted in almost $7 billion in tax assessments. Updated processes for selection of cases also allow for the grouping of taxpayers with similar tax filing behavior and permits focusing on priority elements of the tax gap and selecting the best cases for examination.

Recognizing that tax return preparers are a critical component of tax administration, an IRS return preparer strategy is being developed to identify and address egregious preparers. The IRS will implement a fully coordinated preparer penalty program, consider initiation of preparer projects, and refer practitioners to the Office of Professional Responsibility when appropriate.

The RAs and TCOs will examine an additional 13,000 individual income tax returns (Individual Master File closures - IMF) and 1,700 business income tax returns (Business Master File closures - BMF) in FY 2010 with additional revenue of $47.5 million. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 19,000 individual return audits and 2,400 business return audits, potentially generating $301.5 million in increased revenue.

Individual returns are expected to grow by 5 percent from FY 2008 through FY 2011. Despite this growth, the IRS estimates that with the addition of Field Examination resources, the current audit coverage rate of approximately 1 percent for individual returns can be maintained.

Specialty Tax Programs

Specialty Programs addresses the tax gap by examining tax returns and addressing compliance issues in the Employment, Excise, and Estate and Gift tax programs. In the Employment Tax program, a full Employment Tax National Research Program (NRP) will be undertaken to determine national employment tax compliance levels.

Excise tax referrals from the Large and Midsize Business (LMSB) have been a compliance concern in certain abstracts including foreign insurance, ozone depleting chemicals, and air transportation taxes for corporate aircraft. Excise Tax RAs (25 FTE) will conduct approximately 1,100 new examinations in FY 2010 with an additional revenue of $3.9 million. Once new hires reach full potential in FY 2012, this investment will produce an additional 1,300 return audits, generating $8.3 million in increased revenue.

Employment Tax RAs and TCOs (30 FTE) will conduct approximately 4,000 more tax audits in FY 2010 with an additional revenue of $4.2 million. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 4,700 return audits, potentially generating $9.2 million in increased revenue.

In the Estate tax area, there has been erosion in the Estate tax audit rate because filing volumes have not declined as expected. Therefore, the 28 percent coverage rate for estates over $5 million is projected to slip to 22 percent in FY 2009 and FY 2010.

Estate and Gift attorneys (25 FTE) will conduct approximately 300 audits in FY 2010 with additional revenue of $9.4 million. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 350 return audits, generating $17.2 million in increased revenue.

Correspondence Examination

The Correspondence Examination program addresses the tax gap through increased enforcement presence in priority segments and balanced coverage. The additional 90 FTE will examine approximately 21,000 more cases in FY 2010 with an estimated $89.6 million of additional revenue. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 26,000 individual return audits, generating $220.5 million in increased revenue.

Campus Compliance Services (+$1.7 million / +20 FTE)

The Compliance Services Collection Operation (CSCO) addresses significant areas of the nonfiling tax gap. This initiative will increase the number of large Taxpayer Delinquency Investigations and business nonfilers investigations closed. The additional 20 FTE will allow the CSCO program to close an additional 115,000 Return Delinquencies and 52,000 BMF Substitute For Returns (6020b) cases in FY 2010 with an estimated $5.0 million in additional revenue. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 126,000 Return Delinquencies and 57,000 6020b closures, generating $10.5 million in increased revenue.

Other Direct Costs

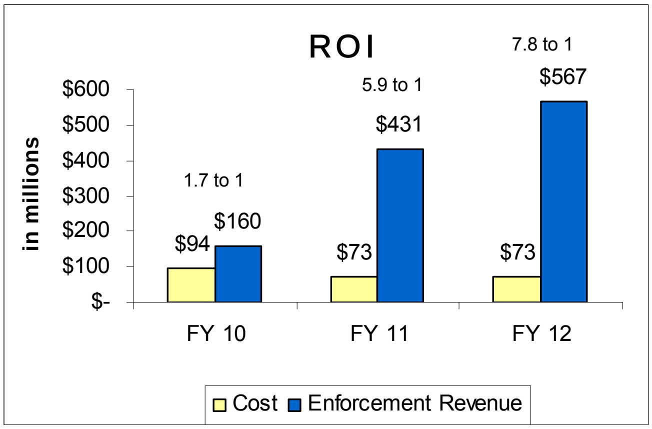
The IRS Appeals division ($5.2 million and 30 FTE) will process additional cases generated from increased examination and collection program staffing.

The IRS Office of Chief Counsel ($4.4 million and 32 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. Taxpayers have increasingly used offshore tax havens to hide their income. Counsel will provide legal advice and assistance to Examination at the audit stage of cases involving overseas transactions covered by current law and treaty provisions, as well as emerging tax evasion transactions. These cases are often technically complex and, therefore, require the dedication of additional Counsel resources. Counsel will litigate those cases that are not resolved at the audit or appeals stages.

Funding for the Taxpayer Advocate Service ($0.3 million and 3 FTE) will be applied to examination programs to ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayer rights.

Expected Benefits

This request will produce $567.2 million in additional annual enforcement revenue once new hires reach full potential in FY 2012.



Expand Document Matching for Business Taxpayers
+$26,237,000 / +300 FTE

Initiative Summary

This initiative requests an increase of $26.2 million and 300 FTE to increase the coverage of the IRS Automated Underreporter (AUR) program. Matching third-party information such as W-2s and 1099s against tax returns is critical to ensure compliance. This initiative will increase the coverage of the document matching program to reduce the number of taxpayers who misreport their income. This request will generate $386.5 million in additional revenue once new hires reach full potential in FY 2012 (an ROI of 17.0 to 1).

Initiative Detail

The IRS requests $22.1 million and 266 FTE for the IRS Automated Underreporter (AUR) program. The 266 FTE will reconcile the Forms 1099 with taxpayer returns and help to address the remaining 7.5 million taxpayers whose returns may have misreported income. The additional staff will follow up any discrepancies with taxpayers and decrease the tax gap, increase voluntary compliance, and reduce the number of taxpayers who underreport income in future tax years. The objective of the AUR program is to minimize revenue loss through document matching of taxpayer account information. About 12 million taxpayers may currently misreport their income based on third-party information returns. Of those, the individual and small business AUR programs process approximately 4.5 million taxpayer cases, leaving an unaddressed 7.5 million taxpayers whose returns may have misreported income.

Historical results are being analyzed to identify productive inventory segments and increased emphasis is being placed on targeting egregious repeat offenders. This initiative also will help decrease the tax gap, increase voluntary compliance, and reduce the number of taxpayers who underreport income in future tax years.
The AUR program will reconcile approximately 261,000 additional tax returns in FY 2010, generating approximately $191.8 million in additional revenue. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 550,000 individual return audits, generating $386.5 million in increased revenue.

Other Direct Costs

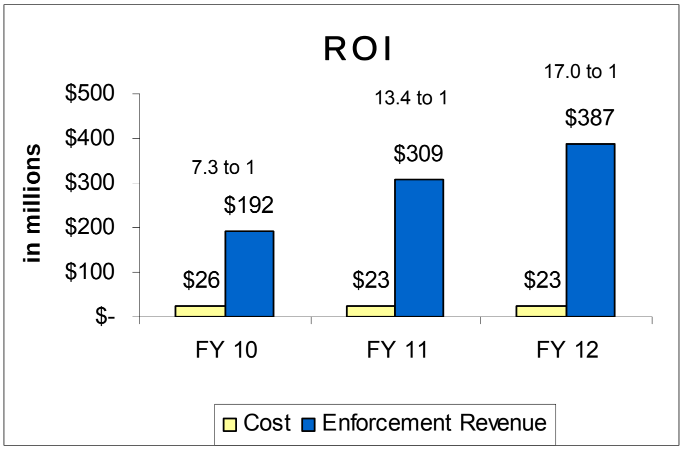
The IRS Appeals division ($1.4 million and 8 FTE) will process additional cases that will be referred by the AUR document-matching program.

IRS Counsel ($1.0 million and 10 FTE) will provide increased legal advice and assistance in litigating the increased number of cases and related published guidance.

Taxpayer Advocate Service ($1.7 million and 16 FTE) will assure that the IRS has followed appropriate procedures and it has neither created an unnecessary burden nor compromised taxpayer rights.

Expected Benefits

The AUR program has one of the highest returns on investment ratios of all compliance programs. By FY 2012, the return on investment is expected to reach 17.0 to 1. This initiative will generate $386.5 million in additional annual enforcement revenue once the new hires reach full potential in FY 2012.



Address Nonfiling/Underpayment and Collection Coverage
+$83,644,000 / +491 FTE

Initiative Summary

This initiative requests an increase of $83.6 million and 491 FTE to address the tax gap elements of non-filing and underpayment as well as fund the costs of building two additional Automated Collection System (ACS) sites. Over $359.4 million of additional revenue per year (yielding a return on investment of 5.6 to 1) will be produced once new hires reach full potential in FY 2012.

The additional staff will provide an increased focus on improving voluntary compliance and decreasing non-filing, as well as augment collection coverage. This investment will increase staff resources in field collection by 300 Revenue Officers (ROs). Automated Collection System (ACS) campus compliance staff resources will increase by 120 Customer Service Representatives (CSRs) and 30 support positions.

From FY 2005 to FY 2008, available workload for Collection increased 14 percent while Collection staffing decreased 7 percent. Additionally, nearly half of available workload is generated by balance due and delinquent return first notices, the volume of which is predicated on taxpayer behavior and influenced by economic and societal issues, factors not within IRS control.

The IRS achieved a 27.2 percent increase in Collection efficiency from FY 2005 to FY 2008, thus keeping collection coverage stable. Despite the increased efficiency, the increasing workload did not allow the IRS to expand the impact of coverage in the tax gap. This initiative will position Collection to broaden its overall coverage and more effectively address the tax gap.

Initiative Detail

Nonfiling/Underpayment (+$53.6 million / +450 FTE)

Nonfiling comprises 8 percent or $27 billion of the tax gap. In recent years, nonfilers with high incomes and higher amounts of net tax due have dominated the nonfiler population. Through tax year 2005, repeat nonfilers accounted for 47 percent of the nonfiling problem. Reducing repeated nonfiling could significantly lower the nonfiler inventory and addressing those with high incomes could appreciably impact the tax gap.

Revenue Officers (ROs) and Campus Compliance employees use an array of techniques to address nonfiling, including the creation of compliance assessments based on available internal and third-party information. Payment Compliance represents 10 percent, or $33 billion, of the tax gap.

Potentially Collectible Inventory (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 2008.

Field Collection

This initiative will maximize collection efforts on key compliance assessments focused on improving voluntary compliance and decreasing nonfiling. It will also augment Collection coverage. The additional Field Collection staff will produce an estimated 5,700 additional tax delinquency accounts (TDA) and 2,900 additional tax delinquency investigations (TDI) in FY 2010. This will generate $69.5 million in additional revenue.

At full potential in FY 2012, new hires will produce an additional 12,000 TDAs and 6,000 TDIs. This will generate $154.6 million in additional revenue.

Automated Collection System (ACS)

The additional ACS staff will produce approximately 40,000 tax delinquency accounts and 10,900 tax delinquency investigations in FY 2010. This will yield approximately $96.5 million in revenue.

Once new hires reach full potential in FY 2012, this investment will produce an additional 41,000 TDAs and 11,100 TDIs, which represents an additional $204.8 million in revenue.

Build Two Automated Collection System (ACS) Sites (+ $13.8 / 0 FTE)

This initiative funds the build out of two new Automated Collection System (ACS) sites, one in Small Business/Self-Employed (SBSE) and one in Wage & investment (W&I), to address the growing value of the inventory of collection cases.

Underpayment represents 9.6%, or $33 billion, of the gross tax gap estimated at $345 billion. Previous ACS initiatives have automated and streamlined collection processes, but there still is a substantial inventory of outstanding tax balance cases. Adding two ACS sites will increase compliance coverage of unpaid assessments. The following charts show the value of ACS inventories in SB/SE and W&I, and the increases over the last three fiscal years.

Dollars in billions

	Year-End Sept 2006	Year-End Sept 2007	Year-End Sept 2008
ACS Inventory Value	$17.70	$19.40	$21.90

As indicated in the following chart, the IRS has increased coverage of the nonfiler case inventory each year since 2005. The number of outstanding nonfiler cases that remain adversely affects the nonfiling component of the tax gap calculated at $27 billion and erodes voluntary compliance accomplishments.

Nonfiler Inventory				
Tax Year	**Business Unit**	**Available Cases (in millions)**	**Cases Selected (in millions)**	**% of Available Cases Worked**
2007*	W&I	4.0	2.0	50.0%
	SB/SE	2.3	1.6	69.6%
	Total	**6.3**	**3.6**	**57.0%**
2006	W&I	5.6	1.7	30.4%
	SB/SE	2.8	1.5	53.6%
	Total	**8.4**	**3.2**	**38.1%**
2005	W&I	5.4	1.2	22.2%
	SB/SE	2.5	1.3	52.0%
	Total	**7.9**	**2.5**	**31.7%**

* TY 2007 case inventory was affected by the Economic Stimulus Program

ACS is primarily a telephone operation, and therefore, adding more trained telephone assistors will deliver faster taxpayer service, reduce inventory backlogs, and increase case resolutions.

Tax Liens (+$9.6 million / 0 FTE)

The IRS requests $9.6 million for the Tax Lien program. Filing fees for tax liens and releases that the IRS must pay have increased at a rate well above inflation increases. Annual filing fee increases have ranged from 9 to 31 percent over the past five years. Fees associated with the filing of liens and releases are set by each filing location and can increase at any time without prior notification.

To cover these increases, in recent years the IRS has used 50 percent carryover funds user fees. Fully funding the Tax Lien program is critical to supporting enforcement efforts to improve compliance, which is one of the key components of the IRS strategy to narrow the tax gap.

IT Requirements (+$0.9 million / 0 FTE)

IRS requests $0.9 million to enhance the Reasonable Cause Assistant (RCA) system, which is an automated decision support tool. RCA's current design enables employees to make penalty determinations for both Individual Master File (IMF) Failure to File and Failure to Pay and Business Master File (BMF) Failure to Deposit (FTD). The additional resources will allow the IRS to expand the system to include Business Master File (BMF), Failure to File (FTF), and Failure to Pay (FTP) functionality.

It also will enhance the Collection Field Centralized Case Processing by streamlining the penalty approval and abatement request processes. Additionally, it will support corrective actions identified by TIGTA to include more accurate abatement documentation.

Other Direct Costs

The IRS Appeals division ($2.8 million and 18 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 IRS is to adjudicate the 2,750 additional cases that will be generated through this initiative.

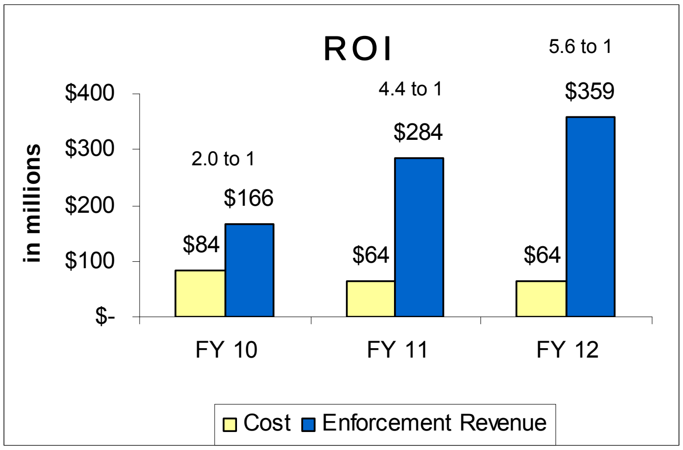
Appeals initiative resources will support Collection efforts in key areas such as improving voluntary compliance and decreasing nonfiling. These staff will support Small Business/Self Employed’s (SB/SE’s) increased coverage of potentially collectible inventory (PCI) by increasing the ability to address priority collection cases. IRS also will be able to protect $111.2 million in revenue through the resolution of cases in the Collection Due Process (CDP), Collection Appeals Program (CAP), and Trust Fund Recovery Penalty (TFRP) areas.

The IRS Office of Chief Counsel ($2.1 million and 15 FTE) will provide legal advice and assistance in litigating the increased number of cases and support for additional tax shelter litigation and published guidance.

The Taxpayer Advocate Service ($0.8 million and 8 FTE) will ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayer rights.

Expected Benefits

Once the new hires reach full potential in FY 2012, they will produce an additional 12,000 Tax Delinquency Accounts (TDA) and 6,000 additional Tax Delinquency Investigations (TDI) in Field Collection; an additional 41,000 TDAs and 11,100 TDIs in the Automated Collection System program; and will generate $359.4 million in additional revenue.



Address IT Security and Material Weakness
+$90,000,000 / +36 FTE

Initiative Summary

This initiative requests an increase of $90.0 million and 36 FTE to improve IT security. This initiative will:

- Ensure the integrity of the tax system and maintain taxpayer confidence;
- Allow the IRS to improve the privacy and security of taxpayer information;
- Segregate securely the development, testing, and production environments for IT systems;
- Provide an enterprise solution to deploy end-to-end audit log collection, storage, and reporting; and
- Implement the Federal Information Security Management Act (FISMA) security compliance controls on all enterprise-wide Windows and UNIX computing assets.

Initiative Detail

Enhanced Enterprise Security Risk Management Tools (EESRMT)
(+$24 million / +10 FTE)

This security project will enhance the privacy and security of taxpayer information by providing a set of advanced security tools that support security situational awareness, vulnerability analysis, security compliance, network forensics, resiliency, and security auditing. This initiative will enhance the IRS ability to deliver secure internet based services to taxpayers, stakeholders, and IRS employees. With the evolving sophistication of the threats and the increasing number of internet-based phishing and malware attacks against government information systems, the IRS needs to upgrade and strengthen its security infrastructure.

This project supports the areas of Disaster Recovery (DR), Security Governance of Risk Management, Network Security Tools and the Computer Security Material Weakness (CSMW) Plan. In the Disaster Recovery area, this initiative will reduce the time required to resume critical business processes after a disaster by deploying new technologies that specifically focus on operational resiliency, redundancy, storage, optimization, availability and recovery.

The EESRMT will implement the Agency Security Program Plan that will be Federal Information Security Management Act (FISMA) compliant. The security program plan will conduct agency Security Awareness Summits; provide Security Professional Development, Training and Formal Certification, perform Security Strategy Development, and meet NIST 800-100 requirements; and implement a Security Enterprise Risk Management (SERM) General Support System (GSS) infrastructure to house all risk management solutions, compliance tools, monitoring, auditing, and security development and testing. Tools will be acquired to address new Federal security mandates and to aggressively resolve the agency long-standing Security Material Weaknesses.

Enhance IT Systems Resiliency (+$9 million / +5 FTE)

The IRS Enhanced IT Systems Resiliency will mitigate risks to the most critical business processes by leveraging the latest technologies to enhance existing IT systems disaster recovery and systems resiliency capabilities. These technologies will allow business applications to meet Recovery Time and Recovery Point Objectives (RTO/RPO).

The deployment of these technologies will ensure that RTO/RPO can be achieved so that mission-critical systems can be restored within expected timeframes.

Enterprise Security Risk Management (ESRM) Security Governance Project Management Office (PMO) (+$5 million / +5 FTE)

To support these projects, a Security Governance PMO will be expanded and formalized within the Strategic Planning, Investment and Governance program to perform project governance; manage project activities through the Enterprise Life Cycle (ELC); perform Capital Planning & Investment Control (CPIC) reporting for these new investments; and manage certification & accreditation documentation. The PMO also will conduct appropriate health assessments for security projects to ensure that projects stay within cost, schedule, and performance as well as adhere to reporting requirements of the appropriate governance boards.

Network Infrastructure Security Tools (+$10 million / 0 FTE)

The Network Infrastructure Security Tools that support the enhanced enterprise security situational awareness, vulnerability assessment, security compliance, and forensics analysis effort will deploy the capability to centrally and automatically detect and forensically triage malicious code infections of workstations and servers that bypass existing security infrastructure components. It will provide significantly enhanced capabilities to assess the real-time security situational awareness and enterprise security risk posture of the operational production environment.

This effort also supports implementation of a set of automated tools to support vulnerability management, security compliance, and security controls testing, that will be in full compliance with the OMB Security Content Automation Protocol (SCAP) requirements. This will allow the IRS to capture, analyze, correlate and archive security information at the enterprise level across multiple systems.

This complex task will provide the advanced capability necessary to support the safe expansion of existing business tax compliance capabilities and the protection of sensitive taxpayer data. The IRS also will leverage these automated tools to support quality enhancements to the certification and accreditation process for all IRS applications and systems. A fully automated solution will provide the IRS with an opportunity to ensure consistency, and most importantly, to gain efficiencies with managing the security posture of its many systems and applications. The tools not only effectively reduce costs and time required to meet requirements for certification and accreditation, but also offer additional opportunities to mitigate information security risks by improving risk management and ultimately the security posture of the IRS.

Harden Software Applications and Network Infrastructure Security
(+$45.0 million / +10 FTE)

The IRS will resolve long standing IT material weaknesses by resolving the fundamental flaws in the IT infrastructure and capabilities in the following areas:

- Develop separate development, test, and production environments to properly segregate and secure application development and deployment;
- Deploy a security infrastructure to support audit controls over high-volume data extracts;
- Centralize IT assets to ensure asset inventories are accurate and that consistent management and security practices are applied to all applications and IT assets across the IRS;
- Prohibit the connectivity of rogue or unauthorized users and systems to the network;
- Deploy tools to enhance the monitoring of high-volume, sensitive data extracts as required by OMB Memorandum 06-16, "Protection of Sensitive Agency Information";
- Implement an enterprise-wide solution to provide encrypted electronic transmission of federal tax data outside of the IRS; and
- Centralize and simplify authentication and access control to reduce the overall risk of unauthorized access to systems and bring the IRS inline with other federal government agencies and Department of the Treasury mandates.

The IRS has had computer security material weaknesses for over a decade. The IRS is increasingly reliant on IT systems to deliver improved electronic services to taxpayers and drive internal productivity enhancements. As threats to IRS systems grow in number and sophistication, and security requirements continue to increase, the IRS must harden the IT infrastructure for the critical applications, systems, and underlying information that support tax administration.

The fact that all production and development systems are connected to the same enterprise network is a key contributor to the Government Accountability Office (GAO) repeat findings on several security weaknesses, including elevated systems access and security configuration control. The current environment also limits the IRS capability to conduct comprehensive security testing prior to new application deployment. The proposed enhancements will allow the IRS to implement the logical separation of networked systems and applications used for development and testing (regardless of their physical or geographical location) from the production network carrying mission essential traffic and data.

OMB Memorandum 06-16 requires that agencies properly safeguard information assets. In response to this memorandum, the IRS will procure and deploy a suite of secure front-end tools to enhance security and audit controls over high-volume, sensitive data extracts.

The legacy decentralization control, management, operations and maintenance of IT assets across the enterprise is another contributing factor in the IRS current material weakness. To address accountability, control and security issues associated with the current-state, the IRS is centralizing all IT resources into the corporate Modernized & Information Technology Services (MITS) support organization. The centralization all IRS IT assets under MITS will:

- Enable the IRS to maintain accurate and complete inventories;
- Ensure consistent processes are applied across all applications; and
- Ensure systems are securely operated and maintained.

Significant risk reduction in this area of asset management will be realized through the implementation of centralized IT asset control under the MITS organization. Full implementation of these capabilities is expected in 2011.

Enterprise Single Sign-on (ESSO) (+$15.0 million / +10 FTE)

This project will provide an integrated and unified approach to enterprise single sign-on that is compliant and fully interoperable with recent requirements and mandates (including HSPD-12, and Federal Desktop Core Configuration FDCC). The goal of this investment is to provide users with the ability to access IRS applications and network resources using a single, secure login. Upon a single sign-on, users will be authenticated to all network resources and all facility physical security access control system applications that are a part of the enterprise infrastructure network. The FY 2010 resources for this project will provide for logical systems integration, engineering, software development and procurement of supporting hardware platforms to host the ESSO solution set, including facility security access control system software and hardware.

This project will help remedy the Computer Security Material Weakness (CSMW) in the area of Network Access Controls and Application/Systems Access Controls. The ESSO investment directly supports the correction of these weaknesses by providing access management across the enterprise. The tool will centralize authentication and access control.

Currently, the IRS makes use of a large collection of disparate user identification and authentication mechanisms in order to gain access to the enterprise network infrastructure, IRS logical applications and access to physical facilities. This situation introduces high costs as system developers must implement custom security code for each network application, resulting in a variety of scalability and maintenance problems. Users are currently required to develop and remember a large number of user IDs and passwords, and the new Federal Desktop Core Configuration (FDCC) guidance requires IRS users to make use of longer length passwords.

Transition planning and detailed implementation strategies will be developed and refined in FY 2009, and pilot efforts will address the complex issues associated with the development of the Enterprise Single Sign-on solution set. Initial implementation in FY 2010 will focus on the IRS mission essential applications and systems supporting tax administration to include: network logon, web portals, integration with Active Directory, ID management and also the facility physical security access control systems at the major IRS facility locations (such as the headquarters complex, computing centers and submission processing centers). The initial implementation will provide a "reduced sign-on" capability to IRS. Full implementation in the out-years will expand the ESSO solution set to an increasing number of IRS applications and facilities until the final goal of a unified framework for security authentication (single sign-on) is achieved.

Separate Development, Test, and Production Environments (+$15 million / 0 FTE)

Consistent with OMB and Treasury guidance, this initiative will provide segregated environments to improve IRS capabilities and enhance security. This will provide an industry best practice suite of tools and technologies and will enable the IRS to develop a more robust, thoroughly tested and managed capability. It will enhance the security of the operational environment and offer security and separation from the development environment. These segregated capabilities will help the IRS to meet both assurance and governance requirements.

Tools to Enhance Security Controls of Sensitive Data Extracts (+$9 million / 0 FTE)

The IRS is addressing OMB Memorandum 06-16 by improving its capability to log, track and manage data extracts from critical databases, systems and applications that contain sensitive information. A data leak prevention capability will be implemented to reduce the risk of data loss and disclosure. Enhancements will be made to provide the ability to manage sensitive data extracts and ensure that they are erased once they are no longer needed. The capability will allow disclosure incidents to be logged and analyzed and will integrate with the enterprise-wide audit solution.

Centralized IT Asset Control (+$6 million / 0 FTE)

This effort will include the engineering and delivery of the centralized environment and authoritative IT asset inventory. The design and deployment will be prioritized and focused by utilizing cross-organizational work groups to evaluate, consolidate and prioritize enterprise-wide processes and data needs/requirements.

Security Audit Trails (+$18.0 million / +10 FTE)

Treasury Inspector General for Tax Administration (TIGTA) and GAO reviews identified systemic security audit vulnerabilities in the current IRS information infrastructure. The IRS addressed these issues by establishing the Security Audit Trails program. This program will maintain an enterprise-wide comprehensive audit trail capability that records user activities, applications, and system processes. Relevant data will be captured and tools will be made available to allow reviewers to detect and respond to potential harm.   In the Audit Trails area, this initiative will enhance audit trail collection and retrieval capabilities, significantly improving the IRS ability to process, store, review, and report computer system auditable events.

The Extended Audit Data Collection, Retrieval requirement for availability and access to system audit data is challenging and requires maintaining six years of online data and a seventh year for “near line data.” The business functions that support tax compliance efforts and avoid unauthorized access to sensitive data are critical IRS drivers for these requirements.

At the same time, there are serious constraints on funding, space, power and other resources for existing computer facilities to accommodate such a large volume of protected system audit data online. This effort will provide a technical solution to leverage existing capabilities and integrate them by using protected/secure storage and retrieval capabilities.

The project will meet these goals by implementing upgrades to existing systems and will provide the capability for all FISMA Systems to be compliant with the established audit standards through a rolling release strategy.

A prototype for IRS Operating Software platforms/applications will be deployed utilizing the tools. In addition, individual application audit plans will be developed and made available as a reusable process across the enterprise. Subsequent releases of Security Audit Trails will allow for additional audit plans to be developed and implemented.

Evaluations of all current processing audit collection environments will be conducted to determine whether to upgrade, retire, or replace. In addition, the current Security Audit and Analysis System (SAAS) will be enhanced to handle the additional workload and meet the material weakness closure criteria. The ultimate goal is to integrate the final products into an end-to-end framework to allow IRS security analysts and TIGTA to better access and control the data for investigative purposes.

Security Compliance Posture Monitoring and Reporting (+$3.0 million / +6 FTE)

The objective of the Security Compliance Posture Monitoring and Reporting (SCPMaR) project is to provide the IRS with the real-time capability to monitor, measure, and report on the effectiveness of technical security controls enterprise-wide.

The solution will provide the following six core functional and operational capabilities:

- Monitoring and measuring security configurations;
- Managing security configurations throughout the system life cycle;
- Standardizing the use of NIST defined Security Content Automation Protocol (SCAP);
- Automating security compliance assessments and reporting;
- Facilitating risk management processes by verifying that systems operate within established security configuration baselines; and
- Supporting change and baseline control processes by documenting security configuration baselines and accepted deviations.

Production deployment will be geographically staged at major IRS sites (e.g. Enterprise Computing Center (ECCs), Campuses) and their associated posts of duty. At each computing site, users will be trained and computing assets integrated into the solution.

Expected Benefits

Investments in IT security will protect privacy and security of taxpayer information and the integrity of IRS systems by:

- Improving the capability to perform enterprise security situational awareness, network-based digital forensics, and vulnerability and compliance reporting. Centralization of the response effort and a reduction of the requirement for manual intervention will improve IRS efficiency and effectiveness. The advanced environment will support safe expansion of existing business tax compliance capabilities and will better protect data.
- Integrating automated tools into enterprise security risk management activities and the certification and accreditation process. This integration will improve efficiency and ensure risk-based decisions are consistently applied across the IRS.
- Deploying new technologies that specifically focus on operational resiliency, redundancy, storage, optimization, availability and recovery. This will enhance the IRS ability to resume critical business processes within stated business recovery objectives after a disaster event.
- Enhancing audit trail collection and retrieval capabilities. Treasury Inspector General for Tax Administration (TIGTA) and GAO reviews identified systemic security audit vulnerabilities in the current IRS information infrastructure. These reviews allow the IRS to identify enhancements to its audit trail collection and capabilities. These enhancements will improve the IRS ability to process, store, review, and report of computer system auditable events.
- Maintaining security and surety of critical Personal Identifiable Information on IRS systems.
- Protecting IT system operability and sustainability from attack (inside or outside) by specifically improving the capability to process, store, review, and report on computer system auditable events.
- Maintaining operable, secure and trusted IT systems by including the capability to track and identify attackers and conduct meaningful damage assessment.
- Providing significantly enhanced audit trail capabilities to identify occurrence of unauthorized activities, and inappropriate system configurations.
- Detecting unlawful, unauthorized, or inappropriate activities on IRS systems that may result in the compromise of financial information and fraudulent transactions, such as unauthorized payments. As IRS systems process higher percentages of taxpayer transactions, improved monitoring is required to ensure the integrity of IRS systems.
- Automating security configuration assessments on all Windows and UNIX based computing assets.
- Automating processes to manage system security configuration baselines and track accepted risks/deviations throughout each system’s life cycle. This will

allow the IRS to better manage security configurations of systems and reduce the overall risk of the IRS computing assets.

- Enhancing the redundancy and resiliency capabilities of the most critical IRS systems. These systems support tax processing and enable IRS to annually process over 235 million tax returns, issue $300 billion in refunds, and collect $2.7 trillion in revenue. Specifically, this funding would enhance disaster recovery capabilities for the IRS 18 mainframes, 5000+ servers and 260+ applications supporting mission critical tax administration processes including several key Critical Infrastructure Protection (CIP) assets that have been designated by the Department of the Treasury as those IRS systems that are essential to our Nation's national security, economic stability and continuity of the U.S. Government.

Implement Return Review Program (RRP)
+$18,100,000 / +10 FTE

Initiative Summary

This initiative requests an increase of $18.1 million and 10 FTE to fund the development and deployment of the first release of the Return Review Program (RRP) system. RRP delivers an integrated and unified system, enhancing IRS capabilities to detect, resolve, and prevent criminal and civil tax noncompliance.

RRP will provide a flexible and scalable system to support a cross-functional approach to coordinate and address criminal and civil tax noncompliance. In addition, RRP allows analysis and support of case processing needs of both compliance and criminal investigative programs in criminal prosecution, revenue protection, accounts management, and taxpayer communications. The first release of the RRP System will replace the Electronic Fraud Detection System (EFDS) system.

The current EFDS platform is obsolete and presents system limitations making it difficult to maintain, upgrade, or operate beyond 2011. Fundamental technology and design limitations also render it incapable of supporting any significant business changes. Without a system replacement investment, the IRS is vulnerable to future system failure resulting in the potential inability to detect $1-1.5 billion in fraudulent refunds each year.

Initiative Detail

RRP implementation will occur in three releases, and this initiative funds Release 1. Release 1 establishes the new Pre Refund business model and replaces the current EFDS platform, and will integrate the four current EFDS applications into a single web-based application.

Release 2 will provide connectivity to IRS systems to support workflow, expand the user base and compare new taxpayer data. Release 3 will update Refund Crimes detection models, instruments (queries, scoring templates, and algorithms) and rules.

Expected Benefits

With the implementation of RRP, the IRS will:

- Increase fraud detection, resolution and prevention;
- Improve case tracking, analysis, and reporting;
- Improve tracking, analysis, and reporting of performance measures;
- Decrease the number of non-fraudulent refund claims frozen by IRS;
- Coordinate fraud/error detection across the IRS; and
- Replace the current EFDS platform by 2012.

Continue Development of Business Systems Modernization
+$22,607,000 / 0 FTE

Initiative Summary

This initiative requests an additional $22.6 million in BSM for the continued development of the new taxpayer account database and the Modernized e-File platform. The IRS depends on the core tax administration systems to deliver its mission, and they require ongoing, long-term commitment to ensure that IRS maintains its world-class tax administration systems. This increase will result in a BSM request of $253.7 million.

Initiative Detail

The additional $22.6 million would be applied to the Customer Account Data Engine and Modernized e-File programs and activities described below.

Customer Account Data Engine

The IRS will continue the development of the Customer Account Data Engine, the new taxpayer account database that will serve as the central repository of tax account information for all individual taxpayers. In FY 2009, the IRS shifted its focus from concurrent development of a database and associated applications to a strategy that focuses on completion of the core taxpayer account database (Customer Account Data Engine). This approach will allow the IRS to accelerate data conversion to the new database while also addressing security, financial material weaknesses, and long-term architectural planning concerns. Thus, the Customer Account Data Engine, which includes AMS and elements of the previous CADE plan, is an integrated plan to deliver new capabilities in the coming years. This plan includes accelerating consolidation of the Individual MasterFile (IMF) and current CADE architectures, migration of IMF data into a daily processing architecture, and incorporation of enhanced security protocols and financial management controls.

The Customer Account Data Engine will improve the IRS capability to respond quickly to changing business needs and accelerate business process changes. The complete data model and sole authority taxpayer account database is a critical step toward significantly enhanced compliance and service programs. It will also foster better collaboration through improved data exchange between the IRS and other Federal and State agencies. The Customer Account Data Engine will improve taxpayer service and tax compliance by making accurate and timely tax data available to taxpayers and the IRS and by providing faster refunds for all individual taxpayers.

FY 2010 activities include continued development and integrated daily processing, data conversion to the new relational database, development and testing of applications to enhance viewing of database extracts, incorporation of tax law changes in the current CADE application, and stand-up of a program office. While the primary focus will be on database completion, targeted application development will begin on a common penalty and interest module to assure accurate and consistent calculations across applications and to allow faster implementation of calculation changes, and modification of taxpayer notice processing.

Modernized e-File (MeF)

The IRS will continue development and deployment of the MeF web-based platform. MeF allows electronic filing tax 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 IRS is implementing the Form 1040, *U.S. Individual Income Tax Return*, onto the MeF platform in three phases.

Phase I began in FY 2007 with deployment scheduled in January 2010. Phase I consists of the Form 1040 and 21 of the most common forms and schedules used by 61 percent of the e-File population such as *Itemized Deductions*, Schedule B, *Interest and Ordinary Dividends,* and Schedule D, *Capital Gains and Losses.*

Phase II began in FY 2009 and is scheduled to be implemented in January 2011. This Phase will enhance the deployment of disaster recovery capability delivered in Phase I and include tax law changes and continued code optimization.

Phase III 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.

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
- 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 allows retirement of legacy e-File applications; 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.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2008 Enacted[1]	FY 2009 ARRA	FY 2009 President's Budget	Congressional Action including Rescission	FY 2009 Enacted Level	Proposed Reprogram.	FY 2009 Proposed Operating Level	FY 2010 Request Level	% Change FY 2009 to FY 2010
FTE	**92,415**		**92,379**	**1,830**	**94,209**	**0**	**94,209**	**95,081**	**0.9%**
Object Classification:									
11.1 Full-Time Permanent Positions	$5,551,676	$0	$5,711,664	$80,883	$5,792,547	$0	$5,792,547	$6,094,684	5.2%
11.3 Other than Full-Time Permanent Positions	393,358	0	433,088	20,189	453,277	0	453,277	422,984	-6.7%
11.5 Other Personnel Compensation	253,517	1,000	272,744	250	272,994	0	272,994	287,172	5.2%
11.8 Special Personal Services Payments	18,721	0	17,726	0	17,726	0	17,726	18,164	2.5%
11.9 Personnel Compensation (Total)	**$6,217,272**	**$1,000**	**$6,435,222**	**$101,322**	**$6,536,544**	**$0**	**$6,536,544**	**$6,823,004**	**4.4%**
12.0 Personnel Benefits	1,543,743	0	1,624,404	25,881	1,650,285	0	1,650,285	1,788,144	8.4%
13.0 Benefits to Former Personnel	56,501	0	53,839	0	53,839	0	53,839	56,137	4.3%
21.0 Travel	223,501	0	250,003	3,070	253,073	0	253,073	260,693	3.0%
22.0 Transportation of Things	34,663	0	34,702	0	34,702	0	34,702	34,611	-0.3%
23.1 Rental Payments to GSA	610,203	0	653,829	0	653,829	0	653,829	668,154	2.2%
23.2 Rent Payments to Others	699	0	510	0	510	0	510	538	5.5%
23.3 Communications, Utilities, & Misc	485,088	2,000	414,628	0	414,628	0	414,628	453,214	9.3%
24.0 Printing & Reproduction	77,428	2,000	69,333	151	69,484	0	69,484	70,495	1.5%
25.1 Advisory & Assistance Services	159,337	0	150,077	1,309	151,386	0	151,386	190,158	25.6%
25.2 Other Services	712,226	73,000	720,388	20,269	740,657	0	740,657	740,872	0.0%
25.3 Purchase of Goods & Services from Govt. Accoun	162,496	0	104,981	52	105,033	0	105,033	120,050	14.3%
25.4 Operation & Maintenance of Facilities	162,385	0	181,503	0	181,503	0	181,503	185,552	2.2%
25.5 Research & Development Contracts	5,016	0	7,620	0	7,620	0	7,620	10,799	41.7%
25.6 Medical Care	12,582	0	10,764	0	10,764	0	10,764	11,187	3.9%
25.7 Operation & Maintenance of Equipment	77,090	0	79,745	0	79,745	0	79,745	81,485	2.2%
25.8 Subsistence & Support of Persons	6,649	0	6,910	0	6,910	0	6,910	7,063	2.2%
26.0 Supplies and Materials	77,221	2,000	73,384	0	73,384	0	73,384	71,892	-2.0%
31.0 Equipment	394,277	0	423,039	0	423,039	0	423,039	472,711	11.7%
32.0 Lands and Structures	55,724	0	48,139	0	48,139	0	48,139	48,682	1.1%
33.0 Investments & Loans	0	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	13,040	0	12,502	9,035	21,537	0	21,537	22,606	5.0%
42.0 Insurance Claims & Indemn	2,370	0	1,114	0	1,114	0	1,114	2,866	157.3%
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	5,008	0	4,873	0	4,873	0	4,873	5,087	4.4%
Total Budget Authority	**$11,094,519**	**$80,000**	**$11,361,509**	**$161,089**	**$11,522,598**	**$0**	**$11,522,598**	**$12,126,000**	**5.2%**
Appropriations:									
Taxpayer Services	$2,191,085	$0	$2,150,000	$143,000	$2,293,000	$0	$2,293,000	$2,269,830	-1.0%
Enforcement	4,780,000	0	5,117,267	0	5,117,267	0	5,117,267	5,504,000	7.6%
Operations Support	3,841,109	0	3,856,172	10,839	3,867,011	0	3,867,011	4,082,984	5.6%
Business Systems Modernization	267,090	0	222,664	7,250	229,914	0	229,914	253,674	10.3%
Health Insurance Tax Credit Administration	15,235	80,000	15,406	0	15,406	0	15,406	15,512	0.7%
Total Budget Authority	**$11,094,519**	**$80,000**	**$11,361,509**	**$161,089**	**$11,522,598**	**$0**	**$11,522,598**	**$12,126,000**	**5.2%**

[1] The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which includes a transfer of $9.6M between Taxpayer Services and Operations Support and includes supplemental funding for Economic Stimulus payment of $202.1M.

2.3 – Appropriation Detail Table

Dollars in Thousands

Internal Revenue Service Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted[1]		FY 2009 Enacted[2]		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Taxpayer Services	31,487	2,173,764	31,949	$2,191,085	32,652	$2,293,000	31,217	$2,269,830	0.00%	-1.01%
Enforcement	46,431	4,777,120	47,596	4,780,000	48,939	5,117,267	51,200	5,504,000	4.62%	7.56%
Operations Support	12,079	3,767,583	12,495	3,841,109	12,270	3,867,011	12,316	4,082,984	0.37%	5.59%
Business Systems Modernization	347	170,576	358	267,090	333	229,914	333	253,674	0.00%	10.33%
Health Insurance Tax Credit Administration	10	15,223	17	15,235	15	15,406	15	15,512	0.00%	0.69%
Subtotal New Appropriated Resources	**90,354**	**$10,904,266**	**92,415**	**$11,094,519**	**94,209**	**$11,522,598**	**95,081**	**$12,126,000**	**0.93%**	**5.24%**
Other Resources:										
Recoveries		4,646		4,646						
Offsetting Collections - Reimbursable	1,038	140,207	1,038	140,207	1,077	143,612	1,088	147,101	1.02%	2.43%
Available multi-year/no-year funds		137,450		137,450		193,210		155,358		-19.59%
50% Carryover		19,061		19,061						
Transfers In/Out	293	18,137	293	18,137						
Mandatory Appropriations - User Fees		246,946		246,946		175,700		167,700		-4.55%
Subtotal Other Resources	**1,331**	**$566,447**	**1,331**	**$566,447**	**1,077**	**$512,522**	**1,088**	**$470,159**	**1.02%**	**-8.27%**
Total Resources Available for Obligation	**91,685**	**$11,470,713**	**93,746**	**$11,660,966**	**95,286**	**$12,035,120**	**96,169**	**$12,596,159**	**0.93%**	**4.66%**

[1] The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which includes a transfer of $9.6M between Taxpayer Services and Operations Support and includes

[2] The FY 2009 Enacted column excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices ($123M).

2B – Appropriation Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE **TAXPAYER SERVICES** For necessary expenses of the Internal Revenue Service to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [$2,293,000,000]*$2,269,830,000*, of which not less than $5,100,000 shall be for the Tax Counseling for the Elderly Program, of which not less than $9,500,000 shall be available for low-income taxpayer clinic grants, [of which not less than $8,000,000, to remain available until September 30, 2010, 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 $193,000,000 shall be available for operating expenses of the Taxpayer Advocate Service]*of which not more than $8,000,000, to remain available until September 30, 2011, shall be available for Community Volunteer Tax Assistance matching grants*. *(Department of the Treasury Appropriations Act, 2009.)*	The IRS supports adequate funding for the Taxpayer Advocate Service. However, specifying the funding level in law prevents the Commissioner from proposing an operating plan that allocates resources in the best interest of taxpayers.
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]*for the* purchase (for police-type use, not to exceed 850) and hire passenger motor vehicles (31 U.S.C. 1343(b)), and to provide other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [$5,117,267,000]*$4,904,000,000*, of which not less than [$57,252,000]*$59,206,000* shall be for the Interagency Crime and Drug Enforcement	The Budget Request for the Enforcement account is $5,504,000,000 including a program integrity allocation increase. In 2006, the IRS and the tax administrations of Australia, Canada, China, France, Germany, India, Japan, South Korea, and the United Kingdom established the Leeds Castle Group. This group meets

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 shall become available for enhanced tax enforcement activities.* *(Department of the Treasury Appropriations Act, 2009.)* **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; [$3,867,011,000]*$4,082,984,000*, of which up to $75,000,000 shall remain available until September 30, [2010]*2011*, for information technology support; of which not to exceed $1,000,000 shall remain available until September 30, [2011]*2012*, for research; of which not [less than $2,000,000]*to exceed $1,750,000* shall be for the Internal Revenue Service Oversight Board; [and]of which not to exceed $25,000 shall be for official reception and representation*; and of which $290,000,000 shall be made available to support enhanced tax enforcement activities: Provided, That of the amounts provided under this heading, such sums as are necessary shall be available to fully support tax enforcement and*	annually to consider and discuss issues of global and national tax administration in their respective countries. In 2010 it is the IRS turn to host the meeting of the Leeds Castle Group. The IRS has never hosted it before. This meeting will consist primarily of foreign dignitaries and involve a great deal of protocol. This one-year request to spend $126,500 is necessary to build the relationships with these foreign governments, to further issues of global tax administration and to fulfill the IRS obligations to the other international tax organizations.

enhanced tax enforcement activities. *(Department of the Treasury Appropriations Act, 2009.)* **BUSINESS SYSTEMS MODERNIZATION** For necessary expenses of the Internal Revenue Service's business systems modernization program, [$229,914,000]*$253,674,000*, to remain available until September 30, [2011]*2012*, 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, 2009.)* **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), [$15,406,000]*$15,512,000*. *(Department of the Treasury Appropriations Act, 2009.)* **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 $6,997,000,000 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, $490,000,000 shall be available for enhanced tax law enforcement.] [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, 2009.)*	The Budget request includes additional resources for enhanced tax enforcement through a program integrity allocation adjustment. This is addressed by the appropriations language.

2C – Legislative Proposals

The FY 2010 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 $11 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 on payments to corporations;
- Require a certified Taxpayer Identification Number (TIN) from contractors;
- Require increased information reporting on certain government payments; and
- Increase information return penalties.

Improve compliance by businesses – Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:

- Require electronic filing by certain large organizations; and
- Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.

Strengthen tax administration – The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would:

- 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;
- Expand electronic filing requirements for tax return preparers;
- Repeal the requirement of a partial payment with an application for an offer-in-compromise; and
- Allow assessment of criminal restitution as tax.

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:

- Require information reporting on expense payments relating to rental property;
- Improve the foreign trust reporting penalty;
- Apply the Federal Payment Levy Program to contractors before providing Collection Due Process; and
- Clarify that 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 2010 is $2,269,830,000 in direct appropriations and 31,217 FTE. This is a decrease of $23,170,000 or 1.0 percent and 1,435 FTE less than the FY 2009 enacted level of $2,293,000,000 and 32,652 FTE. Congress provided direct funding to the Secretary of the Treasury for IRS implementation efforts on the Recovery Act tax provisions. These funds are not reflected in the IRS Taxpayer Services account.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE[1]	Amount
FY 2009 Enacted	**32,652**	**$2,293,000**
Changes to Base:		
Maintaining Current Levels		**$60,195**
Pay Annualization		20,135
Pay Inflation Adjustment		38,828
Non-Pay Inflation Adjustment		2,463
Government-wide Reduction for Productivity Improvements		(1,231)
GAO Audit Reimbursement Pursuant to P.L. 110-323		
Efficiencies/Savings	**(1,504)**	**($90,918)**
Increase e-File Savings	(182)	(8,227)
Non-Recur Stimulus Savings	(1,322)	(67,900)
Non-Recur FY09 Reduction Adjustment/Correspondence Inventory		(13,439)
Non-Recur Pension Plan		(1,352)
Reinvestment		**$2,025**
Submission Processing Consolidation (Andover)		2,025
Subtotal Changes to Base	**(1,504)**	**($28,698)**
Total FY 2010 Base	**31,148**	**$2,264,302**
Program Changes:		
Enforcement Initiatives	**69**	**$5,528**
Reduce the Tax Gap Attributable to International Activities	42	3,124
Improve Reporting Compliance of SB/SE Taxpayers	3	267
Expand Document Matching for Business Taxpayers	16	1,425
Address Nonfiling/Underpayment and Collection Coverage	8	712
Subtotal FY 2010 Program Changes	**69**	**$5,528**
Total FY 2010 President's Budget Request	**31,217**	**$2,269,830**

[1] Includes Technical FTE adjustments made since February 2008.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2008 Enacted[1]	FY 2009 ARRA	FY 2009 President's Budget	Congressional Action including Rescission	FY 2009 Enacted Level	Proposed Reprogram.	FY 2009 Proposed Operating Level	FY 2010 Request Level	% Change FY 2009 to FY 2010
FTE	**31,949**		**30,822**	**1,830**	**32,652**		**32,652**	**31,217**	**-4.4%**
Object Classification:									
11.1 Full-Time Permanent Positions	$1,235,929	$0	$1,206,453	$80,883	$1,287,336	$0	$1,287,336	$1,281,991	-0.4%
11.3 Other than Full-Time Permanent Positions	296,190	0	320,840	20,189	341,029	0	341,029	309,849	-9.1%
11.5 Other Personnel Compensation	89,700	0	84,003	250	84,253	0	84,253	88,518	5.1%
11.8 Special Personal Services Payments	$0	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	**$1,621,819**	**$0**	**$1,611,296**	**$101,322**	**$1,712,618**	**$0**	**$1,712,618**	**$1,680,358**	**-1.9%**
12.0 Personnel Benefits	321,329	0	318,294	25,881	344,175	0	344,175	350,315	1.8%
13.0 Benefits to Former Personnel	9,218	0	5,307	0	5,307	0	5,307	7,362	38.7%
21.0 Travel	33,999	0	28,866	3,070	31,936	0	31,936	31,763	-0.5%
22.0 Transportation of Things	6,034	0	6,501	0	6,501	0	6,501	6,541	0.6%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	45	0	45	0	45	0	45	45	0.0%
23.3 Communications, Utilities, & Misc	3,735	0	4,612	0	4,612	0	4,612	3,709	-19.6%
24.0 Printing & Reproduction	9,901	0	8,948	151	9,099	0	9,099	9,009	-1.0%
25.1 Advisory & Assistance Services	40,029	0	24,477	1,309	25,786	0	25,786	28,951	12.3%
25.2 Other Services	46,865	0	100,428	2,180	102,608	0	102,608	100,853	-1.7%
25.3 Purchase of Goods & Services from Govt. Accoun	66,953	0	14,409	52	14,461	0	14,461	13,968	-3.4%
25.4 Operation & Maintenance of Facilities	53	0	94	0	94	0	94	95	1.1%
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	671	0	671	0	671	675	0.6%
25.8 Subsistence & Support of Persons	1,081	0	1,485	0	1,485	0	1,485	1,494	0.6%
26.0 Supplies and Materials	15,563	0	11,601	0	11,601	0	11,601	11,432	-1.5%
31.0 Equipment	1,076	0	570	0	570	0	570	578	1.4%
32.0 Lands and Structures	263	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	13,040	0	12,315	9,035	21,350	0	21,350	22,601	5.9%
42.0 Insurance Claims & Indemn	82	0	81	0	81	0	81	81	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	**$2,191,085**	**$0**	**$2,150,000**	**$143,000**	**$2,293,000**	**$0**	**$2,293,000**	**$2,269,830**	**-1.0%**
Budget Activities:									
Pre-filing Taxpayer Assistance & Education	$645,253	$0	$617,326	$43,674	$661,000	$0	$661,000	$676,063	2.3%
Filing & Account Services	1,545,832	0	1,532,674	99,326	1,632,000	0	1,632,000	1,593,767	-2.3%
Total Budget Authority	**$2,191,085**	**$0**	**$2,150,000**	**$143,000**	**$2,293,000**	**$0**	**$2,293,000**	**$2,269,830**	**-1.0%**

[1] The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which includes a transfer of $9.6M between Taxpayer Services and Operations Support and includes supplemental funding for Economic Stimulus payment of $202.1M.

2.3 – Appropriation Detail Table

Dollars in Thousands

Taxpayer Services Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted[1]		FY 2009 Enacted[2]		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Pre-Filing Taxpayer Assistance and Education	5,995	$628,286	6,030	$645,253	6,169	$661,000	6,149	$676,063	-0.32%	2.28%
Filing and Account Services	25,492	1,545,478	25,919	1,545,832	26,483	1,632,000	25,068	1,593,767	-5.34%	-2.34%
Subtotal New Appropriated Resources	**31,487**	**$2,173,764**	**31,949**	**$2,191,085**	**32,652**	**$2,293,000**	**31,217**	**$2,269,830**	**-4.39%**	**-1.01%**
Other Resources:										
Recoveries		794		794						
Offsetting Collections - Reimbursable	799	36,811	799	36,811	833	37,890	839	39,000	0.72%	2.93%
Available multi-year/no-year funds		6,286		6,286		14,137				-
50% Carryover										
Transfers In/Out	293	22,500	293	22,500						
Mandatory Appropriations - User Fees		151,936		151,936		127,000		127,000		0.00%
Subtotal Other Resources	**1,092**	**$218,327**	**1,092**	**$218,327**	**833**	**$179,027**	**839**	**$166,000**	**0.72%**	**-7.28%**
Total Resources Available for Obligation	**32,579**	**$2,392,091**	**33,041**	**$2,409,412**	**33,485**	**$2,472,027**	**32,056**	**$2,435,830**	**-4.27%**	**-1.46%**

[1] The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which includes a transfer of $9.6M between Taxpayer Services and Operations Support and includes

[2] The FY 2009 Enacted column excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices ($123M).

3A – Pre-Filing Taxpayer Assistance and Education *($676,063,000 in direct appropriation, an estimated $819,000 from reimbursable programs, and an estimated $18,700,000 from user fees):* This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication production, and advocate services. This includes the following program activities:

- *Pre-Filing Services Management* administers pre-filing, taxpayer assistance, and education programs.
- *Taxpayer Communication and Education* researches customer needs; prepares tax forms and publications; develops and manages educational programs; establishes partnerships with stakeholder groups; and disseminates tax information to taxpayers and the general public through a variety of media, including publications and mailings, 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 taxpayers' problems through prompt identification, referral, and settlement.

- *National Distribution Center* processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

3.2.1 – Budget and Performance Plan

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$559,249	$573,685	$628,286	$661,000	$676,063
Reimbursable Resources	1,038	843	774	796	819
Mandatory Appropriations - User Fees		1,201	12,827	18,700	18,700
Total Resources	**$560,287**	**$575,729**	**$641,887**	**$680,496**	**$695,582**
Budget Activity Total	**$560,287**	**$575,729**	**$641,887**	**$680,496**	**$695,582**

Pre-Filing Taxpayer Assistance & Education Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	83.0%	83.5%	92.4%	92.0%	93.0%
Timeliness of Critical Other Tax Products to the Public (Ot)	61.2%	84.0%	89.5%	89.0%	90.0%
Taxpayer Self Assistance Rate (E) (L)	46.8%	49.5%	66.8%	64.7%	57.3%
Percent of Eligible Taxpayers Who File for EITC (Oe)	*	*	*	75-80%	75-80%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal

*The methodology for estimating the eligibility rate is being revised. Data not available.

Description of Performance

Improved service options for taxpayers and simplification of the tax process are key objectives under the IRS Strategic Goal to *improve service to make voluntary compliance easier*. Helping taxpayers understand their tax reporting and payment obligations remains a vital part of maintaining public confidence in administering the tax laws. The IRS enhanced its outreach and educational services through partnerships with the public to increase understanding and compliance with the tax law. Free tax seminars were offered to groups of people sharing common tax interests.

In addition, developing and maintaining relationships with IRS stakeholders and partners in tax administration has become a key strategy in developing and distributing tax information to IRS customers. By augmenting and opening these avenues of communication, the IRS is able to identify and respond quickly to emerging issues in tax compliance and to provide education and outreach to a wider population of taxpayers to improve compliance.

The IRS collaborates with organizations such as state taxing authorities and volunteer groups to serve taxpayer needs. Through its approximately 12,000 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. More than 78,000 volunteers located at these sites filed more than 3.5 million returns, a 33 percent increase over FY 2007.

Despite late enactment of tax legislation modifying the Alternative Minimum Tax (AMT) and implementation of the *Economic Stimulus Act of 2008* (Stimulus) over 92 percent of the critical filing season tax products and 89.5 percent of critical other (business) tax products were delivered to the public on time in FY 2008. In addition, the FY 2008 taxpayer self-assistance rate was 66.8 percent, exceeding the target by 30 percent. The implementation of improvements to the IRS website also contributed to the increase in usage. The IRS also continues efforts to simplify its tax forms and publications to make them more user-friendly, with the ultimate goal to provide all of its published products in electronic format.

The IRS also reached out to those taxpayers eligible for the Earned Income Tax Credit (EITC), implementing a vigorous multi-dimensional 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 second EITC Awareness Day that generated extensive national and local media coverage designed to expand education of the public on EITC and increase the participation of eligible taxpayers; and
- Increasing free EITC return preparation by 25 percent and as a result, electronic filing of EITC returns increased by almost 18 percent over 2007.

The IRS launched its new Facilitated Self-Assistance Research Project (FSRP) in FY 2008. The project allows taxpayers to access IRS.gov at Taxpayer Assistance Centers. Approximately 2,400 customers used FSRP at the 15 pilot sites. An additional 35 sites will be launched during FY 2009.

Through its Low Income Taxpayer Clinic (LITC) grant program, the IRS awarded matching grants of up to $100,000 per year to develop, expand or maintain low-income taxpayer clinics. In FY 2008, the IRS awarded nine million dollars in LITC grants to over 150 organizations in 50 states, the District of Columbia, Puerto Rico, and Guam.

The IRS continued to improve service through automation, outreach, and taxpayer education. Changes to the AMT and passage of the Stimulus program required the IRS to develop new web applications, including Stimulus calculators and “Where’s My Stimulus Payment?” to provide timely information to taxpayers.

The IRS launched an electronic Publication 17, *Your Federal Income Tax*, on IRS.gov; and implemented “My IRS Account,” a self-service internet application that allows taxpayers access to information about their past filings. In FY 2008, taxpayers used IRS.gov in record numbers to get current information:

- Over 2.2 billion web pages were viewed, an increase of 63 percent;
- Over 38.7 million taxpayers used “Where’s My Stimulus Payment?” to check on the status of their payment;
- More than 39.2 million taxpayers used “Where’s My Refund?,” an increase of 22 percent; and
- Over 317,000 taxpayers used the new Spanish version of “Where’s my Refund?”

3A – Filing and Account Services *($1,593,767,000 in direct appropriation, an estimated $38,181,000 from reimbursable programs, and an estimated $108,300,000 from user fees)*: This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically submitted tax returns, issue refunds, and maintain taxpayer accounts. This includes the following program activities:

- *Filing and Account Services Management* administers filing and account services programs.
- *Submission Processing* processes paper and electronically-submitted tax returns and supplemental documents, accounts for tax 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.
- *Files Most Efficient Organization* stores the administrative files and the most recent tax returns in-process that are most likely to be requested for research by various IRS organizations until they are forwarded to the federal records centers.

3.2.2 – Budget and Performance Plan

Dollars in Thousands

Filing and Account Services Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$1,568,209	$1,559,779	$1,545,478	$1,632,000	$1,593,767
Reimbursable Resources	24,242	20,081	36,037	37,094	38,181
Mandatory Appropriations - User Fees		63,458	139,109	108,300	108,300
Total Resources	**$1,592,451**	**$1,643,318**	**$1,720,624**	**$1,777,394**	**$1,740,248**
Budget Activity Total	**$1,592,451**	**$1,643,318**	**$1,720,624**	**$1,777,394**	**$1,740,248**

Filing and Account Services Measures	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Percent Individual Returns Processed Electronically (Oe) (L)	54.1%	57.1%	57.6%	64.0%	67.3%
Percent of Business Returns Processed Electronically (Oe) (L)	16.6%	19.1%	19.4%	21.6%	23.4%
Customer Accuracy - Tax Law Phones (Ot)	90.9%	91.2%	91.2%	91.0%	91.2%
Customer Accuracy - Customer Accounts (Phones) (Ot)	93.2%	93.4%	93.7%	93.5%	93.7%
Customer Contacts Resolved per Staff year (E)	7,414	7,648	12,634	10,386	8,919
Customer Service Representative (CSR) Level of Service (Oe) (L)	82.0%	82.1%	52.8%	70.0%	71.2%
Refund Timeliness - Individual (paper) (Ot)	99.3%	98.9%	99.1%	98.4%	98.4%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal

Description of Performance

The 2008 filing season was challenging because of late enactment of the AMT legislation and implementation of the Stimulus program. Despite these challenges, the IRS delivered another successful filing season. During the 2008 filing season, the IRS:

- Processed 155.6 million individual returns, an increase of 11 percent, including returns filed solely to claim a Stimulus payment;
- Issued 107.6 million refunds totaling $369 billion;
- Answered over 40.4 million calls, an increase of 21 percent, due to a large number of taxpayer inquiries about their Stimulus checks;
- Completed 52 million automated calls, an increase of more than 123 percent;
- Maintained account and tax law accuracy rates of greater than 90 percent;
- Expanded partnerships with nonprofit and community organizations, opened approximately 12,000 free tax preparation sites nationwide;
- Prepared 3.5 million returns for low-income and elderly taxpayers at free tax preparation sites, an increase of 33 percent; and
- Prepared over 575,000 returns at IRS Taxpayer Assistance Centers (TACs), a 42 percent increase over last year.

The IRS saw an increase in electronic filing over 2007. During the 2008 filing season:

- A total of 89.6 million individual returns were filed electronically, an increase of 12 percent;
- Exclusive of those who filed solely to claim a Stimulus payment, individual returns filed electronically surpassed 63 percent;
- Business returns filed electronically reached 19.4 percent;

- Home-computer filing increased to 26.8 million returns, a 20 percent increase over 2007; and
- Tax professional use of e-filing increased to 61.8 million returns, an increase of 8 percent over 2007.

Over 4.7 million tax returns were prepared and submitted through the IRS Free File in FY 2008, a 23 percent increase over FY 2007. Free File continues to be a popular option for taxpayers who qualify. A recent survey showed 96 percent of those who used the program found it easy to use, 98 percent said they would recommend Free File to a friend or family member, and 95 percent said they would use it again.

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 2010 is $5,504,000,000 in direct appropriations and 51,200 FTE. This is an increase of $386,733,000 or 7.6 percent and 2,261 FTE over the FY 2009 enacted level of $5,117,267,000 and 48,939 FTE. The 7.6 percent increase from the FY 2009 enacted level includes funding to support tax enforcement activities funded by an allocation adjustment.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE[1]	Amount
FY 2009 Enacted	**48,939**	**$5,117,267**
Changes to Base:		
Maintaining Current Levels		**$133,815**
Pay Annualization		46,489
Pay Inflation Adjustment		85,486
Non-Pay Inflation Adjustment		3,680
Government-wide Reduction for Productivity Improvements		(1,840)
GAO Audit Reimbursement Pursuant to P.L. 110-323		
Subtotal Changes to Base		**$133,815**
Total FY 2010 Base	**48,939**	**$5,251,082**
Program Changes:		
Enforcement Initiatives	**2,261**	**$252,918**
Reduce the Tax Gap Attributable to International Activities	742	104,113
Improve Reporting Compliance of SB/SE Taxpayers	752	75,114
Expand Document Matching for Business Taxpayers	284	17,955
Address Nonfiling/Underpayment and Collection Coverage	483	55,736
Subtotal FY 2010 Program Changes	**2,261**	**$252,918**
Total FY 2010 President's Budget Request	**51,200**	**$5,504,000**

[1] Includes Technical FTE adjustments made since February 2008.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Enforcement	FY 2008 Enacted[1]	FY 2009 ARRA	FY 2009 President's Budget	Congressional Action including Rescission	FY 2009 Enacted Level	Proposed Reprogram.	FY 2009 Proposed Operating Level	FY 2010 Request Level	% Change FY 2009 to FY 2010
FTE	**47,596**		**48,939**		**48,939**		**48,939**	**51,200**	**4.6%**
Object Classification:									
11.1 Full-Time Permanent Positions	$3,306,610	$0	$3,490,824	$0	$3,490,824	$0	$3,490,824	$3,732,481	6.9%
11.3 Other than Full-Time Permanent Positions	83,216	0	89,150	0	89,150	0	89,150	89,273	0.1%
11.5 Other Personnel Compensation	127,562	0	156,069	0	156,069	0	156,069	166,157	6.5%
11.8 Special Personal Services Payments	18,721	0	17,726	0	17,726	0	17,726	18,164	2.5%
11.9 Personnel Compensation (Total)	**$3,536,109**	**$0**	**$3,753,769**	**$0**	**$3,753,769**	**$0**	**$3,753,769**	**$4,006,075**	**6.7%**
12.0 Personnel Benefits	909,663	0	987,447	0	987,447	0	987,447	1,092,263	10.6%
13.0 Benefits to Former Personnel	210	0	0	0	0	0	0	0	0.0%
21.0 Travel	143,233	0	184,360	0	184,360	0	184,360	190,851	3.5%
22.0 Transportation of Things	7,107	0	6,731	0	6,731	0	6,731	6,792	0.9%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	461	0	459	0	459	0	459	486	5.9%
23.3 Communications, Utilities, & Misc	6,217	0	4,808	0	4,808	0	4,808	3,978	-17.3%
24.0 Printing & Reproduction	6,456	0	5,589	0	5,589	0	5,589	6,432	15.1%
25.1 Advisory & Assistance Services	29,017	0	32,486	0	32,486	0	32,486	33,770	4.0%
25.2 Other Services	53,754	0	64,849	0	64,849	0	64,849	84,121	29.7%
25.3 Purchase of Goods & Services from Govt. Accoun	39,281	0	26,734	0	26,734	0	26,734	27,914	4.4%
25.4 Operation & Maintenance of Facilities	163	0	78	0	78	0	78	194	148.7%
25.5 Research & Development Contracts	2,908	0	2,960	0	2,960	0	2,960	2,974	0.5%
25.6 Medical Care	77	0	0	0	0	0	0	77	-
25.7 Operation & Maintenance of Equipment	1,541	0	1,745	0	1,745	0	1,745	2,048	17.4%
25.8 Subsistence & Support of Persons	4,286	0	4,121	0	4,121	0	4,121	4,313	4.7%
26.0 Supplies and Materials	27,722	0	30,761	0	30,761	0	30,761	29,053	-5.6%
31.0 Equipment	4,904	0	4,999	0	4,999	0	4,999	5,506	10.1%
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	187	0	187	0	187	5	-97.3%
42.0 Insurance Claims & Indemn	1,883	0	311	0	311	0	311	2,061	562.7%
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	5,008	0	4,873	0	4,873	0	4,873	5,087	4.4%
Total Budget Authority	**$4,780,000**	**$0**	**$5,117,267**	**$0**	**$5,117,267**	**$0**	**$5,117,267**	**$5,504,000**	**7.6%**
Budget Activities:									
Investigation	$592,906	$0	$603,466	0	$603,466	$0	$603,466	$637,694	5.7%
Enforcement	4,037,812	0	4,363,826	0	4,363,826	0	4,363,826	4,706,350	7.8%
Regulatory	149,282	0	149,975	0	149,975	0	149,975	159,956	6.7%
Total Budget Authority	**$4,780,000**	**$0**	**$5,117,267**	**$0**	**$5,117,267**	**$0**	**$5,117,267**	**$5,504,000**	**7.6%**

[1] The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which includes a transfer of $9.6M between Taxpayer Services and Operations Support and includes supplemental funding for Economic Stimulus payment of $202.1M.

2.3 – Appropriation Detail Table

Dollars in Thousands

Enforcement Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted[1]		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Investigations	4,162	$601,436	4,279	$592,906	4,241	$603,466	4,251	$637,694	0.24%	5.67%
Exam and Collections	41,094	4,030,648	42,098	4,037,812	43,472	4,363,826	45,695	4,706,350	5.11%	7.85%
Regulatory	1,175	145,036	1,219	149,282	1,226	149,975	1,254	159,956	2.28%	6.66%
Subtotal New Appropriated Resources	**46,431**	**$4,777,120**	**47,596**	**$4,780,000**	**48,939**	**$5,117,267**	**51,200**	**$5,504,000**	**4.62%**	**7.56%**
Other Resources:										
Recoveries		1		1						
Offsetting Collections - Reimbursable	124	58,141	124	58,141	127	59,454	130	60,797	2.36%	2.26%
Available multi-year/no-year funds		5,731		5,731		4,382		358		-91.83%
50% Carryover										
Transfers In/Out		137		137						
Mandatory Appropriations - User Fees		12,847		12,847		15,800		7,800		0.00%
Subtotal Other Resources	**124**	**$76,857**	**124**	**$76,857**	**127**	**$79,636**	**130**	**$68,955**	**2.36%**	**-13.41%**
Total Resources Available for Obligation	**46,555**	**$4,853,977**	**47,720**	**$4,856,857**	**49,066**	**$5,196,903**	**51,330**	**$5,572,955**	**4.61%**	**7.24%**

[1] The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which includes a transfer of $9.6M between Taxpayer Services and Operations Support and includes

3A – Investigations *$637,694,000 in direct appropriation and an estimated $51,553,000 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 also 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.

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 Enacted	FY 2010 Request
Appropriated Resources	$599,878	$573,469	$601,436	$603,466	$637,694
Reimbursable Resources	33,306	32,441	49,404	50,467	51,553
Mandatory Appropriations - User Fees					
Total Resources	**$633,184**	**$605,910**	**$650,840**	**$653,933**	**$689,247**
Budget Activity Total	**$633,184**	**$605,910**	**$650,840**	**$653,933**	**$689,247**

Investigations Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Criminal Investigations Completed (Ot) (L)	4,157	4,269	4,044	3,900	3,900
Number of Convictions (Oe) (L)	2,019	2,155	2,144	2,135	2,135
Conviction Rate (Oe) (L)	91.5%	90.2%	92.3%	92.0%	92.0%
Conviction Efficiency Rate ($) (E) (L)	$328,750	$301,788	$315,751	$317,100	$321,400

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long Term Goal

Description of Performance

Enforcement of criminal statutes is an integral component of IRS efforts to enhance voluntary compliance and to enforce the tax laws. The IRS vigorously investigates 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 successful prosecution of taxpayers involved in significant abusive tax schemes, high-income nonfiler, 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 criminal investigation program remained high in FY 2008 as the IRS:

- Completed 4,044 criminal investigations;
- Achieved a conviction rate of 92.3 percent;
- Maintained a Department of Justice acceptance rate of 93.6 percent and a U.S. Attorney acceptance rate of 89.2 percent, which compares favorably with other federal law enforcement agencies;
- Obtained 2,144 convictions, which exceeded the FY 2008 target;
- Automated the Questionable Refund Program (QRP) processes, which produced a 16 percent labor savings through centralization, and reduced the 10 Fraud Detection Centers to three centers;
- Identified through the QRP process more than 337,000 potentially fraudulent returns that claimed more than $1.7 billion in total refunds;
- Stopped more than $1.5 billion in fraudulent claims with an average refund of $5,303 through the QRP process; and

- Initiated 230 QRP investigations.

3A – Exam and Collections *($4,706,350,000 in direct appropriation, an estimated $8,783,000 from reimbursable programs, and an estimated $7,800,000 from user fees):* 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 return.
- *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. This specialty program also oversees IRS international exam programs involving U.S. citizens residing abroad, non-resident aliens, expatriates,

and examinations involving other international issues (e.g. Foreign Tax Credit and Foreign Earned Income Exclusion).

- *Specialty Programs – Collection* supports international field collection efforts associated with delinquent taxpayer and business entity liabilities from U.S. citizens residing abroad, non-resident aliens, expatriates, and those involving other international issues (e.g. Foreign Tax Credit and Foreign Earned Income Exclusion).
- *Unit General Management and Administration* provides staffing, training, and direct support for headquarters management activities of strategic planning, communication and liaison, finance, human resources, EEO and diversity, business system planning, and embedded training.
- *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-wide compliance with disclosure and privacy laws.

3.2.4 – Budget and Performance Plan

Dollars in Thousands

Exam and Collections Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$3,925,839	$3,932,874	$4,030,648	$4,363,826	$4,706,350
Reimbursable Resources	9,851	8,764	8,302	8,539	8,783
Mandatory Appropriations - User Fees		5,452	12,679	15,800	7,800
Total Resources	**$3,935,690**	**$3,947,090**	**$4,051,629**	**$4,388,165**	**$4,722,933**
Budget Activity Total	**$3,935,690**	**$3,947,090**	**$4,051,629**	**$4,388,165**	**$4,722,933**

Exam and Collections Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Examination Coverage - Individual (Oe) (L)	1.0%	1.0%	1.01%	1.0%	1.0%
Field Exam Embedded Quality (Oe) (L)	85.9%	85.9%	86.0%	87.0%	87.1%
Office Exam Embedded Quality (Oe) (L)	88.2%	89.4%	90.0%	90.0%	90.9%
Examination Quality (LMSB) - Industry (Oe) (L)	85.0%	87.0%	88.0%	88.0%	89.0%
Examination Quality (LMSB) - Coordinated Industry (Oe) (L)	96.0%	96.0%	97.0%	96.0%	96.0%
Examination Coverage - Business (Oe) (L)	7.3%	6.8%	6.1%	5.8%	5.1%
AUR Efficiency (E) (L)	1,832	1,956	1,982	1,855	1,894
AUR Coverage (E) (L)	2.4%	2.5%	2.55%	2.5%	3.1%
Examination Efficiency - Individual (E) (L)	128	137	138	132	130
Collection Coverage - Units (Ot) (L)	54.0%	54.0%	55.2%	54.4%	54.6%
Collection Efficiency - Units (E) (L)	1,677	1,828	1,926	1,872	1,776
Field Collection Embedded Quality (Ot) (L)	84.2%	84.0%	79.0%	80.0%	83.0%
Automated Collection System (ACS) Accuracy (Oe)	91.0%	92.9%	95.3%	92.0%	93.5%

Key: Oe - Outcome Measure, E - Efficiency Measure, L - Long Term Goal, Ot - Output/Workload Measure

Description of Performance

Targeting the tax gap remained a top IRS priority for FY 2008 and will continue to be a top IRS priority in the future. In FY 2008 total enforcement revenue was $56.4 billion, a 65 percent increase over 2002. The improvements in enforcement performance resulted primarily from the focus on corrosive activities of corporate and high-income violators of the tax code. Targeting these high-risk categories improves IRS efficiency, reduces the burden on compliant taxpayers, and focuses enforcement presence where it is most needed.

In FY 2008, the IRS enhanced analytics in critical programs, improved workload identification and selection methods, and implemented systems that target high-risk cases. The IRS made improvements over FY 2007 in key program areas. Specifically, the IRS:

- Increased high-income taxpayer audits almost 16 percent;
- Increased small business audits 3 percent;
- Audited over 9,400 large corporations for the fifth consecutive year, a significant achievement given the size (assets greater than $10 million) and complexity of the corporate entities;
- Increased collection case closures 1.4 percent;
- Increased tax-exempt and government entities compliance contacts 6 percent; and

- Increased Automated Underreporter (AUR) contact closures by almost 4 percent and dollars collected through AUR and information return processing by 22 percent.

The IRS also continued reengineering the examination and collection processes to expand coverage, reduce processing time, and increase yield. The IRS implemented technological enhancements to legacy systems to augment productivity and efficiency gains. Significant improvements made in FY 2008 include:

- Expansion of the Reasonable Cause Assistant (RCA) for collection field employees to improve the accuracy and consistency of penalty-relief determinations for individual and business taxpayers. RCA expedites the reasonable cause determination process by creating an automated request and approval process.
- An upgrade to the Issue Management System (IMS) that provides a central repository for issue identification and tracking. The upgrade allows data collection for use in the development and evaluation of performance measures. The upgrade supported more than 5,000 revenue agents.
- Productivity increases in the AUR notice process that produced a 26 percent increase in assessments from $5.1 billion to $6.4 billion, and a 21 percent increase in assessment dollars per case compared to last year.
- Enhancement of the identification and predictability of productive assessments in the Correspondence Examination Program (CEP), which contributed to a 41 percent increase in assessments to $2.6 billion.
- Implementation of an Industry Issue Focus (IIF) process that places compliance issues into three tiers based on strategic impact and importance to respond to changes in business practices that create compliance risks resulting in $6.7 billion in additional taxable income not previously reported; for Top Tier issue cases currently under examination, there is potential for an additional $4.6 billion in unreported taxable income.

3A – Regulatory *($159,956,000 in direct appropriation and an estimated $461,000 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; 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.

- *Office of Professional Responsibility* identifies, communicates, and enforces Treasury Circular 230 standards of competence, integrity, and conduct of those who represent taxpayers before the IRS including attorneys, Certified Public Accountants (CPAs), enrolled agents, enrolled actuaries and appraisers, and other professionals.

3.2.5 – Budget and Performance Plan

Dollars in Thousands

Regulatory Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$150,115	$146,213	$145,036	$149,975	$159,956
Reimbursable Resources	151	255	435	448	461
Mandatory Appropriations - User Fees			168		
Total Resources	**$150,266**	**$146,468**	**$145,639**	**$150,423**	**$160,417**
Budget Activity Total	**$150,266**	**$146,468**	**$145,639**	**$150,423**	**$160,417**

Regulatory Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
TE/GE Determination Case Closures (Ot)	108,462	109,408	100,050	94,000	126,000

Key: Ot - Output/Workload Measure

Description of Performance

The IRS faced ongoing challenges in assisting tax-exempt and government entities in complying with complicated rules for maintaining their special tax status. It continues to ensure that charitable organizations are not used for non-charitable or illegal purposes, including financing terrorist activities. The IRS continues to help pension plans, exempt organizations, and government entities comply with tax law. In FY 2008 the IRS:

- Launched an e-Postcard (Form 990N) for small tax-exempt organizations to file an annual information notice electronically;
- Redesigned the form used by tax-exempt entities to report information about their operations;
- Increased tax-exempt and government entities examinations by 3 percent, and compliance contacts 6 percent;
- Developed a pre-screening process to identify employee plan applications that have deficiencies to enable the taxpayer to fix items timely; and
- Increased small employer awareness of pension plan correction programs through new “fix-it” guides and an educational workshop.

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 2010 is $4,082,984,000 in direct appropriations and 12,316 FTE. This is an increase of $215,973,000 or 5.6 percent and 46 FTE over the FY 2009 enacted level of $3,867,011,000 and 12,270 FTE. The increase of 5.6 percent from the FY 2009 enacted level includes support funding for enhanced enforcement activities.

Support of Information Technology (IT) to the Taxpayer Services and Enforcement Programs

The IRS information technology (IT) infrastructure as well as staffing, equipment, and related costs necessary to maintain and manage current information systems are critical to the support of the taxpayer services and enforcement programs. Technology is the critical link that allows the IRS to do its job quickly and efficiently. The core purpose of the IRS Modernization & Information Technology Services (MITS) organization is to provide and maintain the best technology available in serving the taxpaying public and to manage and upgrade this technology to support the IRS administration of the tax laws as carefully and proficiently as possible. Improvement to the IT infrastructure includes procuring and replacing desktop computers, automated call distributor hardware, mission critical servers, and wide area and local area network routers and switches.

The MITS organization provides IT and telecommunications services to support the operation, maintenance, and enhancement of current IT systems and develops new information technology systems and products through the business systems modernization process. The IRS is in the midst of a multi-year effort to move its technology systems and operations from antiquated legacy systems to modernized IT systems equal to those of their counterparts in both the public and private sectors. The MITS organization supports every facet and phase of tax administration and provides the tools necessary to taxpayers to communicate and conduct transactions with the IRS. MITS core activities include the following programs, procedures, and actions:

- Maintaining and updating the IT systems essential to meeting the needs of each filing season;
- Managing existing information technology and developing new IT systems;

- Developing an IT service management model;
- Defining and meeting systems availability service levels;
- Implementing seat management (desktop) business process reengineering;
- Consolidating and standardizing work request processes;
- Sustaining a viable infrastructure program; and
- Administering a comprehensive approach to customer relationship management.

IRS business programs rely heavily on IT systems to process tax and information returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunications services for all business activities and business units as well as operations support functions, including the toll-free access to tax information.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE[1]	Amount
FY 2009 Enacted	**12,270**	**$3,867,011**
Changes to Base:		
Maintaining Current Levels		**$61,060**
Pay Annualization		13,005
Pay Inflation Adjustment		23,816
Non-Pay Inflation Adjustment		24,829
Government-wide Reduction for Productivity Improvements		(10,590)
GAO Audit Reimbursement Pursuant to P.L. 110-323		10,000
Efficiencies/Savings		**($27,207)**
Increase e-File Savings		(133)
Non-Recur Savings		(27,074)
Reinvestment		**$306**
Submission Processing Consolidation (Andover)		306
Subtotal Changes to Base		**$34,159**
Total FY 2010 Base	**12,270**	**$3,901,170**
Program Changes:		
Enforcement Initiatives		**$73,714**
Reduce the Tax Gap Attributable to International Activities		20,827
Improve Reporting Compliance of SB/SE Taxpayers		18,834
Expand Document Matching for Business Taxpayers		6,857
Address Nonfiling/Underpayment and Collection Coverage		27,196
Infrastructure Initiatives	**46**	**$108,100**
Address IT Security and Material Weakness	36	90,000
Implement Return Review Program (RRP)	10	18,100
Subtotal FY 2010 Program Changes	**46**	**$181,814**
Total FY 2010 President's Budget Request	**12,316**	**$4,082,984**

[1] Includes Technical FTE adjustments made since February 2008.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Operations Support	FY 2008 Enacted[1]	FY 2009 ARRA	FY 2009 President's Budget	Congressional Action including Rescission	FY 2009 Enacted Level	Proposed Reprogram.	FY 2009 Proposed Operating Level	FY 2010 Request Level	% Change FY 2009 to FY 2010
FTE	**12,495**		**12,270**		**12,270**		**12,270**	**12,316**	**0.4%**
Object Classification:									
11.1 Full-Time Permanent Positions	$970,952	$0	$978,431	$0	$978,431	$0	$978,431	$1,044,177	6.7%
11.3 Other than Full-Time Permanent Positions	13,207	0	22,332	0	22,332	0	22,332	23,007	3.0%
11.5 Other Personnel Compensation	35,673	0	32,073	0	32,073	0	32,073	31,770	-0.9%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	**$1,019,832**	**$0**	**$1,032,836**	**$0**	**$1,032,836**	**$0**	**$1,032,836**	**$1,098,954**	**6.4%**
12.0 Personnel Benefits	304,229	0	309,867	0	309,867	0	309,867	335,790	8.4%
13.0 Benefits to Former Personnel	47,073	0	48,532	0	48,532	0	48,532	48,775	0.5%
21.0 Travel	46,121	0	36,627	0	36,627	0	36,627	37,928	3.6%
22.0 Transportation of Things	21,522	0	21,470	0	21,470	0	21,470	21,278	-0.9%
23.1 Rental Payments to GSA	610,005	0	653,627	0	653,627	0	653,627	668,154	-
23.2 Rent Payments to Others	193	0	6	0	6	0	6	7	16.7%
23.3 Communications, Utilities, & Misc	475,136	0	405,208	0	405,208	0	405,208	445,527	10.0%
24.0 Printing & Reproduction	61,071	0	54,796	0	54,796	0	54,796	55,054	0.5%
25.1 Advisory & Assistance Services	90,291	0	93,114	0	93,114	0	93,114	127,437	36.9%
25.2 Other Services	441,600	0	427,449	10,839	438,288	0	438,288	416,456	-5.0%
25.3 Purchase of Goods & Services from Govt. Accoun	56,262	0	63,838	0	63,838	0	63,838	78,168	22.4%
25.4 Operation & Maintenance of Facilities	162,169	0	181,331	0	181,331	0	181,331	185,263	2.2%
25.5 Research & Development Contracts	2,108	0	4,660	0	4,660	0	4,660	7,825	67.9%
25.6 Medical Care	12,505	0	10,764	0	10,764	0	10,764	11,110	3.2%
25.7 Operation & Maintenance of Equipment	68,268	0	70,048	0	70,048	0	70,048	68,184	-2.7%
25.8 Subsistence & Support of Persons	1,282	0	1,304	0	1,304	0	1,304	1,256	-3.7%
26.0 Supplies and Materials	33,929	0	31,014	0	31,014	0	31,014	31,399	1.2%
31.0 Equipment	331,647	0	360,820	0	360,820	0	360,820	395,013	9.5%
32.0 Lands and Structures	55,461	0	48,139	0	48,139	0	48,139	48,682	1.1%
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	405	0	722	0	722	0	722	724	0.3%
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	**$3,841,109**	**$0**	**$3,856,172**	**$10,839**	**$3,867,011**	**$0**	**$3,867,011**	**$4,082,984**	**5.6%**
Budget Activities:									
Infrastructure	$826,313	$0	$883,325	0	$883,325	$0	$883,325	$900,852	2.0%
Shared Services & Support	1,291,296	0	1,243,703	10,839	1,254,542	0	1,254,542	1,296,629	3.4%
Information Services	1,723,500	0	1,729,144	0	1,729,144	0	1,729,144	1,885,503	9.0%
Total Budget Authority	**$3,841,109**	**$0**	**$3,856,172**	**$10,839**	**$3,867,011**	**$0**	**$3,867,011**	**$4,082,984**	**5.6%**

[1] The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which includes a transfer of $9.6M between Taxpayer Services and Operations Support and includes supplemental funding for Economic Stimulus payment of $202.1M.

2.3 – Appropriation Detail Table
Dollars in Thousands

Operations Support Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted[1]		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Infrastructure		$809,039		$826,313		$883,325		$900,852		1.98%
Shared Services and Support	5,572	1,279,800	6,068	1,291,296	5,977	1,254,542	5,977	1,296,629	0.00%	3.35%
Information Services	6,507	1,678,744	6,427	1,723,500	6,293	1,729,144	6,339	1,885,503	0.73%	9.04%
Subtotal New Appropriated Resources	**12,079**	**$3,767,583**	**12,495**	**$3,841,109**	**12,270**	**$3,867,011**	**12,316**	**$4,082,984**	**0.37%**	**5.59%**
Other Resources:										
Recoveries		595		595						
Offsetting Collections - Reimbursable	115	45,255	115	45,255	117	46,268	119	47,304	1.71%	2.24%
Available multi-year/no-year funds		43,039		43,039		67,808		61,000		-10.04%
50% Carryover		19,061		19,061						
Transfers In/Out		(4,500)		(4,500)						
Mandatory Appropriations - User Fees		82,163		82,163		32,900		32,900		0.00%
Subtotal Other Resources	**115**	**$185,613**	**115**	**$185,613**	**117**	**$146,976**	**119**	**$141,204**	**1.71%**	**-3.93%**
Total Resources Available for Obligation	**12,194**	**$3,953,196**	**12,610**	**$4,026,722**	**12,387**	**$4,013,987**	**12,435**	**$4,224,188**	**0.39%**	**5.24%**

[1] The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which includes a transfer of $9.6M between Taxpayer Services and Operations Support and includes

3A – Infrastructure *($900,852,000 in direct appropriation, an estimated $155,000 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-Automated Data Processing (ADP) equipment. This includes the following program activities:

- *Building Delegation* oversees and manages the IRS GSA-delegated buildings, including cleaning, maintenance, utilities, protection, administrative, and recurring and one-time repair costs.
- *Rent* provides resources for all IRS rent needs.
- *Space and Housing / Non-ADP Equipment* provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and Non-ADP equipment.

3.2.6 – Budget and Performance Plan

Dollars in Thousands

Infrastructure Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$837,320	$808,254	$809,039	$883,325	$900,852
Reimbursable Resources	103	121	149	152	155
Mandatory Appropriations - User Fees			13,049	16,100	16,100
Total Resources	**$837,423**	**$808,375**	**$822,237**	**$899,577**	**$917,107**
Budget Activity Total	**$837,423**	**$808,375**	**$822,237**	**$899,577**	**$917,107**

Description of Performance

The IRS continued to achieve cost savings in FY 2008 with its aggressive 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.

Rent costs, including the cost of facility security, decreased over 1 percent from $666.6 million in FY 2007 to $659.6 million in FY 2008. The IRS achieved rent savings by identifying and completing 26 space reduction projects, releasing a cumulative total of 515,783 square feet. These projects have annualized savings estimated at $9.6 million.

Additionally, the IRS and GSA continued a delegated leasing initiative designed to save commission fees and to achieve negotiated lease savings.

3A – Shared Services and Support *($1,296,629,000 in direct appropriation and an estimated $32,228,000 from reimbursable programs):* This budget activity funds policy and management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equal employment opportunity and diversity services and programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and employee benefits programs. This includes the following program activities:

- *National Headquarters Management and Administration* directs the management activities of strategic planning, communications and liaison, finance, human resources, EEO and diversity, and business systems planning and embedded training. This activity sets policies and goals, provides leadership and direction for the IRS and builds partner relationships with key stakeholders (e.g. Congress, GAO, OMB). It provides policy guidance for conducting IRS planning and budgeting strategies, conducting analysis of programs and investments to support strategic decision-making, and developing and managing the human resources. It also includes official reception and representation expenses.
- *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 (AWSS)* 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.
- *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 Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$1,154,616	$1,154,724	$1,279,800	$1,254,542	$1,296,629
Reimbursable Resources	17,836	13,649	30,796	31,504	32,228
Mandatory Appropriations - User Fees			19,114		
Total Resources	**$1,172,452**	**$1,168,373**	**$1,329,710**	**$1,286,046**	**$1,328,857**
Budget Activity Total	**$1,172,452**	**$1,168,373**	**$1,329,710**	**$1,286,046**	**$1,328,857**

Description of Performance

Through support activities including management and administration of human resources, security, and research, the IRS continues to provide shared services to all IRS programs.

Two tenets of the IRS succession planning strategy are to grow future leaders and to ensure adequate bench strength to lead the current organization. In FY 2008, the IRS:

- Opened the Leadership Succession Review process (LSR) to bargaining unit employees to identify those individuals with potential to become leaders; and
- Initiated a leadership-coaching pilot designed to serve and support the current cadre of managers. An analysis of the Employee Engagement Survey results for 2007 and 2008 indicates that coaching benefits both managers and employees and strengthens the workgroup.

In FY 2008, the IRS established a *Workforce of Tomorrow* task force to implement short and long- term improvements in the areas of retaining people, attracting the best candidates, enhancing the role of IRS managers, and growing future leaders.

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.

The IRS protects taxpayer personally identifiable information, including social security numbers. In FY 2008, to protect the tax administration systems from unauthorized access, disruption, and modification the IRS:

- Established the Office of Online Fraud Detection and Prevention to address increasing and evolving online threats that affect the IRS and taxpayers;
- Continued risk assessments of business processes to address identity protection; and analyzed the use of social security numbers for reduction and elimination where possible;

- Updated the IRS Identity Protection Strategy, a comprehensive strategy to protect personal information and provide services to identity theft victims;
- 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.

In FY 2008, the IRS expanded its ongoing research studies of filing, payment and reporting compliance, including the National Research Program, to provide a comprehensive picture of overall taxpayer compliance levels. 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 workload selection models to reduce audits of compliant taxpayers and ultimately help the IRS achieve high rates of return from its enforcement programs. Launched in 2007 and continued in 2008, the reporting compliance study for individual taxpayers will provide updated and more accurate audit selection tools. It is the first of an ongoing series of studies using a multi-year rolling methodology. The study examined more than 13,000 randomly selected tax year 2006 individual audits. Similar sample sizes will be used in subsequent tax years. This new method will allow the IRS to combine results over rolling three-year periods to make annual updates to its voluntary compliance estimates after the initial three annual studies. As part of its continuing effort to measure the burden associated with meeting federal tax obligations, the IRS surveyed both individual and self-employed taxpayers to measure time and expense in meeting filing requirements for small-business taxpayers who file both income and employment tax returns. Results of the surveys will be used to develop updated burden estimate models for release in FY 2009.

3A – Information Services *($1,885,503,000 in direct appropriation, an estimated $14,921,000 from reimbursable programs and an estimated $16,800,000 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.

MITS is responsible for everything dealing with 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-sized investment projects using core data to support specialized functions.
- *National Headquarters (NHQ) ADP 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 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 activity also supports external trading partner data exchanges with federal government agencies, state and local governments, and other third-party entities. The program controls application source code and deploys applications to the production environment.
- *Enterprise Operations* designs, develops, and maintains IT that supports critical tax processing, management information reporting, and financial and management support systems for the IRS. The program supports data exchanges with external organizations such as other federal government agencies, state and local governments, and external entities (e.g. employers and banks) and includes a comprehensive disaster recovery capability to ensure continued operations in the agency in the event of a major interruption of service.
- *Enterprise Network* provides telecommunications service delivery to all customer segments, including management of day-to-day operations and execution of routine modifications to the telecommunications infrastructure and applications. It addresses all phases of engineering, acquisition, implementation, and operation of telecommunications systems and services, including voice, video, and data communications.
- *Enterprise Services* plans and manages service and delivery methods used across the MITS organization, including demand analysis, enterprise architecture, configuration management, project reporting, enterprise life cycle management, release management, systems engineering, dashboard reporting, and internal management.
- *End User Equipment and Services* maintains the IRS automated business processes at headquarters and field sites by providing technical systems support and applications software support to end users, legacy operations maintenance, local and corporate systems administration activities, email and domain user

account maintenance, network and systems monitoring administration, asset management activities, and support and maintenance of the voice and data infrastructure at the territory offices.

- *MITS Management* provides the management and oversight of investments in IT, human capital investment, and other MITS operational priorities.
- *IT Security Certification and Accreditation* provides design and operations of security controls and the technical mechanism used by the IRS systems/applications as part of the system security plan, system risk assessment, and IT contingency plan. It also supports security testing/evaluation as part of the certification process, including time preparing system documentation, interviewing with contractors, and responding to information requests.
- *IT Operational Security* oversees Federal Information Security Management Act (FISMA) reporting, including preparing for, conducting, and reporting National Institute of Standards and Technology (NIST) 800-26 self-assessments and annual testing of controls.
- *IT Security Training* provides training for FISMA reporting purposes.
- *IT Homeland Security Presidential Directive-12* oversees the use of Personal Identity Verification (PIV) technology for physical access to federally-controlled facilities and logical access to information systems for all federal employees and contractors who require long-term access.
- *IT Infrastructure* corporately funds the replacement of IRS IT infrastructure that has reached or surpassed its useful life cycle. The resources achieved through efficiencies in various parts of MITS are centralized to ensure that replacement of the IRS aging infrastructure is addressed corporately.
- *Treasury Working Capital Fund* separates the telecommunications program budget required for paying Treasury billings for IRS corporate telecommunications services.
- *Integrated Document Solutions Enterprise (IDSE) Campus Operations Most Efficient Organization (MEO)* captures savings resulting from IDSE MEO activities.

3.2.8 – Budget and Performance Plan

Dollars in Thousands

Information Services Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$1,510,449	$1,551,603	$1,678,744	$1,729,144	$1,885,503
Reimbursable Resources	3,330	14,006	14,310	14,612	14,921
Mandatory Appropriations - User Fees		66,678	50,000	16,800	16,800
Total Resources	**$1,513,779**	**$1,632,287**	**$1,743,054**	**$1,760,556**	**$1,917,224**
Budget Activity Total	**$1,513,779**	**$1,632,287**	**$1,743,054**	**$1,760,556**	**$1,917,224**

Description of Performance

In FY 2008, the IRS successfully implemented several initiatives that continue to improve the IT infrastructure that will lead to greater efficiency and productivity. In FY 2008, the IRS implemented governance and program controls and established the Program/Project Health Assessment.

The governance and program controls represent a consistent standardized governance approach to manage all IT investment projects. The IRS now maps its IT projects to a single comprehensive framework and applies best practices across the entire IT portfolio.

The Program/Project Health Assessment is a repeatable enterprise process to assess the condition of IT development, maintenance, and services projects to better equip IRS decision makers with information products and capabilities to achieve desired outcomes. This process examines the "health" of all IT projects both within the Business Systems Modernization (BSM) portfolio and across the entire IT portfolio IRS-wide. It provides independent, early warning indicators to IT managers and governance and control organizations concerning projects facing unusual challenges that can influence the filing season or other critical IRS functions.

A solid IRS IT workforce is critical in capitalizing on the potential customer service benefits presented by technology and the expansion of E-Government. The IRS continues to implement a large and highly complex modernization program with an aging IT workforce, and many of them are retirement-eligible. To address this issue, the IRS developed a human capital strategy that addresses hiring critical personnel, employee training, leadership development, and workforce retention.

In support of this strategy, the IRS has implemented several high priority initiatives in FY 2008. The IRS formed a team to identify challenges in the hiring process and established the Executive Hiring Council to coordinate recruitment actions and strategies for the Modernization and Information Technology Services organization. The IRS also improved its hiring for mission critical positions through automation, simplification of the application process, and the use of incentives.

The IRS successfully completed updates to security plans and certified and accredited each application and general support system. The IRS successfully completed security certification and accreditation for 100 percent of its IT systems. All FISMA 2008 reporting activities were completed and validated before the June 30, 2008 deadline.

The IRS implemented, as part of the Enterprise Disk Encryption project, the use of a new security technology product, Guardian Edge Removable Storage (GERS), to provide encryption protection of sensitive and personally identifiable information as mandated by OMB. GERS provides automatic encryption of all data written to removable storage devices, including flash drives, external hard drives, and CD/DVDs.

The IRS conducted Operation R.E.D. to focus employee awareness on existing policies and procedures regarding safeguarding of sensitive information. During this event, employees were given time to:

- **R**eview their electronic files and paper holdings for sensitive information that is required to be secured;
- **E**ncrypt (electronic) and/or safeguard (paper) all sensitive information that is required to be secured; and
- **D**ecide whether information that they no longer have a need to know should be archived or destroyed.

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 2010 is $253,674,000 in direct appropriations and 333 FTE. This is an increase of $23,760,000 or 10.3 percent over the FY 2009 enacted level of $229,914,000 and 333 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE[1]	Amount
FY 2009 Enacted	**333**	**$229,914**
Changes to Base:		
Maintaining Current Levels		**$1,153**
Pay Annualization		412
Pay Inflation Adjustment		741
Subtotal Changes to Base		**$1,153**
Total FY 2010 Base	**333**	**$231,067**
Program Changes:		
Business Systems Modernization		$22,607
Total FY 2010 President's Budget Request	**333**	**$253,674**

[1] Includes Technical FTE adjustments made since February 2008.

2.2 – Operating Levels Table
Dollars in Thousands

Appropriation Title: Business Systems Modernization	FY 2008 Enacted	FY 2009 ARRA	FY 2009 President's Budget	Congressional Action including Rescission	FY 2009 Enacted Level	Proposed Reprogram.	FY 2009 Proposed Operating Level	FY 2010 Request Level	% Change FY 2009 to FY 2010
FTE	**358**		**333**		**333**		**333**	**333**	**0.0%**
Object Classification:									
11.1 Full-Time Permanent Positions	$35,790	$0	$33,621	$0	$33,621	$0	$33,621	$33,672	0.2%
11.3 Other than Full-Time Permanent Positions	745	0	766	0	766	0	766	855	11.6%
11.5 Other Personnel Compensation	559	0	575	0	575	0	575	703	22.3%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	**$37,094**	**$0**	**$34,962**	**$0**	**$34,962**	**$0**	**$34,962**	**$35,230**	**0.8%**
12.0 Personnel Benefits	8,151	0	8,444	0	8,444	0	8,444	9,416	11.5%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0	0.0%
21.0 Travel	0	0	0	0	0	0	0	0	0.0%
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	0	0	0	0	0	0	0	0	0.0%
24.0 Printing & Reproduction	0	0	0	0	0	0	0	0	0.0%
25.1 Advisory & Assistance Services	0	0	0	0	0	0	0	0	0.0%
25.2 Other Services	157,914	0	115,327	7,250	122,577	0	122,577	126,836	3.5%
25.3 Purchase of Goods & Services from Govt. Accoun	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	7,281	0	7,281	0	7,281	0	7,281	10,578	45.3%
25.8 Subsistence & Support of Persons	0	0	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials	0	0	0	0	0	0	0	0	0.0%
31.0 Equipment	56,650	0	56,650	0	56,650	0	56,650	71,614	26.4%
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	**$267,090**	**$0**	**$222,664**	**$7,250**	**$229,914**	**$0**	**$229,914**	**$253,674**	**10.3%**
Budget Activities:									
IT Investments	$267,090	$0	$222,664	$7,250	$229,914	$0	$229,914	$253,674	10.3%
Total Budget Authority	**$267,090**	**$0**	**$222,664**	**$7,250**	**$229,914**	**$0**	**$229,914**	**$253,674**	**10.3%**

2.3 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Business Systems Modernization	347	$170,576	358	$267,090	333	$229,914	333	$253,674	0.00%	10.33%
Subtotal New Appropriated Resources	**347**	**$170,576**	**358**	**$267,090**	**333**	**$229,914**	**333**	**$253,674**	**0.00%**	**10.33%**
Other Resources:										
Recoveries		3,256		3,256						
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds		82,394		82,394		106,883		94,000		-12.05%
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
Subtotal Other Resources		**$85,650**		**$85,650**		**$106,883**		**$94,000**		**-12.05%**
Total Resources Available for Obligation	**347**	**$256,226**	**358**	**$352,740**	**333**	**$336,797**	**333**	**$347,674**	**0.00%**	**3.23%**

3A – Business Systems Modernization *($253,674,000 in direct appropriation):* This budget activity funds the planning and capital asset acquisition of IT to modernize the IRS business systems, including labor and related contractual costs. The IRS BSM program is required to submit an annual expenditure plan that justifies the projects for which resources are requested.

The IRS depends on the core tax administration systems to deliver its mission, and they require ongoing, long-term commitment to ensure that IRS maintains its world-class tax administration systems. The FY 2010 BSM request of $253.7 million funds the projects listed in the table below.

Project	FY 2010 Request
Customer Account Data Engine	$85.7
Modernized e-File	$50.0
Core Infrastructure	$32.0
Architecture, Integration and Management	$35.0
Management Reserve	$5.0
Labor	$46.0
Total	$253.7

The $253.7 million BSM request funds the programs and activities described below.

FY 2010 Business Systems Modernization
(Dollars in Millions)

Project	Business Systems Modernization Initiatives	FY2008 Enacted	FY 2009 Enacted	FY 2010 Request
Customer Account Data Engine	FY 2010 funding will allow IRS to execute plan to accelerate the CADE data conversion, and derive business benefits in accordance with recent replanning efforts. Budget also includes funding for continued tax law changes and increased focus on enhancing the overall security posture.	58.500	78.100	85.654
Accounts Management Services	Shift in strategy calls for an integrated approach to modernizing IRS's core tax account database, so line items for AMS will no longer be broken out separately, but rather will be included under Customer Account Data Engine.	28.983	0.000	0.000
Modernized e-File	FY 2010 plan calls for completion of 122 additional forms that will expand the reach of MeF to 93.7 million taxpayers, or 99% of the e-File population. Because of the size and scale of this release, investment in infrastructure and disaster recovery capabilities are needed to appropriately manage operational risk.	55.802	25.000	50.000
Core Infrastructure	Provide services in architecture, engineering and deployment of standardized, consolidated, virtual and secure modernized development environments (DITE) and shared infrastructure components (EUP, RUP, Security) of the production environments. Additional funds in FY 2009 provide for enhanced security posture, harden the environment, and support disaster recovery capabilities.	39.150	43.250	32.000
Architecture, Integration, and Management	Provide system engineering management capabilities including IRS 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.	35.100	35.000	35.000
	Management Reserve	4.310	3.358	5.020
	Subtotal Capital Investments	**221.845**	**184.708**	**207.674**
	BSM Labor	**45.245**	**45.206**	**46.000**
	Total BSM Appropriation	**267.090**	**229.914**	**253.674**

Customer Account Data Engine

The IRS requests $85.7 million to continue the development of the Customer Account Data Engine, the new taxpayer account database that will serve as the central repository of tax account information for all individual taxpayers. In FY 2009, the IRS shifted its focus from concurrent development of a database and associated applications to a strategy that focuses on completion of the core taxpayer account database (Customer Account Data Engine). This approach will allow the IRS to accelerate data conversion to the new database while also addressing security, financial material weaknesses, and long-term architectural planning concerns. Thus, the Customer Account Data Engine, which includes AMS and elements of the previous CADE plan, is an integrated plan to deliver new capabilities in the coming years. This plan includes accelerating consolidation of the Individual MasterFile (IMF) and current CADE architectures, migration of IMF data into a daily processing architecture, and incorporation of enhanced security protocols and financial management controls.

The Customer Account Data Engine will improve the IRS capability to respond quickly to changing business needs and accelerate business process changes. The complete data model and sole authority taxpayer account database is a critical step toward significantly enhanced compliance and service programs. It will also foster better collaboration through improved data exchange between the IRS and other Federal and State agencies. The Customer Account Data Engine will improve taxpayer service and tax compliance by making accurate and timely tax data available to taxpayers and the IRS and by providing faster refunds for all individual taxpayers.

The IRS approach to modernization will fully leverage the successful development efforts of the last several years. FY 2010 activities include continued development and integrated daily processing, data conversion to the new relational database, development and testing of applications to enhance viewing of database extracts, incorporation of tax law changes in the current CADE application, and stand-up of a program office. While the primary focus will be on database completion, targeted application development will begin on a common penalty and interest module to assure accurate and consistent calculations across applications and to allow faster implementation of calculation changes, and modification of taxpayer notice processing.

Modernized e-File (MeF)

The IRS requests $50 million to continue development and deployment of the MeF web-based platform. MeF allows electronic filing tax 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* (2007)*;*
- Form 990, *Return of Organization Exempt from Income Tax* (2007)*;*
- 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 began in FY 2007 with deployment scheduled in January 2010. Phase I consists of the Form 1040 and 21 of the most common forms and schedules used by 61 percent of the e-File population such as *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 began in FY 2009 and is scheduled to be implemented in January 2011. This Phase will enhance the deployment of disaster recovery capability delivered in Phase I and include tax law changes and continued code optimization.

Phase III 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.

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 allows retirement of legacy e-File applications; 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.

Core Infrastructure

The IRS requests $32 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 includes standardizing telecommunication services, security, and operations management as well as updating the access portals. This will allow 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 and Development, Integration and Testing Environment (DITE).

<u>Infrastructure Shared Services (ISS)</u> provides services in designing, engineering and deploying a standardized, consolidated, virtual and secure modernized production environment for BSM projects. ISS provides integrated engineering and architectural services including systems engineering program management, configuration management, performance engineering, capacity planning, infrastructure requirements, security engineering, and transition management support. In FY 2010, ISS will focus on common business services, security, and infrastructure enhancements that affect the modernization projects, while continuing to support efforts to enhance availability and portal improvements begun in FY 2009. The ISS also will address the increase in electronic documents, online transactions, and online tax filers on the modernized infrastructure environments.

Identification and development of common infrastructure, security, and application integration services (i.e., audit, security, case management, and authentication) reduces delivery time, application development, and operations and maintenance costs. Using ISS, BSM projects avoid developing costly customized solutions for each required interface to data, other application services, and security components.

Development, Integration, and Testing Environment (DITE) provides the standardized systems development environments and associated engineering services to support BSM projects. In addition, DITE addresses the expanded scope associated with the integration of BSM projects into the current production environment. It uses streamlined processes and standard tools that allow development and testing in a controlled environment to ensure projects work effectively and seamlessly in the modernized production environment. DITE consists of a Virtual Development Environment (VDE) and an Enterprise Integration and Test Environment (EITE). The VDE provides a software development environment that enables geographically disbursed developers to access standardized tools, information, and services. The EITE provides the structured, production-like integration and testing environment to test end-to-end system capabilities before release into production.

Architecture, Integration, and Management (AI&M)

The IRS requests $35 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:

Business Application Architecture and Integration (BAAI) delivers the BSM systems architecture, engineering, and integration tasks, intersecting more than 500 production systems and 100 active IT projects. BAAI produces the principles, strategies, and standards to guide the construction and delivery of coherent and integrated enterprise systems. Key FY 2010 deliverables include the Enterprise Target Architecture and Integration Roadmap, Enterprise Transition Strategy, Release Architecture, As-Built Architecture, Enterprise Standards Profile, Service Oriented Architecture Roadmap, and Segment Architectures.

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 more easily and efficiently organize, identify, share, reuse and correlate data that enables the IRS compliance functions to consume information and maximize the value to the agency.

The BSM projects included in the FY 2010 Data Strategy Roadmap are building out the tax return store; prototyping the metadata program; and expanding users for the Integrated Production Model, 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 2010 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.

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., FISMA, NIST, DHS, OMB, GAO, and 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 2010 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) processes and standards allow the IRS to define, manage, and successfully deliver its Information Technology portfolio. BI activities include Integration Planning and Operations Improvement, Modernization Vision and Strategy, Cost Estimation, and Transition Management. BI will expand implementation of Information Technology Infrastructure Library (ITIL) standards to the change management, configuration management and release management process areas.

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 fully understood and considered. 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, addressing significant legislative initiatives, and supporting BSM initiatives.

Business Rules and Requirements Management (BRRM) improves the conduct of business analysis, process redesign, business rules harvesting and management, and business requirements definition. BRRM standards and expertise allow the IRS to incorporate 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 business rules management. BRRM provides project planning and management, business process redesign, rules and requirements development, business modeling, and baseline management and solution development support.

Management Processes (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) oversees contractor activities, sustains improvements to program performance, and ensures delivery of taxpayer benefit through delivery of projects on time, on budget, and at or above quality targets. PM provides financial planning and risk management, including the use of a common risk, issue and action item management process tool.

Federally Funded Research & Development Center (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 $5.0 million to fund the management reserve to cover unanticipated cost adjustments for the BSM projects.

BSM Labor

The IRS requests $46 million to fund the base FY 2009 staffing level for BSM labor ($44.8 million) and FY 2010 inflation costs ($1.2 million).

3.2.9 – Budget and Performance Plan

Dollars in Thousands

Business Systems Modernization Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$113,702	$158,758	$170,576	$229,914	$253,674
Reimbursable Resources					
Mandatory Appropriations - User Fees					
Total Resources	**$113,702**	**$158,758**	**$170,576**	**$229,914**	**$253,674**
Budget Activity Total	**$113,702**	**$158,758**	**$170,576**	**$229,914**	**$253,674**

Business Systems Modernization Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Percent of BSM Projects within +/- 10% Cost Variance (E)	*	*	92.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance (E)	*	*	92.0%	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. In FY 2009, MITS is changing the methodology to include all major BSM and Non-BSM projects. If approved, reporting will begin in FY 2010.

Description of Performance

The IRS must manage its resources, businesses, and technology systems optimally to effectively and efficiently support its service and enforcement mission. Of the major BSM project releases completed in FY 2008, 92 percent were within the +/- 10 percent cost and project schedule variance goal. Significant modernization accomplishments for FY 2008 include the Customer Account Data Engine (CADE), the Modernized e-File system (MeF), improved Account Management Services (AMS) capabilities, and the IRS Data Access Strategy.

The CADE release was delivered on time for the filing season and processed 30.6 million returns, a substantial increase from the 2007 posting of 11.2 million returns. It also issued over 28.9 million refunds, totaling more than $44.1 billion, exclusive of Stimulus payments. CADE settles daily, allowing it to process refunds on average five days faster than the legacy system. It also updates taxpayer account information immediately for customer service personnel, rather than weekly updates in the legacy system.

The MeF added new capabilities and delivered forms 1120F (Foreign Corporation) and 990N (Exempt Organization) at the start of the 2008 Filing Season. In FY 2008, new functionality enabled MeF to accept over 3.7 million returns, which is a 55 percent increase over last year. MeF offers 100 percent data capture that is available to IRS customer service representatives online and in real-time.

AMS delivered new capabilities that include a new inventory and workflow that automates the assignment, research, resolution, and closure for entity and account transcripts; these are internally generated cases currently worked in a paper-based manual process. This enables authorized users to resolve taxpayer issues more efficiently and improve the overall taxpayer experience.

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 significantly expanded by the *American Recovery and Reinvestment Act of 2009* (Public Law 111-5).

The HITCA Budget request for FY 2010 is $15,512,000 in direct appropriation and 15 FTE. This is an increase of $106,000 or .69 percent over the FY 2009 enacted level of $15,406,000 and 15 FTE. This amount does not include $80,000,000 of funding provided by *American Recovery and Reinvestment Act of 2009* (Public Law 111-5).

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE[1]	Amount
FY 2009 Enacted	**15**	**$15,406**
Changes to Base:		
Maintaining Current Levels		**$106**
Pay Annualization		13
Pay Inflation Adjustment		23
Non-Pay Inflation Adjustment		141
Government-wide Reduction for Productivity Improvements		(71)
Subtotal Changes to Base		**$106**
Total FY 2010 Base	**15**	**$15,512**
Program Changes:		
Subtotal FY 2010 Program Changes		
Total FY 2010 President's Budget Request	**15**	**$15,512**

[1] Includes Technical FTE adjustments made since February 2008.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Health Insurance Tax Credit Administration	FY 2008 Enacted	FY 2009 ARRA	FY 2009 President's Budget	Congressional Action including Rescission	FY 2009 Enacted Level	Proposed Reprogram.	FY 2009 Proposed Operating Level	FY 2010 Request Level	% Change FY 2009 to FY 2010
FTE	**17**		**15**		**15**		**15**	**15**	**0.0%**
Object Classification:									
11.1 Full-Time Permanent Positions	$2,395	$0	$2,335	$0	$2,335	$0	$2,335	$2,363	1.2%
11.3 Other than Full-Time Permanent Positions	0	0	0	0	0	0	0	0	0.0%
11.5 Other Personnel Compensation	23	1,000	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)	**$2,418**	**$1,000**	**$2,359**	**$0**	**$2,359**	**$0**	**$2,359**	**$2,387**	**1.2%**
12.0 Personnel Benefits	371	0	352	0	352	0	352	360	2.3%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0	0.0%
21.0 Travel	148	0	150	0	150	0	150	151	0.7%
22.0 Transportation of Things	0	0	0	0	0	0	0	0	0.0%
23.1 Rental Payments to GSA	198	0	202	0	202	0	202	0	-
23.2 Rent Payments to Others	0	0	0	0	0	0	0	0	0.0%
23.3 Communications, Utilities, & Misc	0	2,000	0	0	0	0	0	0	0.0%
24.0 Printing & Reproduction	0	2,000	0	0	0	0	0	0	0.0%
25.1 Advisory & Assistance Services	0	0	0	0	0	0	0	0	0.0%
25.2 Other Services	12,093	73,000	12,335	0	12,335	0	12,335	12,606	2.2%
25.3 Purchase of Goods & Services from Govt. Accoun	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	7	2,000	8	0	8	0	8	8	0.0%
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	**$15,235**	**$80,000**	**$15,406**	**$0**	**$15,406**	**$0**	**$15,406**	**$15,512**	**0.7%**
Budget Activities:									
Health Insurance Tax Credit Administration	$15,235	$80,000	$15,406	$0	$15,406	$0	$15,406	$15,512	0.7%
Total Budget Authority	**$15,235**	**$80,000**	**$15,406**	**$0**	**$15,406**	**$0**	**$15,406**	**$15,512**	**0.7%**

2.3 – Appropriation Detail Table

Dollars in Thousands

Health Insurance Tax Credit Administration Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Health Insurance Tax Credit Administration	10	$15,223	17	$15,235	15	$15,406	15	$15,512	0.00%	0.69%
Subtotal New Appropriated Resources	**10**	**$15,223**	**17**	**$15,235**	**15**	**$15,406**	**15**	**$15,512**	**0.00%**	**0.69%**
Other Resources:										
Recoveries										
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds										
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
Subtotal Other Resources										
Total Resources Available for Obligation	**10**	**$15,223**	**17**	**$15,235**	**15**	**$15,406**	**15**	**$15,512**	**0.00%**	**0.69%**

3A – Health Insurance Tax Credit Administration *($15,512,000 in direct appropriation):* The HITCA budget activity funds costs to administer a refundable tax credit which was created by the Trade Act of 2002 to purchase health insurance for eligible taxpayers. This activity maintains the administrative and direct support for the HITCA program office and the staff charged with managing the program for the IRS.

3.2.10 – Budget and Performance Plan

Dollars in Thousands

Health Insurance Tax Credit Administration Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	$19,993	$14,850	$15,223	$15,406	$15,512
Reimbursable Resources					
Mandatory Appropriations - User Fees					
Total Resources	**$19,993**	**$14,850**	**$15,223**	**$15,406**	**$15,512**
Budget Activity Total	**$19,993**	**$14,850**	**$15,223**	**$15,406**	**$15,512**

Health Insurance Tax Credit Administration Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010[1] Target
Cost per Taxpayer Served ($) (E)	$13.71	$14.90	$16.94	$17.00	Baseline
Sign-up Time (days) - Customer Engagement (Ot)	98.7	93.3	94.0	97.0	Baseline

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

[1]As a result of the American Recovery and Reinvestment Act, a 400% increase in participation is expected. HCTC Program Office will baseline FY 2010 targets under the expanded population.

Description of Performance

The Department of Labor, state workforce agencies, and the Pension Benefit Guaranty Corporation are responsible for determining potentially eligible Health Coverage Tax Credit (HCTC) participants. The IRS administers the HCTC by working with health plan administrators to arrange direct payment of health plan premiums.

In FY 2008, the IRS processed approximately nine million HCTC eligibility records, made nearly 162,000 HCTC payments on behalf of taxpayers, handled almost 89,000 inbound HCTC telephone calls, and mailed several hundred thousand pieces of outbound correspondence. In addition, the IRS maintained an HCTC-program customer satisfaction level of nearly 91 percent.

Cost per participant served was $16.94 in FY 2008, two dollars higher than the year-end target of $14.25, which was heavily influenced by a 7 percent decrease in participants served. Sign-up time was 94 days, which was over 3 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).

In FY 2008, the IRS continued to seek ways to reduce the cost of HCTC administration beyond the achievements made since the program was introduced in 2003. As the program completes its sixth year, the IRS continues to identify technical and process improvements to enhance existing operations and to promote economies of scale that drive down costs. The IRS continues to explore new infrastructure configurations to ensure that its processing platform is as efficient as possible. In FY 2008, the IRS:

- Completed an evaluation of the existing HCTC infrastructure, architecture, and applications;
- Explored new data management, archiving and virtualization solutions; and

- Implemented a streamlined version of a payment processing solution, automated the returned funds process, and expanded the fax channels.

In addition, the IRS explored implementation of new self-service channels to provide taxpayers with more efficient self-service opportunities through web applications such as online registration and payment solutions.

Section 4 – Supporting Materials

4A – Human Capital Strategy

Introduction

With over 100,000 employees located nationwide, the IRS is the largest bureau of the Department of the Treasury. Over 73 percent of the IRS budget funds human capital costs.

The IRS workforce job satisfaction rate was 72 percent, higher than most other federal agencies, according to the Office of Personnel Management's Federal Human Capital Survey. Management improvements such as leadership coaching, tuition assistance reimbursements, and continuing professional education have contributed to the job satisfaction rate.

FY 2010 Challenges

The IRS is taking action to ensure succession planning and an effective workforce for the future. Workforce and talent shortages are expected from the departures of employees eligible for retirement. Workforce renewal is a constant challenge requiring continued improvements to remain competitive with the private sector and other government entities. To achieve its performance goals, the IRS must attract and retain the "best and the brightest" and continue to be a "first choice" employer where talented people want to work and can excel in a culture of high performance and empowerment. The IRS is identifying current and future skill set gaps so strategies can be developed to retrain and reposition employees and attract and recruit employees with the required skills.

Strategic Alignment

In FY 2008, the IRS updated its Strategic Plan to identify the goals and objectives to guide the agency from FY 2009 through FY 2013. The plan guides the IRS work by emphasizing two overarching goals, improving service to taxpayers to make voluntary compliance easier and enforcing the law to ensure everyone meets their obligation to pay taxes. These goals are supported by a strategic foundation in the critical area of human capital management.

The IRS aligns human capital strategy with the IRS tax administration mission and goals and formulates its budget and Strategy Program Plans to address critical future challenges. In August 2008 the Commissioner established the *Workforce of Tomorrow* task force to address recruitment and retention issues so that the IRS has the necessary leadership and workforce to meet future challenges.

Mission Critical Occupation Attrition and Retirement Challenges

Specifically, the IRS needs to recruit and retain a multi-generational workforce. These "multi-generations" are characterized by very different needs within the workplace. Currently, the IRS is facing a 56 percent projected attrition rate for upper management, with 39 percent of the IRS executives already eligible to retire, and approximately 47 percent of the SES workforce eligible to retire by 2010. Ensuring leadership continuity continues to be one of the IRS key areas of focus.

Closing Competency Gaps in Mission Critical Occupations

Projected attrition and current hiring rates show that through 2018, IRS faces a shortfall of over three thousand leaders. The IRS will need to hire approximately one manager per day through 2018, to successfully contend with this shortfall and fill the growing gaps in leadership competencies. The IRS is striving to be a 'first choice' employer. Sustaining modernization efforts and significant organizational improvements depends on a maintaining a highly skilled leadership cadre. The IRS is addressing the projected gaps and challenges through leadership succession planning.

Leadership succession planning objectives will:

- Identify and develop leaders at all levels with the skills to consistently deliver the IRS mission and achieve the IRS Strategic Goals and Objectives;
- Support the IRS, Human Capital Office (HCO) and Business Unit Strategic Plans through leaders who promote employee engagement, customer satisfaction, and produce business results; and
- Focus on identifying and developing high-potential employees, early in their career, for all leader levels.

Also, the IRS has assessed the competencies needed by Revenue Agents assigned to the Small Business/Self-Employed program. This assessment reviewed both specific, technical training offered and on-the-job training provided at the workplace to ensure employees are mastering the necessary skills from entry-level to full performance levels. Additional competency assessments are needed in other mission critical occupations.

Major Human Capital Occupations/Functions Contracted

The Employment Operations and Compliance offices utilize contract workers to fill short-term needs during periods of extensive hiring, workload transition, and heavy volumes of workload. During FY 2009 contract workers will be used to supplement Employment Operations and Compliance staff in IRS employment offices. The IRS also utilizes contract workers to review and prepare personnel records and files for employees who are currently eligible to retire (more than 12,000) as well as those who will become eligible during the next year. This review detects potential errors that could impact an employee's retirement eligibility, insurance and beneficiary information. This upfront work allows the retirement specialists to provide a quicker response to employees requesting retirement estimates and retirement paperwork processing. Faster processing of retirement paperwork ensures timely payments of retirement annuities. Contract workers will continue to work on this project in FY 2009.

Proposed Organizational Changes

To accomplish both short-term and long-term improvements, the *Workforce of Tomorrow* task force is focusing on six critical human capital areas:

- Valuing and retaining people;
- Planning a dynamic hiring strategy;
- Attracting the best candidates internally and externally;
- Streamlining hiring;
- Growing future leaders; and
- Enhancing the role of managers.

4B – Information Technology (IT) Strategy

The IRS Information Technology (IT) investment strategy, known as the Modernization Vision & Strategy (MV&S), drives IT investments based on strategic priorities for modernizing front-line tax administration for the Submission Processing, Manage Taxpayer Accounts, Customer Service, Reporting Compliance, Filing and Payment Compliance, Criminal Investigation (CI), Internal Management, and Chief Counsel business domains. The crosscutting service domains—Infrastructure, Security Services and Privacy, Data Strategy, and Common Business Services—address the infrastructure implications of the business domain investments and identify opportunities for leveraging common solutions, platforms, data sources, and system components across the enterprise. IRS updates the MV&S Five-Year Plan annually to reflect the full scope of tax administration functions as well as changing business priorities.

The IRS completed the first cycle of MV&S portfolio planning activities in FY 2006. MV&S also developed the Enterprise Transition Plan (ETP). The ETP is a five-year plan defining how existing and proposed investments align with the overall vision and strategy of the IRS Enterprise Architecture. It is updated annually and submitted to Treasury at the end of the fiscal year, ensuring decision-maker visibility into valuable information for organization-wide planning.

MV&S and the ETP:

- Facilitate ongoing collaboration between IT and business leadership;
- Leverage existing systems and investments;
- Emphasize the delivery of smaller, incremental releases; and
- Unify the portfolio-level view of investments.

The IRS will continue maturing the IT portfolio planning processes, aligning the IRS Strategic Plan with discrete investments, collectively supporting tax administration, strengthening technology infrastructure, and ensuring security and privacy.

In addition to the IT investment strategy, the IRS has an integrated governance and project control structure that organizes all IT projects into a tiered Project Management Office (PMO) structure for regular status reporting, review, and support. The newly implemented Enterprise Governance Model reflects industry best practices, assigning all projects to an appropriate governance body for oversight. The Enterprise Governance Model includes all IT projects regardless of dollar value or life cycle phase. This model empowers governance bodies to make project cost, schedule, and scope decisions for "at risk" projects requiring rigorous oversight. For projects with no identified problems or issues in a given reporting period, the model promotes accountability and decision-making at the program and project level, specifying the appropriate thresholds and governance bodies for elevating issues.

The established IT investment strategy, complemented by an integrated business/IT governance structure, ensures the appropriate selection of IT investments to support the mission and vision of the IRS and the Department of the Treasury.

4.1 – Summary of IT Resources Table

Dollars in Millions

Internal Revenue Service Table 4.1 FY 2010 Congressional Submission							
Information Technology Investments							
Major IT Investments / Funding Source	Budget Activity	FY 2007 & Earlier Enacted	FY 2008 Enacted	FY 2009 Enacted	% Change from FY08 to FY09	FY 2010 Request	% Change from FY09 to FY10
Appeals Automation Environment (AAE)	Information Services	38.774	13.741	14.784	7.6%	15.108	2.2%
Automated Collection System (ACS) - Major	Information Services	13.517	4.613	6.216	34.7%	16.142	159.7%
Business Master File	Information Services	64.171	13.121	13.291	1.3%	13.604	2.4%
Counsel Automated Systems Environment (CASE)	Information Services	55.534	27.501	27.500	0.0%	27.937	1.6%
Criminal Investigation Management Information System (CIMIS) - Major	Information Services	3.086	1.361	0.807	-40.7%	0.808	0.1%
IRS Enforcement 20-0913-0-1-999		0.800	0.815	0.561	-31.2%	0.561	0.0%
IRS Operations Support 20-0919-0-1-803		2.286	0.546	0.246	-54.9%	0.247	0.0%
Customer Account Data Engine (CADE)	Information Technology Investments	571.359	80.158	119.605	49.2%	105.173	-12.1%
IRS BSM 20-0921-0-1-803	Information Technology Investments	509.056	68.000	100.900	48.4%	102.154	1.2%
IRS Taxpayer Services 20-0912-0-1-803		10.895	2.320	2.340	0.9%	2.600	11.1%
IRS Operations Support 20-0919-0-1-803	Information Services	51.408	9.838	16.365	66.3%	0.419	-97.4%
e-Services	Information Services	85.813	15.090	13.880	-8.0%	14.005	0.9%
Electronic Fraud Detection System (EFDS)	Information Services	208.351	12.374	12.135	-1.9%	12.268	1.1%
IRS Operations Support 20-0919-0-1-803	Information Services	141.921	8.874	8.496	-4.3%	8.611	1.4%
IRS Operations Support (EITC) 20-09E9		66.430	3.500	3.639	4.0%	3.657	0.5%
Electronic Management System (EMS)	Information Services	192.208	6.848	5.704	-16.7%	5.760	1.0%
Enterprise Data Access Strategy (EDAS) (Formerly:Enterprise Data Warehouse)	Information Services	13.988	5.421	5.349	-1.3%	5.423	1.4%
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		13.988	5.421	5.349	-1.3%	5.423	1.4%
Excise Files Information Retrieval System (ExFIRS) - Major	Information Services	0.471	0.000	0.480	0.0%	0.492	0.0%
Exise Tax e-File & Compliance (ETEC) - Major	All External Funding	7.927	0.000	0.000	0.0%	0.000	0.0%
Filing and Payment Compliance (F&PC) (Blended)	Information Technology Investments	112.609	5.709	5.535	-3.0%	0.000	-100.0%
IRS BSM 20-0921-0-1-803	Information Technology Investments	99.878	0.000	0.000	0.0%	0.000	0.0%
IRS Taxpayer Services 20-0912-0-1-803		0.662	0.240	0.244	1.7%	0.000	-100.0%
IRS Operations Support 20-0919-0-1-803	Information Services	12.069	5.469	5.291	-3.3%	0.000	-100.0%
Financial Management Information System (FMIS)	Information Services	8.331	5.619	3.437	-38.8%	3.499	1.8%
Implement RRP (incorporates EFDS replacement)	Information Services	0.000	0.000	0.000	0.0%	18.100	100.0%
Individual Master File (IMF)	Information Services	50.240	11.869	14.977	124.0%	15.280	4.3%
Operations Support (EITC)	Information Services	0.000	0.000	0.264	100.0%	0.270	2.3%
Operations Support Appropriation	Information Services	50.240	11.869	14.713	24.0%	15.010	2.0%

Continuation – 4.1 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments Major IT Investments / Funding Source	Budget Activity	FY 2007 & Earlier Enacted	FY 2008 Enacted	FY 2009 Enacted	% Change from FY08 to FY09	FY 2010 Request	% Change from FY09 to FY10
Information Returns Processing (IRP)	Information Services	32.880	7.115	7.860	10.5%	8.062	2.6%
Integrated Collection System (ICS)	Information Services	25.460	7.745	7.533	-2.7%	9.099	20.8%
Integrated Customer Communications Environment (ICCE)	Information Services	355.662	14.653	14.317	-2.3%	16.612	16.0%
Integrated Data Retrieval Systems (IDRS)	Information Services	96.600	15.741	19.079	21.2%	19.534	2.4%
Integrated Financial System/CORE Financial System (IFS)	IRS Business Systems Modernization	285.860	15.123	15.742	4.1%	15.857	0.7%
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	238.543	15.123	15.742	4.1%	15.857	0.7%
Integrated Submission and Remittance Processing System (ISRP)	Information Services	46.880	16.774	17.802	6.1%	17.937	0.8%
Interim Revenue Accounting Control System (IRACS) - BAC 99	Information Services	1.484	0.935	1.462	56.4%	1.494	2.2%
Modernized e-File (MeF)	Information Technology Investments	0.000	0.000	44.974	100.0%	70.796	57.4%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	0.000	30.500	100.0%	56.146	84.1%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.000	0.000	100.0%	0.000	0.0%
IRS Enforcement 20-0913-0-1-999		0.000	0.000	0.000	100.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	0.000	14.474	100.0%	14.650	1.2%
Reporting Compliance Case Management System (RCCMS) (Formerly TE/GE Reporting and Electronic Exmaination System (TREES)	Information Services	0.000	0.000	3.993	100.0%	4.030	0.9%
Service Center Recognition/Image Processing System (SCRIPS)	Information Services	59.316	15.539	16.700	7.5%	16.817	0.7%
Tax Return Database (TRDB) - BAC 99	Information Services	27.203	4.039	5.095	26.1%	5.208	2.2%
Travel Reimbursement and Accounting System (TRAS) - BAC 99	Information Services	2.949	1.350	0.000	-100.0%	0.000	0.0%
Web Currency and Banking Retrieval System (WebCBRS)	Information Services	0.000	0.000	8.490	100.0%	7.755	-8.7%
Web Requisition Tracking System /Integrated Procurement System (WebRTS/IPS)	Information Services	0.000	0.000	5.890	100.0%	5.920	0.5%
Subtotal, Major IT Investments 1/		2,360.673	302.439	412.637	458.051	452.720	2.629
Non-Major IT Investments 2/		950.851	697.891	559.427	-19.8%	656.693	17.4%
Infrastructure Investments		1,623.867	924.599	1,030.874	11.5%	1,043.908	1.3%
IRS Mainframes and Servers Services & Support (Formerly: IRS/Data Center Systems and Services (Consol)	Information Services	570.212	431.237	510.515	18.4%	510.980	0.1%
IRS/End User Systems and Services	Information Services	609.100	239.157	258.484	8.1%	266.487	3.1%
IRS/Telecommunications Systems Services	Information Services	444.555	254.205	261.875	3.0%	266.441	1.7%
Enterprise Architecture		8.633	4.654	4.793	3.0%	4.830	0.8%
Total IT Investments		4,944.024	1929.583	2,007.731	4.0%	2,158.151	7.5%

4.2 – Program Assessment

Program Name:	**Tax Collection**

OMB Major Findings/Recommendations

- The IRS has made strides in improving the overall efficiency of the Collection Program. However, the IRS must continue its efforts to improve its inventory delivery system to make greater progress toward achievement of its long-term performance goals.

- The IRS has taken various actions to improve the Collection Program's systemic capabilities to increase the number of accounts worked and revenue collected. The IRS must continue work that links specific program improvements to desired outcomes such as voluntary compliance.

- The IRS has made considerable improvements to its strategic planning process by linking its budget to expected levels of performance. The IRS must progress in developing IRS-wide plans for its key programs, including Collection, that include overall resource impacts and results in order to provide management with necessary information to make day-to-day decisions.

Bureau Actions Planned or Underway

- Allowing the Enhanced Inventory Delivery System (EIDS) to analyze and direct cases earlier in the Collection process by enabling it to route all Collection work generated after the first notice is issued.

- Improving Collection workload selection and delivery by developing newer more sophisticated decision analytics to route cases earlier and faster to the appropriate employees for resolution. The first new iteration of analytics will be programmed and functional in January 2009. The second phase will be a part of the Enhanced Inventory Delivery System (EIDS) project.

- Developing an IRS-wide Collection Program plan for 2009 that includes resources and results for all Collection activities, including a stronger link between program resources and outcomes. The Enterprise Collection Plan for FY 09 was completed, finalized, and approved in August, 2008. The plan includes FY 09 targets and projection for all major Collection work streams within SB/SE and W&I.

Program Name: Earned Income Tax Credit

OMB Major Findings/Recommendations

- The program has failed to reduce EITC erroneous payments to acceptable levels. While IRS prevents roughly $1 billion in erroneous EITC payments per year, 27 to 32 percent of all EITC payments were still made in error for 1999.
- IRS has a strong planning process closely linked to its budget process, but it has not yet used outcome information for this program to set performance targets that allow it to demonstrate results.
- IRS has made numerous management improvements in recent years. However, its financial management systems do not provide the information needed to make effective day-to-day management decisions.

Bureau Actions Planned or Underway

- IRS will require high-risk EITC applicants to pre-certify that the children claimed on their returns are really qualifying children under EITC. Incorrectly claimed qualifying children have been a major source of EITC error. High risk applicants will be identified through databases such as the Federal Case Registry (information on child custody) and by focusing on taxpayers with characteristics linked to high error rates in compliance studies (e.g., relatives other than parents who claim a child for EITC purposes).
- Improve program performance by conducting 500,000 examinations of EITC returns per year based on enhanced case selection systems. IRS will deliver its annual base EITC compliance programs including processing approximately 400,000 math errors, conducting 500,000 examinations and reviewing 350,000 underreporter cases to protect over $2.6 billion annually, while also improving case scoring.
- Improve program performance by identifying paid tax return preparers with high EITC error rates and using education and enforcement procedures to improve their performance.

Program Name:	**Submission Processing**

OMB Major Findings/Recommendations

- More Americans are electronically filing their taxes. Electronic filing is growing more than 10 percent per year. However, this growth is not sufficient for IRS to meet the legislative goal of 80 percent electronic filing. Congress has not yet acted on the Administration's proposals to accelerate the increase in electronic filing.

- Every return converted from paper to electronic filing saves the IRS $2.15 in processing costs. More importantly, electronically filed returns have a less than one percent error rate compared to five percent for paper filed returns, saving taxpayers time and money. Finally, according to the annual American Customer Satisfaction Results report electronic filers have high satisfaction rates.

- Based on IRS' recently completed tax gap study, approximately 13 percent of refund dollars (excluding earned income tax credit refunds) are paid in error. With current third party reporting and technology, IRS is unable to identify and prevent these errors during processing.

Bureau Actions Planned or Underway

- IRS currently projects the annual electronic filing rate growth to range from 2.1 percent to 5.7 percent through FY 2012. At the current growth rate, the IRS projects the 80 percent electronic filing rate will not be achieved until sometime after 2015.

- The Small Business Burden Model (SBBM) survey is currently underway. The data from this survey will allow IRS to estimate taxpayer burden for income and employment tax compliance for small business and self employed taxpayers. These estimates will complement the estimates of income tax compliance burden for individual taxpayers (both wage and investment and self employed) using the Individual Taxpayer Burden Model. The extension period for partnership and fiduciary returns has been changed from 6 months to 5 months. This change requires these flow-through entities to file returns and provide K-1s to shareholders by September 15, providing the Form 1040 filers with the data they need to file an accurate return by October 15. Form 94X regulations were published. This series of forms (Form 941X, 943X, 944X, 945X, and 940X) simplify the process of amending employment tax forms by matching the adjustments to the period being adjusted.

- Employ technology and operational improvements to process returns and refunds more accurately and efficiently by providing a single electronic pipeline for capturing and processing data.

- Remittance Strategy - Paper Check Conversion (RS-PCC) successfully completed deployment to the Memphis Consolidated Campus in June 2008. As of October 2008, RS-PCC electronically processed over 250,000 payments, for a total of over $551 million at the point of receipt in lieu of transshipping to Submission Processing Campuses. The RS-PCC project is currently working on RS-PCC Release 2 activities for deployment in early 2010.

Program Name: Taxpayer Service

OMB Major Findings/Recommendations

- IRS has significantly improved taxpayer service and maintained high levels of customer satisfaction in recent years. In 2001, IRS was able to answer only 62 percent of taxpayer calls. In 2005, IRS had improved this to 83 percent with a 94 percent customer satisfaction rate.

- IRS continues to have trouble with the accuracy of answers. In 2004, IRS estimates only 80 percent of tax law calls were answered accurately (improved to 89 percent in 2005). Accuracy is a significant challenge given the complexity of the tax code.

- IRS has developed a strong set of balanced measures (quality, customer satisfaction, and results) to understand its taxpayer service performance. During the assessment, IRS added an efficiency measure (customer contacts per staff year) for this program.

Bureau Actions Planned or Underway

- An Estimated Wait Time pilot was deployed during the 2008 filing season, allowing approximately 60 percent of callers to receive an estimated wait time message. IRS is currently working on designing the optimum strategy of this feature in the future. Another recommended service investment is Contact Analytics. Full deployment of Contact Analytics is planned during FY 2009. The web-based application "Where's My Refund?" continues to provide an efficient method for taxpayers to check the status of their refunds, initiate an on-line refund trace, and provide an updated address if their refund was not deliverable as originally addressed. During 2008, the application successfully answered more than 38 million inquiries, which is about a 22% increase from the same period in 2007. The IRS also introduced a Spanish language version of "Where's My Refund?" Over 350,000 successful responses were provided for our Spanish speaking taxpayers since launch of the application in January 2008. Additionally, the "Where's My Refund?" programming was used as a basis for developing the "Where's My Stimulus Payment?" web application in English and Spanish. This tool assisted more than 20 million taxpayers by providing the status of their stimulus payment.

- Research work began on how the IRS can meet taxpayer needs by providing the right channel of communication and on improving IRS's understanding of taxpayer needs through the errors they make. A contract is underway to survey individual taxpayers in order to better understand taxpayer burden. Data collection is on schedule with final data delivery expected in Spring 2009. A contract was also awarded to design a multi-year research plan addressing the impact of service on compliance. Data collection and model building are expected to begin in FY 2009.

- IRS continues to make great strides in addressing its financial management challenges and has resolved or substantially mitigated several material weaknesses and other less significant weaknesses in its internal controls. IRS has made progress in developing its cost accounting program including the issuance of a service-wide cost accounting policy in 2007 that provides guidance on managerial cost concepts. Cost pilot projects have been initiated to explore ways to apply cost information to various activities, a major step forward in efforts to develop cost benefit information needed to make better informed management decisions. Throughout the remainder of FY 2009, the IRS will continue to explore ways to improve the use of the financial information available from the Integrated Financial System.

- The IRS successfully launched 66 of the 114 Interactive Tax Law Assistant (ITLA) Tax Law Categories (TLC's) for use by Field Assistance and Accounts Management employees to respond to customer tax law questions. Half (33) of the deployed TLCs were converted into the Haley-Ruleburst software. The project team will convert 52 Accounts Management and Field Assistance shared topics to Haley-Ruleburst software by July 2009. The remaining Accounts Management specific TLCs (29) will be converted in time for the 2010 filing season. Content redesign will begin in late 2009 and continue through 2010. Tax Law Categories will be prioritized to target topics that will have the greatest online customer demand. The project team will incorporate customer focus group feedback to maximize usability. A natural language engine will also be employed for simpler navigation processes.

Program Name:	**Taxpayer Advocate Service**

OMB Major Findings/Recommendations

- The quality of the Advocate's casework on behalf of taxpayers has improved from 71 percent with quality standards in 2001 to 90.5 percent in 2004.

- Taxpayer hardship cases caused by flaws in IRS' business processes have declined from 217,081 in 2001 to 129,382 in 2004 as the Advocate has worked with IRS program managers to improve processes.

- During the assessment, the program set goals and developed an efficiency measure. These include achieving a 100 percent closure-to-receipts ratio through 2010, 95 percent case quality score by 2009, and 4.53 (out of 5) customer satisfaction score by 2009. Efficiency is measured by counting the reduction in the quantity of taxpayer problems resulting from flaws in IRS' business processes.

Bureau Actions Planned or Underway

- TAS identified data limitations in implementing Phase I of a new time reporting system that automatically captures the amount of time spent on cases when a case is accessed through TAMIS. These limitations will be addressed when Phase II is implemented, in June, 2009. When Phase II is completed, TAMIS will provide a graphical front-end screen that will allow users to capture time spent on cases, even when TAMIS is not used (e.g., research, telephone calls, etc.). Time data, along with fiscal data and case complexity results, is needed before a costing system can be developed. In the interim, two case advocacy cost indicators have been developed: Closed Cases per Case Advocacy Full Time Equivalent (FTE) and Closed Cases per Direct FTE.

- TAS is currently rolling out its Systemic Advocacy Management System (SAMS) Version 2, which includes program, procedural, and interface improvements. TAS made progress in its efforts to identify and rectify sources of rework originating from the operating divisions. The two primary areas of focus are Amended Returns and Combined Annual Wage Reporting. TAS continues to work jointly with the operating divisions to improve the systems associated with these issues. The recommendations center on reducing delays from the Examination Operating Division's "Category A" process, reducing general processing timeframes, improving customer service, and modernizing systems. The National Taxpayer Advocate is in consultation with Wage & Investment leadership regarding implementation of the recommendations. TAS's FY 2008 receipts of Combined Annual Wage Reporting (CAWR) and Federal Unemployment Tax Act (FUTA) cases increased by 25% over case receipts received in FY 2007. These cases involve wage and tax reconciliation, and reporting compliance issues. TAS and SB/SE have identified the effect of the CAWR and FUTA Certification Program on TAS receipts as the targets of a second study.

- TAS almost attained the 2009 quality goal in FY 2008 with a cumulative quality rate of 89.9 percent. TAS's overall quality rate has remained constant, near 90 percent, for the last five years. Because of the challenging operating environment, TAS has revised its long-term case advocacy quality goals. TAS has completed efforts to identify revised quality attributes to enhance case quality measurement standards by addressing changes in casework and processing. Recommendations were solicited from all employees regarding revising quality standards. TAS plans to test the revised standards, develop a database, create an application guide, and brief employees on the revised standards in FY 2009. The new quality standards should be implemented in FY 2010.

Program Name:	Criminal Investigations

OMB Major Findings/Recommendations

- The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be between $312 and $353 billion. Criminal Investigation is one of the major IRS programs intended to minimize this revenue loss.

- Research suggests that higher levels of criminal sentences lead to higher tax compliance. IRS has succeeded in raising convictions in recent years. They rose from 1,926 in 2002 to 2,215 in 2005. However, they remain low by historical standards (in 1996 convictions totaled 2,915).

- IRS has set long-term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions.

Bureau Actions Planned or Underway

- The Investigative Scanning and Document Management System (ISDM) pilot for the Atlanta and San Antonio filed offices began in January 2009 and will conclude in March 2009. Production rollout will commence in either May or June of 2009. The complete rollout to all field offices is still expected by December 2010.

- The IRS is implementing a pilot program to improve the effectiveness of the Suspicious Activity Report (SAR) Review Teams. The Task Forces are in various stages of operation, some having secured dedicated space and task force officers and others that continue to negotiate space and participation issues. A review of the initiative will take place after the second quarter of FY 2009 with the goal of expanding the program to additional locations in FY 2010.

- Criminal Investigative Management Information System (CIMIS) version 2.5 is scheduled for release in April 2009. This version will correct identified defects across CIMIS and incorporate suggestions from the Field including: Modifications to the equipment activity, SSN masking - masking of the employee (or non-employee SSN), and changes requested by the Asset Forfeiture Tracking and Retrieval (AFTRAK) team necessary for the AFTRAK/CIMIS future integration.

Program Name: **Examinations**

OMB Major Findings/Recommendations

- The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be between $312 and $353 billion. Examination is one of the major IRS programs intended to minimize this revenue loss.

- After dropping substantially in the late 1990s, IRS' audit rates have begun to rise and will continue to increase, largely through productivity growth. IRS' audit rate has grown from a low of 1.49 percent (i.e., less than two returns in one hundred audited) in 2001 to 3.09 percent in 2005.

- IRS has set long-term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions. It also needs cost based efficiency measures.

Bureau Actions Planned or Underway

- In May 2008, a preliminary selection score analysis was completed using updated DIscriminant Function (DIF) scores on closed-case results from the 1040 (individual) NRP study. The raw data from the National Research Program (NRP) S-Corp compliance study was made available for analysis in January 2008. Preliminary analysis has been completed and the draft report is under initial review by the Office of Tax Analysis in Treasury, along with a white paper on the issues involved in using the results to adjust the individual income tax underreporting gap. Work requests have been submitted for potential DIF formula and examination activity code 1120S programming changes to be implemented by January 2010.

- Classification of NRP 1040 TY 2007 returns began in August 2008 with the initial returns delivered to examiners in October 2008. Approximately 1,000 of these returns have been started. NRP 1040 TY 2006: Over 78% of the 2006 Tax Compliance Officer and 66% of the 2006 Revenue Agent returns have been closed or been excluded from the NRP sample as of October 2008.

- The IRS is anticipating achieving a 5% increase in examination starts from FY 2008 to 2009. The raw data from the NRP S-Corp compliance study was made available for analysis in January 2008. Preliminary analysis has been completed and the draft report is under initial review by the Office of Tax Analysis in Treasury, along with a white paper on the issues involved in using the results to adjust the individual income tax underreporting gap. The Office of Research, Analysis, and Statistics (RAS) is updating the tax gap estimates for TY 2004.

Program Name: **Retirement Savings Regulatory Program**

OMB Major Findings/Recommendations

- The Internal Revenue Service cooperates with the Department of Labor and the Pension Benefit Guarantee Corporation to protect retirement investors and to ensure that retirement related tax brakes are used for the intended purposes. Tax breaks to retirement plans to encourage savings total more than $100 billion per year.

- Preliminary data from the program's compliance study shows that retirement plans comply with legal standards 80 percent of the time. The IRS is working to improve this level by increasing enforcement efforts and improving targeting. This compliance study is a critical element in this effort because it gives the IRS better information on the sources of non-compliance.

- IRS has had trouble processing requests for regulatory approval from retirement plans in a timely manner (less than 120 days). It is working to improve its performance in this area by implementing a new staggered schedule for retirement plan renewal requests and improving productivity.

Bureau Actions Planned or Underway

- The focused examination techniques used since January 2006 will continue to be used for the majority of Employee Plan (EP) examinations, allowing us to target noncompliant areas and perform more productive and efficient exams. The EP Compliance Unit (EPCU) has made over 8,400 compliance contacts since its inception four years ago. Through a combination of compliance contacts and examinations, the EPCU has secured corrections to plans totaling over $5.5 million, collected nearly $2.5 million in excise taxes, and secured correction of over 26,000 W-2s. The unit continues to address emerging issues and is investigating additional data sources to identify future areas of non-compliance. IRS will continue to strengthen enforcement in this area through the implementation of a second EP Compliance Unit (pending resource availability), refinements to case selection, efficiencies from using focused examination techniques, case processing improvements, and use of an electronic case file system (TREES).

- Deployment of TREES (the TE/GE Reporting and Electronic Examination System, an electronic Windows-based software program used to create and assign cases, work the case, document activity, and ultimately close and review the case), including training on its use, was completed in April 2008. Additional enhancements are being deployed in the first quarter of FY 2009.

- IRS is halfway through its initial six-year cycle for pre-approved plans and five-year cycle for individually designed plans. The process met initial goals, avoiding the use of examination resources to address major spikes in the inventory of determination letter cases. IRS successfully completed the defined-contribution (DC) pre-approved plan program with the review and approval of more than 780 applications for lead plans. Review of defined-benefit pre-approved plan applications is now underway. Training was completed in April 2008 and technical guidance is available. IRS has assigned 98 of the 105 lead plans; with 23 of those cases in or ready for second-level review. With respect to individually designed plans, IRS is undertaking a thorough review of the implementing revenue procedure for staggered remedial amendments with a goal of significantly simplifying the procedure. The IRS expects a large increase in applications in 2010 and is looking at alternatives to address the processing of these cases while continuing to refine the process to provide faster service.

Program Name: Health Care Tax Credit Administration

OMB Major Findings/Recommendations

- The program's measures do not adequately capture the program's success in providing access to the credit to potential beneficiaries.

- This credit has low participation. This can be attributed to the time it takes for other agencies to identify potentially eligible workers and for the Internal Revenue Service to enroll them. Another likely cause is the affordability of coverage to potential recipients. It is also possible that many of those identified as potentially eligible may ultimately not quality.

- The IRS successfully implemented this unique tax credit in 2003. This required the creation of a new process outside of the normal tax filing system in a short timeframe. Since that time, in response to the low take up, the IRS has successfully reduced the cost of administering the credit by 50 percent.

Bureau Actions Planned or Underway

- The IRS continues working with the Pension Benefit Guarantee Corporation (PBGC) to provide improved access to potential beneficiaries. The IRS also meets regularly with the Department of Labor to ensure our respective programs remain compatible. The IRS continues to work with DOL and their state workforce agencies and state rapid response teams to ensure potential recipients receive timely, accurate, and appropriate information regarding the HCTC Program. The HCTC Program reaches out to the appropriate state workforce agency and/or rapid response team when notified about a Trade Act certification to ensure these agencies have the information they need to talk about the HCTC Program. We believe these actions ensure potential recipients receive the information they need, and results in more timely registrations with the HCTC Program when a potential recipient becomes fully eligible.

- The HCTC Program has moved forward with a strategy to partner with selected federal agencies and other third parties to provide information about the credit through established outreach and communication networks. A number of organizations are charged with delivering information and education on behalf of the HCTC Program and IRS has reinvigorated partnerships with them. This allows the program to contact individuals earlier in the process and give these workers more flexibility when making decisions on their insurance needs. Upon enactment of new legislation, IRS will be working closely with the State Workforce Agencies, DOL, PBGC and other federal agencies to explore ways to improve access to HCTC. IRS has established a communication plan to communicate new provisions in the law to current and potential participants.

- The IRS made a blank payment coupon available to enrollees on the IRS.gov website. The blank payment coupon facilitates "supplemental" payments for enrollees whose health policies were subject to a premium change after they made their initial payment for the month - this allows the enrollees to receive the additional HCTC credit in the month the premium was due, rather than claiming the amount via the Yearly HCTC option. Additionally, the blank payment coupon reduces calls for enrollees who misplaced their original payment coupon, as the document is now available electronically. The IRS began utilizing blue return-envelopes for enrollee payments, to expedite the processing of time-sensitive payments at the lockbox facility. The HCTC Program initiated a quarterly review of participants who had not made payment in the previous 90 days - those accounts that were deemed "inactive" were cancelled and those participants no longer receive monthly invoices. Finally, the Program reorganized the HCTC web presence on IRS.gov to make it more user-friendly. The IRS conducted initial requirement sessions to assess the feasibility of a self-service application to allow on-line payments. We expect that this application would decrease calls at the call center and provide a preferred payment channel for many of our participants. The implementation of such a channel warrants additional consideration in FY09, and will need to be timed with the implementation of any system changes to support an expanded HCTC.

4.3 – IRS Performance Measure Table

The following table shows IRS performance measures achieved and projected from FY 2007 through FY 2010.

Performance Measures	Type of Measure	FY 2007 Actual	FY 2008 Actual	FY 2008 Planned	FY 2009 Planned	FY 2010 Planned
Customer Service Representative Level of Service	Oe, L	82.1%	52.8%	82.0%	70.0%	71.2%
Customer Contacts Resolved per Staff Year	E	7,648	12,634	8,000	10,386	8,919
Percent of Eligible Taxpayers Who File for EITC	Oe	N/A	N/A	75% - 80%	75% - 80%	75% - 80%
Customer Accuracy - Tax Law (Phones)	Ot	91.2%	91.2%	91.0%	91.0%	91.2%
Customer Accuracy - Accounts (Phones)	Ot	93.4%	93.7%	93.5%	93.5%	93.7%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	83.5%	92.4%	86.0%	92.0%	93.0%
Timeliness of Critical Other Tax Products to the Public	Ot	84.0%	89.5%	86.0%	89.0%	90.0%
Percent Individual Returns Processed Electronically	Oe, L	57.1%	57.6%	61.8%	64.0%	67.3%
Cost per Taxpayer Served ($) (HCTC)	E	$14.90	$16.94	$14.25	$17.00	Baseline[1]
Sign-Up Time (Days) - Customer Engagement (HCTC)	Ot	93.3	94.0	97.0	97.0	Baseline[1]
Percent of Business Returns Processed Electronically	Oe, L	19.1%	19.4%	20.8%	21.6%	23.4%
Refund Timeliness - Individual (Paper)	Ot	98.9%	99.1%	98.4%	98.4%	98.4%
Taxpayer Self-Assistance Rate	E, L	49.5%	66.8%	51.5%	64.7%	57.3%
Examination Coverage - Individual	Oe, L	1.0%	1.01%	1.0%	1.0%	1.0%
Field Exam Embedded Quality	Oe, L	85.9%	86.0%	87.0%	87.0%	87.1`%
Office Exam Embedded Quality	Oe, L	89.4%	90.0%	90.0%	90.0%	90.9%
Examination Quality - Industry	Oe, L	87.0%	88.0%	88.0%	88.0%	89.0%
Examination Quality - Coordinated Industry	Oe, L	96.0%	97.0%	96.0%	96.0%	96.0%
Examination Coverage - Business	Oe, L	6.8%	6.1%	6.6%	5.8%	5.1%
Examination Efficiency - Individual	E, L	137	138	133	132	130
Automated Underreporter Efficiency	E, L	1,956	1,982	1,961	1,855	1,894
Automated Underreporter Coverage	E, L	2.5%	2.55%	2.5%	2.5%	3.1%
Collection Coverage (Units)	Ot, L	54.0%	55.2%	53.0%	54.4%	54.6%
Collection Efficiency (Units)	E, L	1,828	1,926	1,835	1,872	1,776
Field Collection Embedded Quality	Ot, L	84.0%	79.0%	86.0%	80.0%	83.0%
Automated Collection System Accuracy	Oe	92.9%	95.3%	92.0%	92.0%	93.5%
Criminal Investigations Completed	Ot, L	4,269	4,044	4,000	3,900	3,900
Number of Convictions	Oe, L	2,155	2,144	2,135	2,135	2,135
Conviction Rate	Oe, L	90.2%	92.3%	92.0%	92.0%	92.0%
Conviction Efficiency Rate ($)	E, L	$301,788	$315,751	$317,625	$317,100	$321,400
TE/GE Determination Case Closures	Ot	109,408	100,050	100,600	94,000	126,000
Percent of BSM Projects within +/- 10% Cost Variance	E	**	92.0%	Baseline	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance	E	**	92.0%	Baseline	90.0%	90.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long-Term Goal

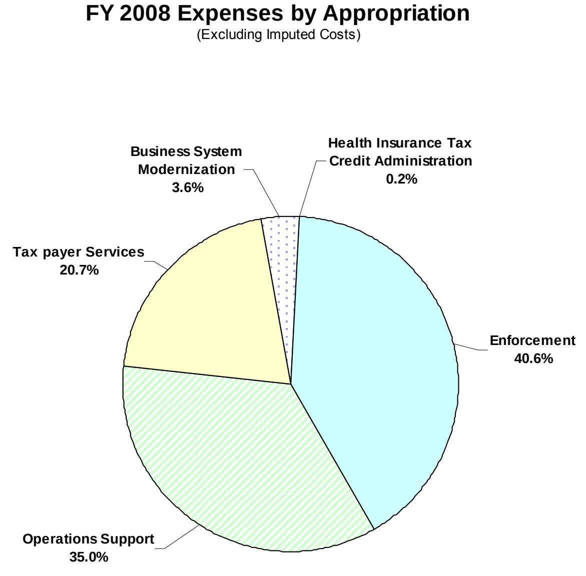
[1] As a result of the American Recovery and Reinvestment Act, expecting a 400% increase in participation. HCTC Program Office will baseline FY 2010 targets under the expanded population.

** In FY 2007, Cost and Schedule variance was reported separately for each project release/subrelease. In FY 2008, these measures were changed to reflect an overall percentage of all major BSM projects that were within the +/- 10% threshold. In FY 2009, MITS is changing the methodology to include all major BSM and non-BSM projects. If approved, reporting will begin in FY 2010.

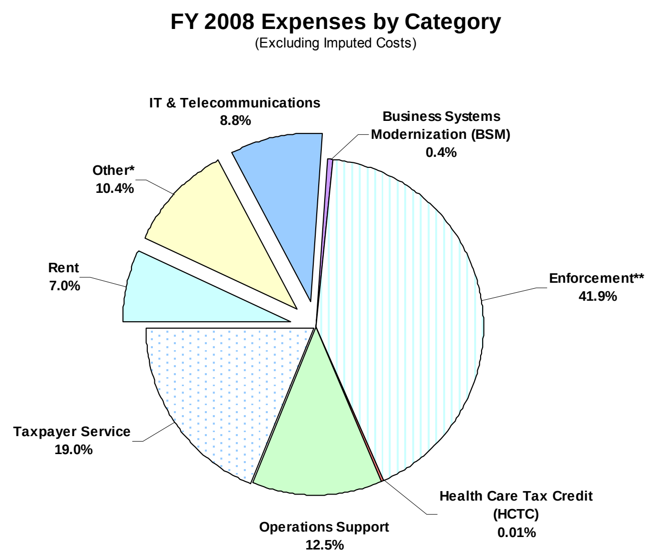
4.4 – Cost of IRS Operating Activities

FY 2008 Cost of IRS Operating Activities

The following charts provide the FY 2008 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 2008 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 2008 actual costs by major expense category.



Note:
* ***Other*** includes Contractual Services, Supplies, Printing, Postage, Travel, and Training
** ***Enforcement*** includes Non-Labor Enforcement Expense of $229M (2.1%)
Labor Costs represent 71.8 % of total expenses and include Taxpayer Service, Operations Support, Enforcement, BSM, and HCTC

4.5 – Summary of IRS FY 2010 Budget Request

Bureau: Internal Revenue Service
Summary of Proposed FY 2010 Budget Request

	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		HITCA		TOTAL	
	$000	FTE	$000	FTE	$000	FTE	$000	FTE	$000	FTE	$000	FTE
FY 2008 Enacted Budget[1]	$2,191,085	31,949	$4,780,000	47,596	$3,841,109	12,495	$267,090	358	$15,235	17	$11,094,519	92,415
FY 2009 President's Budget Request [2]	$2,150,000	30,792	$5,117,267	49,792	$3,856,172	11,989	$222,664	333	$15,406	15	$11,361,509	92,921
Technical FTE and Resource Adjustments[3]		30		(853)		281						(542)
FY 2009 President's Budget Request	$2,150,000	30,822	$5,117,267	48,939	$3,856,172	12,270	$222,664	333	$15,406	15	$11,361,509	92,379
Congressional Action	$143,000	1,830			$10,839		$7,250				$161,089	1,830
FY 2009 Enacted Budget	$2,293,000	32,652	$5,117,267	48,939	$3,867,011	12,270	$229,914	333	$15,406	15	$11,522,598	94,209
Changes to Base:												
Maintaining Current Levels	$60,195		$133,815		$61,060		$1,153		$106		$256,329	
Pay Annualization	20,135		46,489		13,005		412		13		80,054	
Pay Inflation Adjustment	38,828		85,486		23,816		741		23		148,894	
Non-Pay Inflation Adjustment	2,463		3,680		24,829				141		31,113	
Government-wide Reduction for Productivity Improvements	(1,231)		(1,840)		(10,590)				(71)		(13,732)	
GAO Audit Reimbursement Pursuant to P.L. 110-323					$10,000						$10,000	
Efficiencies/Savings	($90,918)	(1,504)	$0		($27,207)						($118,125)	(1,504)
Increase e-File Savings	(8,227)	(182)			(133)						(8,360)	(182)
Non-Recur Savings			0		(27,074)						(27,074)	
Non-Recur Stimulus Savings	($67,900)	(1,322)									(67,900)	(1,322)
Non-Recur FY09 Reduction Adjustment / Correspondence Inventory	($13,439)										(13,439)	
Non-Recur Pension Plan	($1,352)										(1,352)	
Reinvestment	$2,025				$306						$2,331	
Submission Processing Consolidation (Andover)	2,025				306						2,331	
Subtotal Changes to Base	($28,698)	(1,504)	$133,815		$34,159		$1,153		$106		$140,535	(1,504)
Total FY 2010 Base - Current Services	$2,264,302	31,148	$5,251,082	48,939	$3,901,170	12,270	$231,067	333	$15,512	15	$11,663,133	92,705
Program Increases:												
Enforcement Initiatives												
Reduce the Tax Gap Attributable to International Activities	3,124	42	104,113	742	20,827						128,064	784
Improve Reporting Compliance of SB/SE Taxpayers	267	3	75,114	752	18,834						94,215	755
Expand Document Matching for Business Taxpayers	1,425	16	17,955	284	6,857						26,237	300
Address Nonfiling/Underpayment and Collection Coverage	712	8	55,736	483	27,196						83,644	491
Subtotal, Enforcement Initiatives	$5,528	69	$252,918	2,261	$73,714						$332,160	2,330
Infrastructure Initiatives												
Address IT Security and Material Weakness					90,000	36					90,000	36
Implement Return Review Program (RRP)					18,100	10					18,100	10
Subtotal, Infrastructure Initiatives					$108,100	46					$108,100	46
Business Systems Modernization Initiative							22,607				22,607	
Subtotal, Business Systems Modernization							$22,607				$22,607	
Subtotal FY 2010 Program Changes	$5,528	69	$252,918	2,261	$181,814	46	$22,607				$462,867	2,376
Total FY 2010 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
Dollar/FTE Change	($23,170)	(1,435)	$386,733	2,261	$215,973	46	$23,760		$106		$603,402	872
Percent Change	-1.01%	-4.39%	7.56%	4.62%	5.59%	0.37%	10.33%		0.69%		5.24%	0.93%

[1] The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which consists of a transfer of $9.6M between Taxpayer Services and Operations Support and includes Supplement for Economic Stimulus payments of $202.1M.

[2] The FY 2009 President's Budget Request excludes the $67.9M Economic Stimulus Payment reflected in the tables within this budget document.

[3] Technical FTE and resource adjustments made since February 2008.

Emergency Economic Stabilization Act Programs

Mission Statement

The mission of the Office of Financial Stability is to carry out the authorities delegated to the Office by 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)

	FY 2009		FY 2010	
	Purchase Cap[1]	**Obligations[2]**	**Purchase Cap[1]**	**Obligations[2]**
Capital Purchase Program	$218,000,000	$58,830,700	$0	$0
Public-Private Investment Program[3, 4]	$75,000,000	$24,997,500	$0	$0
Systemically Significant Failing Institutions Program	$70,000,000	$57,946,000	$0	$0
Consumer and Business Lending Initiative[3]				
TALF 1.0	$20,000,000	$6,666,000	$0	$0
TALF Asset Expansion	$35,000,000	$11,665,500	$0	$0
TALF for Legacy Securities	$25,000,000	$8,332,500	$0	$0
Unlocking SBA Lending Markets	$15,000,000	$4,999,500	$0	$0
Home Affordable Modification Program	$50,000,000	$50,000,000	$0	$0
Targeted Investment Program	$40,000,000	$19,540,000	$0	$0
Automotive Industry Financing Program and Auto Supplier Support Program	$35,400,000	$18,235,070	$0	$0
Asset Guarantee Program[5]	$12,500,000	($752,500)	$0	$0
Estimate of Redemption	($25,000,000)	NA	$0	$0
Capital Assistance and Other TBD Programs[3]	$129,100,000	$43,029,030	$0	$0
Total	**$700,000,000**	**$303,489,300**	**$0**	**$0**

[1]Amount applied to the Section 115 Purchase Cap.
[2]Estimated program costs or savings do not include $1,998,749,041 in estimated modification costs due to revisions of the initial loan and equity purchase terms.
[3]Subsidy rate will be revised from the current 33.33% placeholder.
[4] The TALF for Legacy Securities program categorized under the Consumer and Business Lending Initiative in this table will be implemented under the Public-Private Investment program.
[5] Loan Guarantees are expected to be $419 billion, but Treasury will be limited to a $12.5 billion second loss.

FY 2010 Priorities

During FY 2010, the Office of Financial Stability will continue to implement the TARP and other programs established under the EESA.

Table of Contents

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 (1) through an Office of Financial Stability (OFS).

Accordingly, since the passage of the legislation in October 2008, the Office of Financial Stability has implemented a number of programs aimed at stabilizing the financial system and restoring the flow of credit to consumers and businesses. The Treasury Department has also implemented a series of initiatives as part of its Financial Stability Plan that – alongside the American Recovery and Reinvestment Act – lay the foundations for economic recovery:

- ***Efforts to Improve Affordability for Responsible Homeowners:*** Treasury has implemented programs that allow families to save on their mortgage payments by refinancing, assist responsible homeowners in avoiding foreclosure through a loan modification plan, and, alongside the Federal Reserve, help bring mortgage interest rates down to near historic lows.

- ***Consumer and Business Lending Initiative:*** Treasury and the Federal Reserve are expanding the Term Asset-Backed Securities Loan Facility in conjunction with the Federal Reserve to jumpstart the secondary markets that support consumer and business lending. In addition, Treasury announced plans to make up to $15 billion in direct purchases to spur the secondary market government-guaranteed Small Business Administration loans.

- ***Capital Assistance Program:*** Treasury has also launched a new capital program, including a forward-looking capital assessment undertaken by bank supervisors to ensure that banks have the capital they need in the event of a worse-than-expected recession. If banks are confident that they will have sufficient capital to weather a severe economic storm, they are more likely to lend now – making it less likely that a more serious downturn will occur.

- ***Public-Private Investment Program:*** To address the challenge of legacy assets, Treasury – in conjunction with the Federal Deposit Insurance Corporation and the Federal Reserve – has announced the Public-Private Investment Program as part of its efforts to repair balance sheets throughout our financial system and ensure that credit is available to the households and businesses, large and small, that will help drive us toward recovery.

The priorities of the OFS are to effectively carry out these new programs as well as to continue the implementation of any new programs developed under the EESA.

1B – Current programs under the EESA

Capital Purchase Program

In October 2008, Treasury created the Capital Purchase Program (CPP) to stabilize the financial system by building the capital base of healthy, viable U.S. financial institutions, which in turn will increase the capacity of those institutions to lend to businesses and consumers and support the economy. Under this program, Treasury is purchasing senior preferred shares from qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies.

Through the CPP, Treasury has invested in over 540 institutions, including small, community, regional, and national banks, as well as Community Development Financial Institutions, in 48 states, the District of Columbia, and Puerto Rico. The application deadline for publicly-held institutions was November 14, 2008, the deadline for applications from eligible privately-held financial institutions was December 8, 2008, and the application deadline for S corporations was February 13, 2009. The deadline for a mutual holding company or holding company with a mutual top-tier parent to the CPP is May 7, 2009. The federal banking regulators are evaluating all submitted CPP applications and continue to send qualifying applications to Treasury for final approval.

On February 27, 2009, Treasury announced a plan to participate in an exchange of Citigroup CPP preferred stock for a new series stock which will automatically convert to common stock upon shareholder approval. Under the terms of the plan, Treasury will exchange up to $25 billion dollars of CPP shares for the new series. Closing of the plan is subject to regulatory approval and participation by certain private investors and public investors.

Systemically Significant Failing Institutions

The Systemically Significant Failing Institution program (SSFI) is intended to provide stability and prevent disruptions to financial markets from the failure of a systemically significant institution. The Treasury will determine the eligibility of participants on a case-by-case basis. Treasury provided assistance to the American International Group, Inc. (AIG) under the SSFI program in November 2008 and April 2009. In determining whether an institution is systemically significant and at substantial risk of failure, Treasury may consider, among other things:

> 1. 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;
>
> 2. 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, significantly increase uncertainty or losses of confidence thereby materially weakening overall economic performance; or

3. 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.

Targeted Investment Program

The Targeted Investment Program (TIP) is designed to prevent a loss of confidence in financial institutions that could result in significant market disruptions, threatening the financial strength of similarly situated financial institutions, impairing broader financial markets, and undermining the overall economy. Treasury will consider institutions as candidates for the TIP on a case-by-case basis, based on a number of factors described in the program guidelines. These factors include the threats posed by destabilization of the institution, the risks caused by a loss of confidence in the institution, and the institution's importance to the nation's economy.

Treasury completed the first transaction under the TIP on December 31, 2008, when it invested $20 billion in Citigroup perpetual preferred stock and warrants. Under the agreement with Citigroup, Treasury will receive an 8 percent annual dividend, payable quarterly. As part of this agreement, Citigroup must implement rigorous compensation standards and other restrictions on corporate expenditures. Treasury has also invested in Citigroup through the CPP and the Asset Guarantee Program.

On January 16, 2009, Treasury completed its second transaction under the TIP, investing $20 billion in Bank of America. Under the agreement with Bank of America, Treasury purchased $20 billion of preferred stock and warrants and will receive an 8 percent dividend, payable quarterly. As part of this agreement, Bank of America must implement rigorous executive compensation standards and other restrictions on corporate expenditures. Treasury has also invested in Bank of America through the CPP.

Automotive Industry Financing Program

The objective of the Automotive Industry Financing Program (AIFP) is to prevent a significant disruption of the American automotive industry, which would pose a systemic risk to financial market stability and have a negative effect on the economy of the United States. The program requires participating institutions to implement plans that will achieve long-term viability. Participating institutions must also adhere to rigorous executive compensation standards and other measures to protect the taxpayer's interests, including limits on the institution's expenditures and other corporate governance requirements. Treasury has funded or announced its intent to fund four institutions under the AIFP for $35.4 billion.

Auto Supplier Support Program
On March 19, 2009, Treasury released details and eligibility information for the $5 billion Auto Supplier Support Program (ASSP). The ASSP program will provide domestic auto suppliers access to government-backed protection for products they ship to auto manufacturers. Participating suppliers will also be able to sell their receivables into the program at a modest discount, helping to unlock credit more broadly in the supplier industry.

All U.S.-based auto suppliers that ship to participating auto manufacturers on qualifying commercial terms may be eligible to participate in the program. Any domestic auto manufacturer is eligible to participate in the program. Participating auto manufacturers will decide which suppliers and receivables will receive protection.

Participating suppliers will pay a small fee for the right to participate in the program. Auto manufacturers that choose to participate in the program will request an allocation from Treasury to provide government-backing, and then will work with a third-party servicer to establish a receivables purchase program. Participating auto manufacturers will be required to make a financial commitment in connection with the allocation they receive from Treasury. Any receivable created with respect to goods shipped after March 19, 2009, that is made on qualifying commercial terms between a participating supplier and a participating auto manufacturer will be eligible for the program. General Motors (GM) and Chrysler have already agreed to participate in the program and will have fully operational purchase programs established shortly.

Warrantee Commitment Program
On March 31, 2009, as part of its assessment of the viability plans submitted by GM and Chrysler, the Administration announced the Warrantee Commitment Program, which will provide government-funded protection for warranties issued by auto manufacturers that are in the process of restructuring. The program will be available for all new warranties on new vehicles purchased from participating auto manufacturers during the period in which those manufacturers are restructuring. Both GM and Chrysler have already indicated their intention to participate in the program.

Asset Guarantee Program

The Asset Guarantee Program (AGP) provides guarantees for assets held by systemically significant financial institutions that face a risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets. The AGP will be applied with extreme discretion in order to improve market confidence in the systemically significant institution and in financial markets broadly. Treasury does not anticipate that the program will be made widely available and notes that the EESA requires that premiums under section 102 of ESSA be set to ensure that taxpayers are fully protected. Details on the AGP are available on Treasury's web site.

Treasury completed its first transaction under the AGP on January 16, 2009, when it finalized the terms of a guarantee agreement with Citigroup that was previously announced on November 23, 2008. Under the agreement, Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC) will provide protection against the possibility of large losses on an asset pool of approximately $301 billion of loans and securities backed by residential and commercial real estate and other such assets, which will remain on Citigroup's balance sheet. The following loss-sharing protocol will apply: Citigroup will absorb the first $39.5 billion in losses; losses over $39.5 billion are shared by the Government (90 percent) and Citigroup (10 percent) (the "second loss"). Treasury absorbs the second loss up to $5 billion, the FDIC absorbs the third loss up to $10 billion, and the Federal Reserve funds any residual loss through a non-recourse loan. The guarantee is in place for ten years for residential assets and five years for non-residential assets. As a fee for the guarantee, Citigroup will issue $7 billion of preferred stock with an 8 percent dividend rate; $4 billion will be issued to Treasury and $3 billion to the FDIC. As part of the agreement, Citigroup must submit an executive compensation plan to Treasury and the FDIC for approval and must comply with certain common stock dividend restrictions. Treasury has also invested in Citigroup through the CPP and the TIP.

In addition, Treasury and the FDIC announced that they will provide protection to Bank of America against the possibility of unusually large losses on an asset pool of approximately $118 billion of loans and securities backed by residential and commercial real estate loans, and other trading book assets that have been marked to current market value. The large majority of these assets were assumed by Bank of America as a result of its recent acquisition of Merrill Lynch & Co. The assets will remain on Bank of America's balance sheet. As a fee for this arrangement, Bank of America will issue preferred shares to Treasury and the FDIC. In addition and if necessary, the Federal Reserve is prepared to backstop residual risk in the asset pool through a non-recourse loan. As part of the agreement, Bank of America will be required to submit an executive compensation plan to Treasury and the FDIC for approval and to adhere to certain common stock dividend restrictions. The Bank of America guarantee was announced on January 16, 2009, but has not yet been finalized.

The Consumer and Business Lending Initiative (CBLI)

Term Asset-Backed Securities Loan Facility

In carrying out the Financial Stability Plan, the Federal Reserve and Treasury released further details on the Term Asset-Backed Securities Loan Facility (TALF) in February 2009, including program terms and conditions, as well as questions and answers. The creation of the TALF was announced in November 2008 as a Federal Reserve facility to which Treasury will provide $20 billion in funding through the TARP; subsequently, standardized terms have been developed. The Federal Reserve will lend on a non-recourse basis to holders of certain AAA-rated asset-backed securities (ABS) secured by newly and recently originated consumer and small business loans. TALF loans will have a term of three years and will be secured solely by eligible collateral. Haircuts (a percentage reduction used for collateral valuation) will be determined based on the riskiness of each type of eligible collateral and the maturity of the eligible collateral pledged to the Federal Reserve. The haircuts will provide additional protection to taxpayers by protecting the Federal Government from loss.

To promote accountability and oversight for the current facility, the participating sponsor must provide a certification to the effect that the collateral supporting the ABS is eligible under TALF and that an independent accounting firm registered with the Public Company Accounting Oversight Board has attested to the sponsor's assessment of the eligible collateral. As part of the Consumer and Business Lending Initiative announced by the Secretary on February 10, 2009, Treasury and the Federal Reserve have agreed to include four new asset categories under the TALF: (1) ABS backed by mortgage servicing advances; (2) ABS backed by loans or leases related to business equipment; (3) ABS backed by leases of vehicle fleets; and (4) ABS backed by floorplan loans. The CBLI also includes up to $25 billion for the purchase of legacy securities through the TALF structure as part of our Public Private Investment Program.

Initiative to Unlock Credit for Small Businesses

Traditionally, Small Business Administration (SBA) lending has been supported by an active secondary market, as community banks and other lenders sell the government-guaranteed portion of their loans, providing them with new capital to make additional loans. Since last fall, this secondary market – which has historically supported over 40 percent of SBA's 7(a) lending program – has frozen up. As a result, both lenders, including community banks and credit unions, and the "pool assemblers" that securitize their loans have been left with government-guaranteed SBA loans and securities on their books. This has prevented them from making or buying new loans.

On March 16, 2009, Treasury announced a program to unlock credit for small businesses as part of the Consumer and Business Lending Initiative. As part of the program, Treasury will make up to $15 billion in TARP funds available to make direct purchases to unlock the secondary market for the government-guaranteed portion of SBA 7(a) loans as well as first-lien mortgages made through the 504 program. These purchases, combined with higher loan guarantees and reduced fees implemented under the American Recovery and Reinvestment Act of 2009, will help provide lenders with the confidence that they need to extend credit, knowing that if they make an SBA loan, they will be able to sell it and access the liquidity necessary to do further lending.

Making Home Affordable

On March, 4, 2009, the Treasury released program guidelines for Making Home Affordable, a component of the Administration's Homeowner Affordability and Stability Plan announced in February 2009. Making Home Affordable includes: the Home Affordable Refinance Program and the Home Affordable Modification Program. Together, these programs will assist as many as nine million homeowners making a good-faith effort to stay current on their mortgage payments and will also work to prevent the destructive impact of foreclosures on families and communities. This plan is being implemented pursuant to Sections 101 and 109 of the EESA.

Under the Home Affordable Refinance Program, eligible borrowers who are current on their mortgages but have been unable to refinance to lower interest rates because their homes have decreased in value, may have the opportunity to refinance. This lower-cost refinancing program is limited to mortgage loans held in portfolio, securitized or guaranteed by Fannie Mae or Freddie Mac. First liens up to 105% of the current market value of the mortgaged property are eligible for the new high LTV refinancing program.

The Making Home Affordable Plan also includes the Home Affordable Modification Program. Treasury will share the cost with mortgage lenders to help borrowers avoid foreclosure by modifying at-risk loans to achieve a payment the borrower can afford. Borrowers must meet several eligibility requirements, including that the mortgaged property is the borrower's primary residence, the current monthly mortgage loan payment is greater than 31% of the borrower's monthly gross income, and the mortgage loan amount does not exceed $729,750 for one unite properties (more for 2-4 unit properties).

To encourage foreclosure mitigation efforts, Treasury will provide mortgage loan servicers up-front and "pay for success" fees for eligible loan modifications made to borrowers on a timely basis. Treasury will also pay borrower incentives for those who continue to stay current on his or her mortgage loan. This incentive payment will be paid to investors to reduce the principal of the borrower's loan. Treasury plans to create a reserve fund, designed to discourage lenders from opting to foreclose on mortgaged properties located in a declining housing market.

To protect taxpayers, the Home Affordable Modification Program will focus on sound modifications – incentive payments will only be made for sustainable modifications done in compliance with program guidelines. The Treasury has worked closely with the FDIC and other regulatory agencies to develop uniform guidance for loan modifications across the mortgage industry to bring order and consistency to foreclosure mitigation.

Capital Assistance Program

On February 10, 2009, Treasury announced the Capital Assistance Program (CAP), which is designed to ensure the continued ability of U.S. financial institutions to lend to creditworthy borrowers in the face of a weaker than expected economic environment and larger than expected potential losses. The CAP consists of two elements aimed at restoring confidence in the conditions of the U.S. banking system: a supervisory exercise and a new capital access program for qualifying financial institutions.

The first element is a forward-looking supervisory exercise on the part of the four federal banking regulators, who have long worked with the major banking organizations. The federal banking or thrift supervisor will undertake a coordinated supervisory capital planning exercise or "stress test" with each of 19 major U.S. banking organizations with assets in excess of $100 billion. The stress test will determine whether major financial institutions have the additional capital buffer necessary to continue lending and to absorb potential losses in a worse than expected economic downturn. If the respective federal banking or thrift supervisor concludes that there is a need to establish an additional capital buffer, the bank will have a six-month window to raise that capital privately or to access the capital made available by Treasury under the CAP. Eligible U.S. financial institutions with consolidated assets below $100 billion may also apply and obtain capital from the CAP.

The second component under the CAP is a new capital access program, under which Treasury will purchase convertible preferred shares from qualified financial institutions. In accordance with the considerations of the EESA, a broad spectrum of financial institutions is eligible for the program: U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies. A recommendation on acceptance is received from the institution's primary federal regulator or, in some cases, from a council of representatives from each federal regulator. Treasury is responsible for final approval.

The investment limit under the CAP is between 1% and 2% of total risk-weighted assets, plus any amount of CAP convertible preferred shares to the extent the proceeds are used to redeem preferred shares sold under the CPP and, if applicable, TIP. The convertible preferred shares automatically convert to common stock after seven years at a specified conversion price. The preferred shares also have an optional conversion feature which allows the financial institution to convert in whole or in part at any time with approval from their primary regulator. Standardized terms have been developed for institutions that are organized as publicly traded institutions; terms applicable to privately held institutions, S corporations, and mutual organizations are still under consideration. The standardized terms also impose provisions (such as the issuance of warrants) that will enable the taxpayer to benefit from the future appreciation of the financial institution. Additionally, firms must agree to comply with enhanced restrictions with respect to executive compensation, transparency, accountability, and monitoring.

Public-Private Investment Program

To address the challenge of legacy assets, Treasury – in conjunction with the FDIC and the Federal Reserve – is announcing the Public-Private Investment Program (PPIP) as part of its efforts to repair balance sheets throughout our financial system and ensure that credit is available to the households and businesses, large and small, that will help drive us toward recovery.

Three Basic Principles: Using $75 to $100 billion in TARP capital and capital from private investors, the PPIP will generate $500 billion in purchasing power to buy legacy assets – with the potential to expand to $1 trillion over time. The PPIP will be designed around three basic principles:

- *Maximizing the Impact of Each Taxpayer Dollar:* First, by using government financing in partnership with the FDIC and the Federal Reserve and co-investment with private sector investors, substantial purchasing power will be created, making the most of taxpayer resources.

- *Shared Risk and Profits with Private Sector Participants:* Second, the PPIP ensures that private sector participants invest alongside the taxpayer, with the private sector investors standing to lose their entire investment in a downside scenario, and the taxpayer sharing in profitable returns.
- *Private Sector Price Discovery:* Third, to reduce the likelihood that the government will overpay for these assets, private sector investors competing with one another will establish the price of the loans and securities purchased under the program.

Two Components for Two Types of Assets: The PPIP has two parts, addressing both the legacy loans and legacy securities clogging the balance sheets of financial firms:

- *Legacy Loans:* The overhang of troubled legacy loans stuck on bank balance sheets has made it difficult for banks to access private markets for new capital and limited their ability to lend.
- *Legacy Securities:* Secondary markets have become highly illiquid, and are trading at prices below where they would be in normally functioning markets. These securities are held by banks as well as insurance companies, pension funds, mutual funds, and funds held in individual retirement accounts.

The Legacy Loans Program: To cleanse bank balance sheets of troubled legacy loans and reduce the overhang of uncertainty associated with these assets, the FDIC and Treasury are launching a program to attract private capital to purchase eligible legacy loans from participating banks through the provision of FDIC debt guarantees and Treasury equity co-investment. Treasury currently anticipates that approximately half of the TARP resources for legacy assets will be devoted to the Legacy Loans Program, but our approach will allow for flexibility to allocate resources where we see the greatest impact.

The Legacy Securities Program: The goal of this program is to restart the market for legacy securities, allowing banks and other financial institutions to free up capital and stimulate the extension of new credit. The resulting process of price discovery will also reduce the uncertainty surrounding the financial institutions holding these securities, potentially enabling them to raise new private capital. The Legacy Securities Program consists of two related parts designed to draw private capital into these markets by providing debt financing from the Federal Reserve under the TALF and through matching private capital raised for dedicated funds targeting legacy securities.

1. *Expanding TALF to Legacy Securities to Bring Private Investors Back into the Market*: The Treasury and the Federal Reserve have announced their plans to create a lending program that will address the broken markets for securities tied to residential and commercial real estate and consumer credit. The intention is to incorporate this program into the previously announced TALF.

2. *Partnering Side-by-Side with Private Investors in Legacy Securities Investment Funds*: Treasury will make co-investment/leverage available to partner with private capital providers to immediately support the market for legacy mortgage-

and asset-backed securities originated prior to 2009 with a rating of AAA at origination.

1C – Credit Reform

EESA Section 123 requires that the cost of EESA programs 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	2008 Actual	2009 Budget Estimate	2009 Current Estimate	2010 Estimate	Increase (+) Decrease (-)
Obligations:					
Housing Account	$0	$0	$50,000,000	$0	-$50,000,000
Equity Program Account	$0	$0	$141,554,949	$0	-$141,554,949
TARP Account	$0	$0	$114,685,600	$0	-$114,685,600
TARP Negative Receipt Account	$0	$0	- $752,500	$0	+ $752,500
TARP Administrative Account	$0	$0	$278,700	$262,375	-$16,325
Total Obligations	**$0**	**$0**	**$305,766,749**	**$262,375**	**-$305,504,374**
Budget Authority:					
Housing Account	$0	$0	$50,000,000	$0	-$50,000,000
Equity Program Account	$0	$0	$141,554,949	$0	-$141,554,949
TARP Account	$0	$0	$114,685,600	$0	-$114,685,600
TARP Negative Receipt Account	$0	$0	- $752,500	$0	+ $752,500
TARP Administrative Account	$0	$0	$278,700	$262,375	-$16,325
Total Budgetary Authority	**$0**	**$0**	**$305,766,749**	**$262,375**	**-$305,504,374**
Outlays:					
Housing Account	$0	$0	$4,091,201	$8,102,255	+$4,011,054
Equity Program Account	$0	$0	$141,554,949	$0	-$141,554,949
TARP Account	$0	$0	$114,685,600	$0	-$114,685,600
TARP Negative Receipt Account	$0	$0	- $752,500	$0	+ $752,500
TARP Administrative Account	$0	$0	$222,960	$265,640	+$42,680
Total Outlays	**$0**	**$0**	**$259,802,210**	**$8,367,895**	**-$251,434,315**

Note: Dollar amounts may not add due to rounding in this and subsequent charts.

The FY 2009 appropriation forecast includes $279 million funding for general operating expenses associated with the TARP. The TARP does not require subsidy for FY 2010 obligations beyond $262 million for general operating expenses. These administrative costs do not count against the $700B purchase cap limitation.

2.2 Operating Levels Table

(dollars in thousands)					
		2009			
Office of Financial Stability Account	**2008 Actual**	**Budget Estimate**	**Current Estimate**	**2010 Estimate**	**Increase (+) Decrease (-)**
FTE	**0**	**0**	**134**	**225**	
Object Classification:					
11/12 Salary & Benefits	$0	$0	$21,110	$35,054	+ $13,944
21 Travel	$0	$0	$1,540	$2,538	+ $998
21 Transportation	$0	$0	$500	$504	+ $4
21 Rent, Communications, Utilities	$0	$0	$4,637	$8,224	+ $3,587
21 Contracts and Other Misc. Services	$0	$0	$248,160	$213,098	- $35,062
21 Supplies	$0	$0	$376	$497	+ $121
21 Equipment	$0	$0	$2,278	$2,459	+ $181
21 Land/Bldgs/Leasehold Improvements	$0	$0	$100	$0	- $100
Total	$0	$0	$278,700	$262,375	- $16,325

2.2.1 Operating Levels Table by Treasury Reimbursements

(dollars in thousands)					
		2009			
Office of Financial Stability Account	**2008 Actual**	**Budget Estimate**	**Current Estimate**	**2010 Estimate**	**Increase (+) Decrease (-)**
Direct Program Activity	$0	$0	$252,700	$228,375	**- $24,325**
Reimbursements:					
Congressional Oversight Panel	$0	$0	$4,000	$4,000	+ $0
GAO	$0	$0	$9,000	$9,000	+ $0
Treasury and non-Treasury Agencies	$0	$0	$14,000	$21,000	+ $7,000
Total	$0	$0	$279,700	$262,375	- $17,325

2.3 Financing Accounts - Non-Budgetary Summary

Financing Accounts – Non-Budgetary Financial Summary (dollars in thousands)					
		2009			
	2008 Actual	Budget Estimate	Current Estimate	2010 Estimate	Increase (+) Decrease (-)
TARP Guaranteed Loans:					
Obligations	$0	$0	$752,575	$1,096,067	+$343,492
Collections	$0	$0	$276,363	$1,222,167	+$945,804
Financing Authority (net)	$0	$0	$752,500	$593,084	-$159,416
Financing Disbursements (net)	$0	$0	$476,212	-$126,100	-$602,312
TARP Direct Loans:					
Obligations	$0	$0	$350,998,065	$19,885,917	-$331,112,149
Collections	$0	$0	$152,348,718	$31,397,879	-$120,950,839
Financing Authority (net)	$0	$0	$198,649,347	-$11,511,962	-$210,161,309
Financing Disbursements (net)	$0	$0	$198,649,347	-$11,511,962	-$210,161,309
Equity Purchases:					
Obligations	$0	$0	$348,524,618	$13,393,164	-$335,131,454
Collections	$0	$0	$182,165,548	$22,939,476	-$159,226,072
Financing Authority (net)	$0	$0	$166,359,070	-$9,546,312	-$175,905,382
Financing Disbursements (net)	$0	$0	$166,359,070	-$9,546,312	-$175,905,382
TARP Financing Accounts Totals:					
Obligations	$0	$0	$700,275,258	$34,375,148	-$665,900,111
Collections	$0	$0	$334,790,629	$55,559,521	-$279,231,108
Financing Authority (net)	$0	$0	$365,760,917	-$20,465,190	-$386,226,107
Financing Disbursements (net)	$0	$0	$365,484,629	-$21,184,374	-$386,669,003

2.4 TARP Summary

Summary of TARP Activity (dollars in thousands)			
	Amount towards $700B limit	**Subsidy Rates**	**Subsidy Cost**
Total Equity Transactions	$333,000,000	41.91%	$139,556,200
Total Direct Loans	$329,500,000	34.81%	$114,685,600
Guaranteed Loans:	$12,500,000	-0.18%	-$752,500
Home Affordable Modification Program	$50,000,000	NA	$50,000,000
Estimated Redemptions	($25,000,000)		
Total Amount of TARP Activity	**$700,000,000**	**43.36%**	**$303,489,300**

2B – Enacting Legislation

Public Law 110-343, Emergency Economic 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.

2C –Legislative Proposals

The TARP has no legislative proposals in FY 2010.

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	$517,100,000	$0	- 100%
Protect the Economy from Systemic Risks	$157,900,000	$0	- 100%
Provide incentives to ensure Homeownership Preservation	$50,000,000	$0	- 100%

3A – 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, Treasury has developed a number of programs that are broadly available to all financial institutions. Two of the programs, CPP and CAP, are designed to inject capital directly into the banking system. This capital enhances the banks' ability to increase lending to households and businesses, and allows for the write-down or sale of troubled assets that sit on banks' balance sheets. A second complementary program, the PPIP, facilitates the removal of troubled assets from the banks' balance sheets. In addition to these initiatives Treasury has implemented the CBLI program to enhance liquidity and restore the flow of credit to consumers and business. As with the CPP, CAP and PPIP, the CBLI program is available to all financial institutions. It is comprised of a specific small business component and a general securitization component. Taken together these programs will help ensure the overall stability and liquidity of the financial system.

Performance metrics are in development and will be available by FY 2010.

3B – Protect the Economy from Systemic Risks

While the above widely available programs will put the country on a path to a stronger financial system, there are specific instances where exceptional assistance is required. Treasury has identified a select few financial institutions where direct aid is required to prevent a broader crisis from spreading throughout the economy, and has taken action in these cases to mitigate potential systemic risks. The objectives of the TIP, SSFI and AGP programs are to mitigate distress at key troubled financial institutions through targeted programs and investments. Similarly, the AFIP provides funding for the automotive industry in order to prevent a significant disruption of the automotive industry that would pose a systemic risk to financial markets and negatively affect the real economy.

Performance metrics are in development and will be available by FY 2010.

3C – Homeownership Preservation

The Home Affordable Modification program will help mortgage holders who are making a good-faith effort to make their mortgage payments, while attempting to prevent the destructive impact of the housing crisis on families, communities, and the economy. This program is intended to reach millions of responsible homeowners who are struggling to afford their mortgage payments because of the current recession, yet cannot sell their homes because prices have fallen so significantly. The Home Affordable Modification program operates through a shared partnership between the Treasury Department and mortgage loan servicers to help those who commit to make reasonable monthly mortgage payments to stay in their homes. This plan will also help to stabilize home prices for homeowners in neighborhoods hardest hit by foreclosures.

Performance metrics are in development and will be available by FY 2010.

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 OFS's mission. The key aspects of OFS's FY 2009/2010 human capital strategy include using:

- OPM HR flexibilities and authorities to hire new employees for short and long term assignments;
- experts or consultants and detailees for temporary or intermittent employment;
- pay incentives flexibilities to retain unique expertise that enables OFS to meet its goals; and
- regularly scheduled strategic workforce assessments to refine the organization and identify and eliminate competency gaps of its workforce needed to achieve OFS's mission.

4B – Summary of IT Resources and Information Technology Strategy

As an organization embedded in Domestic Finance, the Office of Financial Stability (OFS) leverages technologies and services provided by the Treasury Office of the Chief Information Officer (OCIO). Most services rely on IT Line-of-Business service providers, the Treasury GSS, and existing key Treasury management control applications in use across the agency.

Financial outlays from OFS for technology are also occasionally required for the acquisition of products and services which have not been historically available through the agency and for those OFS requirements that exceed the capacity of the agency technology provider. The acquisition of computers, copiers, technology analyst and developers are examples of such outlays. OFS support technologies are in concert with the Treasury Optimized Enterprise IT Infrastructure.

Special Inspector General for TARP

Mission Statement

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

Program Summary

Dollars in Thousands

	FY 2008	FY 2009	FY 2010		
	Obligated	Estimated	Estimated	$ Change	% Change
Appropriation	n/a	$50,000	n/a	$0	0%
Estimated Obligations	n/a	$25,000	$25,000	$0	0%
Total FTE	**n/a**	**100**	**150**	**-**	**-**

FY 2010 Priorities

- Promoting transparency in the management and operation of TARP is one of SIGTARP's primary roles;

- Promoting the economy and efficiency in the management of TARP and views its oversight role both prospectively (by advising TARP managers on issues relating to internal controls and oversight, for example) and retrospectively (by assessing the effectiveness of TARP activities over time and suggesting improvements and making recommendations for positive change);

- To prevent, detect and investigate cases of fraud, waste and abuse of TARP funds and programs.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

SIGTARP’s mission is to advance economic stability by promoting the efficiency and effectiveness of TARP management, through transparency, through coordinated oversight, and through robust enforcement against those, whether inside or outside of Government, who waste, steal or abuse TARP funds.

Transparency
Promoting transparency in the management and operation of TARP is one of SIGTARP’s primary roles. Through EESA, the American taxpayer has been asked to fund - to the tune of hundreds of billions of dollars - an unprecedented effort to stabilize the financial system and promote economic recovery; in this context, the public has a right to know how that money is being spent. Transparency is a powerful tool to ensure that all those managing TARP funds will act appropriately, consistent with the law and in the best interests of the country.

Coordinated Oversight
SIGTARP plays a vital role in promoting the economy and efficiency in the management of TARP and views its oversight role both prospectively (by advising TARP managers on issues relating to internal controls and oversight, for example) and retrospectively (by assessing the effectiveness of TARP activities over time and suggesting improvements and making recommendations for positive change). SIGTARP closely coordinates its oversight activities with the other TARP oversight bodies to ensure maximum oversight coverage and to avoid redundant and unduly burdensome requests.

Robust Enforcement
SIGTARP’s third primary role is to prevent, detect and investigate cases of fraud, waste and abuse of TARP funds and programs. SIGTARP, through its own investigative resources and through partnership with other relevant law enforcement agencies, is committed to robust criminal and civil enforcement against those, whether inside or outside of Government, who waste, steal or abuse TARP funds.

1B – Program History and Future Outlook

The Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") was established by the Emergency Economic Stabilization Act of 2008 ("EESA").

Under EESA, the Special Inspector General has the responsibility, among other things, to conduct, supervise and coordinate audits and investigations of the purchase, management and sale of assets under the Troubled Asset Relief Program ("TARP"). SIGTARP's goal is to promote economic stability by assiduously protecting the interests of those who fund the TARP programs - i.e., the American taxpayers. This is achieved by facilitating transparency in TARP programs, providing effective oversight in coordination with other relevant oversight bodies, and through robust criminal and civil enforcement against those, whether inside or outside of Government, who waste, steal or abuse TARP funds.

The Special Inspector General, Neil M. Barofsky, was confirmed by the Senate on December 8, 2008, and was sworn into office on December 15, 2008.

Since the Special IG took office, SIGTARP has been proactive in taking steps to improve the economy and efficiency of the TARP. On February 6, 2009, pursuant to the EESA, SIGTARP reported to Congress on its oversight activities and compiled certain specified data and information about the operation of TARP; SIGTARP has subsequently continued to meet its statutory reporting requirements. Through March 2009, the Special Inspector General had testified at least nine times before relevant Congressional Committees.

In 2010, SIGTARP will continue to design and conduct programmatic audits of Treasury's TARP operations, as well as recipients' compliance with their obligations under relevant law and contract. SIGTARP will also conduct and supervise criminal and civil investigations into any parties suspected of TARP-related fraud, waste, or abuse. SIGTARP received mandatory funding of $50 million, but future funding needs are under review. If additional resources are necessary, a request will be made.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table (Dollars in Millions)

Bureau: Special Inspector General for TARP	FY 2009 Enacted Level	FY 2009 Proposed Operating Level	FY 2010 Requested Level	% Change FY 2009 to FY 2010
FTE	**100**	**100**	**150**	**0.00%**
Object Classification:				
11.1 - Full-time permanent	6,000	6,000	9,000	50.00%
11.3 - Other than full-time permanent	0	0	0	0.00%
11.5 - Other personnel compensation	3,000	3,000	4,000	33.00%
11.8 - Special personal services payments	0	0	0	0.00%
12 - Personnel benefits	0	0	0	0.00%
21 - Travel and transportation of persons	0	0	1,000	-
23.1 - Rental payments to GSA	0	0	1,000	-16.44%
23.2 - Rental payments to others	0	0	0	0.00%
23.3 - Comm, utilities, and misc charges	0	0	1,000	-
24 - Printing and reproduction	0	0	0	0.00%
25.1 Advisory and assistance services	5,000	5,000	3,000	-40.00%
25.2 - Other services	1,000	1,000	1,000	-
25.3 - Other purchases of goods and services from Govt. accounts	5,000	5,000	3,000	-40.00%
25.6 - Medical care	0	0	0	0.00%
25.7 - Operation and maintenance of equip	0	0	0	0.00%
26 - Supplies and materials	0	0	0	0.00%
31 - Equipment	5,000	5,000	2,000	-60.00%
Total Budget Authority	**$50,000**	**$25,000**	**$25,000**	**0%**
Budget Activities:				
TARP Oversight	50,000	25,000	25,000	0%
Total Budget Authority	**$50,000**	**$25,000**	**$25,000**	**0%**

2C – Legislative Proposals

The SIGTARP has no legislative proposals.

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.treas.gov/offices/management/budget/strategic-plan/

3.1 – Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2009 Estimated	FY 2010 Estimated	Percent Change
Accountability & Transparency	25,000	25,000	**0%**
Total	**$25,000**	**$25,000**	**0%**

Housing Government Sponsored Enterprise Programs

Mission Statement

To provide stability to the financial markets and promote mortgage affordability while at the same time protecting the taxpayer, Treasury has implemented three programs with respect to the Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, and 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 Treasury credit facility for all three entities.

Program Summary by Budget Activity

(Dollars in Thousands)

		FY 2008	FY 2009	FY 2010		
Housing Government Sponsored Enterprise Programs	**Activity**	**Actual**	**Estimated**	**Estimated**	**$ Change**	**% Change**
Preferred Stock Purchase Agreements	Obligations	$0	$105,900,000	$41,293,000	($64,607,000)	-61.01%
GSE MBS Purchase Program	Securities Purchased	$5,000,000	$249,000,000	$60,000,000	($189,000,000)	-75.90%
GSE Credit Facility	Loan Levels	$0	$0	$0	$0	0%

FY 2010 Priorities

- To promote stability in financial markets.
- To improve the availability of mortgage credit to American homebuyers.
- To ensure investor confidence in the GSEs.

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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 purchased securities issued or guaranteed by Fannie Mae and Freddie Mac in part because they perceived that the GSEs were implicitly backed by the U.S. Government. This perception may have contributed to the enormous growth in the obligations issued or guaranteed by these two housing GSEs, and the breadth of these holdings posed a systemic risk to global financial markets. The U.S. government entered into the PSPAs with Fannie Mae and Freddie Mac as part of its efforts to avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and mortgage backed securities.

Vision: The focus of the PSPAs is to enhance market stability by providing additional security to holders of Fannie Mae and Freddie Mac securities that the GSEs will remain viable entities, leading to continued purchases of their debt and increased mortgage affordability. This commitment also significantly diminishes the potential for 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 promote stability of the GSE securities market.
- To ensure 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, is another element of its comprehensive plan to address challenges in the housing markets. By purchasing these credit-guaranteed securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability. The scale of the program will be 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 indicate that there is little likelihood to expect taxpayer losses from this program, and, in fact, the program could produce gains.

Priorities:

- To improve the availability of mortgage credit to American homebuyers
- To mitigate pressures in mortgage markets
- To promote stability of 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. Treasury does not expect to use this program in FY 2010.

Vision: Any loans issued to the GSEs would be provided directly by Treasury from its general fund held at the Federal Reserve Bank of New York in exchange for eligible collateral, 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 would be accepted with appropriate collateral margins as determined by Treasury. Loans would be for short-term durations and would in general be expected to have a maturity of less than one month, but no shorter than one week. The established interest rate for any loans issued through the credit facility is LIBOR + 50bp.

Priorities:

- To ensure credit availability to the GSEs.
- To instill confidence in investors that these entities can finance themselves.

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 purchased securities issued or guaranteed by Fannie Mae and Freddie Mac in part because they perceived that the GSEs were implicitly backed by the U.S. Government. 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 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 designing these three programs, 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 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. Beginning in 2010, Treasury will have the ability to charge a periodic commitment fee that will be payable quarterly to compensate the taxpayers for the ongoing support provided to Fannie Mae and Freddie Mac under the terms of the PSPAs. The PSPAs also protect the taxpayer by limiting the amount of debt obligations and setting forth repayment requirements. .

Limits on maturity or disposition of obligations or securities – Any loans made under the GSE Credit Facility will have a short-term duration and will be fully collateralized. The eligible collateral for loans made to the enterprises will generally be limited to enterprise MBS collateral. There will be adequate haircuts on the collateral to provide additional protection to the taxpayer as well as discretion to change if necessary. In considering the appropriate limits on the duration of the PSPAs, to facilitate market stability the PSPAs continue until the earlier of the cap being reached or until all liabilities of Fannie Mae and Freddie Mac have been satisfied. Under the GSE MBS Purchase Program, no taxpayer losses are expected given the spread between Treasury issuances and purchased MBS, and Treasury's ability to hold MBS purchases to maturity.

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 terms of the GSE Credit Facility with regard to the short-term duration, eligible collateral, and haircuts make it likely that the regulated entities will be able to fulfill their obligations. With regard to the PSPAs, the terms of the Senior Preferred Stock with its liquidation preference over all other equity, including preferred equity, 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 – While the PSPAs provide Treasury with various forms of compensation (e.g., initial grant of preferred stock and warrants), Fannie Mae and Freddie Mac remain 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 determined by Congress. Conservatorship preserves the status and claims of the preferred and common shareholders. Moreover, the terms of the collateralized short term loans made under the GSE Credit Facility to the FHLBs are consistent with the need to maintain their status as private shareholder-owned companies.

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 Purchase Agreements 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. In addition, the PSPAs have procedures in place to address executive compensation.

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 capacity of $100 billion each. 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% 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 will amend the PSPAs to $200 billion each from their original levels of $100 billion each. Treasury estimates that it will make $105.9 billion in payments under its funding commitment in FY 2009 and $41.3 billion in FY 2010.

GSE MBS Purchase Program

Program History: During September 2008, Treasury designated private sector firms to act as its financial agents 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 reported in the Monthly Treasury Statement. \

Program Outlook: Treasury estimates that it will make $249 billion in purchases under its authority for this program in FY 2009 and $60 billion in FY 2010.

GSE Credit Facility

Program History: This program will provide liquidity if needed until December 31, 2009, but it has not been needed.

Program Outlook: Treasury does not expect to use this program in FY 2009 or FY 2010.

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	2008 Actual	2009 Budget Estimate	2009 Current Estimate	2010 Estimate	Increase (+) Decrease (-)
Obligations:					
Preferred Stock Purchase Account	$0	$0	$105,900,000	$41,293,000	-$64,607,000
GSE MBS Purchase Program Account	$0	$0	$50,000	$13,000	-$37,000
Total Obligations	**$0**	**$0**	**$105,950,000**	**$41,306,000**	**-$64,644,000**
Budget Authority:					
Preferred Stock Purchase Account	$200,000,000	$0	$200,000,000	$0	-$200,000,000
GSE MBS Purchase Program Account	$0	$0	$50,000	$13,000	-$37,000
Total Budgetary Authority	**$200,000,000**	**$0**	**$200,050,000**	**$13,000**	**-$200,037,000**
Outlays:					
Preferred Stock Purchase Account	$0	$0	$105,900,000	$41,293,000	-$64,607,000
GSE MBS Purchase Program Account	$0	$0	$50,000	$13,000	-$37,000
Total Outlays	**$0**	**$0**	**$105,950,000**	**$41,306,000**	**-$64,644,000**

2.2 Summary of Mandatory Receipts

Summary of Mandatory Receipts

(dollars in thousands)

Preferred Stock Account	2008 Actual	2009 Budget Estimate	2009 Current Estimate	2010 Estimate	Increase (+) Decrease (-)
Mandatory Receipts:					
Preferred Stock Dividend Receipt Account	$0	$0	$4,421,000	$6,680,000	$2,259,000
Total Receipts	**$0**	**$0**	**$4,421,000**	**$6,680,000**	**$2,259,000**

2.3 Financing Accounts- Non-Budgetary Summary

Financing Accounts – Non-Budgetary Financial Summary

(dollars in thousands)

	2008 Actual	2009 Budget Estimate	2009 Current Estimate	2010 Estimate	Increase (+) Decrease (-)
GSE MBS Direct Loans:					
Obligations	$5,415,000	$0	$266,925,000	$75,414,000	-$191,511,000
Collections	$335,000	$0	$16,313,000	$67,606,000	$51,293,000
Financing Authority (net)	$5,415,000	$0	$250,639,000	$7,808,000	-$242,831,000
Financing Disbursements (net)	$5,074,000	$0	$250,639,000	$7,808,000	-$242,831,000

2B – Appropriations Language and Explanation of Changes

The Housing Government Sponsored Enterprise 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.

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 2009 Estimated** AMOUNT	**FY 2010 Estimated** AMOUNT	**Percent Change** AMOUNT
Stabilizing Economy- PSPA	105,900,000	$41,293,000	**-61.01%**
Stabilizing Economy- MBS	249,000,000	60,000,000	**-75.90%**
Stabilizing Economy- Credit Facility	0	0	**0%**

3A – Preferred Stock Purchase Agreements *($41,293,000,000 in obligations):* 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 security to holders of Fannie Mae and Freddie Mac securities, which, in turn, leads to increased mortgage affordability by providing additional confidence to investors in GSE mortgage-backed securities. This commitment also significantly diminishes the potential for 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% of the common stock of each GSE on a fully-diluted basis at a nominal price. The senior preferred stock accrues dividends at 10% per year. The rate will increase to 12% if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid in cash.

Beginning March 31, 2010, 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:

Performance metrics are currently in development for the Housing Government Sponsored Enterprise Programs. Finalization of program metrics is expected by the end of the third quarter of FY 2009.

3B – GSE MBS Purchase Program *($60,000,000,000 in purchases):* The function of the GSE MBS Purchase Program is 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 has purchased GSE MBS in the secondary 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 is subject to the discretion of the Secretary of the Treasury. The scale of the program is 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 indicate that there is little likelihood to expect taxpayer losses from this program, and, in fact, it could produce gains.

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 financing of purchases of GSE MBS are deemed as outlays and are subject to the statutory debt limit. However, Treasury is receiving an income producing asset in return for its invested funds.

Treasury's authority to purchase GSE MBS expires on December 31, 2009.

3.2.2 – GSE MBS Purchase Program Budget and Performance Plan

Description of Performance:

Performance metrics are currently in development for Housing Government Sponsored Enterprise Programs. Finalization of program metrics is expected by the end of the third quarter of FY 2009.

3C – GSE Credit Facility *(No funding):* The function of the GSE Credit Facility is to ensure 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 are eligible to borrow under this program if needed. This facility offers liquidity if needed until December 31, 2009. Treasury does not expect to use this program in FY 2010.

Funding for any loans would 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, 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 would be accepted with appropriate collateral margins as determined by Treasury.

Loans would 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 rate on a loan request ordinarily would be based on the daily LIBOR fix for a similar term of the loan plus 50 basis points. The rate is set at the discretion of the Secretary of the Treasury with the objective of protecting the taxpayer, and is subject to change. Loans will not be made with a maturity date beyond December 31, 2009.

3.2.3 – GSE Credit Facility Budget and Performance Plan

Description of Performance:

Performance metrics are currently in development for Housing Government Sponsored Enterprise Programs. Finalization of program metrics is expected by the end of the third quarter of FY 2009.

Treasury Forfeiture Fund

Mission Statement
To affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus participating in the Fund to disrupt and dismantle criminal enterprises.

Program Summary by Budget Activity
Dollars in Thousands

	FY 2008	FY 2009	FY 2010		
	Obligated	Estimated	Estimated	$ Change	% Change
Asset Forfeiture Fund	$597,287	$585,000	$383,000	($202,000)	(34.5%)
Total Resources	**$597,287**	**$585,000**	**$383,000**	**($202,000)**	**(34.5%)**
Total FTE	**20**	**20**	**20**	**-**	**-**

FY 2010 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.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Forfeiture Fund (the Fund) is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by bureaus participating in the Treasury Forfeiture Fund. The member bureaus include the Internal Revenue Service's Criminal Investigation (IRS-CI), Customs and Border Protection (CBP), Immigration and Customs Enforcement (ICE), and the U.S. Secret Service (Secret Service.) The latter three bureaus are part of the Department of Homeland Security, transferred as part of the Homeland Security Act of 2002. These member bureaus are joined by the U.S. Coast Guard, Department of Homeland Security, as the result of a long-standing close law enforcement relationship with legacy Customs.

Vision: The focus of Fund management is on strategic cases and investigations that result in high-impact forfeitures. Management believes this approach will have the greatest impact on criminal organizations and thus will accomplish the ultimate mission of the Fund to disrupt and dismantle criminal enterprises. The enhancement of forfeiture activity requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fund large case initiatives including the purchase of evidence and information, joint operations expenses, investigative expenses leading to seizure, and asset identification and removal teams. In addition, it is also a priority to fund revenue-enhancing projects such as major case funding, database development and computer forensics through the use of the Secretary's Enforcement Fund or Super Surplus funds when available.

Priorities: Asset seizure and forfeiture is a priority for the Fund's participating law enforcement organizations, as well as the Department of 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 2008, 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 2008 continued a pattern of robust revenue years with income from forfeitures and recoveries totaling $620 million.

Program Outlook: Management forecasts a continued vigorous program for FY 2009 and FY 2010 with forfeiture revenue and recoveries estimated at $685 million, respectively. In FY 2008, the Forfeiture Fund experienced higher-than-anticipated revenues as a result of some unusually large forfeiture cases, and some larger forfeiture cases are also anticipated in FY 2009. In FY 2010, the Fund currently projects a return to revenues more in line with historical trends.

FY 2009: For FY 2009, 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 2010: 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 2010 is similar to FY 2009: management intends to maintain a dynamic and evolving asset forfeiture program that is responsive to the needs of our member law enforcement bureaus.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Bureau: Treasury Forfeiture Fund	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated	% Change FY 2009 to FY 2010
FTE	**20**	**20**	**20**	**0.00%**
Object Classification:				
25.2 - Other services	279,435	148,000	123,000	-16.89%
25.3 - Other purchases of goods and services from Govt. accounts	187,983	229,000	143,000	-37.55%
41 - Grants, subsidies, and contributions	129,869	208,000	117,000	-43.75%
Total Budget Authority	**$597,287**	**$585,000**	**$383,000**	**-34.53%**
Budget Activities:				
Asset Forfeiture Fund	597,287	585,000	383,000	-34.53%
Total Budget Authority	**$597,287**	**$585,000**	**$383,000**	**-34.53%**

2.3 – Resource Detail Table

Dollars in thousands

The Fund has no direct FTE.	FY 2008 Actual	FY 2009 Estimated	FY 2010 Estimated	% Change FY 2009 to FY 2010
Revenue:				
Sources:				
Carryover from prior year	$160,117	$183,082	$253,082	38.23%
Current year forfeiture revenue	620,252	685,000	358,000	-47.74%
Total Revenue	780,369	868,082	611,082	-29.61%
Uses:				
Permanent Authority (Obligations)	597,287	585,000	383,000	-34.53%
Total Obligations	597,287	585,000	383,000	-34.53%
Rescission of Unobligated Balances:				
1. Public Law 111-8 Omnnibus Appropriatons Act, 2009		-30,000	0	
Cancellation of Unobligated Balances:				
1. Cancellation of Unobligated Balances		0	-50,000	
Subtotal, Reduction to Unobligated Balances	0	-30,000	-50,000	66.67%
Carryover to next year[1]/	183,082	253,082	178,082	-29.63%

[1/] The Fund incurs expenses immediately upon the start of the new year, including costs of an extensive array of property contracts which must be funded without delay. Therefore, a carryover is required each year.

Differences between the President's Budget schedule and this tablethere is a rounding difference in the carryover balance shown at the end of FY 2008, FY 2009 and FY 2010.

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, [$30,000,000] $50,000,000 are [rescinded] *hereby permanently cancelled.*	For FY 2010 $50,000,000 of unobligated balances is proposed for permanent cancellation.

2C – Legislative Proposals

The Treasury Forfeiture Fund has no legislative proposals for FY 2010.

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 2009 Enacted	FY 2010 Request	Percent Change
National security	585,000	383,000	**-34.5%**
Total	**$585,000**	**$383,000**	**-34.5%**

3A – Asset Forfeiture Fund *($383,000,000 from reimbursable programs):* The function of the Treasury Forfeiture Fund is to ensure resources are managed to cover the costs of an effective asset seizure and forfeiture program, including the costs of seizing, evaluating, inventorying, maintaining, protecting, advertising, forfeiting and disposing of property. Asset forfeiture is used by federal law enforcement to disrupt and dismantle criminal enterprises.

Summary of Treasury Forfeiture Fund Authorities***:*** The Treasury Forfeiture Fund is a *special fund* with permanent, indefinite authority. *Special funds* are federal fund collections that are earmarked by law for a specific purpose, and which consist of separate receipt and expenditure accounts. The enabling legislation for the Treasury Forfeiture Fund (31 U.S.C. § 9703) defines those purposes for which Treasury forfeiture revenue may be used. The funds can be allocated and used without the enactment of an annual appropriation by Congress.

A forfeiture process begins once property or cash is seized. Upon forfeiture, seized currency, initially deposited into suspense, or holding account, is transferred to the Fund as forfeited revenue. Once forfeited, physical properties are sold and the proceeds are deposited into the Fund as forfeited revenue. It is forfeiture revenue that composes the budget authority for meeting expenses of running the Treasury Forfeiture Fund program.

Expenses of the Fund are set in a relative priority so that 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 un-obligated balance at the close of the fiscal year after an amount is reserved for Fund operations in the next fiscal year. Super Surplus can be used for any federal law enforcement purpose.

3.2.1 – Asset Forfeiture Fund Budget and Performance Plan

Asset Forfeiture Fund Budget Activity					
Resource Level	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Estimated**	**FY 2010 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$313,957	$391,512	$597,287	$585,000	$383,000
Total Resources	**$313,957**	**$391,512**	**$597,287**	**$585,000**	**$383,000**
Budget Activity Total	**$313,957**	**$391,512**	**$597,287**	**$585,000**	**$383,000**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Asset Forfeiture Fund	Percent of forfeited cash proceeds resulting from high-impact cases (%) (Oe)	72.93%	84.18%	86.91%	75.00%	75.00%

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

Description of Performance: For FY 2010, Fund management again will measure the strategic performance of the participating law enforcement bureaus through the use of the performance measure: percent of forfeited cash proceeds resulting from high-impact cases. This measures the percentage of forfeited cash proceeds resulting from high-impact cases, i.e., those with currency seizures in excess of $100,000. Fund management believes that focusing on strategic case and investigation that result in high-impact seizures will do the greatest damage to criminal organizations while accomplishing the ultimate objective which is to disrupt and dismantle criminal activity.

Target: A target of 75 percent high-impact cases has been set for this performance measure. The target allows for those cases that may not be high-impact in nature but 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: Law enforcement bureaus participating in the Treasury Forfeiture Fund have exceeded the performance target in four of the last five fiscal years.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

The Treasury Forfeiture Fund is managed by the Executive Office for Asset Forfeiture (EOAF), a policy office that reports to the Assistant Secretary for Terrorist Financing. EOAF reimburses Departmental Offices for a total of about 20 FTE annually, depending upon the status of vacancies at any one time.

4B – Information Technology Strategy

The Treasury Forfeiture Fund uses Departmental Offices systems, and is part of DO’s information technology strategy.

Working Capital Fund

Introduction

The Department of the Treasury Working Capital Fund (WCF) was established by the Excise, Estate, and Gift Tax Adjustment Act of 1970 (P.L. 91-614 § 401). As codified in 31 USC §322, “Amounts in the fund are available for expenses of operating and maintaining common administrative services of the Department that the Secretary of the Treasury, with the approval of the Director of the Office of Management and Budget, decides may be carried out more advantageously and more economically as central services.”

Program Summary by Bureau Type

Dollars in Thousands

Funding Source	FY 2008 Enacted	FY 2009 Estimate	FY 2010 Estimate	$ Change FY 2009 To FY 2010	% Change FY 2009 To FY 2010
Treasury Appropriated Bureaus	$241,791	$242,264	$212,751	($29,513)	-12.18%
Treasury non-Appropriated Bureaus	$16,184	$13,585	$13,330	($255)	-1.88%
Non-Treasury	$7,158	$4,939	$5,292	$353	7.15%
Grand Total Financial Plan Requirements	$265,133	$260,788	$231,372	($29,416)	-11.28%

Operation of the Working Capital Fund

The Treasury Department has standard criteria to determine what functions are financed through the WCF:

1) Promotes economies of scale,
2) Reduces overhead costs,
3) Promotes central management,
4) Avoids duplication among those who might provide the service,
5) Improves service quality,
6) Makes available goods and services to those users who could not afford them except on a centralized basis,
7) Provides flexibility in the timing of purchases, and
8) Allows for replacement of equipment and other assets on a long-term basis through the use of depreciation charges to users, as a means of recovering those costs.

Table of Contents

Section 1 – Purpose

1.1 – Description of Service Providers

The majority of the service providers under the WCF program are organizational components of the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) in the Departmental Offices. The three exceptions are the Security Program, which is located in the Office of Terrorism and Financial Intelligence; the Office of Small and Disadvantaged Business Utilization, which is located in the Office of the Deputy Secretary; and the Homeland Security Presidential Directive – 12 program, for which the Internal Revenue Service serves as the Executive Agent. The programs in the WCF for FY 2010 are as follows:

A – Intelligence and Security

1. Security Programs

Resource Level: $847,781 and 3 FTE

Program Description: Security programs under the Assistant Secretary of Intelligence and Analysis, develops guidance and provides operational assistance and direction to the Treasury Department for:

- Information security for classified and sensitive information (not to include IT systems life cycle costs);
- Industrial security (access to and use of Treasury/U.S. Government classified and sensitive information by the private sector);
- Physical security (operational direction for the protection of personnel and property related to National Security Information);
- Personnel security (background investigations for sensitive and national security positions);
- Security education, training for persons authorized access to classified information;
- General guidance to un-cleared employees;
- Physical protection of critical infrastructure; and
- Counter-intelligence awareness (including precautions during official foreign travel).

Billing Methodology: The charge assessed to each customer is based on the number of FTE in the current year enacted budget as a percent of the total. Bureau-specific orders are billed based on the cost of the service requested.

B – Deputy Assistant Secretary, Human Resources/Chief Human Capital Officer

1. Human Capital Strategic Management

Resource Level: $1,045,023 and 5 FTEs

Program Description: The Office of Human Capital Strategic Management (HCSM) provides critical, crosscutting human resource management services to the bureaus. The staff provides a consolidated approach to programs and delivers Department-wide program implementation and consultation to Treasury bureaus on a broad range of complex human resources issues, including performance management, workforce development, executive resources, recruitment and staffing, compensation policy, and workers compensation services. This includes providing leadership and direction on new programs and initiative and working closely with Treasury bureaus to develop creative and innovative solutions to emerging human resources issues. This office also works closely with the Office of Personnel Management (OPM) and the Office of Management and Budget to ensure Treasury human resources policies and programs support government-wide, results based human capital initiatives. As a result of these centralized operating functions, HCSM is able to achieve greater cost effectiveness in delivering products and services and achieving a high level of expertise that the bureaus could achieve individually. Services provided include:

Human Resources (HR) Program Efficiencies:

- Develop efficiencies for the management of human resources programs that have Department-wide impact and enhance the bureaus ability to meet their mission (e.g., provide coordinated agency-wide hiring process improvement; facilitate bureau efforts on meeting the 45 day hiring model; work with HR Connect on improving the effective use of automated hiring tools; coordinate joint-bureau participation in career fairs; provide guidance and training to enable all bureaus to successfully complete a Performance Appraisal and Assessment process to improve overall Department-wide performance management programs; and represent bureau interests in pursuing hiring flexibilities) and
- Identify areas where bureaus need technical training or specialized guidance on a variety of complex HR issues and disseminate information through agency-wide workgroup meetings, written products, or arrange for it through OPM or outside vendors (e.g., training on Fair Labor Standards Act, Career Transition Assistance Program/Reemployment Priority List, and HR flexibilities such as Category Rating).

Federal Health Benefit Programs Management:

- Manage the Federal Health Benefits Open Season contract which consolidates the handling of all materials for participating bureaus;

- Provide support on employee benefits programs including the centralized distribution of benefit materials (e.g., Federal Employee Health Benefits, Federal Employee Group Life Insurance, Thrift Savings Plan forms/brochures); and
- Disseminate guidance and materials for bureau benefits specialists.

Crosscutting HR Products and Services:

- Lead the development and implementation of new programs; hold bureau work groups and meetings to resolve issues; assist bureaus by making suggestions to improve bureaus processes and heads-off potential problems; and provide training and technical guidance to bureau staffing contacts;
- Assist bureaus with creating, developing, and implementing new pay systems and schedules under special pay authorities (e.g., police pay systems and pay bands);
- Work with bureaus on staffing issues - Example: Prepare a 30-page report for OPM consolidating bureau concerns regarding specific barriers to effective/efficient recruitment, and recommended solutions; and
- Develop and publish tools that assist bureaus in carrying out HR program responsibilities.

Department-wide External Influence:

- Represent Treasury bureaus' interests on OPM/interagency task forces (e.g., the development of the Federal Career Intern Program and regulations that allowed for Treasury bureaus' preference on how to handle poor performers);
- Represent the interests of the bureaus in proposing, developing, or requesting changes in legislation, regulations, and other proposals;
- Serve as the bureaus' advocate in getting Departmental, OPM, or other approvals pertaining to certain personnel authorities (e.g., request for authority to establish an extended probationary period for certain positions; changes in qualifications standards and approval of new competencies standards, and waivers of dual compensation); and
- Assist bureaus with downsizing and restructuring by providing consultation and assistance on complex restructuring initiatives and gaining OPM approval of buyout and early-out (VERA/VSIP) authority.

Billing Methodology: The charge assessed to each customer is based on the number of FTEs in the current year enacted budget as a percent of the total. Bureau-specific orders are billed based on the cost of the service requested.

2. Civil Rights and Diversity

Resource Level: $1,447,967 and 9 FTEs

Program Description: The Office of Civil Rights and Diversity (OCRD) program ensures that Treasury employees, former employees, and applicants are protected from discrimination on the basis of race, color, religion, national origin, sex, age, disability, reprisal for engaging in protected activity, sexual orientation, parental status, and protected genetic information. OCRD manages the statutory Equal Employment Opportunity complaint process for all of the bureaus, including management of the Treasury-wide complaint management data system and oversight of the Treasury Complaint Center.

The OCRD program supports the department-wide goals of ensuring diversity and equal opportunity for all employees; that people with disabilities have equal access to the Department's programs and facilities; and that Treasury's federal financial assistance beneficiaries are not excluded from participation in, denied the benefits of, or otherwise subjected to discrimination under any program or activity funded by the Department. OCRD represents the Department’s interests in the areas of EEO, diversity and civil rights before the Equal Employment Opportunity Commission, the Office of Personnel Management, and the Department of Justice (pertaining to external civil rights activities).

Billing Methodology: The charge assessed to each customer is based on the number of actual complaints filed in the previous 12 month period as a percent of the total. Customers with no complaints are assessed one complaint charge for maintenance.

C – Deputy Assistant Secretary, Information Systems/Chief Information Officer

1. Associate Chief Information Officer HR Connect and National Finance Center/Employee Express

a. HR Connect

Resource Level: $25,847,704 and 33 FTEs

Program Description: HR Connect is Treasury’s enterprise system, a web-based solution built on PeopleSoft commercial-off-the-shelf (COTS) software. HR Connect transforms core back-office HR functions, moving them from a processing-centric capability supported by Treasury and National Finance Center (NFC) legacy systems, to a strategic-centric capability enabled through its commercial software underpinning. Additionally, self-service components of the software fundamentally transform the standard government HR service delivery model, putting additional information, services and processes (i.e., personal data, position management, requests for personnel action, recruitment, reporting, etc.) directly in the hands of managers and employees.

Billing Methodology: The HR Connect costs are distributed based on the number of active accounts (employees who are working and receiving paychecks) as a percent of the total. Bureau-specific orders are billed based on the cost of the service requested.

b. NFC/Employee Express

Resource Level: $24,740,248 and 18 FTEs

Program Description: The Treasury HR Line of Business Shared Service Center (SSC) involves a partnership with the National Finance Center (NFC). HR Connect is Treasury's enterprise human resources solution, and the HR Connect system interacts/syncs with NFC in order to provide NFC payroll services to customers.

Employee Express is an OPM service that feeds into the NFC database to allow employees to perform various self-service activities. Specifically, it allows employees to update their payroll information (taxes, allotments, health insurance, savings bonds, and thrift savings contribution).

Billing Methodology: The NFC/Payroll and Employee Express costs are distributed based on the number of W-2's issued for the prior tax year in the current calendar year as a percent of the total. Bureau-specific orders are billed based on the cost of the service requested.

2. Chief Information Officer Executive Office / Resource Management Services

Resource Level: $2,995,633 and 6 FTEs

Program Description: This program provides the administrative management and comprehensive strategic development activities that support the Office of the Chief Information Officer's (OCIO) mission. These activities include strategic planning, program/project implementation, financial and budget guidance, briefing development, business case analysis, comprehensive research, performance assessment, project management, IT governance facilitation, and alternatives analyses.

This program also develops and implements efficient and effective controls over the resources within the OCIO and facilitates achievement of operational objectives through policy guidance, advice, and management of budget formulation and execution activities across OCIO programs that support Treasury-wide missions.

Billing Methodology: The allocation percentage is derived by taking each customer's contribution to various CIO programs then dividing it by the total contributions from all customers who contributed to more than one program.

3. ACIO Telecommunications (Treasury-wide)

ACIO Telecommunications – Front Office:

Resource Level: $3,388,156 and 2 FTEs

Program Description: The program is responsible for telecommunications developing standards and guidelines; managing enterprise voice, video, and data services; supporting IT applications and infrastructure for Treasury Departmental Offices; and ensuring the resiliency, and redundancy of Treasury telecommunications infrastructure. Telecommunications Management develops short and long-range plans and guidelines for the efficient management of telecommunications operations and resources. Telecommunications Operations provides comprehensive administration, service delivery, and customer service for common voice, data, and video requirements across Treasury. TFO oversees bureau programs such as DTS, TCS, TNet, and Wireless.

Billing Methodology: The allocation percentage is derived by taking each customer's contribution to various CIO Telecommunication programs and dividing it by the total contribution of all customers who contributed to more than one program.

a. Digital Telecommunications System

Resource Level: $23,459,138 and 13 FTEs

Program Description: The voice program within DTS provides end-to-end telephonic, voice mail, video, and audio conferencing services to Treasury bureaus in the greater Washington, DC metropolitan area. DTS/WITS is comprised of three core programs as follows: the General Services Administration's Washington Interagency Telecommunications System, Treasury Local Access Transport Area, and Synchronous Optical Network. Together, these core programs allow DTS/WITS to provide telecommunications capabilities to the Department of the Treasury.

Billing Methodology: There are two costs associated with this program: customer-specific and shared. Shared costs are based on each customer's seat count and number of mailboxes, divided by the total seats and mailboxes for all customers combined. Customer-specific costs are based on each customer's anticipated requirements for that fiscal year.

b. Treasury Communications System

Resource Level: $87,450,916 and 10.6 FTEs

Program Description: The Treasury Communications System (TCS) serves as the Department of the Treasury's enterprise program for integrated information technology and telecommunications services. TCS offers Treasury a complete range of services including enterprise Internet access which gives users access to public domains across the Internet, other Treasury bureaus, and to Treasury's government and non-government business partners. The program also offers solutions for business application development and systems integration, web and application infrastructure platform hosting, telecommuting network access, and other managed services.

TCS performs a wide range of activities including requirements analysis, procurements, engineering and design, site surveys, configuration, installation and operations and maintenance for various applications and infrastructure.

The program further supports the Department by operating a 24x7x365 security operations center that executes event monitoring, problem identification, fault isolation, problem eradication, service restoration, maintenance, and traffic and usage analysis. TCS also maintains firewalls for network access, provides intrusion detection systems and performs certifications and accreditations for systems Department-wide.

Due to a delay in the TNet transition into FY 2009, it is anticipated TCS will incur one-half year of expenses in FY 2010 in addition to a full-year of fixed shared costs and TNet will receive transition funding in FY 2010.

Billing Methodology: There are two costs associated with this program: customer-specific and shared. Shared costs are based on capacity, usage, and sites. Customer-specific costs are based on each customer's anticipated requirements for that fiscal year.

c. Treasury Network

Resource Level: $000 and 0 FTEs

Program Description: The Treasury Network (TNet) will be transitioned to the Internal Revenue Service Center of Excellence to replace TCS. Upon completion of the transition, the TNet program will no longer be in the WCF. The TNet program was initiated to provide secure, seamless WAN voice and data telecommunications services to the Department of the Treasury WCF customers. TNet services guaranteed delivery of application, email, internet, and voice traffic over a robust optical wide area network. As such, it is critical to the ability of Treasury employees to fulfill the mission of the Department. As the executive agent for this program, the Internal Revenue Service will direct bill Treasury customers.

<u>Depending on the final disposition of the anticipated transition, TNet may be included in the WCF in FY 2010.</u>

Billing Methodology: NA

d. Wireless Program

Resource Level: $1,168,993 and 0.4 FTEs

Program Description: The Wireless program office is organized into three segments: program management, tactical activities, and non-tactical activities. The program management focuses on ensuring that the program meets its responsibilities to the Department and its stakeholders through prudent financial and resource management, plus the maintaining of critical relationships in the federal wireless marketplace.

The tactical activities include the services necessary to keep Treasury mission-critical wireless assets and associated functions represented and protected. The services include managing and coordinating spectrum resources, participating and representing Treasury at the Interdepartmental Radio Advisory Committee, participating and representing Treasury in the Integrated Wireless Network, serving as a liaison to the Office of

Emergency Preparedness for the high frequency network, and providing technical support, representation, or coordination as requested by the bureaus.

The non-tactical portion of the Office functions primarily as the central office for wireless policy and responds to the executive, regulatory, budgetary, and legislative requests that the Department receives concerning their wireless assets and activities. These services include responding to Office of Management and Budget requests (e.g., Exhibit 300s), responding to requests related to the Presidential Determination on Improving Spectrum Management in the 21st Century, providing information to the National Communications Systems Annual Report, and fostering refinement of Treasury-wide wireless guidelines to increase guideline consistency throughout the Department.

Billing Methodology: The Wireless methodology consists of two allocations: tactical and non-tactical. The tactical allocation is derived from the number of frequencies per customer as a percent of total frequencies. The non-tactical allocation is derived from the number of FTEs in the current year enacted budget as a percent of total FTEs.

e. Web Hosting

Resource Level: $2,154,216 and 2 FTEs

Program Description: Web Hosting provides hosting support for Treas.Gov, the Treasury public website, and TreasNet, the Treasury-wide intranet site. Services include website creation; content updating and management; Treasury-wide team collaboration sites oversight; e-learning hosting and registration by bureau; survey creation, hosting, and analysis; support for bureau/office webmasters and content managers; and a search capability for bureau public web sites.

Billing Methodology: The Web Hosting methodology uses the TCS percentage distributed across customers participating in Web Hosting services.

4. ACIO Cyber Security

Resource Level: $1,861,481 and 6 FTEs

Critical Infrastructure Protection and Information Security (CIRC):

Program Description: The Cyber Security Program supports protection of Treasury-wide information technology systems (unclassified and national security [collateral and intelligence]) and the information they process from risks to confidentiality, availability and integrity whether arising from insiders, malicious hackers, or other threats posed against the Department. The program accomplishes this through the issuance of guidance and leadership of the Treasury CIRC and the Critical Infrastructure Program (cyber systems and applications) to identify and protect key resources. This year, the program’s key priorities include focusing on the implementation of new security configuration management requirements from OMB, FISMA compliance, and responding to serious Internet threats.

Billing Methodology: The charge assessed to each customer is based on their contribution to various CIO programs then dividing it by the total contributions from all customers who contributed to more than one program.

5. ACIO E-Government

a. Enterprise Architecture

Resource Level: $2,854,535 and 5 FTEs

Program Description: The Treasury Enterprise Architecture (EA) program will establish a roadmap for the modernization and optimization of the Department's business processes and information technology (IT) environment. EA will provide a framework to guide IT investment planning, streamline systems, and ensure that IT programs align with business requirements and strategic goals. EA allows Treasury to conduct enterprise-wide analysis and management of results, focus on lines of businesses to facilitate better alignment and cross-bureau collaboration in investments, and develop more robust business cases. EA fulfills the need to recognize and capitalize on opportunities for the development of enterprise wide solutions and E-Government (E-Gov) participation and leadership.

Billing Methodology: The charge assessed to each customer is based on their number of FTEs in the current year enacted budget as a percent of the total.

b. Enterprise Solutions

Resource Level: $6,669,543 and 7 FTEs

Program Description: The Enterprise Solutions (ES) business model is to optimize cost-effective delivery of enterprise services through a small professional staff of senior project managers and contractor teams. The ES team works closely with EA and Information Security to identify and implement common (multi-bureau) and enterprise (Treasury-wide) solutions in support of an efficient technology architecture that is aligned with the rest of the Federal Government. The ES team also works closely with their customers to help them understand and take advantage of these solutions. ES consists of two core business units: Authentication and Identity Management Systems; and Enterprise Business Application Services and Solutions.

Billing Methodology: The charge assessed to each customer is based on their number of FTEs in the current year enacted budget as a percent of the total.

c. Planning

Resource Level: $827,956 and 1 FTEs

Program Description: The E-Gov Planning Office provides the critical leadership and direction needed to achieve the Department's Presidential Management Agenda, E-Gov, Clinger-Cohen goals. E-Gov Planning sets goals, objectives, and strategies to guide enterprise-wide solutions.

Billing Methodology: The charge assessed to each customer is based on their number of FTEs in the current year enacted budget as a percent of the total.

d. Management

Resource Level: $936,081 and 2 FTEs

Program Description: Treasury continues to identify and develop targeted Treasury E-Gov initiatives to improve service delivery to citizens and businesses. Treasury is a managing partner in two of the Presidential E-Gov initiatives, Federal Asset Sales and GeoSpatial Line of Business, and participates in several other Presidential E-Gov initiatives. E-Gov is also responsible for managing, coordinating and reporting on the President's Management Agenda E-Gov Initiatives and Lines of Business.

Billing Methodology: The charge assessed to each customer is based on their number of FTEs in the current year enacted budget as a percent of the total.

6. Homeland Security Presidential Directive -12

Resource Level: $16,782,846* and 0 FTE

***** Currently, the Department of the Treasury Homeland Security Presidential Directive – 12 (HSPD-12) program has been authorized through FY 2009 for release 1, card issuance only. Discussions with the Department of the Treasury's senior leadership regarding increased program scope and funding requirements for FY 2010 are on-going. No approvals have been granted at this time for Release 2; however, approval has been granted to develop a Concept of Operations for an enterprise view of Identity Management (integrating Physical Access Controls and Logical Access Controls). Note: Department of the Treasury HSPD-12 program execution and WCF collection is subject to the Executive Steering Committee approval.

Resource levels are based on the below assumptions:

Assumptions, re: card issuance:
- Card issuance will be 100% complete in FY 2009;
- Card issuance costs will include card maintenance, turnover, and card sleeves for FY 2009 and beyond; and
- Treasury Program Management Office FTE and contractor staff will reduced approximately 30% from FY 2009 levels beginning 1st quarter, FY 2010.

Assumptions, re: O&M, proposed WCF eligible costs:

- Treasury HSDP-12 Program Management Office costs; and
- Card issuance operation and maintenance cost.

Program Description: HSPD-12 was signed on August 27, 2004, mandating a common identification standard for federal employees and contractors. HSPD-12 requires a standardized Personal Identity Verification process for the issuance and use of a common federal government identification card. The directive mandates that any identification card issued by a federal agency must be:

- Secure and reliable;
- Issued based upon sound criteria for verifying an individual's identity;
- Resistant to identity fraud, tampering, counterfeiting, and terrorist exploitation;
- Interoperable across federal agencies; and
- Used to allow both physical access and logical access to federally-controlled facilities and information systems.

This initiative is being led by the Internal Revenue Service in an Executive Agent arrangement with Departmental Offices. The program is under the auspices of the Associate Chief Information Officer of E-Government.

Billing Methodology: Treasury Program Management Office expenses are allocated to the bureaus as a percentage, based on their number of Federal government and contractor personnel divided by the total Treasury government and contractor personnel. General Services Administration costs are charged back to the bureaus based upon actual orders and service consumption.

7. ACIO Capital Planning and Information Management

a. Capital Planning and Investment Control

Resource Level: $4,037,632 and 6 FTEs

Program Description: Funds will provide the portfolio management tool services that all bureaus use for Capital Planning and Investment Control (CPIC) compliance. Services include necessary software maintenance costs, licenses, hosting, development, and help desk support required to keep the Treasury CPIC portfolio management system operational in an effective and efficient manner.

Treasury's capital planning process is a dynamic process in which information technology (IT) investments are selected and then continually monitored and evaluated to ensure each chosen investment is well managed, cost effective, and supports the mission and strategic goals of the organization.

Billing Methodology: The charge assessed to each customer is based on their contribution to various CIO programs then dividing it by the total contributions from all customers who contributed to more than one program.

b. Information Management

Resource Level: $658,204 and 3 FTEs

Program Description: The Information Management (IM) organization is responsible for implementing the Paperwork Reduction Act (PRA) and Section 508 of the Rehabilitation Act, which requires accessibility to IT systems for those with disabilities. To implement the PRA, IM oversees the Treasury information collection, with the aim of working with bureaus to minimize the paperwork burden imposed on American citizens and businesses and to ensure statutory and regulator requirements are met. To implement Section 508, IM researches and deploys tools that will assist those with disabilities access Treasury IT information and systems (e.g., Website 508) and trains personnel on requirements, lessons learned, and best practices relative to the law (e.g., provides input for Treasury Learning Management System courses and partners with the Internal Revenue Service Alternative Media Center). Additionally, IM serves as the liaison between the bureaus and the Office of Management and Budget in processing information collections and responding to concerns expressed by the public during the rulemaking process.

Billing Methodology: The charge assessed to each customer is based on their contribution to various CIO programs then dividing it by the total contributions from all customers who contributed to more than one program.

D – Other Treasury-wide Management Programs

1. Financial Systems Integration

Resource Level: $2,902,074 and 2 FTEs

Program Description: The Office of the Deputy Chief Financial Officer, Financial Systems Integration (FSI) program provides systems and program support to produce the Treasury Department's financial statements and management reports. Monthly and quarterly reports are distributed to the Office of Management and Budget, Financial Management Service, and bureau program and financial offices. Programs covered by FSI include financial analysis and reporting, audit follow-up and performance management. Bureaus submit data to the Financial Analysis and Reporting System to meet program, legislative, and OMB requirements.

Billing Methodology: Treasury Information Executive Repository (TIER) and CFO Vision charges are based 80 percent on funding and 20 percent on the average number of records submitted to TIER as a percentage of the total. The Joint Audit Management Enterprise System is based on the number of audit recommendations and planned corrective actions as a percent of the total. Performance reporting is based 80 percent on the current year enacted budget and 20 percent on the number of performance measures as a percent of the total.

2. Emergency Programs

Resource Level: $2,049,216 and 4 FTEs

Program Description: The Office of Emergency Programs (OEP) ensures continuity of the Treasury Department's mission essential functions under all circumstances. The Office directly supports the Treasury bureaus by providing centralized services in support of their emergency and continuity programs that would otherwise be redundantly disbursed. Those services include emergency and continuity plans, facilities, tailored training and exercises, and systems and equipment to ensure effective communications between Treasury's bureaus and senior officials during emergencies.

OEP's operational activities implement National Security Emergency Preparedness goals and objectives that are identified in:

- Assignment of Emergency Preparedness Responsibilities, Executive Order 12656;
- Homeland Security Presidential Directives 5, 8, 9, 10, and 12;
- The National Response Framework;
- The National Strategy for Pandemic Influenza;
- The Implementation Plan for the National Strategy for Pandemic Influenza;
- The National Continuity Policy, HSPD-20 / NSPD-51;
- The Implementation Plan for the National Continuity Policy;
- National Communications System Directive 3-10; and
- Federal Continuity Directives 1 and 2.

Billing Methodology: The charge assessed to each customer is based on their number of FTEs in the current year enacted budget as a percentage of the total.

3. Small and Disadvantaged Business Utilization

Resource Level: $760,469 and 4 FTEs

Program Description: The mission of the Office of Small and Disadvantaged Business Utilization is to:

- Advise the Secretary, Deputy Secretary, and Bureau Heads on small business, policies, procedures, and initiatives;
- Advise, assist, council, and train small businesses;
- Advise, council and train bureau small business specialists;
- Advise and train Department procurement officials including program/project managers; and
- Ensure compliance with small business program requirements.

Billing Methodology: The charge assessed to each customer is based on their number of procurement transactions from the Federal Procurement Database Next Generation as a percent of total Treasury Department procurement transactions.

4. Procurement Programs

Resource Level: $893,156 and 2 FTEs

Program Description: The Procurement Program provides services to the Treasury Department's bureaus for the following:

- Purchase Card Program: The program provides coordination and best practices for the Department of the Treasury's purchase card program, including support for the re-compete and transition to SmartPay2. The goals are to ensure proper usage, maximize rebates and to develop and maintain a quality Treasury-wide purchase card program.
- Integrated Acquisition Environment (IAE) Implementation and Liaison: This office acts as the Treasury Department's liaison for the various IAE service providers. Procurement disseminates implementation information, and tracks Treasury-wide use of IAE systems and manages data verification and validation audits of Treasury's federal procurement data, serves as the IAE System Administrator for the bureaus, and operates as the focal point for any Treasury Department issues to be raised with service providers. IAE systems streamline service delivery to customers, reduce paperwork, and apply best commercial practices to improve and facilitate purchasing office interaction with customers and businesses while saving resources and streamlining the acquisition process. This results in improved efficiency and effectiveness of the Treasury Department's acquisition systems.
- Acquisition Career Management Program: The procurement office provides input to the Treasury Human Capital Strategic Plan for procurement staff, managing a formal process for GS-1102 employees to equate their past education, experience, and acquisition training to the Federal Acquisition Certification in Contracting Program requirements for civilian agency employees. The Treasury Acquisition Career Manager reviews and recommends certification of acceptable contracting certification requests submitted by employees. The Senior Procurement Executive makes decisions on requests and signs a certificate for each successful applicant. Finally, the organization supports implementation of two additional Federal Acquisition Certification programs, for Program and Project Managers, and for Contracting Officer's Technical Representatives.
- E-Government –IAE System Payment: IAE is one of the 24 E-Government initiatives which support the President's Management Agenda. The IAE provides a common, secure business environment, which facilitates and supports cost effective acquisition of goods and services and will interoperate with multiple E-Government initiatives. Federal agencies receive the benefit of shared use of the IAE in the conduct of their acquisition functions. The General Services

Administration (GSA), the Managing Partner of the IAE project, is reimbursed for the cost of managing, operating and maintaining the IAE architecture by the federal agencies that use the IAE and share the expense. To reimburse GSA, the Department of the Treasury collects funds from participating bureaus and transfers the aggregated funds to GSA in accordance with the Memorandum of Agreement between GSA and the Department of the Treasury. The IAE provides the Treasury Department's bureaus with access to the following systems:

Operational:

- Acquisition.gov;
- Central Contract Registration;
- Excluded Parties List;
- Electronic sub-Contractor Reporting;
- Federal Registration;
- Federal Technical Data Solution;
- Federal Procurement Data System – Next Generation;
- On-Line Representations and Certifications Application; and
- Wage Determination On-Line.

Planned:

- Performance Data

Billing Methodology: The charge assessed to each customer is based on their number of procurement transactions from the Federal Procurement Database Next Generation as a percent of total Treasury Department procurement transactions.

5. Government-wide Council Payments

Resource Level: $358,743 and 0 FTEs

Program Description: The Government-wide Council Payments support Treasury's participation in Government-wide Councils. These councils are: Chief Financial Officer's Council, Chief Information Officer's Council, Chief Acquisitions Officer's Council, Chief Human Capital Officer's Council and President's Management Council.

Billing Methodology: The charge assessed to each customer is based on their FY 2008 enacted funding levels as a percent of the total.

6. Privacy and Treasury Records

Resource Level: $831,522 and 2 FTEs

Program Description: The Office of Privacy and Treasury Records (PTR) is committed to maintain, collect, use, and disseminate information as authorized by law and as necessary to carry out Treasury's mission. PRT provides support to Treasury bureau privacy and records management programs in order to ensure that due consideration and regard for information privacy is addressed in the execution of Departmental programs and that the Department's records are being preserved and managed economically and efficiently, and provide proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency.

Specific PRT support to Treasury bureaus includes providing leadership and direction on new functions and requirements, developing procedures and guidance to assist bureau programs (such as toolkits, templates, and other technologies), facilitating Department-wide communications and information sharing, identifying best practices, disseminating information on current issues, developing and conducting Department-wide training, coordinating programs with oversight organizations and other federal agencies, conducting reviews and evaluations of programs and functions, maintaining Treasury-wide information sharing websites, providing and managing contract support for specific projects and tasks, coordinating with Treasury officials (such as the Treasury Chief Information Officer) to gather support for programs and to fulfill joint requirements, and providing advice and technical expertise.

Billing Methodology: The charge assessed to each customer is based on their number of FTEs in the current year enacted budget as a percentage of the total.

E – DAS, Departmental Offices Operations

1. Environment, Safety, and Health

Resource Level: $1,184,557 and 2 FTE

Program Description: The Office of Environment, Safety, and Health, provides support for environment, energy, and safety issues that affect all bureaus. Their activities on behalf of all bureaus include coordinating and facilitating various Council and Sub-Council meetings; attending meetings with external organizations on behalf of Treasury; acting as liaison with external agencies; requesting, analyzing, and compiling Department-wide data on performance measures and submitting reports to entities such as the Office of Management and Budget, the Department of Energy, the Office of Federal Environmental Executive, and the Office of Safety and Health Administration; identify areas for improvement within bureaus based on performance metrics and coordinate with them on corrective actions; developing Department-wide policies, directives, and orders; conducting joint investigations and inspections as appropriate, and advising on various environmental, energy, and safety issues. This program also maintains the Safety and Health Information Management System (SHIMS). SHIMS is a department-wide “web” enabled electronic system that records and tracks occupational injuries and illnesses. The system allows data manipulation by individual organizations and data consolidation providing department-wide mandatory reporting to the Department of Labor’s Office of Workers’ Compensation system. SHIMS identifies trends in accident experiences and causes which can provide assistance in injury reduction and the reduction in lost work days. The system can generate monthly and quarterly statistics, as well as the annual incidents summary as required by the "Annual Safety and Health Program" and in performance reporting.

Billing Methodology: The charge assessed to each SHIMS customer is based on the number of claims filed by each organization as a percent of the total.

2. Printing and Graphics Services

Resource Level: $4,596,640 and 27 FTEs

Program Description: The mission of the Printing and Graphics Division is to provide the highest quality digital, design, and printing services. We strive to be the provider of choice for offering the most effective, economical, and efficient process for communicating Treasury's message. In order to achieve our mission, the Printing and Graphics Division uses a variety of methods and alternative strategies that draw upon the Division's collective expertise.

The Printing and Graphics Division is organizationally divided into three branches: the Printing Procurement Branch; the Printing Reproduction Branch; and the Graphics Branch.

Products are numerous and range from internal routing slips, posters, brochures, and full color presentations to the commercial procurement of large quantities of complicated printed pieces and presentation materials used by the Secretary and/or the President for press and Congressional briefings. Services include:

- A full range of visual services with design consultation and production;
- High and low-resolution scans and low-resolution scans for web application;
- Prepress requirements and preparing electronic files for printing and/or web position to ensure our customer files are prepared correctly, i.e., checking for printability with correct fonts, formats, setups for color separations;
- Security printing to protect against fraud;
- Electronic publishing on-demand digital printing and duplicating;
- On-site high-speed digital black and white and color printing;
- High-quality process/multi-color printing;
- Variable data printing;
- Coordination with the Government Printing Office (GPO) and contractors;
- Ensure adherence to Departmental policies, government statutes, and regulations that govern printing and binding;
- A full line of specialized binding;
- Printing procurement acquisition services outside GPO;
- Quality assurance follow-up and resolution of any problems between the customers and the printers;
- Internet job submission;
- Government Printing Office printing costs for publications, forms and various documents that benefit all the Treasury Department's bureaus; and

- Blank paper and other supplies procured through the Government Printing Office for the printing of publications, forms, and various documents.

Billing Methodology: The charge assessed to each customer is based on their previous year usage of the various programs as a percent of the total prior year usage from all customers.

3. Communications, Information, and Locator Center

Resource Level: $859,659 and 8 FTEs

Program Description: The Communications Information and Locator Center:

- Answers, screens, and provides numbers to and/or transfer people who call Treasury's listed numbers during work hours;
- Provides general public information or organizational assistance to internal and external inquiries;
- Maintains the Treasury employee locator information system;
- Provides Deputy Assistant Secretaries (DAS) and above with calling service to employees during non-work hours;
- Screens incoming collect and 1-800 calls and transfers these calls to the Treasury official when appropriate;
- Schedules, coordinates, and places conference calls on Treasury's conference bridge;
- Provides local, long distance, and overseas telephone services for Senior Executives;
- Provides dialing instructions or assistance to Treasury personnel upon request;
- Provides continuous communication service in an emergency or crisis event;
- Provides "after hours" office phone coverage for DAS and above upon request;
- Answers, screens, and transfers calls to bureau heads and DAS and above, while on travel – this service is provided upon request and with the submission of the executive's travel itinerary and contact numbers; and
- Provides services from 6 a.m. to 7:00 p.m. seven days a week.

Billing Methodology: The charge assessed to each customer is based on their number of calls received and services provided as a percent of the total.

F – Centralized Support Services

Resource Level: $7,762,184 and 22 FTEs

Program Description: The WCF Support Services cost center captures centralized administrative support costs for all WCF funded personnel that is not reflected in each WCF program's budget. It also captures the costs of the administrative personnel who directly serve the WCF programs.

Centralized Administrative Support Costs are paid by the Treasury Department through centralized bills. Examples include security programs, trash removal, mail, movers, copiers, industrial hygienist, Treasury Complaint Center, child care, worker's compensation, health exams, nursing services, electricity, steam, gas, water and sewer, parking, accounting system, Digital Telecommunications System, Treasury Communications System, and transit subsidy.

Administrative personnel costs are for services used by all WCF programs. They are:

- Legal Services: legal advice and guidance;
- Information Technology Support Services: infrastructure support, applications development and planning activities;
- Human Resources Services: position classification, hiring, performance management, and pay/benefits;
- Fund Management, Communication, and Customer Advocates Service: policy, guidance, and overall management of the WCF is provided through the Corporate Fund Manager;
- Accounting, Budgeting, and Procurement Services: accounting, budget formulation, budget execution, day-to-day financial operations of requisition fund certification, Memorandum of Understanding creation, operation of the integrated financial system for WCF invoice payments, and procurement services are provided to the WCF; and
- Facilities and Support Services: space and mail and messenger services.

Billing Methodology: The charge assessed to each customer is based on their total dollar value of WCF services received as a percent of the total.

Section 2 – Budget and Performance Plan

2.1 – Funding Detail by Program

Dollars in Thousands

Resources Available for Obligation	FY 2008 Initial Plan	FY 2009 Initial Plan Estimate	FY 2010 Budget Estimate
INTELLIGENCE & SECURITY			
Security Programs	$779	$825	$848
Intelligence & Security (Total)	$779	$825	$848
DAS, HUMAN RESOURCES/CHCO			
Human Capital Strategic Management	$768	$1,016	$1,045
Civil Rights & Diversity	$1,309	$1,407	$1,448
Human Resources (Total)	$2,077	$2,423	$2,493
DAS, INFORMATION SYSTEMS & CIO			
ACIO HRConnect Operations & Maintenance	$23,557	$25,288	$25,848
ACIO NFC Payroll/Employee Express	$22,550	$24,051	$24,740
HR Connect (Subtotal)	$46,107	$49,339	$50,588
CIO Executive Office & Resource Management	$2,926	$2,926	$2,996
ACIO Telecommunications:			
Telecommunications Front Office	$3,394	$3,319	$3,388
Digital Telecommunications System	$22,553	$22,979	$23,459
Treasury Communications System	$90,029	$85,719	$87,451
Treasury Network	$19,102	$34,472	$0
Wireless Program	$1,231	$1,145	$1,169
Web Hosting	$2,224	$2,109	$2,154
Secure Communications Center	$5,760	$0	$0
Alpha-VAX Computer Usage	$296	$0	$0
ACIO Cyber Security	$1,322	$1,814	$1,861
ACIO E-Government:			
Enterprise Architecture	$2,791	$2,791	$2,855
Enterprise Solutions	$7,080	$6,528	$6,670
Planning	$810	$810	$828
Management	$919	$914	$936
HSPD-12	$29,395	$16,454	$16,783
ACIO Capital Planning & Information Management:			
Capital Planning and Investment Control	$3,949	$3,949	$4,038
Information Management	$1,452	$642	$658
Information Systems (Subtotal)	$195,231	$186,569	$155,245
DAS, Information Systems (Total)	$241,338	$235,908	$205,833
TREASURY-WIDE MANAGEMENT			
Financial Systems Integration	$2,794	$2,842	$2,902
Emergency Programs	N/A	$2,002	$2,049
Small & Disadvantaged Business Utilization	$894	$739	$760
Procurement Program	$820	$844	$893
Government-wide Council Payments	$343	$352	$359
Privacy & Treasury Records	$0	$813	$832
Treasury-wide Management (Total)	$6,793	$7,592	$7,795
DAS, HEADQUARTERS OPERATIONS (DASHO)			
Facilities & Support Services:			
Environment, Safety, & Health	$1,131	$1,158	$1,185
Printing Procurement, Reproduction & Graphics Services	$4,367	$4,472	$4,597
Communications, Information, & Locator Center	$759	$837	$860
Headquarters Operations (Total)	$6,256	$6,466	$6,641
Centralized Support Services	$7,890	$7,573	$7,762
Grand Total	$265,133	$260,788	$231,372

2.2 – Full-Time Equivalents by Program

Federal & Contractor Staff	FY 2008 Initial Plan		FY 2009 Initial Plan Estimate		FY 2010 Budget Estimate	
	Fed.	Cont.	Fed.	Cont.	Fed.	Cont.
Intelligency & Security						
Security Programs	3	-	3	-	3	-
Intelligence & Security (Total)	3	-	3	-	3	-
DAS, HUMAN RESOURCES/CHCO						
Human Capital Strategic Management	4	-	5	-	5	-
Civil Rights & Diversity	9	-	9	-	9	-
Human Resources (Total)	13	-	14	-	14	-
DAS, INFORMATION SYSTEMS & CIO						
ACIO HRConnect Operations & Maintenance	33	14	33	25	33	25
ACIO NFC Payroll/Employee Express	18	2	18	-	18	-
HR Connect (Subtotal)	51	16	51	25	51	25
CIO Executive Office & Resource Management Services	4	12	6	10	6	10
ACIO Telecommunications:						
Telecommunications Front Office	2	12	2	12	2	12
Digital Telecommunications System	14	58	13	58	13	58
Treasury Communications System	10	221	11	221	11	221
Treasury Network	-	21	-	11	-	-
Wireless Program	-	3	-	3	-	3
Web Hosting	2	-	2	2	2	2
Secure Communications Center	17	6	-	-	-	-
Alpha-VAX Computer Usage	1	-	-	-	-	-
ACIO Cyber Security	6	-	6	-	6	-
ACIO E-Government:						
Enterprise Architecture	4	7	5	11	5	11
Enterprise Solutions	7	12	7	6	7	6
Planning	1	-	1	1	1	1
Management	2	3	2	2	2	2
HSPD-12	-	-	-	-	-	-
ACIO Capital Planning & Information Management						
Capital Planning and Investment Control	6	5	6	8	6	8
Information Management	4	-	3	-	3	-
Information Systems (Subtotal)	80	360	64	345	64	334
CIO/Information Systems (Total)	131	376	115	370	115	359
TREASURY-WIDE MANAGEMENT						
Financial Systems Integration	2	8	2	8	2	8
Emergency Programs	4	-	4	-	4	-
Small & Disadvantaged Business Utilization	4	-	4	-	4	-
Procurement Program	2	-	2	-	2	-
Government-wide Council Payments	-	-	-	-	-	-
Privacy & Treasury Records	-	-	2	2	2	2
Treasury-wide Management (Total)	12	8	14	10	14	10
DAS, Headquarters Operations (DASHO)						
Facilities & Support Services:						
Environment, Safety, & Health	2	1	2	1	2	1
Printing Procurement, Reproduction, & Graphics	27	1	27	1	27	1
Communications, Information, & Locator Center	8	-	8	-	8	-
Headquarters Operations (Total)	37	2	37	2	37	2
Centralized Support Services	27	-	22	3	22	3
Grand Total	223	386	205	385	205	374

The Terms "Fed" and "Cont" in the column headers refers to "Federal Employees" and "Contractors," respectively.

2.3 – Funding Detail by Bureau
Dollars in Thousands

Resources Available for Obligation	FY 2008 Initial Plan	FY 2009 Initial Plan Estimate	FY 2010 Budget Estimate
ALCOHOL & TOBACCO TAX & TRADE BUREAU	$4,025	$2,894	$2,273
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND	$345	$392	$376
DEPARTMENTAL OFFICES (OTA)	$85	$78	$80
DEPARTMENTAL OFFICES (S&E)	$18,055	$12,222	$10,536
DEPARTMENTAL OFFICES (DSCIP)	$389	$0	$0
FINANCIAL CRIMES ENFORCEMENT NETWORK	$3,222	$1,828	$1,403
FINANCIAL MANAGEMENT SERVICE	$7,350	$7,025	$6,270
INTERNAL REVENUE SERVICE	$204,265	$213,662	$188,563
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION	$1,553	$1,939	$1,253
OFFICE OF INSPECTOR GENERAL	$480	$461	$381
PUBLIC DEBT	$2,025	$1,765	$1,617
Subtotal (Treasury Appropriated Bureaus)	$241,791	$242,264	$212,751
COMPTROLLER OF THE CURRENCY	$4,549	$4,472	$4,589
DC PENSION	$190	$79	$81
DEPARTMENTAL OFFICES (WCF)	$261	$93	$97
ENGRAVING & PRINTING	$5,401	$4,658	$4,525
EXECUTIVE OFFICE FOR ASSET FORFEITURE	$157	$134	$80
FEDERAL FINANCING BANK	$355	$27	$28
OFFICE OF THRIFT SUPERVISION	$1,096	$898	$910
FF - FMS TREASURY AGENCY SERVICES (TAS)	$15	$0	$0
FF - BPD ADMINISTRATIVE RESOURCE CENTER (ARC)	$993	$594	$622
FF - DO FEDERAL CONSULTING GROUP	$22	$0	$0
FF - DO FED SOURCE	$129	$0	$0
U.S. MINT	$3,016	$2,630	$2,397
Subtotal (Treasury non-Appropriated Bureaus)	$16,184	$13,585	$13,330
ALCOHOL, TOBACCO, FIREARMS, & EXPLOSIVES	$2,001	$1,549	$1,659
DHS - FLETC	$2	$0	$0
DHS - HEADQUARTERS	$528	$0	$0
DHS - OFFICE OF INSPECTOR GENERAL	$1,284	$357	$366
DHS - U.S. SECRET SERVICE	$1,556	$1,487	$1,594
HOUSING AND URBAN DEVELOPMENT	$1,786	$1,545	$1,673
Subtotal (Non-Treasury)	$7,158	$4,939	$5,292
Grand Total Financial Plan Requirements	$265,133	$260,788	$231,372

Note: Non-Treasury customers purchase services from: HR Connect, Information Technology, Financial Systems Integration, and Environment, Safety, & Health.

2.4 – Funding Detail by Operating Levels

Dollars in Thousands

Resources Available for Obligation	FY 2008 Initial Plan	FY 2009 Initial Plan Estimate	FY 2010 Budget Estimate
Object Classification:			
11.1 Full-Time Permanent Positions	$22,080	$21,504	$22,192
11.1 Other than Full-Time Permanent Positions	0	0	0
11.5 Other Personnel Compensation	367	332	343
11.8 Special Personal Services Payments	0	0	0
11.9 Personnel Compensation (Total)	$22,447	$21,836	$22,535
12.0 Personnel Benefits	5,010	5,001	5,161
13.0 Benefits to Former Personnel	0	0	0
21.0 Travel	488	398	406
22.0 Transportation of Things	5	0	0
23.1 Rental Payments to GSA	0	0	0
23.2 Rent Payments to Others	0	0	0
23.3 Communications, Utilities, & Misc	6,165	4,940	4,819
24.0 Printing and Reproduction	198	113	116
25.1 Advisory & Assistance Services	0	0	0
25.2 Other Services	221,887	223,804	193,516
25.3 Purchase of Goods/Serv. from Govt. Accts	1,734	1,534	1,594
25.4 Operation & Maintenance of Facilities	0	0	0
25.5 Research & Development Contracts	0	0	0
25.6 Medical Care	0	0	0
25.7 Operation & Maintenance of Equipment	0	0	0
25.8 Subsistence & Support of Persons	0	0	0
26.0 Supplies and Materials	502	354	361
31.0 Equipment	6,697	2,808	2,864
32.0 Lands and Structures	0	0	0
33.0 Investments & Loans	0	0	0
41.0 Grants, Subsidies	0	0	0
42.0 Insurance Claims & Indemn	0	0	0
43.0 Interest and Dividends	0	0	0
44.0 Refunds	0	0	0
Total Budget Authority	$265,133	$260,788	$231,372

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

Appropriation Treasury Franchise Fund	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Estimated	FY 2010 $ Change	FY 2010 % Change
Consolidated/Integrated Administrative Management	$180,361	$11,293	$0	($11,293)	-100.00%
Financial Management Administrative Support Services	$96,952	$146,828	$147,968	$1,140	0.78%
Financial Systems, Consulting and Training	$13,691	$2,117	$0	($2,117)	-100.00%
Total Appropriated Resources	**$291,004**	**$160,238**	**$147,968**	**($12,270)**	**-7.66%**
Total FTE	**769**	**982**	**965**	**(17)**	**-1.73%**

FY 2010 Priorities

- Improve our ability to assess and report our service delivery performance.
- Fully implement a franchise enterprise risk management process that includes a comprehensive customer selection and evaluation process.
- Continue to support good government through active participation in government wide initiatives, maintaining and enhancing overall compliance and accountability and promoting standardization.
- Enhance our human capital strategy to improve our ability to recruit, develop and provide for a challenging, rewarding and values based work environment.
- Provide for continual review of our service offerings to ensure delivery of timely, valuable and cost effective solutions to customers.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The vision of the Treasury Franchise Fund (the Fund) is to transform the administrative support arena in the Department of the Treasury (Treasury) and help other federal agencies by creating a shared services business model that can offer marketplace success through competition. The Franchise Fund provides value to Treasury by reducing costs while increasing the efficiency of administrative services.

The Franchise Fund businesses have been leaders in redefining the methods for delivering administrative products and services that combine streamlined processes, full accountability, competitive costing, timely completion, and one-stop shopping for customers. Franchise Fund efforts have resulted in significant dollar savings within Treasury and throughout the Federal Government primarily through the following franchising objectives:

- Promote efficiencies in the delivery of administrative products and services
- Eliminate redundant systems and reducing duplication of effort
- Foster competition
- Enhance customer satisfaction

During FY 2008, Treasury continued to change the Fund to ensure that services offered are consistent with Treasury's core mission and advantageous as shared services. Specifically, Treasury decided to transition out of the Financial Systems, Consulting and Training services offered by the Federal Consulting Group (FCG) and Treasury Agency Services (TAS). To implement the decision, Treasury transferred management and operations of FCG from its host, Departmental Offices, to the Bureau of the Public Debt (Public Debt) with guidance to transfer out or shutdown FCG in FY 2009. In addition, the Fund worked with TAS's host, the Financial Management Service, to withdraw TAS from the Fund in FY 2009. Therefore, in FY 2010, the services provided by the Fund will include only those financial management and administrative support services offered by Public Debt's Administrative Resource Center (ARC).

Consolidated/Integrated Administrative Management – Includes Public Debt Franchising-FedSource

Treasury decided to transition out of the interagency acquisition business operated by FedSource and transferred management and operations to Public Debt in FY 2007. Public Debt was unable to locate another federal host for FedSource in FY 2008 and began the process to fully transition them out of the Fund by FY 2009. The Consolidated/Integrated Administrative Management budget activity includes residual program and closeout activities for FY 2009 and is being discontinued in FY 2010 as the transition will be substantially complete.

Public Debt Franchising-FedSource's priorities over the next year are to:

- ensure a smooth transition to other providers for customers and vendors

- assist employees with job placement and provide separation assistance
- keep the cost of the closeout to a minimum

Financial Management Administrative Support Services – Includes Public Debt Franchising- Administrative Resources Center (ARC)

For the past 12 years, ARC has provided federal agencies with common administrative support in the areas of accounting, procurement, travel, human resources, and information technology. With a focus on excellence and superior service, ARC's mission is to advocate "good government" by improving overall effectiveness through the delivery of responsive and cost effective administrative support to its customers. In addition to high quality administrative support, benefits are also realized by improving customers' ability to effectively discharge their mission.

In FY 2008, Public Debt issued a commercial contract for hosting services to improve scalability and stabilize costs. Upon issuing the award a project was initiated to begin migrating the current Oracle E-Business Suite platforms to the commercial host.

ARC's priorities over the next two years include:

- continue to work with the Financial Management Line of Business (FMLoB) and Financial Systems Integration Office (FSIO) to define the role of Federal Shared Service Providers
- complete the migration of the Oracle E-business suite to the commercial host
- continue to review and streamline processes to strengthen controls and ensure high quality, value added services at the lowest possible cost

Financial Systems, Consulting and Training – Includes the Public Debt Franchising- Federal Consulting Group (FCG) and Treasury Agency Services (TAS)

During FY 2008, Treasury decided to transition out of the Financial Systems, Consulting and Training services operated by FCG and TAS. Management and operations of FCG was transferred to Public Debt with guidance to transfer FCG to another host or close out the business activity in FY 2009. In addition, the Fund worked with TAS's host, FMS, to withdraw TAS from the Fund in FY 2009.

Public Debt was successful in obtaining a new federal host for FCG and transitioned the business out early in FY 2009. For FY 2009, residual program and closeout activities are reported in the Financial Systems, Consulting and Training budget activity. However, the budget activity is being discontinued in FY 2010 as all activities will be substantially complete.

FCG & TAS priorities over the next year are to:

- ensure smooth transitions to new federal hosts
- keep the cost of the transition to a minimum

1B – Program History and Future Outlook

The Government Management Reform Act of 1994 (GMRA) authorized the establishment of six Franchise Fund Programs within the Federal Government. The franchise concept was built on OMB's 12 operating principles for business-like organizations:

- Competition Between Providers
- Customers Exit Voluntarily
- Full Cost Recovery
- Ability to Handle Surges in Business
- FTE Accountability
- Initial Capitalization
- Dynamic Adjustments
- Cessation of Activities
- Clear Organizational Structure
- Service Oriented
- Measured Performance
- Benchmarked Performance

In 1996, OMB designated the Department of the Treasury as one of the six Executive Branch agencies authorized to establish a franchise fund program. The Treasury Franchise Fund began operations in 1997 with the following six Franchise Business Activities (FBA):

- Center for Applied Financial Management
- Federal Quality Consulting Group
- Go-To.Gov
- FBA-Central
- FBA Seattle
- FBA-West

Over the past decade, many new Franchise Business Activities have joined the Fund. Business entities, such as the Rocky Mountain Regional CASU and the Administrative Resource Center, sought out the Treasury Franchise Fund for the management flexibilities offered. At the same time, businesses have left the Fund. Businesses such as the Inspector General Auditors Training Institute left the Fund because they could not meet the Fund's business benchmarks. Also during this time, several businesses consolidated to form new Franchise Business Activities within the Fund. For example, FedSource was created by consolidating several Franchise Business Activities that provided similar service lines.

As businesses have come and gone, the size of the Fund changed over the years. The Fund evolved in terms of the number of businesses, amount of revenue earned, and the number of FTEs supported. The Fund's original six businesses had less than 80 FTEs and earned $38 million of revenue in the first year of operation. By the end of FY 2008, the Fund had 769 FTEs, and earned revenue of $220 million. For FY 2009, we are projecting revenue to decrease to $160 million and 982 FTEs. The decrease in revenue is due to the closeout of FedSource and transfer activities of FCG and TAS. These reductions are offset somewhat by an increase in ARC's Information Technology services, which also accounted for the increase in FTE.

Demonstrated Success – Eliminating Duplication

Shared Platform and Services:
The Administrative Resource Center (ARC) reduced the number of federal administrative systems by providing access to an integrated system platform for accounting, travel, procurement, human resources, and information technology services. In addition, as a shared service provider ARC provides many customers with value added services, such as transaction processing and financial reporting. ARC, a federal Center of Excellence for Financial Management, now provides:

- 31 organizations with accounting services
- 38 organizations with travel services
- 41 organizations with procurement services
- 28 organizations with personnel services
- 25 organizations with information technology services

The consolidation of these federal customers onto a shared systems platform provides substantial savings to the federal government. Savings are achieved through lower system license costs due to volume discounts, operations and maintenance cost sharing opportunities and system enhancements and upgrades to FSIO certified versions of the software simultaneously, as opposed to each organization managing their upgrade independently. In addition to cost savings, many customers receive other quality, value added services provided through standardized business processes that ensure compliance with applicable laws, rules and regulations.

The Department of the Treasury provides the most significant success story for shared services and platforms. In the past, Treasury had a decentralized administrative service environment, where 15 different Bureaus and organizations ran their own accounting, procurement, and travel systems on various platforms. Each organization trained separate staffs to manage their systems and process their transactions. Through ARC, Treasury has moved to a shared services environment where 12 of the 15 entities share financial management systems on a single integrated platform. In addition, many of the organizations are taking advantage of ARC's value added services, including transaction processing and financial reporting.

Demonstrated success –Timeliness and Accuracy

Timely Financial Information:
The Administrative Resource Center (ARC) has always been among Treasury's best in quality and timeliness of financial reporting. ARC strives to set the example for

efficiency and quality in the area of financial reporting. With Oracle's reporting tool (Discoverer), federal managers have real-time data at their fingertips any day of the month. By closing their customer's books by the third business day following each month, timely financial data (such as unobligated balances) is quickly in the hands of federal mangers for decision-making. By closing the books five business days after year-end, federal managers have the data necessary to provide year-end reporting well ahead of their counterparts in other agencies.

There is no better test for the accuracy and quality of financial data than an annual financial statement audit. The Treasury Franchise Fund has received 12 straight "clean" audit opinions. Externally, ARC has assisted customers in achieving clean audit opinions and also maintains an exceptional internal control structure. Each year ARC undergoes a Type II SAS-70 audit that verifies our compliance with effective internal controls. During FY 2008, we received an unqualified opinion on our SAS-70 audit for the 6th consecutive year. The SAS-70 results enhances customer confidence in ARC's systems and services and reduces the agencies annual financial statement audits costs as auditors rely on the SAS-70 audit work.

Demonstrated Success – Efficiency

Efficiency is the ability to perform well or achieve a result without wasting energy, resources, effort, time or money. Competition, a cornerstone of the franchising concept, has been the impetus behind improving government efficiency. Competition has increased the focus of service providers on the needs of the customer, introduced the need for market solutions (instead of administrative bureaucracy), decentralized authority, and improved efficiency by delivering better services at lower costs in the most effective manner.

Future Outlook:
Through FY 2010 the Fund will maintain its commitment to excellence and will continue to meet or exceed all strategic goals and benchmarks. With the loss of the FedSource, FCG and TAS business lines in FY 2009, the Fund will look to expand existing service lines offered by ARC and explore opportunities to add other value added, marketable administrative services. For example, over the past few years ARC's information technology service line has become a leader in the federal government in the area of identity management (servicing nearly 40% of the federal government) and were recently selected by as a federal shared services provider for the Information Systems Security Line of Business (ISSLoB). In addition, ARC will continue to provide value to Treasury and non-Treasury agencies by providing cost sharing opportunities and ensuring compliance through standardized systems and business processes.

Quantifying High Performance and Cost Savings:
The Treasury Franchise Fund plans to expand its performance measurement with an emphasis on cost savings/containment and providing services at the lowest possible cost. We have identified improved performance measurement in the areas of financial management and service delivery as key objectives in our strategic plan. This will

include not only measuring our performance against the high standards that we set for ourselves, but also identifying relevant industry benchmarks that can be used to evaluate our performance against that of others in the marketplace.

1C – Industry Outlook

There is a positive outlook for the shared services sector in the federal government. The Fund anticipates further growth in this sector due to OMB's Line of Business (LOB) initiatives.

There is tremendous synergy between the business model established by the Treasury Franchise Fund over 12 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 the concept of competition to keep the costs of service providers to a minimum and to allow customer agencies to shop around for the service provider that best satisfies their needs.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Bureau: Treasury Franchise Fund	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated	% Change FY 2009 to FY 2010
FTE	**769**	**982**	**965**	**-1.73%**
Object Classification:				
11.1 - Full-time permanent	48,129	65,578	66,356	1.19%
11.3 - Other than full-time permanent	487	529	540	2.08%
11.5 - Other personnel compensation	2,207	2,813	2,774	-1.39%
12 - Personnel benefits	14,933	19,357	19,672	1.63%
13 - Benefits for former personnel	248	0	0	0.00%
21 - Travel and transportation of persons	1,020	1,260	1,270	0.79%
22 - Transportation of things	504	117	121	3.42%
23.1 - Rental payments to GSA	1,204	357	3	-99.16%
23.2 - Rental payments to others	512	866	816	-5.77%
23.3 - Comm, utilities, and misc charges	1,984	4,123	4,247	3.01%
24 - Printing and reproduction	45	35	36	2.86%
25.1 - Advisory and assistance services	9,499	3,088	2,559	-17.13%
25.2 - Other services	172,904	18,996	8,567	-54.90%
25.3 - Other purchases of goods and services from Govt. accounts	30,990	30,768	30,351	-1.36%
25.7 - Operation and maintenance of equip	2,317	2,784	2,868	3.02%
26 - Supplies and materials	417	1,072	1,100	2.61%
31 - Equipment	3,566	8,492	6,685	-21.28%
32 - Land and structures	23	0	0	0.00%
42 - Insurance claims and indemnities	0	1	1	0.00%
43 - Interest and dividends	15	2	2	0.00%
Total Budget Authority	**$291,004**	**$160,238**	**$147,968**	**-7.66%**
Budget Activities:				
Consolidated/Integrated Administrative Management	180,361	11,293	0	-100.00%
Financial Management Administrative Support Services	96,952	146,828	147,968	0.78%
Financial Systems, Consulting and Training	13,691	2,117	0	-100.00%
Total Budget Authority	**$291,004**	**$160,238**	**$147,968**	**-7.66%**

2.3 – Resource Detail Table

(Dollars in Thousands)

	FY 2008 Estimated		FY 2009 Estimated		FY 2010 Estimated		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Spending Authority / Offsetting Collections								
Consolidated/Integrated Admin. Mgt.		87,932		-119,668		Discontinued		N/A
Financial Mgt. Admin. Support Services		$96,528		$145,789		$148,953		2.17%
Financial Systems, Consulting & Training		15,209		-8,090		Discontinued		N/A
Total Spending Authority / Offsetting Collections		$199,669		$18,031		$148,953		726.09%
Reimbursable Obligations Incurred								
Consolidated/Integrated Admin. Mgt.	56	180,361		11,293		Discontinued	N/A	N/A
Financial Mgt. Admin. Support Services	681	$96,952	982	$146,828	965	$147,968	0.00%	0.78%
Financial Systems, Consulting & Training	32	13,691		2,117		Discontinued	N/A	N/A
Total Obligations Incurred	769	$291,004	982	$160,238	965	$147,968	-1.73%	-7.66%
Net Results								
Consolidated/Integrated Admin. Mgt.		-92,429		-130,961		Discontinued		N/A
Financial Mgt. Admin. Support Services		-$424		-$1,039		$985		-194.80%
Financial Systems, Consulting & Training		1,518		-10,207		Discontinued		N/A
Net Results		-$91,335		-$142,207		$985		-100.69%

2B – Appropriations Language and Explanation of Changes

The Treasury Franchise Fund receives no appropriated funds from Congress.

2C – Legislative Proposals

The Treasury Franchise Fund has no legislative proposals for FY 2010.

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 Goal *Treasury Strategic Outcome*	**FY 2009 President's Budget** AMOUNT	**FY 2010 Baseline** AMOUNT	**Percent Change** AMOUNT
Aligned organization	160,238	147,968	**-7.7%**
Total	**$160,238**	**$147,968**	**-7.7%**

3A – Consolidated/Integrated Administrative Management *(No funding):* This Budget Activity consists of only one Franchise Business Activity, Public Debt Franchising-FedSource.

The mission of FedSource was to provide entrepreneurial business solutions for the acquisition and financial management of common administrative services and products in support of agency missions and objectives. FedSource focused on contract support services and copier/printer management.

Treasury decided to transition out of the interagency acquisition business operated by FedSource and transferred management and operations to Public Debt in FY 2007. Public Debt was unable to locate another federal host for FedSource in FY 2008 and began the process to fully transition them out of the Fund by FY 2009. The Consolidated/Integrated Administrative Management budget activity includes residual program and closeout activities for FY 2009 and is being discontinued in FY 2010, as the transition will be substantially complete.

3.2.1 – Consolidated/Integrated Administrative Management Budget and Performance Plan

Consolidated/Integrated Administrative Management Budget Activity					
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$540,586	$419,041	$180,361	$11,293	$0
Total Resources	**$540,586**	**$419,041**	**$180,361**	**$11,293**	**$0**
Budget Activity Total	**$540,586**	**$419,041**	**$180,361**	**$11,293**	**$0**

Consolidated/Integrated Administrative Management Budget Activity					
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Customer Satisfaction Index - Consolidated/Integrated Administrative Mngmnt (%)(Oe)	51.00	0.00	Discontinued	Discontinued	Discontinued
Customer satisfaction approval rating-Financial Management Administrative Support Services (%) (Ot)	75.00	.00	Discontinued	Discontinued	Discontinued
Operating expenses as a percentage of revenue--Consolidated/Integrated Administrative Management (%)(E)	4.00	4.30	17.70	Discontinued	Discontinued

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

Description of Performance:

Since the decision to close-out the FedSource business line was made, all efforts have been focused on ensuring a smooth transition for customers and vendors, providing employees with job placement and separation assistance and minimizing close-out costs. Therefore, the Fund’s performance targets are not applicable to the Public Debt Franchising – FedSource business line.

In FY 2008, FedSource accounted for approximately 50 percent of the Fund’s gross revenue. Accordingly, closing the business line reduces the Franchise Fund’s budget estimates for FY 2009 and FY 2010. In addition, it is estimated that FedSource administrative costs will again exceed our performance target in FY 2009 as customer accounts and the remaining offices are closed. FedSource ended FY 2008 with a $22.1 million loss and is estimated to lose an additional $3 million in FY 2009 as the closeout is completed. These losses, and any unforeseen claims and disputes, will be funded using FedSource’s operating reserves.

3B – Financial Management Administrative Support Services *($147,968,000 from reimbursable programs):* This Budget Activity consists of only one Franchise Business Activity, Public Debt Franchising-ARC.

The Financial Management Administrative Support Activity supports the President's Management Agenda and furthers "good government" by standardizing administrative financial systems and processes required to operate federal organizations. Value is provided through economies of scale in systems and operating costs and other high quality, value added services. As a Center of Excellence for Financial Management, ARC provides traditional administrative support functions with a focus on accounting, procurement, travel, human resources, and information technology services. This program has been very successful in meeting its mission goals as evidenced by the increasing demands for their services and the level of satisfaction expressed by their customers.

3.2.2 – Financial Management Administrative Support Services Budget and Performance Plan

Financial Management Administrative Support Services Budget Activity					
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$88,735	$109,615	$96,952	$146,828	$147,968
Total Resources	**$88,735**	**$109,615**	**$96,952**	**$146,828**	**$147,968**
Budget Activity Total	**$88,735**	**$109,615**	**$96,952**	**$146,828**	**$147,968**

Financial Management Administrative Support Services Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Customer Satisfaction Index - Financial Mgmt Admin Support Services (%) (Oe)	75	0	97	80	80
Operating expenses as a percentage of revenue--Financial Management Administrative Support (%) (E)	17.00	15.10	3.60	12.00	12.00

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

Description of Performance:

ARC again showed that they are a viable franchise business in FY 2008 with a 5.6 percent revenue increase over FY 2007. In addition, In FY 2009 and FY 2010, ARC projects a controlled growth as they complete the migration of the Oracle E-Business Suite to a commercial host and oversee the closeout of FedSource.

In FY 2008, ARC accounted for approximately 44% of the Fund's total revenue. For FY 2009, we are projecting ARC's resources to increase approximately 50 percent due to a budget neutral change made within Public Debt to simplify the accounting for shared information technology services. This change also resulted in a significant increase in reimbursable FTE in the Fund for FY 2009.

For FY 2008, ARC met all of the Fund's performance metrics. They improved the methodology used to allocate costs to service lines, resulting in meeting the Fund's operating expense performance metric. In addition, in FY 2008, the Financial Management Line of Business (FMLoB) administered independent customer satisfaction surveys of the four federal shared service providers. Our overall satisfaction rate was 97%, well above the SSP average of 85%. In addition to the FMLoB survey, ARC piloted a service line specific survey in FY 2008. The Human Resources service line was selected for the pilot and also received results of over 90 percent overall satisfaction.

3C – Financial Systems, Consulting and Training *(No funding):* This Budget Activity consists of two Franchise Business Activities, Public Debt's-Federal Consulting Group (FCG) and Treasury Agency Services (TAS)

The mission of the 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 of information, advice, assistance, and training.

During FY 2008, Treasury decided to transition out of the Financial Systems, Consulting and Training services operated by FCG and TAS. Management and operations of FCG was transferred to Public Debt with guidance to transfer FCG to another host or close out the business activity in FY 2009. In addition, the Fund worked with TAS's host, FMS, to withdraw TAS from the Fund in FY 2009.

Public Debt was successful in obtaining a new federal host for FCG and transitioned the business out early in FY 2009. The Financial Systems, Consulting and Training budget activity is reporting residual program and closeout activities in FY 2009 and is being discontinued in FY 2010.

3.2.3 – Financial Systems, Consulting and Training Budget and Performance Plan

Financial Systems, Consulting and Training Budget Activity					
Resource Level	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Estimated**	**FY 2010 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$13,133	$13,671	$13,691	$2,117	$0
Total Resources	**$13,133**	**$13,671**	**$13,691**	**$2,117**	**$0**
Budget Activity Total	**$13,133**	**$13,671**	**$13,691**	**$2,117**	**$0**

Financial Systems, Consulting and Training Budget Activity					
Measure	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Target**	**FY 2010 Target**
Customer Satisfaction Index - Financial System, Consulting & Training	81.00	0.00	Discontinued	Discontinued	Discontinued
Operating expenses as a percentage of revenue--Financial Systems, Consulting and Training (%) (E)	10.00	6.70	6.49	Discontinued	Discontinued

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

Description of Performance:

Federal Consulting Group (FCG)/Treasury Agency Services (TAS)

FCG and TAS accounted for 5% and 1%, respectively, of the Fund’s total revenue in FY 2008. FCG demonstrated steady revenue growth and profitability, while TAS ended with a decrease in gross revenue, increased operating costs and a net loss. For FY 2009, total budgetary resources for FCG and TAS will be reduced as customer’s commitments/relationships are transferred to their new federal hosts.

Although TAS incurred increased operating costs in FY 2009, the Financial Systems, Consulting and Training budget activity easily achieved the Fund’s operating expense performance metric. However, since the decision to transition out of the budget activity was made all efforts have been focused on finding a new hosts, ensuring a smooth transition and minimizing close-out costs. Therefore, the Fund’s discontinued the customer satisfaction performance metric for this budget activity in FY 2008.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treasury.gov/offices/management/dcfo/accountability-reports/2008-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Historically, the Fund has relied heavily on the business entity host Bureaus (Public Debt, Financial Management Service and Departmental Offices) to provide the basis of its human capital strategy. The decisions to transfer responsibility for management and operations of FedSource and Federal Consulting Group to Public Debt and transition Treasury Agency Services out of the Fund in FY 2009, results in the Fund following only Public Debt's human capital strategy.

Our strategic management of human capital is consistent with the our mission, vision and priorities and supports the President's Management Agenda, Treasury's strategic goal, and those of Public Debt. We follow Public Debt's comprehensive recruitment program, have embraced Public Debt's human capital strategy of operating a values-based organization and utilize the full range of pay flexibilities to recruit and retain high quality candidates with the skills necessary to accomplish our mission. In addition, the Fund fosters a learning culture that provides employees at all levels with opportunities for continuous development.

4B – Information Technology Strategy

Historically, the Fund has relied on the business entity host Bureaus (Public Debt, Financial Management Service and Departmental Offices) for information technology (IT) strategic planning specific to their service lines. The decisions to transfer responsibility for management and operations of FedSource and Federal Consulting Group to Public Debt and transition Treasury Agency Services out of the Fund in FY 2009, results in the Fund following only Public Debt's information technology strategy.

Public Debt's Capital Planning and Investment Control program is a disciplined, integrated process that addresses system prioritization of new and existing IT investments, risk management, long-range planning, business objectives, alternative analysis and governance. Public Debt's quarterly enterprise architecture reviews ensure alignment of its IT investments to the strategic enterprise direction of Treasury and identify potential duplication of systems. By tracking and reporting the progress of each investment and the performance measures achieved each quarter, Public Debt ensures its IT system portfolio is well managed, cost effective and supports their strategic goals.

4.2 –Program Assessment Table

The Treasury Franchise Fund has not received a program assessment.

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

Bureau of Engraving and Printing

Mission Statement

To design and manufacture high quality security documents that meet customer requirements for quality, quantity and performance, including counterfeit deterrence.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2008	FY 2009	FY 2010		
	Obligated	Estimated	Estimated	$ Change	% Change
Manufacturing	$476,700	$519,650	$530,000	$10,350	2.0%
Protection and Accountability of Assets	$61,500	$61,000	$61,000	$0	0.0%
Total Resources	**$538,200**	**$580,650**	**$591,000**	**$10,350**	**1.8%**
Total FTE	**2,300**	**2,200**	**2,075**	**(125)**	**-5.7%**

FY 2010 Priorities

- Produce and deliver the most secure currency for the nation in the most cost effective manner possible. BEP expects to produce and deliver 7.2 billion notes to the Federal Reserve System in 2010, an increase of six percent over the 2009 program.

- Redesign the $100 note. Development of a redesigned $100 note is currently in process. BEP expects to gain design approval by Secretary of Treasury and begin production in the 2009/2010 time frame. In the past 5 years the Bureau has redesigned and issued a new $5, $10, $20 and $50 note. The redesign of the $100 note will mark the completion of a multi-year initiative to implement the most ambitious currency redesign in United States history.

- 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.

- Train and prepare the workforce for increasingly sophisticated technology integrated into 21st century manufacturing processes.

- 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, The Bureau, in coordination with the Department of Treasury, commissioned a study that began in 2008 to assess improved methods for denominating currency for the blind and visually impaired; the results of the study will be released for public comment in 2009.

- Install a new wastewater recycling system that will recycle approximately 95% of water used in the printing process. This investment is indicative of the Bureau's commitment to keeping the greenback and the environment "green".

- 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. It strives to produce United States 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 2010 include the continued re-tooling and retrofitting of the currency production process which will allow the 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 the BEP continues to operate in an efficient and cost-effective manner. Another top priority for FY 2010 is the redesign the $100 note. Development of a redesigned $100 note is currently in process. BEP expects to gain design approval by the Secretary of Treasury and the note will be scheduled for production in the 2009/2010 time frame. The Federal Reserve will determine when the new note is issued to the public. Because aggressive law enforcement, effective design, and public education are all essential components of a concerted anti-counterfeiting program, the Bureau will continue its work with the Advanced Counterfeit Deterrent Committee to research and develop future currency designs that will enhance and protect future notes.

Manufacturing – The Bureau of Engraving and Printing manufactures high quality security documents that deter counterfeiting while supporting commerce through safe and secure 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 United States 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, other Department of the Treasury officials, 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 our Nation'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 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 in process BEP expects to gain design approval by the Secretary of Treasury and to begin production in the 2009/2010 time frame. 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 online and can be downloaded from www.moneyfactory.gov/newmoney. This site has received over 200 million hits since its launch in May 2003.
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 United States 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 United States 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. The BEP continuously looks for ways to cut costs without compromising quality. Significant capital investments are planned in FY 2009 and FY 2010 that will enhance productivity, lessen BEP's environmental impact. During FY 2006 the Bureau streamlined the organization by realigning and grouping similar functions together. This has improved efficiency, reduced response time, and facilitated currency redesign efforts.

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 2010, BEP plans continued focus on training identified to prepare the workforce for increasingly sophisticated technology that is integrated into 21st century manufacturing processes as well as knowledge management to prepare for the anticipated wave of baby-boomer retirements. Strategic investment in people and technology will continue to be critical factors in maintaining the Bureau’s status as a world class securities manufacturer.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Bureau: Bureau of Engraving and Printing	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated	% Change FY 2009 to FY 2010
FTE	**2,018**	**2,075**	**2,050**	**-1.20%**
Object Classification:				
11.1 - Full-time permanent	172,000	186,000	191,500	2.96%
11.5 - Other personnel compensation	13,000	12,000	13,000	8.33%
12 - Personnel benefits	47,000	50,750	52,250	2.96%
21 - Travel and transportation of persons	2,000	2,250	2,250	0.00%
22 - Transportation of things	100	250	300	20.00%
23.1 - Rental payments to GSA	2,000	2,000	2,000	0.00%
23.2 - Rental payments to others	1,000	1,000	1,000	0.00%
23.3 - Comm, utilities, and misc charges	13,000	15,000	15,000	0.00%
24 - Printing and reproduction	1,000	1,000	1,000	0.00%
25.1 - Advisory and assistance services	4,500	3,500	3,500	0.00%
25.2 - Other services	44,000	45,000	45,000	0.00%
25.4 - Operation and maintenance of facilities	8,500	9,500	9,500	0.00%
25.5 - Research and development contracts	3,000	3,250	3,500	7.69%
25.7 - Operation and maintenance of equip	7,000	9,000	9,000	0.00%
26 - Supplies and materials	155,000	180,000	182,000	1.11%
31 - Equipment	65,000	60,000	60,000	0.00%
42 - Insurance claims and indemnities	100	150	200	33.33%
Total Budget Authority	**$538,200**	**$580,650**	**$591,000**	**1.78%**
Budget Activities:				
Manufacturing	476,700	519,650	530,000	1.99%
Protection and Accountability of Assets	61,500	61,000	61,000	0.00%
Total Budget Authority	**$538,200**	**$580,650**	**$591,000**	**1.78%**

2.3 – Resource Detail Table

Description	FY 2008 Actual FTE	FY 2008 Actual AMOUNT	FY 2009 Estimated FTE	FY 2009 Estimated AMOUNT	FY 2010 Estimated FTE	FY 2010 Estimated AMOUNT	% Change FY 2009 to FY 2010
Revenue:							
Federal Reserve Notes		$531,200		$573,650		$584,000	1.8%
Other Security Products		7,000		7,000		7,000	0.0%
Total Revenue/Offsetting Collections		$538,200		$580,650		$591,000	1.8%
Expenses:							
Direct Manufacturing							
Paper and Ink		$155,000		$163,000		$165,000	1.2%
Direct Labor	750	86,250	750	90,000	750	94,500	5.0%
Other Direct Mfg Costs		7,500		7,500		7,500	0.0%
Subtotal Direct Manufacturing Costs		248,750		260,500		267,000	2.5%
Indirect Manufacturing Support	1268	227,950	1325	259,150	1300	263,000	1.5%
Total Manufacturing Activity Costs		476,700		519,650		530,000	2.0%
Total Protection & Accountability of Assets Activity Costs		61,500		61,000		61,000	0.0%
Total Expenses/Obligations		$538,200		$580,650		$591,000	1.8%
Net Results		$0		$0		$0	
Federal Reserve Notes Manufactured (in Billions)		7.7		6.8		7.2	5.9%

2B – Appropriations Language and Explanation of Changes

The BEP receives no appropriated funds from Congress.

2C – Legislative Proposals

Representation Funds

This legislative proposal would authorize the Bureau of Engraving and Printing to expend up to $5,000 per fiscal year from its revolving fund for official reception and representation expenses.

The Bureau's head will use the representation funds to pay for expenses associated with official Bureau events, characterized by a mix of social and/or business purpose when hosting foreign dignitaries involved in the security printing and banking industries.

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 2009 Enacted	FY 2010 Request	Percent Change
U.S. notes & coins	580,650	591,000	**1.78%**
Total	**$580,650**	**$591,000**	**1.78%**

3A – Manufacturing *($530,000,000 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 2008, the Bureau delivered 7.7 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 6.8 billion notes for delivery in FY 2009 and their order is estimated at 7.2 billion notes for FY 2010 based on their projections of currency demand.

3.2.1 – Manufacturing Budget and Performance Plan

Manufacturing Budget Activity					
Resource Level	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Estimated**	**FY 2010 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$445,000	$493,000	$476,700	$519,650	$530,000
Total Resources	**$445,000**	**$493,000**	**$476,700**	**$519,650**	**$530,000**
Budget Activity Total	**$445,000**	**$493,000**	**$476,700**	**$519,650**	**$530,000**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Manufacturing	Manufacturing costs for currency (dollar costs per thousand notes produced) ($) (E)	27.49	28.71	29.47	37.00	37.00
Manufacturing	Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements (%) (Oe)	99.90	100	100	99.90	99.90

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 requirements has an annual target of 99.9 percent. The Bureau has met or exceeded this target for the last four years as indicated. BEP's ability to consistently meet this annual target enables commerce by ensuring that currency notes delivered will work the first time and every time in day-to-day financial transactions.

3B – Protection and Accountability of Assets *($61,000,000 from reimbursable programs):* The purpose of the Bureau's Protection and Accountability of Assets Activity is to provide effective and efficient security and accountability during the manufacture and delivery of United States currency to the Federal Reserve, as well as protect thousands of BEP employees and contractors, facilities and equipment. The activity supports Treasury's strategic objective, Increase the Reliability of the United States Financial System. BEP's ability to provide product security and accountability during the manufacture and delivery of currency notes preserves the integrity of the nation's currency.

The value of what the Bureau produces requires it to have the highest standards of accountability and control available. The Bureau must maintain an accurate and cost effective system of accountability for all Bureau products which will ensure that products are accounted for while in production and that customers receive the correct quantity of products ordered. The protection and accountability of assets is a joint effort crossing many divisions within the Bureau; products are tracked and accounted for at every step of the production process.

The Bureau's annual financial statement audit represents an assessment by an independent, certified public accounting firm of the integrity of the Bureau's revolving fund and the reliability of the financial data used for managerial decision making. Successful financial reporting at the Bureau is a joint effort that requires coordination between financial management, operations, and information technology personnel, as well as close coordination with the independent, certified public accounting firm contracted to perform the annual audit and the Office of Inspector General, which oversees their work. In addition, the Bureau's Office of Security's primary mission is to preserve the integrity of and safeguard critical Bureau resources and assets such as personnel, products, plant facilities and equipment.

3.2.2 – Protection and Accountability of Assets Budget and Performance Plan

Protection and Accountability of Assets Budget Activity					
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$61,000	$63,000	$61,500	$61,000	$61,000
Total Resources	**$61,000**	**$63,000**	**$61,500**	**$61,000**	**$61,000**
Budget Activity Total	**$61,000**	**$63,000**	**$61,500**	**$61,000**	**$61,000**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Protection and Accountability of Assets	Currency shipment discrepancies per million notes (%) (Oe)	0.01	0.0	0.01	0.01	0.01
Protection and Accountability of Assets	Security costs per 1000 notes delivered ($) (E)	6.25	5.92	5.63	5.65	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 competitive sourcing initiatives, leveraging of the best practices of other federal law enforcement agencies, targeted system investments, and improvements in facility design that incorporate security attributes.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

To best position the Bureau of Engraving and Printing for the future, the Bureau 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.

FY's 2010's 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.

- Expansion of the BEP Telework program. During 2008, BEP implemented a secure, information technology solution that facilitates teleworking enhancing employee work life and increasing work flexibilities that benefit employee recruitment and retention programs.

- Continued evaluation of staffing needs, as new, more efficient technology is deployed.

- Use of pay incentive flexibilities to retain and recruit unique expertise that enables the Bureau to meet its human capital goals.

- Linking management's annual performance goals to the achievement of organizational goals that support BEP's strategic goals.

- Updating all employee performance plans to include core elements directly linked to organizational goals.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments Major IT Investments/Funding Source	Budget Activity	FY 2006 & Earlier Enacted	FY 2008 Enacted	FY 2009 President's Budget	% Change from FY08 to FY09	FY 2010 Requested	% Change from FY09 to FY10
		0	0	0	0%	0	0%
Subtotal, Major IT Investments		$0	$0	$0	0%	$0	0%
Non-Major IT Investments Technology[1]							
Manufacturing Support Systems	Manufacturing	2800	1400	1600	14%	1700	6%
Public Sales System	N/A	1240	780	1100	41%	1100	0%
WebTA	N/A	60	70	80	14%	100	25%
Subtotal, Non-Major IT Investments		$4,100	$2,250	$2,780	24%	$2,900	4%
Infrastructure Investments[Server Services and Support]		0	0	0	0%	0	0%
BEP Data Ctr. Sys. & Serv. (for Consolidation)	Manufacturing	6600	5700	6000	5%	6600	10%
BEP End User Sys. & Serv. (for Consolidation)	Manufacturing	6900	6200	6500	5%	7100	9%
BEP Telecommunications (for Consolidation)	Manufacturing	960	300	670	123%	700	4%
BEP Infrastructure Security (for Consolidation)	Protection and Accountability	3200	0	0	0%	0	0%
Subtotal, Infrastructure Investments		$17,660	$12,200	$13,170	8%	$14,400	9%
Enterprise Architecture	N/A	20.271	50	0	-100%	0	0%
Subtotal, Enterprise Architecture Investments		$20.27	$50	$0	-100%	$0	0%
IT Investments		$21,780	$14,500	$15,950	10%	$17,300	8%

Note[1]: In FY 2005 and prior years, costs for these systems were included in BEP's Infrastructure and Office Automation programs.

Note[2]: Infrastructure funding is consolidated into the Treasury Departmental Integrated IT Infrastructure Exhibit 300.

4B – Information Technology Strategy

Information Technology (IT) and IT-Embedded Investments are fully aligned with the Department of the Treasury's and BEP's Strategic Plan to support the technical development and manufacturing of Federal Reserve notes.

Major Investments: BEP has no planned independent major investments. BEP participates as a partner in significant Treasury-wide enterprise level investments such as T/Net (Treasury's implementation of General Services Administration 's (GSA) Networx), Homeland Security Presidential Directive -12 (again through Treasury's partnership with GSA), HRConnect (an Human Resources Line of Business service provider) and Internet Protocol version 6.

Non-Major Investments: BEP adheres to the Treasury's Capital Planning and Investment Control (CPIC) program as well as BEP's own IT CPIC processes. Limited additional non-major investments are planned to garner savings in administrative costs and provide organizational efficiencies.

Infrastructure Investments: Appropriately categorized as part of Treasury Optimized Enterprise IT Infrastructure.

Enterprise Architecture: It is the policy of the Bureau to implement and comply with the requirements of the Clinger-Cohen Act, the Government Performance and Results Act, the Federal Information Security Reform Act, Office of Management and Budget (OMB) Circular A-130, "Management of Federal Information Resources," OMB Circular A-11, Part 7, and associated Capital Programming Guide, and all applicable Federal Enterprise Architecture guidance issued by OMB, to include both the Federal Enterprise Architecture and associated reference models.

4.2 – Program Assessment Table

Program Name: New Currency Manufacturing
OMB Major Findings/Recommendations
1. The program's New Currency program has a clear purpose, is well planned, and is managed effectively. 2. The program met the initial production and timeline goals of its New Currency program with the rollout of the new twenty dollar bill in 2003. 3. The program has adequate long-term targets and timeframes, including planned rollouts of counterfeit deterrent features for use in future generation notes through the next 7 to 10 years.
Bureau Actions Planned or Underway
1. Working closely with the Advanced Counterfeit Steering Committee to identify and evaluate future counterfeit deterrent designs. 2. Continuing to work with the Advanced Counterfeit Deterrent Steering Committee to assess impact of New Currency on counterfeiting performance measures across government. 3. Monitoring 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
OMB Major Findings/Recommendations
1. This program is on track to reduce security costs by 43% from 2006 to 2012. 2. This program maintains high consistency and reliability standards, demonstrated by its ISO 9001 certification. 3. Guarding against theft is a priority of this program.
Bureau Actions Planned or Underway
1. 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. 2. Ensure that proper accountability and security features are identified and addressed during each stage of acquisition and installation of new equipment.

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

United States Mint

Mission Statement

The men and women of the United States Mint serve the nation by exclusively and efficiently creating the highest quality, most beautiful and inspiring coins and medals that enable commerce; reflect American values; advance artistic excellence; educate the public by commemorating people, places and events; and fulfill retail demand for coins.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2008	FY 2009	FY 2010		
United States Mint	**Obligated**	**Estimated**	**Estimated**	**$ Change**	**% Change**
Manufacturing	$2,015,699	$2,055,945	$1,981,643	($74,302)	-3.6%
Protection	$42,598	$47,441	$48,424	$983	2.1%
Total Resources	**$2,058,297**	**$2,103,386**	**$2,030,067**	**($73,319)**	**-3.5%**
Total FTE	**1,908**	**1,947**	**1,979**	**(32)**	**-1.6%**

FY 2010 Priorities

- Efficiently and effectively produce and distribute approximately 8.5 billion coins to meet demand for circulating coins during FY 2010 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 the Native American $1 Coin.

- Mint and issue Presidential $1 Coins for circulation to honor the following Presidents: Zachary Taylor, Millard Fillmore, Franklin Pierce and James Buchanan.

- 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.

- Mint for sale to the public the American Veterans Disabled for Life Commemorative Coin and the Boy Scouts of America Centennial Commemorative Coin.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The United States Mint is the world's largest coin manufacturer with operations in California, Colorado, Kentucky, New York, Pennsylvania, and Washington, D.C. The United States Mint's vision is "to embody the American spirit through the creation of our nation's coins and medals." The United States Mint is committed to achieving efficient operations and providing value to the American people. To support this commitment, the United States Mint established an improved strategic planning/change process that included the identification of Annual Action Items (AAIs). The AAIs are directly linked to the strategic goals and are designed to collectively focus the organization on key issues.

The United States Mint established the following strategic goals to achieve its mission.

- Establish and reinforce the exclusive brand identity of the United States Mint.
- Create and execute the most effective coin and medal portfolio strategy.
- Achieve greater excellence in coin and medal design.
- Increase operational efficiency while meeting the highest quality standards.
- Develop optimal workforce and workplace culture.

1B – Program History and Future Outlook

Since FY 1996, the United States Mint has 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 slowing economy greatly affected the United States Mint's financial performance in FY 2008. Circulating coin revenue fell significantly in FY 2008. This is the result of a sharp decline in circulating coin demand and an inventory adjustment by the FRB. A total of 10 billion circulating coins were shipped to the FRB in FY 2008. This is, on average, 4.4 billion fewer coins than were shipped in the past four fiscal years. As a result, circulating revenues decreased from $1.7 billion in FY 2007 to $1.3 billion in FY 2008. Despite the significant decline in circulating revenue, the United States Mint transferred $750 million to the Treasury General Fund (compared to $825 million in FY 2007).

The dramatic increase in metal prices continues to affect the United States Mint's circulating coin operations. Although nickel and zinc prices declined during FY 2008, the cost of copper increased an additional 10 percent over FY 2007. Rising metal prices have had a significant effect on circulating coinage results. While declining from last year, the unit costs to manufacture the one-cent coin (penny) and 5-cent coin (nickel) are more than their 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 United States Mint plans to work with the Department of the Treasury and the Congress to examine alternatives to mitigate the effect current metal prices are having on circulating coinage.

The United States Mint's numismatic and bullion sales to the public were strong in spite of the slowing economy. In FY 2008, total numismatic and bullion sales increased to $1.506 billion, exceeding FY 2007 sales by nearly $600 million. In particular, the United States Mint experienced unprecedented sales of its gold, platinum, and silver bullion coins in FY 2008. As the economy and financial markets softened, investors sought the perceived safety of precious metals. Total bullion revenue topped $949 million, a $593 million (166.4 percent) increase from FY 2007. 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 produced 10.5 million (126.8 percent) more ounces of gold, silver and platinum bullion than fiscal year 2007. Net income from bullion sales increased to $17.8 million in fiscal year 2008 compared to $4.6 million in fiscal year 2007, a 287 percent increase.

The overall financial outlook for the United States Mint is expected to weaken in FY 2010. The conclusion of the 50 State Quarters® Program in FY 2009 is likely to negatively affect both circulating and numismatic revenue, seigniorage, and net income. Circulating revenue and seigniorage are projected to decline as collector demand for quarters diminishes and the FRB uses accumulated quarter inventory to meet transactional demand. If the United States Mint's efforts to promote the circulation of $1 coins are successful, increased transactional demand for $1 coins would generate additional seigniorage and could offset the loss of seigniorage expected after the conclusion of the 50 State Quarters® program. Numismatic revenue and net income are expected to decline in FY 2010 as the numismatic product lines derived from the 50 State Quarters® Program conclude. Bullion revenue is expected to remain high, but the contribution to net income is relatively small due to the low-margin nature of the program. Bullion demand could decline slightly if the economy strengthens in FY 2010.

Challenges

A changing operating environment is posing new challenges and opportunities for the United States Mint. Future success depends on a variety of factors, including increased collaboration with the FRB, flexibility in the production of circulating coins; robust circulation of the $1 coin and strategies for mitigating the effects of commodity and precious metal markets. Some of the key challenges the United States Mint expects to face in the coming years are the following:

- *Promoting Robust Circulation of $1 Coins* – From the inception of the program, $1 coin shipments have steadily declined. This decline 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 began testing it in a four-city pilot program. In addition to standard public relations and advertising efforts, the focus is on retail activation by promoting usage directly with large-scale retailers. 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 steady and dramatic increases in the 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 United States Mint plans to work with Congress on legislation that would authorize the Secretary of the Treasury to approve alternative coinage materials to mitigate the effect of high metals prices. The United States Mint will continue to produce circulating coinage as currently mandated by Congress.

- *Fluctuating Prices of Precious Metals* – Steady and dramatic increases in prices for gold, silver, and platinum on commodity exchanges have affected numismatic operations. In the case of bullion coins designed for the investor marketplace, the cost of the metal is passed on to the consumer at the time of sale. The effect of rapid price fluctuations for metals as commodities spills over into the market for other numismatic products such as precious metal proof and uncirculated coins. The United States Mint has recently developed a new pricing model designed to address changes in metal prices. The model is transparent to our customers and matches our precious metal buying strategy to numismatic product selling patterns.

- *Conclusion of the 50 State Quarters® and DC and Territories Quarters Programs* – In recent years, there has been an increased demand for numismatic products – much of it because of the popularity of the 50 State Quarters Program. This program ended in 2008, and is followed by a one-year commemorative quarter program to honor the District of Columbia, and the Territories (Puerto Rico, Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands). New legislation for a follow-on program has been passed – America's Beautiful National Parks Quarter Dollar Coin Act of 2008, which mandates a new rotational-design quarters program that will begin in 2010. While this legislation maintains the continuity of the program, it is not anticipated to evoke the demand and enthusiasm of the 50 State Quarters Program.

- *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 will level production loads, while continuing to ensure sufficient production needed to enable commerce at any time. The United States Mint is establishing a strategic inventory of coins that will allow it to continue issuing coins during periods when demand exceeds production capacity, mitigate the effects of spikes in circulating coin demand, and will ensure continuity of operations if a disruption in minting processes should occur.

1C – Industry Outlook

With rising metal prices, reduced coin demand and an increased interest in numismatic and bullion products, the recent economy has had a certain effect on United States Mint future outlook. It has, for example, 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, while sales of numismatic and bullion products have 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:

Establish and Reinforce the Exclusive BrandIndentity 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 Coin and Medal Portfolio Strategy – 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, and will increase awareness and circulation of the new $1 coin designs.

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. By assembling exceptional talent, furthering technological advancement, and fostering designs that express the American spirit and values, the United States Mint intends to advance a neo-renaissance of beautiful coin and medal design.

Increase Operational Efficiency While Meeting the Highest Quality Standards - The United States Mint continually strives for efficient coin manufacturing and sales operations. Greater efficiency benefits the American public as well as the Bureau's customers. 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 the Bureau to keep the sale price of its numismatic products as low as practicable for 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. Initiatives include implementing a new visioning system to mitigate the distribution of error coins to the public, assessing new technologies in digital engraving, and developing a plan to improve the response and capability of die manufacturing operations.

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. Simultaneously, the Bureau 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

Bureau: United States Mint	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated	% Change FY 2009 to FY 2010
FTE	**1,908**	**1,947**	**1,979**	**1.64%**
Object Classification:				
11.1 - Full-time permanent	125,795	138,363	143,665	3.83%
11.5 - Other personnel compensation	13,793	12,883	13,441	4.33%
12 - Personnel benefits	39,232	44,038	42,453	-3.60%
13 - Benefits for former personnel	406	1,758	1,695	-3.58%
21 - Travel and transportation of persons	3,080	3,541	3,414	-3.59%
22 - Transportation of things	37,597	29,471	28,410	-3.60%
23.1 - Rental payments to GSA	385	385	394	2.34%
23.2 - Rental payments to others	22,476	22,767	21,947	-3.60%
23.3 - Comm, utilities, and misc charges	14,001	15,781	15,213	-3.60%
24 - Printing and reproduction	4,282	5,502	5,304	-3.60%
25.1 - Advisory and assistance services	55,077	86,679	83,559	-3.60%
25.2 - Other services	61,197	96,310	92,843	-3.60%
25.3 - Other purchases of goods and services from Govt. accounts	9,908	15,593	15,032	-3.60%
25.5 - Research and development contracts	1,457	2,293	2,210	-3.62%
25.7 - Operation and maintenance of equip	18,068	28,434	27,410	-3.60%
26 - Supplies and materials	1,648,792	1,595,931	1,529,552	-4.16%
31 - Equipment	2,710	3,547	3,419	-3.61%
42 - Insurance claims and indemnities	4	110	106	-3.64%
43 - Interest and dividends	37	0	0	0.00%
Total Budget Authority	**$2,058,297**	**$2,103,386**	**$2,030,067**	**-3.49%**
Budget Activities:				
Manufacturing	2,015,699	2,055,945	1,981,643	-3.51%
Protection	42,598	47,441	48,424	2.10%
Total Budget Authority	**$2,058,297**	**$2,103,386**	**$2,030,067**	**-3.49%**

2.3 – Resource Detail Table

(Dollars in Thousands)

	FY 2008 Actual		FY 2009 Estimated		FY 2010 Estimated		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE		FTE	AMOUNT
Budgetary Resources:								
Revenue / Offsetting Collections								
Circulating		$666,944		$644,013		$1,027,054		59.48%
- DC & Territories Quarters		-		312,750		-		-100.00%
Commemorative Quarters (50 States)		627,575		104,250		-		-100.00%
Numismatic		1,505,987		1,519,254		1,422,346		-6.38%
Total Revenue / Offsetting Collections		$2,800,506		$2,580,267		$2,449,400		-7.86%
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		$2,800,506		$2,580,267		$2,449,400		-7.86%
Expenditures/Obligations								
Circulating	401	559,782	409	363,829	733	588,497	79.22%	61.75%
- DC & Territories Quarters	0	0	234	184,059	0	0	0.00%	-100.00%
Commemorative Quarters (50 States)	305	378,997	78	61,353	0	0	0.00%	0.00%
Numismatic	859	1,076,920	876	1,446,704	890	1,395,699	1.60%	-3.53%
Protection	343	42,598	350	47,441	356	45,871	1.71%	-3.31%
Total Expenditures / Obligations	1,908	$2,058,297	1,947	$2,103,386	1,979	$2,030,067	2.04%	2.19%
Capital Investments		$34,499		$36,810		$38,512		
Net Results		$742,209		$476,881		$419,333		-10.05%
Coin Shipments (In Millions)								
Circulating:								
One-Cent		5,272		5,715		4,805		
5-Cent		647		465		584		
Dime		1,070		1,078		1,383		
Quarter		2,510		1,668		1,248		
Half-Dollar		-		3		3		
Dollar		475		454		498		
Total Circulating		9,974		9,383		8,521		

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 [2009] *2010* under such section 5136 for circulating coinage and protective service capital investments of the United States Mint shall not exceed [$42,150,000] $26,700,000.	

2C – Legislative Proposals

The United States Mint has no legislative proposals for FY 2010.

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 2009 Enacted	FY 2010 Request	Percent Change
U.S. notes & coins	2,103,386	2,030,067	**-3.5%**
Total	**$2,103,386**	**$2,030,067**	**-3.5%**

3A – Manufacturing *($1,981,643,000 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, nickel, dime, quarter-dollar, half-dollar and dollar. The United States Mint delivers the circulating coinage to the Federal Reserve Banks for distribution as demanded by commerce.

The current FY 2010 budget estimate includes resource needs of $588 million to produce and ship 8.5 billion coins and generate $1,027 million in face value.

By spending $588 million on circulating coinage in FY 2010, the United States Mint will produce and ship approximately:

- 4.8 billion one-cent coins, generating face value of $48.0 million,
- 0.6 billion five-cent coins, generating face value of $29.2 million,
- 1.4 billion dime coins, generating face value of $138.3 million,
- 1.2 billion quarter-dollar coins, generating face value of $312.0 million,
- 498 million dollar coins, generating face value of $498 million.

Beginning in 2009, the United States Mint will mint and issue six quarter-dollar coins to honor the District of Columbia and the five United States Territories: the Commonwealth of Puerto Rico, Guam, American Samoa, the United States Virgin

Islands, and the Commonwealth of the Northern Mariana Islands. These coins will be issued in equal sequential intervals in the order listed. Beginning in 2010 through 2020, the United States Mint will mint and issue "America's Beautiful National Parks Quarter Dollar Coins" in accordance with Public Law 110-456. This program honors national parks and sites in each of the 50 states in the order in which they were first established as a national park or site. Similar to the issuance of the 50 State Quarters Program, five different coin designs will be issued each year of this program.

Numismatic Program

The United States Mint prepares and distributes a variety of numismatic products 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. The United States Mint also produces bullion coins under American Eagle and American Buffalo Programs to fulfill investor demand. The current FY 2010 budget estimate includes resource needs of $1,405 million to generate $1,422 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 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 2010, the United States Mint will produce the American Veterans Disabled for Life Commemorative Coin (P.L. 110-277) and the Boy Scouts of America Centennial Commemorative Coin (P.L. 110-363). Each program offers $1 silver coins for sale to the public.

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 can be greatly affected 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.

In February 2009, the United States Mint began issuing the 2009 Ultra High Relief Double Eagle Gold Coin. This coin promises to fulfill Augustus Saint-Gaudens' vision of an ultra high relief coin that could not be realized in 1907 with his legendary Double Eagle liberty design.

The 2009 Ultra High Relief Double Eagle Gold Coin, which will be 24-karat gold, will reflect the very best product the United States Mint has to offer. This 21st century vision, combined with technological advances in digital design and die manufacturing, enables the United States Mint to realize the previously unattainable goal of making the coin accessible to all Americans.

The United States Mint looks forward to a new era of modern coinage and is eager to continue the tradition of embodying America's spirit and identity through our coins and medals. The coin is a uniquely American artistic expression — created by an American sculptor and crafted by an iconic American institution.

3.2.1 – Manufacturing Budget and Performance Plan

Manufacturing Budget Activity					
Resource Level	**FY 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Estimated**	**FY 2010 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$1,469,100	$2,002,796	$2,015,699	$2,055,945	$1,981,643
Total Resources	**$1,469,100**	**$2,002,796**	**$2,014,698**	**$2,055,945**	**$1,981,643**
Budget Activity Total	**$1,469,100**	**$2,002,796**	**$2,014,698**	**$2,055,945**	**$1,981,643**

Manufacturing Budget Activity					
Measure	**FY 2006 Actual**	**FY 2007 Actual**	**FY 2008 Actual**	**FY 2009 Target**	**FY 2010 Target**
Conversion cost per 1000 Coin Equivalents ($) (E)	7.55	7.23	8.46	N/A	N/A

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

Description of Performance:

Conversion Cost per 1,000 Coin Equivalents - The United States Mint's costs vary by the volume and mix of products sold each year. This makes it difficult to compare operating results from year to year. A coin equivalent (CE) calculation is used to convert production output to a common denominator based on a fixed product cost ratio. In FY 2008, the conversion cost was $8.46 per 1000 CEs, 11 percent above the baseline of $7.62. CE production decreased to 21.3 billion in FY 2008 from 24.0 billion in FY 2007, because of significantly lower FRB orders for circulating coins. As a result, this FY 2008 performance measure was not met.

3B – Protection *($48,424,000 from reimbursable programs):* The United States Mint secures over $200 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 and transport coinage.

Plans include efforts to leverage new technology to automate entry and exit procedures at United States Mint facilities. Innovative threat assessment strategies will continue to be pursued to effectively prevent and counteract any security threats against its operations.

3.2.2 – Protection Budget and Performance Plan

Protection Budget Activity					
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$36,917	$47,007	$42,598	$47,441	$48,424
Total Resources	**$36,917**	**$47,007**	**$42,598**	**$47,441**	**$48,424**
Budget Activity Total	**$36,917**	**$47,007**	**$42,598**	**$47,441**	**$48,424**

Protection Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Protection cost per square foot ($) (E)	32.49	31.29	31.76	32.50	33.00

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

Description of Performance

Protection Cost per Square Foot - Protection cost per square foot is the Office of Protection's total operating cost divided by the United State's Mint's area of usable space, which is 90 percent of the total square footage. The cost per square foot provides a measure of efficiency over time. Total square footage of usable space at the United States Mint is a stable figure and will only change significantly with major events such as the addition, removal or expansion of a facility. Protection cost per square foot for FY 2008 was $31.76 below the target of $32.50.

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Human capital planning has become increasingly critical to the United States Mint in recent years because of declining employee satisfaction, the loss of key personnel to retirement and a changing operational environment. Concerted action is necessary to address these challenges and ensure the United States Mint is positioned to accomplish its mission, now and in the future. Human capital strategies and efforts continue to evolve and include the following:

- *Employee Satisfaction Surveys* - A semiannual "Employee Pulse-Check Survey" to measure employee satisfaction with the workplace. The results of the Employee Pulse-Check Survey are used to identify opportunities for improvement and to ensure continuous focus on employee satisfaction.

- *Leadership Development Program (LDP)* - All supervisors, managers and executives attend training sessions focused on management essentials such as communication, teamwork, conflict resolution, human resources and equal employment opportunity responsibilities. Based on the program's success, the United States Mint plans to implement a three-phased LDP emphasizing interpersonal skills, management change, strategic thinking, and organizational development. By continuing to develop effective and committed leaders, communication will be strengthened across the agency, and a more supportive work environment can be built for all employees.

- *Manufacturer Certification and Apprenticeship Program (MCAP)* - The MCAP is an on-the-job training and certification program for wage-grade employees in the coin and die divisions of the Philadelphia and Denver facilities. This program addresses the concern that nearly half of the current United States Mint's workforce will be eligible for retirement in the next five years. The program combines all currently specialized lower grade jobs in two higher grade positions which incorporate all functions necessary to produce either coins or dies. This program is intended to result in a highly skilled and flexible manufacturing workforce. Depending on its success in Philadelphia and Denver, the MCAP may be expanded to other production facilities in the future.

- *Preparing for the Future* - The United States Mint is assessing its skills and resources necessary to achieve its mission now and in the future. Supervisors and managers identified the ten critical job-related skills needed for each occupation they oversee as well as secondary skills, knowledge and abilities necessary for each occupation. Comparing current with desired skills indicates any gaps to be addressed. This skills gap assessment will guide training and recruiting efforts in upcoming fiscal years. Additional assessments will be conducted in future years to evaluate progress in closing skill gaps.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments							
Major IT Investments / Funding Source	Budget Activity	FY 2008 Obligations	% Change from FY07 to FY08	FY 2009 Estimated	% Change from FY08 to FY09	FY 2010 Estimated	% Change from FY09 to FY10
Retail Sales System	Manufacturing and Sales	$4,900	2.1%	$9,925	102.6%	$11,142	12.3%
Subtotal, Major IT Investments		$4,900	2.1%	$9,925	102.6%	$11,142	12.3%
Non-Major IT Investments		$4,469	-0.7%	$6,694	49.8%	$4,700	-29.8%
Infrastructure Investments		$29,029	-32.2%	$47,236	62.7%	$33,795	-28.5%
Enterprise Architecture		$2,059	58.4%	$1,459	-29.1%	$930	-36.3%
Total IT Investments		$40,457	-24.2%	$65,314	61.4%	$50,567	-22.6%

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 processes, developing new coin design capabilities, and expanding information handling. These investments are designed to reduce costs, shorten the overall time from product concept to production, and achieve greater flexibility to respond to shifts in market demands. The following major IT investment is planned for 2010:

Integrated Retail Information System (IRIS) - Formerly the Retail Sales System (RS2), IRIS was developed in response to a growing need to meet the rapidly expanding numismatic market and provides a more efficient and customer-focused sales system that incorporates all sales channels seamlessly and leverages technology effectively. IRIS was designed to meet high public demand for E-Government services and provide an easy and secure way for customers to order products directly from the United States Mint. An integrated mail order and cataloging system supports the United States Mint's core mission as well as the President's E-Government initiative.

Major Investments	FY 2008 Obligations	FY 2009 Estimated	FY 2010 Estimated
Circulating & Protection Capital Investments			
Circulating Information Technology	0.345	1.847	2.763
Circulating Building Improvements	10.421	3.328	3.015
Circulating Equipment	2.190	4.610	6.674
Protection	0.245	7.000	8.000
Total Circulating and Protection	13.201	16.785	20.452
Numismatic Capital Investments			
Numismatic Information Technology	1.133	0.891	0.779
Numismatic Building Improvements	6.199	10.004	5.681
Numismatic Equipment	13.966	9.130	11.6
Total Numismatic	21.298	20.025	18.060
Total Capital Investments	34.499	36.810	38.512

Each year, the United States Mint commits funds for capital projects to maintain, upgrade or acquire physical structures, equipment, physical security, and information technology systems. Total capital projects are estimated to be $38.5 million in FY 2010. This includes approximately $12.5 million for circulating projects, $8.0 million for security improvement projects, and $18.0 million for numismatic projects.

The FY 2010 circulating and protection capital request is $20.5 million, which is $6.2 million below the projected circulation and protection depreciation (capital limit) amount of $26.7 million. Therefore, no additional budget authority is needed in FY 2010 for capital investments.

4.2 – Program Assessment Table

Program Name: Coin Production

OMB Major Findings/Recommendations

1. The Mint has established performance measures focused on customer satisfaction and improving cost efficiencies. For instance, the Mint reports the results of a Federal Reserve Board Customer Satisfaction survey.
2. The Mint needs to improve customer satisfaction survey scores.
3. The Mint has shown some efficiency improvements in achieving reduced manufacturing costs. The Mint has achieved a 19 percent reduction in manufacturing costs since 1997.

Bureau Actions Planned or Underway

1. Reducing the maintenance down time of coin manufacturing machinery.
2. Competing customer service and order mailing staff to determine if contractors could handle these functions more efficiently.
3. Establishing a performance target to reduce the time rquired to process raw materials into produce coins.

Program Name: Numismatic Program

OMB Major Findings/Recommendations

1. The program has made enormous strides over the past several years to streamline the production of numismatic products. Between 1999 and 2003, the Mint reduced costs by 38 percent and reduced workforce by 50 percent. During that same time period, production levels increased by 46 percent.
2. The Mint has an excellent internal management structure that is able to receive and analyze real-time financial, production, and other operating data on a daily basis. This enables the Mint to respond quickly to changing production and customer demand.
3. The Mint is making significant progress toward meeting its inventory turnover target of 4.2 in 2005, which reflects the number of times per year the Mint works through its inventory. This measure improved 27 percent from 1.96 in 2003 to 2.48 in 2004. By improving performance, the Mint reduces costs associated with inventory and the production planning process runs more efficiently.

Bureau Actions Planned or Underway

1. Continuing substantial progress toward reaching the Mint's target goal for inventory turnover.
2. Continuing to streamline the production of numismatic products in order to reduce costs and improve efficiency.

Program Name: Protection Program

OMB Major Findings/Recommendations

1. The United States Mint has developed adequate long-term performance measures with ambitous targets and timeframes. The Mint's target for total losses is $250,000 in 2005 and $0 in 2010
2. The United States Mint's Protection program has a clear purpose, is well planned, and managed effectively. However, it is somewhat duplicative of other Federal efforts aimed at protecting money, such as the Bureau of Engraving and Printing, and the Federal Reserve Police forces.
3. The United States Mint regularly achieves its annual performance goals and works with other law enforcement partners to assess threat levels and assist in achieving future goals. The United States Mint is a participant in the multi-agency Counter-Terrorism Program.

Bureau Actions Planned or Underway

1. Continue to assess and implement ways in which the cost of protection per square foot can be minimized.
2. Continue to improve employee confidence in the United States Mint protection program.

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

Office of the Comptroller of the Currency

Mission Statement

To ensure a safe and sound national banking system for all Americans.

Program Summary by Budget Activity

Dollars in Thousands

	FY 2008	FY 2009	FY 2010		
Office of the Comptroller of the Currency	Obligated	Estimated	Estimated	$ Change	% Change
Supervise	$565,921	$647,400	$693,285	$45,885	7.09%
Regulate	$87,583	$102,343	$109,597	$7,254	7.09%
Charter	$20,212	$25,586	$27,399	$1,813	7.09%
Total Resources	**$673,716**	**$775,329**	**$830,281**	**$54,952**	**7.09%**
Total FTE	**3,031**	**3,127**	**3,161**	34	**1.8%**

*FY 2010 data provided for informational purposes only. The budget information presented below is for FY 2009.

FY 2009 Priorities

- Regulate and supervise approximately 1,605 national bank charters and 50 federal branches of foreign banks with total assets of approximately $8.7 trillion, as of December 31, 2008.
- 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.
- Work closely with the Department of Treasury to implement provision of the Emergency Economic Stabilization Act (EESA) of 2008 and the administration's Financial Stability Plan.
- Proactively address potential adverse changes in national bank asset quality, liquidity and risk profiles.
- Ensure appropriate follow-up to market disruption issues identified in 2007 and 2008.
- Fill key experienced and specialty examiner and bank supervision policy analyst positions; continue the recruitment of entry-level examiners and enhance their retention at the critical three/four-year point of their careers.
- Develop the next generation of bank supervision leadership.
- Work with other federal banking regulators to implement the banking agencies' risk-based capital standards (Basel II).
- Combat fraud and money laundering, and protect the integrity of the financial system through national banks' compliance with the Bank Secrecy Act/Anti-money laundering (BSA/AML), and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act laws and regulations.
- Proactively address sound underwriting, risk management systems, and consumer issues presented in connection with retail banking products offered by national banks.

- Continue to support and defend the attributes and benefits of the national bank charter.
- 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.
- Continue to refine and improve the Comprehensive Report on Mortgage Performance.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Office of the Comptroller of the Currency (OCC) was created by Congress to charter national banks, 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 approximately 1,605 national bank charters and 50 federal branches of foreign banks in the United States. Total assets under the OCC supervision are approximately $8.7 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) 2009 include supervisory issues related to continued adverse changes in national bank asset quality and risk profiles, completing remaining work and resolving implementation issues on the federal banking agencies' risk-based capital standards, compliance with BSA/AML and USA PATRIOT Act requirements, addressing issues raised by the range of retail banking products offered by national banks, and identifying and ensuring appropriate follow-up to continued disruption and volatility in the financial and credit markets. Coordination and cooperation with state regulators will be a significant focus for the agency. Filling key experienced and specialty examiner and bank supervision policy analyst positions, recruiting entry-level examiners and enhancing their retention at the critical three/four-year point of their careers, and 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 four 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 downturn in housing and the broader economy is having an adverse effect on national banks' loan portfolios, with the levels of nonperforming and past due loans increasing. 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 2008 accomplishments and specific FY 2009 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.

Through examination programs, the OCC continuously supervises banks in its community bank, midsize and credit card bank, and large bank programs. A supervisory strategy is developed based on each banking institution's risk profile and condition. Examination activities focus on safety and soundness, consumer compliance, BSA/AML, USA PATRIOT Act, fair lending, asset management, bank information technology, and the Community Reinvestment Act (CRA).

Through policy programs, 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. 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.

In FY 2008, supervisory activities centered on monitoring and responding to adverse conditions in the credit and financial markets, and national banks' loan portfolios. During the market turmoil of the past year, resident examiner teams at the largest national banks were in frequent contact with the business and risk managers of those institutions' funding, trading, and mortgage areas to enable close monitoring of market conditions, deal flow, and funding availability. Information gleaned from on-site presence at these institutions was used to help identify and develop recommendations for enhanced risk management practices in several of these companies and have been issued by various domestic and international working groups, including the President's Working Group on Financial Markets, the Senior Supervisors Group, and the Financial Stability Forum.

More generally, the current market and economic conditions have highlighted the importance of banks' ability to identify, measure, manage, and control risk exposures. As a result, supervisory efforts have emphasized the need for sound underwriting and robust credit administration; diversified funding sources, supplemented with realistic contingency funding plans; strong internal controls and risk management systems; and timely recognition of losses coupled with adequate loan loss reserves and strong capital cushions. While assessing credit quality, adequacy of loan loss reserves, liquidity, capital, and risk management practices have been and continue to be primary focus, we also remain 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. FY 2008 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 2008 survey included the 62 largest national banks whose loans, in aggregate, totaled $3.7 trillion, and represent approximately 83 percent of all outstanding loans in the national banking system. The survey found that after four consecutive years of eased underwriting standards, the majority of banks have tightened underwriting standards for both retail and commercial loans. In releasing this year's survey results, the OCC reiterated its expectation that bankers maintain prudent credit underwriting standards throughout the economic cycle. The 2009 survey is underway and will include questions about banks' overall loan production and, for banks that have received funds under Treasury's Troubled Asset Relief

Program (TARP) Capital Purchase Program (CPP), whether the TARP proceeds have affected the banks' underwriting standards or loan production volume.

- Shared National Credit Review - The annual Shared National Credit (SNC) review is a joint program conducted by the OCC, the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS). The SNC review addresses large syndicated loans held by multiple banks. The 2008 review covered 8,750 credit facilities (5,813 borrowers) with commitments totaling $2.8 trillion. SNC commitments increased nearly $500 billion, or 22 percent, since the 2007 SNC review. The OCC continued work on an interagency project to modernize the collection and analysis of SNC data and to improve the program's efficiency and effectiveness. This project will also continue in FY 2009.

- Leveraged Lending Target Reviews and Examination Procedures - The disruptions that occurred in the credit markets during the past year delayed completion of long-term financing for some leveraged loans that banks had originated with the intent to sell (syndicate) to investors. This resulted in a number of large national banks retaining a higher volume of leveraged loans on their balance sheets. In FY 2008, Large Bank Supervision (LBS) conducted leveraged lending target reviews at the largest syndication banks, with a focus on syndicated pipeline management, stress testing, and limits setting. The OCC also issued a Leveraged Lending Handbook that consolidates and supplements existing guidance to bankers and examiners on the risks associated with leveraged lending, and the risk management systems and controls needed to mitigate those risks.

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 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 2008, the Financial Crime Enforcement Network (FinCEN) and the OCC each assessed Civil Money Penalties of $15 million against a foreign bank branch for alleged violations of the Bank Secrecy Act, which the bank agreed to pay under a consent order.

Commercial Real Estate Reviews - CRE lending has been a focus within the Midsize and Community Bank Supervision (M/CBS) line of business due to the significant concentrations that some banks have developed in this sector. Approximately one quarter of the community banks supervised by the OCC have CRE-related concentrations exceeding one or both of the thresholds contained in the interagency CRE guidance issued in December 2006.[1] The share is even higher in areas that experienced rapid appreciation followed by downward pressures on home prices.

[1] The concentration thresholds articulated in the guidance are commercial real estate loans (excluding owner-occupied real estate) exceeding 300 percent of risk-based capital, or construction and development loans exceeding 100 percent of risk-based capital.

For all banks with CRE concentrations exceeding the thresholds, the OCC is conducting asset quality reviews targeted on the bank's CRE portfolio. The objective of these reviews is to work with bankers to identify any problems at an early stage, confirm that bank management is managing this risk appropriately, and, if not, to ensure bank management takes necessary remedial action. Some of these examinations have already been completed and many more are underway. Examinations of all of the banks with the highest risk potential have been completed.

Residential Mortgage Lending and Reporting Metrics - The fallout from the subprime mortgage turmoil and the subsequent downturn in housing has been well publicized. National banks were not dominant originators of subprime mortgages; however, continued strains in the housing markets are having an adverse affect on national banks' residential mortgage and home equity loan portfolios. To improve 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, we established the first loan-level source of mortgage performance data with the Office of Thrift Supervision (OTS) by gathering validated information and reporting on more than 35 million first-lien mortgages, which represents more than 60 percent of all mortgages in the country. Subsequently, OCC expanded its efforts to present the first available data on the performance of loan modifications across an extremely large portfolio of loans. Based on what we found, we have been working with the OTS and mortgage servicers to obtain greater detail on the affordability and sustainability of loan modifications for OCC's next report in March 2009.

The data set has grown from more than 60 elements in June 2008 to more than 90 elements per loan in the most recent request for information from the mortgage servicers. The effort requires extensive work by mortgage servicers and regulators to review, validate, and present the data. In many cases, new data elements require changes to systems in order to systematically capture and provide good information. The OCC and OTS data collection now calls for up to 2.38 billion individual pieces of information each month on the loans serviced by the largest national banks and thrifts. As this additional data is collected, processed, and validated, the OCC and OTS intend to continue expanding the information contained in the quarterly public reports.

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*. In implementing this Statement, institutions are encouraged to lend prudently and responsibly to creditworthy borrowers, work with borrowers to preserve homeownership and avoid preventable foreclosures, adjust dividend policies to preserve capital and lending capacity, and employ compensation structures that encourage prudent lending. The OCC also supports various private and public sector initiatives and programs that seek to assist these borrowers, including those initiated by the American Securitization Forum and HOPE NOW alliance.

Maintaining Adequate Liquidity, Loan Loss Reserves and Capital - Prompt recognition of losses and maintenance of strong loan loss reserves and capital are critical during periods of economic stress. As previously noted, ensuring banks maintain adequate loan loss reserves and capital has been, and will continue to be, a point of emphasis during bank examinations. Similarly, the OCC also continues to evaluate the adequacy of banks' liquidity positions and liquidity risk management processes, especially at those institutions with significant concentrations in their loan or liability portfolios. 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. The OCC and other U.S. federal banking agencies plan to issue for comment guidance on the application of these principles to U.S. depository institutions during the first quarter of 2009.

In light of current market and economic conditions, national banks have made substantial increases to their loan loss reserves during the past several quarters. Loan loss reserves as a percentage of total loans increased from 1.15 percent in the second quarter of 2007, to 1.91 percent in the second quarter of 2008, and to 2.16 in the third quarter of 2008. Should credit performance continue to worsen, as we expect, banks will need additional loan loss reserves. National banks have also taken steps to bolster their capital levels by reducing dividends and raising new capital. As of January 8, 2009, the 14 largest national banking organizations have raised approximately $150 billion of new capital and debt levels (excluding TARP) over the last five quarters. As of September 30, 2008, 99 percent of national banks meet or exceed the "well capitalized" regulatory capital requirements.

Improving Risk Management Practices - The OCC has worked closely with other domestic and international regulators to identify areas where risk management practices can be improved. These efforts have culminated in a series of reports and recommendations issued by the President's Working Group, the Senior Supervisors Group, and the Financial Stability Forum. Broadly speaking, these reports call on financial institutions to: strengthen risk management practices; enhance transparency, disclosure, and valuation practices; and improve stress testing and firm-wide capital planning processes. The OCC has existing guidance that addresses some of the issues and recommendations highlighted in these recent reports and we have provided examiners at the large banks with a summary and cross reference of these policies to assist them with their on-site evaluations of areas where banks may need to improve their risk management practices.

Basel II Capital Rules - In December 2007, the OCC and the other federal banking agencies (FRB, FDIC, and OTS) issued final rules that implement the advanced approaches established by the Basel II Capital Accord for computing risk-based regulatory capital requirements by certain banking organizations. Specifically, this rule establishes regulatory capital requirements and supervisory expectations for credit and operational risks for banks that choose or are required to adopt the advanced approaches of the Basel II Capital Accord. The rule also articulates enhanced standards for the supervisory review of capital adequacy and public disclosures of an institution's risk exposure and capital adequacy. The rule's Internal Ratings Based Approach for credit risk and the Advanced Measurement Approaches for operational risk represent a more risk sensitive and comprehensive regulatory capital regime than existing risk-based capital rules, and will establish capital requirements and risk management expectations that are aligned more closely to the risks assumed by these institutions. As a result of these changes, this rule is now fundamentally consistent in most respects with the Basel II framework implemented internationally. However, the final rule retains the leverage ratio and Prompt Corrective Action (PCA) requirements, safeguards unique to the U.S. supervisory process that the agencies believe are critical for safety and soundness purposes.

The recent market turmoil highlighted areas where the current Basel II capital framework needed to be strengthened and the OCC is actively involved in these efforts. Among the refinements that are recommended in the consultative paper that the Basel Committee on Banking Supervision issued in January 2009 are higher capital requirements for re-securitizations, such as collateralized debt obligations comprised of asset-backed securities; a Pillar 2 capital requirement that is an add-on to the Pillar 1 capital requirement; and additional disclosures related to securitizations. These recommendations focused on structured securities as these securities experienced significant losses during the recent market turmoil. The capital treatment of liquidity facilities that support asset-backed commercial paper conduits is also under review. The current market risk capital framework, based on 1996 amendments to Basel I, is also being reexamined. These proposed changes are designed to better reflect potential exposures arising from the larger portion of complex, less liquid credit products that institutions now hold in their trading portfolios and to further reduce the incentive for regulatory arbitrage between the banking and trading books. 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.

Accounting and Financial Disclosure Issues - The OCC and other federal banking agencies continue to work closely with the Securities and Exchange Commission (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. The FASB issued exposure drafts of those revised standards on September 15, 2008. The agencies are participating in a number of roundtable meetings with various market participants in order to ensure that they have a thorough understanding of how the proposed accounting changes would affect banking organizations from a regulatory perspective.

Emergency Economic Stabilization Act and Financial Stability Plan - The OCC is working closely with the U.S. Treasury Department and the other federal banking agencies to implement provisions of the Emergency Economic Stabilization Act of 2008 (EESA) and the administration's Financial Stability Plan. These efforts include providing technical assistance to the U.S. Treasury Department on the design and operation of the various capital and asset purchase programs, as well as the design and execution of the stress tests that will be applied to major financial institutions. The OCC chairs the interagency TARP CPP Council, which serves as an advisory body to the Treasury Department to ensure that recommendations for CPP participation are applied effectively and consistently across the federal banking agencies and Qualifying Financial Institution (QFI) applicants. The OCC is also coordinating with the FDIC on the application of the FDIC's Temporary Liquidity Guarantee Program (TLGP).

Resolving Problem Banks - The goal of 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, we expect 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 OCC directives or orders by national banks, their insiders, and other affiliated parties.

The OCC has a variety of tools that were helpful in dealing with the industry-wide increase in problems and troubled institutions in FY 2008, 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 2008, the OCC took such formal enforcement actions as temporary cease and desist orders, final cease and desist orders, removal or prohibition orders, CMPs, and formal agreements. Documents relating to 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. During FY 2008, there were five national bank failures where the OCC appointed the FDIC as receiver. As of February 11, 2009, there have been two national bank failures thus far in FY 2009.

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 Department of Justice and notifications to the Department of Housing and Urban Development.

As described in more detail in the Supervision section, the OCC responded to the mortgage crisis by encouraging national banks to work with consumers, supporting private and public sector initiatives and programs that seek to assist these borrowers, and collecting and analyzing extensive mortgage lending and workout data from the largest national banks.

In September 2008, the OCC held a Fair Lending Conference emphasizing the role of statistical analysis and models in fair lending compliance and enforcement. The conference was attended by nearly 300 bankers, regulators and others.

Community Development- In August 2008, the OCC issued a community development investments interim final rule that implements a provision of the Housing and Economic Recovery Act of 2008 that expanded national banks' authority to make public welfare investments pursuant to 12 USC 24(eleventh). The interim final rule authorizes a national bank and its subsidiaries to make public welfare investments directly or indirectly if the investments primarily benefit low- and moderate-income individuals, low- and moderate-income areas, or other areas targeted by a governmental entity for redevelopment, or if the investment would receive consideration under the CRA regulations as a "qualified investment."

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 12 CFR Part 24. 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. 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 OCC also issued one of its periodic *Community Development Insights* reports on uses of the Low-Income Housing Tax Credit, and also published a *Community Developments* newsletter focusing on preservation of affordable rental housing.

Foreclosure Fraud - During FY 2008, the OCC issued a consumer advisory providing advice to help prevent borrowers from becoming victims of foreclosure rescue frauds. The OCC and the other financial regulatory agencies also issued final illustrations for helping consumers understand certain hybrid adjustable rate mortgage products. The illustrations are intended to assist institutions in providing this information to consumers, as recommended in the agencies' 2007 Statement on Subprime Mortgage Lending. The OCC also participated in the July 2008 Forum on Mortgage Lending for Low- and Moderate- Income Households sponsored by the FDIC.

Consumer Protection - During FY 2008, the OCC continued its work with the other federal banking agencies to improve consumer protection. In November 2007, the agencies issued final rules on identity theft "red flags" and address discrepancies, implementing sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003, as well as final rules providing consumers with an opportunity to "opt out" before a financial institution uses information provided by an affiliate company to market its products and services to the consumer, implementing section 214 of the Act. In December 2007, the agencies and the Federal Trade Commission proposed regulations and guidelines to help ensure the accuracy and integrity of information provided to consumer reporting agencies and allow consumers to directly dispute inaccuracies.

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 2008, the OCC entered into a settlement agreement directing a national bank to make restitution to consumers harmed by its relationships with telemarketers and third party processors, with an estimated claim total of $125 million; to contribute to a consumer education program directed at the elderly; and to pay a $10 million Civil Money Penalty.

Natural Disaster Relief - The OCC also outlined measures to assist national banks and their customers affected by hurricanes, tornadoes, and other natural disasters.

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, 2008, the CAG had received 77,000 contacts from consumers in the form of telephone calls, letters, faxes, and e-mails. The CAG had 95,000 contacts in 2008.

During FY 2008, outreach activities to state bank regulators continued. Memorandums of Understanding (MOU) have now been signed between the OCC and 43 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 2009 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 2008, the OCC published a final rule to reduce unnecessary regulatory burden and revise and update various OCC regulations. The OCC final rule included measures updating and revising the qualifying standards and after-the-fact notice procedures that apply to national bank operating subsidiaries. The final rule expanded the list of operating subsidiary activities that are permissible upon filing an after-the-fact notice. Other revisions reduced the burden associated with applications for fiduciary powers and intermittent branches, change in bank control notices, and requirements to make securities filings. The final rule also included other measures to incorporate previously published interpretive opinions, including, electronic banking activities, and to harmonize the OCC rules with rules issued by other federal agencies, to update OCC rules to reflect recent statutory changes, and to make technical and conforming amendments to improve clarity and consistency. The OCC also amended its securities offering disclosure rules to eliminate the general requirement that a national bank in organization include audited financial statements as part of a public offering.

The OCC issued an interim final rule to add a provision to its part 32 lending limits regulation addressing temporary funding arrangements in emergency situations. The OCC's Comptroller John C. Dugan issued a statement in March 2008 stating that the OCC would play a positive and constructive role in the discussion of the Treasury Department's Blueprint for a Modernized Financial Regulatory Structure.

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, "2007 Significant Legal, Licensing, and Community Development Precedents for National Banks" as well as the cumulative companion edition of "Permissible Activities for a National Bank." Determinations during FY 2008 included permissible types of customer-driven derivatives transactions, offering debt cancellation contracts, and permissibility of charging fees to non account holders for cashing an official check. In FY 2009, 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 applicability of state law and the exclusivity of the agency's visitorial authority under the national banking laws, in order for national banks to operate efficiently under uniform national standards.

Charter Activities

The OCC made several significant licensing decisions in FY 2008 involving national bank business realignments and acquisitions. In addition, the OCC implemented streamlined regulatory requirements and process improvements for de novo bank charters, resulting in reduced costs and barriers, and enhanced value of the national bank charter.

The OCC suspended all licensing transaction application fees in FY 2008. The agency is providing increased local assistance to new bank organizers prior to formal application filing, with an emphasis on technical assistance, review of draft documents and introduction to key OCC staff involved in the application review and future supervision of the bank. With regard to raising capital, the OCC has reduced impediments by expediting review of offering materials, eliminating a requirement for fidelity bonding if the escrow agent is bonded or insured, eliminating a requirement for audited financial statements during the in-organization phase, and raising the shareholder threshold for required Securities Exchange Act filings. Special legal lending limit rules that expand small business, farm and residential real estate lending opportunities are now available to new national banks.

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.

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. Shelf charters remain inactive until such time as the investor group holding the charter is in a position to acquire a troubled institution.

In FY 2009, the OCC plans to implement improved functionality for finding and retrieving licensing application information from the agency's public website.

1C – Industry Outlook

The recent sharp drop in bank earnings follows 15 years of solid growth. Over that time, banks introduced many new products, which contributed to earnings growth. But the novelty and complexity of some of these products added to the risks faced by individual banks, and by the banking system as a whole, in ways that were often not anticipated when the products were introduced.

Over the next five years, bank assets are likely to grow at about the same rate as nominal Gross Domestic Product (GDP). This is consistent with historical experience and with the status of banking as a mature industry, in which profits grow over the long-term at about the rate of nominal GDP.

	Commercial Banks		National Banks		Share of Total System Assets
	Assets ($t)	Number	Assets ($t)	Number	in Banks Over $10 Billion
2007	11.1	7283	7.8	1632	79.1%
2012e	14.2	6586	10	1471	85.0%

The number of banks has fallen steadily for at least two decades. The long-term trend of bank consolidation is likely to continue in both national banks and all commercial banks. In 2007, 86 banks had assets exceeding $10 billion, while about 3,100 banks had assets under $100 million. By 2012, the number of banks over $10 billion is expected to remain about the same, while the number of banks under $100 million is expected to decline. 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.

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 this trend is expected to continue.

Until about five 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 over 70 percent of commercial bank assets.

Risks to the banking system include an intensification of the deterioration in real estate, continued problems in the credit markets, and an extended economic slowdown.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Bureau: Office of Comptroller of the Currency	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated	% Change FY 2009 to FY 2010
FTE	**3,031**	**3,127**	**3,161**	**1.09%**
Object Classification:				
11.1 - Full-time permanent	331,774	370,855	395,911	6.76%
11.3 - Other than full-time permanent	7,821	7,685	8,204	6.75%
11.5 - Other personnel compensation	1,753	2,140	2,285	6.78%
11.8 - Special personal services payments	111	0	0	0.00%
12 - Personnel benefits	107,109	125,577	139,000	10.69%
13 - Benefits for former personnel	325	195	190	-2.56%
21 - Travel and transportation of persons	41,385	53,645	58,966	9.92%
22 - Transportation of things	1,606	2,579	3,196	23.92%
23.1 - Rental payments to GSA	2,821	2,513	2,601	3.50%
23.2 - Rental payments to others	29,499	36,398	37,761	3.74%
23.3 - Comm, utilities, and misc charges	10,654	13,346	14,057	5.33%
24 - Printing and reproduction	938	1,190	1,234	3.70%
25.1 - Advisory and assistance services	25,237	38,872	38,524	-0.90%
25.2 - Other services	16,294	18,142	20,665	13.91%
25.3 - Other purchases of goods and services from Govt. accounts	4,561	5,936	7,082	19.31%
25.4 - Operation and maintenance of facilities	2,986	4,882	3,954	-19.01%
25.7 - Operation and maintenance of equip	46,675	50,528	53,675	6.23%
26 - Supplies and materials	6,201	7,000	7,693	9.90%
31 - Equipment	16,315	16,835	17,424	3.50%
32 - Land and structures	19,576	16,961	17,809	5.00%
42 - Insurance claims and indemnities	75	50	50	0.00%
Total Budget Authority	**$673,716**	**$775,329**	**$830,281**	**7.09%**
Budget Activities:				
Supervise	565,921	647,400	693,285	7.09%
Regulate	87,583	102,343	109,597	7.09%
Charter	20,212	25,586	27,399	7.09%
Total Budget Authority	**$673,716**	**$775,329**	**$830,281**	**7.09%**

2.3 – Resource Detail Table

	FY 2008 Obligated		FY 2009 Estimated		FY 2010 Estimated		% Change FY 2009 to FY 2010	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Budgetary Resources:								
Revenue / Offsetting Collections								
Assessments		$716,448		$756,800		$810,500		7.10%
Interest		21,349		25,500		26,300		3.14%
Other Income		2,615		1,700		1,700		0.00%
Total Revenue / Offsetting Collections		$740,412		$784,000		$838,500		6.95%
Unobligated balances, Start of year		667,661		660,261		668,932		1.31%
Recoveries of prior year obligations		0		0		0		0.00%
Net transfers *(includes capital transfers)*		0		0		0		0.00%
Total budgetary resources available		$1,408,073		$1,444,261		$1,507,432		4.37%
Expenses/Obligations								
Supervision	2,546	565,921	2,597	$647,400	2,626	693,285	1.12%	7.09%
Regulate	394	87,583	435	102,343	440	109,597	1.15%	7.09%
Charter	91	20,212	95	25,586	95	27,399	0.00%	7.09%
Total Expenses / Obligations	3,031	$673,716	3,127	$775,329	3,161	$830,281	1.09%	7.09%
Net Results		$734,357		$668,932		$677,151		1.23%

2B – Appropriations Language and Explanation of Changes

OCC receives no appropriations from Congress.

2C – Legislative Proposals

OCC currently has no legislative proposals.

Section 3 – Budget and Performance Plan

This table lists all FY 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 2009 Enacted	FY 2010 Request	Percent Change
Economic competitiveness	127,929	136,996	**7.1%**
Fin. & econ. Crises	647,400	693,285	**7.1%**
Total	**$775,329**	**$830,281**	**7.1%**

3A – Supervise *($647,400,000 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 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Estimated**	**Y 2010 imated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$471,882	$528,622	$565,921	$647,400	$693,285
Total Resources	**$471,882**	**$528,622**	**$565,921**	**$647,400**	**$693,285**
Budget Activity Total	**$471,882**	**$528,622**	**$565,921**	**$647,400**	**$693,285**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Supervise	Percentage of national banks that are categorized as well capitalized (%) (Oe)	99.00	99.00	99.00	95.00	95.00
Supervise	Percent of national banks with composite CAMELS rating of 1 or 2 (%) (Oe)	95.00	96.00	92.00	90.00	90.00
Supervise	Rehabilitated national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4 or 5) (%) (Oe)	46.00	52.00	47.00	40.00	40.00
Supervise	Percentage of national banks with consumer compliance rating of 1 or 2 (%) (Oe)	94.00	97.00	97.00	94.00	94.00
Supervise	Total OCC costs relative to every $100,000 in bank assets regulated. ($) (E)	8.57	8.89	8.39	9.22	9.22

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

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, 2008, 99 percent of national banks were classified as well capitalized. National banks' capital has remained at this consistently high level for the past several years.

National Banks with Composite CAMELS Rating of 1 or 2 - The composite CAMELS (**C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market risk) rating reflects the overall condition of a bank. Bank regulatory agencies use the Uniform Financial Institutions Rating System, CAMELS, to provide a general framework for evaluating all significant financial, operational, and compliance factors inherent in a bank. The rating scale is 1 through 5 of which 1 is the highest rating granted. CAMELS ratings are assigned at the completion of every supervisory cycle or when there is a significant event leading to a change in CAMELS. Through September 30, 2008, 92 percent of national banks earned composite CAMELS rating of either 1 or 2, signifying an overall safe and sound national banking system.

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, 47 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. This exceeds the OCC's goal of 40 percent.

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, 2008.

Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated - Beginning inFY 2006, the OCC implemented a performance measure—Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated—that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex national banking system. OCC costs are those reported as total program costs on the annual audited Statement of Net Cost. Bank assets are those reported quarterly by national banks on their Reports of Condition and Income. Total 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 *($102,343,000 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 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Estimated**	**FY 2010 Estimated**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$70,992	$91,296	$87,583	$102,343	$109,597
Total Resources	**$70,992**	**$91,296**	**$87,583**	**$102,343**	**$109,597**
Budget Activity Total	**$70,992**	**$91,296**	**$87,583**	**$102,343**	**$109,597**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target

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

There are no measures specified at this time.

3C – Charter *($25,586,000 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 2006 Obligated**	**FY 2007 Obligated**	**FY 2008 Obligated**	**FY 2009 Estimated**	**0 d**
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$13,952	$18,515	$20,212	$25,586	$27,399
Total Resources	**$13,952**	**$18,515**	**$20,212**	**$25,586**	**399**
Budget Activity Total	**$13,952**	**$18,515**	**$20,212**	**$25,586**	**399**

Budget Activity	Performance Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	010 Target
Charter	Percentage of licensing applications and notices completed with established timeframes (%) (Oe)	94.00	96.00	95.00	95.00	95.00

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

Description of Performance:

Licensing Applications and Notices Completed within Time Frames
The OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks to complete various corporate transactions and introduce new financial products and services. Delays in providing prompt decisions on applications and notices can deprive a bank of a competitive or business opportunity, create business uncertainties, or diminish financial results. Time frames have been established for completing each type of application and notice. The OCC completed 95 percent of applications and notices within the time standard through September 30, 2008. Institutions receiving decisions on their corporate applications and notices rated the OCC's overall licensing services an average of 1.2. The licensing survey is based on a five-point rating scale, in which 1 indicates outstanding and 5 indicates significantly deficient.

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

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 skills 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, almost 705 examiners have been hired, including more than 122 in FY 2008.

The OCC has focused heavily on recruiting the expertise needed to fill positions in the agencies 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 recently developed 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.

Assessment results will 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 is piloting 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. 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 has begun 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.

The OCC Makes Top Ten List of Best Places to Work in Federal Government - The OCC ranked fourth out of more than 222 federal agency sub-components for best places to work in the federal government in 2006, according to the Partnership for Public Service and American University's Institute for the Study of Public Policy Implementation. The list reflects the responses of more than 221,000 randomly selected federal employees who completed the Office of Personnel Management's 2006 Federal Human Capital Survey. The list compares agencies in effective leadership, employee skills/mission match, family friendly culture, pay and benefits, performance-based rewards and advancement, strategic management, support for diversity, teamwork, training/development, and work/life balance.

4.1 – Summary of IT Resources Table

Information Technology Investments (from Exhibit 53) *								
				% Change from		% Change from		% Change from
(Dollars in thousands)		FY 2007	FY 2008	FY07 to FY08	FY 2009	FY08 to FY09	FY 2010	FY09 to FY10
Major IT Investments / Funding Source	Budget Activity	Obligated	Obligated		Estimated		Estimated	
WISDM ***	OCC - Supervise	0	0	0.0%	1,300	0.0%	1,339	3.0%
Fiscal Management ***	OCC - Manage	1,149	1,839	60.1%	2,098	14.1%	1,930	-8.0%
Subtotal, Major IT Investments **		$1,149	$1,839	60.1%	$3,398	184.8%	$3,269	-3.8%

***/ Beginning in FY 2009, OCC will report 1 major investment to Treasury (FISCAL MANAGEMENT). WISDM will be reported as part of the consolidated Treasury Enterprise Content Management 300.

4B – Information Technology Strategy

The OCC's 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. Treasury's CIO Council reviews the OCC's IT investments quarterly.

In FY 2008, OCC implemented the Workflow and Information Systems and Document Manager (WISDM). WISDM streamlines the Large Bank Supervision supervisory processes, improves collaboration, and enhances the security of sensitive documents while providing the OCC management greater visibility into the status of ongoing examinations. The system will provides LBS examiners and management the ability to collaboratively develop, securely store, search, and report on the status of their work documents.

<u>Homeland Security Presidential Directive 12 (HSPD-12) and Federal Information Security Management Act (FISMA)</u> - In FY 2008, the OCC continued to develop an HSPD-12 program for Smartcard ID issuance and subsequent use of that card for both physical access to OCC facilities and logical access to OCC information systems. The OCC continued its close coordination with the Treasury HSPD-12 Program Management Office and General Services Administration (GSA) Managed Service Office to implement the Treasury Enterprise Solution for HSPD-12. This Treasury Department and GSA solution will satisfy goals pertaining to the E-Government initiatives for sharing government-wide services and those goals relating to ensuring the interoperability of the HSPD-12 credentials across the government.

The OCC acquired and installed the necessary equipment for a card enrollment and activation station in the headquarters facility in FY 2008 and began issuing HSPD-12 compliant credentials to employees. The OCC also established an HSPD-12 lab and began developing and testing solutions for using the new Smartcard IDs with the bureau’s nation-wide Physical Access Control System (PACS). In FY 2009, the OCC will continue to work with the Treasury Department and GSA to establish a complete program that meets the mandate of HSPD-12.

In FY 2008, the OCC Information Security program expanded to enable increased focus on policy, compliance, training, technical oversight and audit. A revised FISMA-compliant IT Security Policy was published. In addition to aligning the OCC information security program with FISMA requirements, the new security policy establishes a framework for addressing other information security related issues.

Technical capabilities and new engineering resources were leveraged this fiscal year for proactively detecting and responding to computer security incidents, including coordination with other OCC units, the Treasury Computer Incident Response Center and the Treasury Office of the Inspector General. The OCC information infrastructure components and major computer applications are regularly assessed for risk, including undergoing full, National Institute of Standards and Technology compliant continuous monitoring. A security training program is provided for all employees and contractors, including plans and programs of specialized security training for employees and contractors with particular security-related responsibilities.

4.2 – Program Assessment Table

Program Name: Bank Supervsion

OMB Major Findings/Recommendations

1. The FY 2003 assessment of the OCC's Bank Supervision program found that the program purpose is clear, goals are outcome-oriented, program measurements are clear, program is efficiently and effectively managed, but the program is not unique in that other agencies perform similar types of regulatory functions in the banking industry.

2. Federal banking regulatory agencies, including the OCC, OTS, National Credit Union Administration (NCUA), FRB, and the FDIC, should work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.

Bureau Actions Planned or Underway

1. Regulatory agencies that include the OCC, OTS, NCUA, FDIC, FRB, Federal Housing Finance Agency (FHFA), and Security and Exchange Commission 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 the other agencies when developing or revising their goals and measures. The OCC and OTS, as bureaus in the Department of the Treasury, continue to work together to maintain alignment of their performance measures.

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

Office of Thrift Supervision

Mission Statement

To supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws and to encourage a competitive industry that meets America's financial services needs.

Program Summary by Budget Activity

Dollars in Thousands

Appropriation Office of Thrift Supervision	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated	 $ Change	 % Change
Supervision of the Thrift Industry	$245,699	$246,706	$181,000	($65,706)	-26.63%
Total Appropriated Resources	**$245,699**	**$246,706**	**$181,000**	**($65,706)**	**-26.63%**
Total FTE	**1,029**	**1,095**	**847**	**(248)**	**-22.65%**

Note: FY 2010 data provided for informational purposes only. The budget information presented below is for FY 2009.

FY 2009 Priorities

OTS's FY 2009 Priorities are set forth below:

- Comprehensive Risk Focused Examinations that Focus on Core Risk Areas:
    - Interest Rate Risk and Credit Risks,
    - Compliance Risks, Anti-Money Laundering and Financial Crimes,
- Strengthening Thrift Industry Guidance including:
    - Regulations on Prohibitions Relating to Unfair or Deceptive Acts and Practices,
    - Loss Mitigation Strategies to Prevent Mortgage Foreclosures when Appropriate,
- Disaster and Emergency Preparedness,
- Global Financial Services,
- Regulatory Burden,
- Communicating the Benefits of the Thrift Charter, and
- Succession Planning and Management of OTS Resources.

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). OTS's primary statutory authority is the Home Owners' Loan Act originally enacted in 1933. OTS also examines, supervises, and regulates state-chartered savings associations insured by the FDIC and provides for the registration, examination, and regulation of savings and loan holding companies (SLHCs) and other affiliates.

The thrift charter has several unique characteristics including nationwide branching under a single charter; a holding company structure offering a single regulator for the holding company and its subsidiary depository institutions; and preemption authority. OTS is the only federal banking agency that both charters depository institutions and supervises their holding companies. The thrift charter continues to flourish as institutions change and adapt their business strategies and focuses. OTS-supervised holding companies are diverse, ranging from large, multinational corporations to small companies with few assets other than their thrift charter.

As of September 30, 2007, OTS oversaw 831 thrifts with total assets of $1.57 trillion; OTS also supervised 470 holding company enterprises with approximately $8.5 trillion in U.S. consolidated assets.

As of September 2008, OTS regulated 818 thrifts at the end of the fiscal year with total assets of $1.18 trillion; OTS also supervised 469 holding company enterprises with approximately $8.1 trillion in U.S. consolidated assets.

Capital measures for the thrift industry continued to be strong, stable and well in excess of minimum requirements; 97.8% of all OTS-regulated thrifts, holding 99.3% of industry assets, exceeded "well-capitalized" regulatory standards.

<u>OTS Vision, Strategic Goals and Priorities</u> - OTS's vision is to perform and be recognized as the premier regulator of financial institutions and their holding companies. The FY 2009 budget submission is guided by the four strategic goals outlined in OTS's 2007-2012 Strategic Plan.

- A safe and sound thrift industry.
- Fair access to financial services and fair treatment of thrift customers.
- A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.
- A professional, highly motivated, and diverse workforce that effectively uses OTS resources to provide exceptional service to its customers.

OTS's FY 2009 budget of $246.706 million supports OTS's 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.
- 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.
- Continue efforts to implement the international Basel II risk-based capital framework.
- Address succession planning.

1B – Program History and Future Outlook

OTS is headquartered in Washington, D.C. with five regional offices located in Atlanta, Chicago, Dallas, Jersey City and San Francisco. The headquarters office develops nationwide policies and programs for the agency and coordinates the operations of OTS. The regional offices examine and supervise institutions and process most applications. Approximately 70 percent of OTS's staff works in the OTS regional offices.

The President, with Senate confirmation, appoints OTS's Director for a 5-year term. OTS's Director also serves as a member of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC), a member of the Federal Financial Institutions Examination Council (FFIEC), and a director of NeighborWorks® America.

The following activities highlight OTS's 2008 accomplishments and 2009 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's examination teams issue one report of examination that covers both compliance and safety and soundness. This approach allows OTS to comprehensively assess an institution's risk management programs, business strategy, and operations with a top-down, risk-focused approach that promotes comprehensive compliance management, including the establishment of adequate internal controls to ensure regulatory compliance and to prevent predatory practices.

OTS is 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 of at least two comprehensive examinations 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 and growing 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's 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. The enhanced NPV Model solidifies OTS's position as an industry leader in the high quality measurement of interest rate risk.

Alternative or nontraditional mortgage lending products present a unique intersection of credit and interest rate risks. In 2006 the federal financial regulatory agencies; the FDIC, Board of Governors of the Federal Reserve System (FRB), National Credit Union Administration (NCUA), OCC, and OTS issued guidance to address the risks posed by these types of loans. On May 22, 2008, the agencies issued final illustrations for helping consumers understand certain hybrid adjustable rate mortgage (ARM) products. 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 from a position of strength. 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's 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's 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. Further, to enhance examiner expertise, the second Advanced BSA/AML Specialists Conference hosted by the federal banking agencies in October 2008 focused on emerging money laundering and terrorist financing risks.

OTS has 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' staff 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's 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 OTS, FRB, and the NCUA joined together 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 addressed unfair practices in the areas of providing reasonable time periods for making payments, payment allocations, interest rate increases on outstanding balances, security deposits and fees charged to an account for the issuance of credit, and deceptive offers of credit. For overdraft protection services on deposit accounts, the rule addressed a consumer's ability to opt out of overdraft services and unfair fees for debit holds.

<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. On September 12, 2008, the OTS and Comptroller of the Currency (OCC) jointly issued the second Mortgage Metrics Report which included data thru June 2008. The combined report covers more than 90 percent of first lien mortgages held or serviced by federally regulated banks and thrifts. The combined portfolio in the report represents 34.7 million loans worth $6.1 trillion. 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. The September 12th report showed that:

- Actions by thrifts and national banks to prevent home mortgage foreclosures increased faster than new foreclosures.
- New loan modifications increased by more than 80 percent from January to June and increased by 56 percent from the first quarter to the second quarter.
- More than 9 out of 10 mortgages remain current.
- New loss mitigation actions increased more quickly than new foreclosures during the second quarter.

<u>Disaster and Emergency Preparedness</u> - OTS is actively involved in initiatives to address emergency and disaster preparedness. In October 2007, OTS urged thrifts in areas affected by the Southern California wildfires to consider all reasonable steps to meet customers' financial needs while maintaining standards of safety and soundness. OTS emphasized that thrifts in affected areas could:

- Consider temporarily waiving charges for late payments and penalties for early withdrawal of savings.
- Reassess the credit needs of their communities and offer prudent loans to help rebuild.
- Restructure borrowers' debt obligations, when appropriate, by adjusting payment terms.
- Solicit state and federal guarantees and other means to help mitigate excessive credit risks.
- Consider all available programs offered by the Federal Home Loan Banks.

For the past 20 years, OTS, in conjunction with the other FFIEC agencies, has issued guidance to the industry with regard to Disaster Recovery and Business Continuity Planning. During examinations, OTS reviews each institution's 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.

<u>Global Financial Services</u> - The Holding Company and International Division oversees OTS's global services. The European Union (EU) seeks to ensure that financial conglomerates domiciled outside EU member countries are subject to an equivalent level of supervision by foreign supervisors and to enhance coordination among relevant supervisors. OTS is the supervisor for U.S. thrift holding companies, including a number of financial conglomerates active in the EU. OTS was the first regulatory authority to be designated a consolidated coordinating regulator of a holding company with operations in the EU.

<u>International Basel II Risk-Based Capital Framework</u> - In late 2007, the FDIC, FRB, OCC, and OTS approved a final rule regarding the advanced approaches for computing large banks risk-based capital requirements. The rule became

effective in April 2008, and while it remains unclear when banks are expected to begin the multi-year transition process to full implementation, the federal banking agencies are continuing preparatory efforts towards that end.

On July 2, 2008, the Director of OTS approved an interagency notice of proposed rulemaking along with the FDIC, FRB and OCC that would, if finalized, offer savings institutions the option of adopting a less complex approach for calculating risk-based capital requirements under the Basel II capital framework. This "standardized" approach would be available to all banking organizations except those that meet the definition of a core banking organization (generally over $250 billion in assets or $10 billion in foreign exposures). Although the standardized approach is a less complex alternative than the advanced approach, it is more risk-sensitive and more complex than the existing risk-based capital rules. The existing rules will also remain in effect as an available option for all but the largest organizations.

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 Benefits 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; the booth also details aspects of the thrift charter that set it apart from other charter options.

Succession Planning and Management of OTS Resources
Thirty-five percent of OTS’s current staff will be eligible to retire 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 93%.

To achieve full accreditation and gain expertise, 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 2008, 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, Real Estate Appraisal Review and compliance courses. OTS also offered courses and seminars in advanced examiner topics, management and leadership topics, ethics and information security. OTS's blend of regulatory and non-regulatory training and development keep OTS's employee competencies current and relevant to industry needs. During FY 2008, nine examiners were accredited, increasing the accredited examiner staff to 414.

OTS receives no appropriated funds from Congress; its revenue is derived principally from assessments on savings associations and savings and loan holding companies. While the FY 2009 projected assessment revenue is consistent with FY 2008 levels, OTS continues to monitor the impact of recent thrift failures and ongoing industry consolidation, driven in part by the current financial crisis. 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 any FY 2009 shortfall. In addition, OTS is limiting new hires and prudently managing other expenses to adjust to any revenue reductions. 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 for years to come.

1C – Industry Outlook

The United States economy is currently undergoing significant financial distress and the thrifts and banks engaged in home mortgage financing are feeling a disproportionate impact from the current 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.

During the six months that ended in September 2008, thrifts set aside $21.9 billion in loan loss provisions, substantially increasing their reserves to 1.93%, a significant increase from .78% one year ago. The increase in reserves contributed to a net loss of $3.99 billion for the quarter ending September 30, 2008, but has strengthened the industry's ability to withstand foreseeable current and future challenges.

Capital levels for the industry remain stable and in excess of minimum requirements. At the end of September 2008, 97.8 percent of the thrift industry, holding 99.4 percent of industry assets, exceeded well-capitalized standards and only six thrifts were less than adequately capitalized. Thrifts are also participating in the Treasury's Capital Purchase Program (CPP), the initial component of the Troubled Asset Relief Program. Thrifts submit their CPP applications to the OTS, which reviews them and forwards them to Treasury with OTS's recommendation.

The thrift industry continues to remain focused on residential mortgage lending, with 45.8 percent of assets invested in one-to-four family mortgage loans as of the end of FY 2008. The volume of mortgage refinancing, as a percentage of total originations, remains strong as borrowers continue to convert adjustable rate mortgages to fixed rate mortgages.

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

Bureau: Office of Thrift Supervision	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated	% Change FY 2009 to FY 2010
FTE	**1,029**	**1,095**	**847**	**-22.65%**
Object Classification:				
11.1 - Full-time permanent	114,509	127,329	104,000	-18.32%
11.3 - Other than full-time permanent	1,696	0	0	0.00%
11.5 - Other personnel compensation	28	54	0	-100.00%
11.8 - Special personal services payments	8,259	504	0	-100.00%
12 - Personnel benefits	54,779	60,585	33,000	-45.53%
13 - Benefits for former personnel	231	214	0	-100.00%
21 - Travel and transportation of persons	17,258	19,094	15,000	-21.44%
22 - Transportation of things	200	382	1,000	161.78%
23.2 - Rental payments to others	4,070	4,430	3,000	-32.28%
23.3 - Comm, utilities, and misc charges	3,754	5,168	5,000	-3.25%
24 - Printing and reproduction	254	223	0	-100.00%
25.1 - Advisory and assistance services	5,249	3,243	2,000	-38.33%
25.2 - Other services	6,037	5,303	4,000	-24.57%
25.3 - Other purchases of goods and services from Govt. accounts	4,340	5,289	4,000	-24.37%
25.4 - Operation and maintenance of facilities	10,198	5,380	4,000	-25.65%
25.7 - Operation and maintenance of equip	221	417	1	-99.76%
25.8 - Subsistence and support of persons	0	75	0	-100.00%
26 - Supplies and materials	2,071	2,904	2,000	-31.13%
31 - Equipment	10,323	4,871	3,000	-38.41%
32 - Land and structures	2,222	1,241	999	-19.50%
Total Budget Authority	**$245,699**	**$246,706**	**$181,000**	**-26.63%**
Budget Activities:				
Supervision of the Thrift Industry	245,699	246,706	181,000	-26.63%
Total Budget Authority	**$245,699**	**$246,706**	**$181,000**	**-26.63%**

2.3 – Resource Detail Table

Description	FY 2008 Actual	FY 2009 Estimated	FY 2010 Estimated	% Change FY 2009 to FY 2010
(Dollars in Thousands)				
Summary of Revenue and Expenses:				
Revenue:				
Supervision				
Assessments	$245,175	$227,750	$170,000	-25.4%
Rental Income	5,020	$5,100	$5,000	-2.0%
Interest	8,818	$9,000	$4,000	-55.6%
Fees & Other	8,304	$7,000	$2,000	-71.4%
Total Revenue	$267,317	$248,850	$181,000	-27.3%
Expenses:				
Supervision				
Compensation & Benefits	$179,501	$188,686	$137,000	-27.4%
Travel & Transportation	17,316	$19,476	$16,000	-17.8%
Facilities	16,669	$10,839	$4,000	-63.1%
Other Services & Supplies	$32,213	$27,705	$24,000	-13.4%
Total Expenses	$245,699	$246,706	$181,000	-26.6%
Net Results	$21,618	$2,144	$0	0.0%

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 Goal *Treasury Strategic Objective* *Treasury Strategic Outcome*	**FY 2009 President's Budget** AMOUNT	**FY 2010 Baseline** AMOUNT	**Percent Change** AMOUNT
Economic competitiveness	24,670	18,100	**-26.6%**
Fin. & econ. crises	222,036	162,900	**-26.6%**
Total	**$246,706**	**$181,000**	**-26.6%**

3A – Supervision of the Thrift Industry *($246,706,000 from reimbursable programs):* OTS examines savings associations every 12 – 18 months for safety and soundness and compliance with consumer protection laws and regulations. During these exams, the association's ability to identify, measure, monitor, and control risk is evaluated, including the risk posed by other entities within the corporate structure. When weaknesses are identified, increased supervisory action, including additional field visits, accelerating the normal 12-18 month exam cycle, and/or enforcement action is taken.

OTS receives no appropriated funds from Congress; the revenue of the bureau is derived principally from assessments on savings associations and savings and loan holding companies. Other sources of income include fees, rents, and interest on investments. OTS has received unqualified opinions on its financial statements since being formed in 1989.

OTS's four strategic goals guide the annual budget activity:

Strategic Goal 1: A safe and sound thrift industry.

Through the examination process, OTS strives to anticipate, identify, understand, address and communicate to savings associations and their holding companies the safety and soundness risks posed by their operations, as well as noncompliance with safety and soundness and holding company regulations and guidance. OTS maintains a high level of communication with the industry, administers educational programs, and shares information on industry best practices and emerging risks. Each association's compliance with the requirements of the Bank Secrecy Act, the USA Patriot Act, and other anti-money laundering and anti-terrorism statutory and regulatory requirements is determined on an on-going basis. OTS also incorporates applicable lessons learned from recent natural disasters and emergencies. Problem thrift situations are resolved in a timely fashion, and when possible, without loss to the deposit insurance fund.

Strategic Goal 2: Fair access to financial services and fair treatment of thrift customers.

OTS's Community Affairs Program supports the thrift industry's efforts to meet the convenience and needs of the communities they are chartered to serve; fulfill their Community Reinvestment Act (CRA) obligations; and provide safe and sound loans, investments and financial services for low and moderate income individuals, communities and areas of greatest need. OTS's Community Affairs staff works with savings associations, community-based organizations, government officials and others to promote partnerships and initiatives with savings associations at the local level to address and respond to community and economic development needs.

In addition, OTS promotes industry adoption of comprehensive compliance management programs and encourages associations to strategically develop the diverse opportunities presented by the communities they are chartered to serve.

OTS continues to take a lead role in addressing predatory and abusive lending practices, customer privacy, information security, and identity theft requirements. OTS also reinforces the importance of fair and honest treatment of consumers through appropriate supervisory and enforcement actions. OTS uses the application process to ensure savings associations have management programs that are responsive to the credit needs of their communities.

Strategic Goal 3: A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.

OTS strives to increase efficiencies in regulating savings associations while maintaining effective supervision to ensure safety and soundness and consumer protection. To achieve this goal, OTS is improving the application process, limiting assessment rate increases, and reviewing statutes and regulations that may be duplicative or unnecessary. OTS conducts consolidated examinations that combine safety and soundness with compliance reviews to improve efficiency and reduce the amount of on-site examination time. OTS's regulations have been redesigned to make them easier to understand and to eliminate unnecessary restrictions that do not improve safety and soundness or protect consumers. OTS tailors examinations to the risk profile of each individual institution. These changes ensure that the examination process is responsive and enables the thrift industry to provide competitive financial services.

Strategic Goal 4: A professional, highly motivated and diverse workforce that effectively uses OTS resources to provide exceptional service to its customers.

OTS strives to maintain a workforce that is professional and well trained to regulate the thrift industry and to deal with the public in a professional, informed, and responsive manner. OTS provides the public with statistical reports, securities filings of OTS registrants, chartering records and other public information. OTS assists savings association customers with inquiries and complaints concerning savings associations.

OTS has developed a long-range staffing plan and a national training and development program to ensure that core programs are sufficiently staffed with properly trained and experienced personnel. OTS continues to foster an environment built on fairness, trust, respect, teamwork, communication, creativity, diversity, and empowerment. OTS has developed proactive initiatives focused on the retention of employees including mentoring, employee feedback, employee outreach, incentives, and recognition programs.

3.2.1 – Supervision of the Thrift Industry Budget and Performance Plan

Supervision of the Thrift Industry Budget Activity					
Resource Level	FY 2006 Obligated	FY 2007 Obligated	FY 2008 Obligated	FY 2009 Estimated	FY 2010 Estimated
Appropriated Resources	$0	$0	$0	$0	$0
Reimbursable Resources	$199,497	$218,129	$245,699	$246,706	$181,000
Total Resources	**$199,497**	**$218,129**	**$245,699**	**$246,706**	**$181,000**
Budget Activity Total	**$199,497**	**$218,129**	**$245,699**	**$246,706**	**$181,000**

Supervision of the Thrift Industry Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Total OTS costs relative to every $100,000 in savings association assets regulated ($) (E)	13.46	13.90	15.10	23.04	20.00
Percent of safety and soundness exams started as scheduled (%) (Ot)	93	95	94	94	94
Percent of thrifts that are well capitalized (%) (Oe)	99	99	99	99	99
Percent of thrifts with compliance examination ratings of 1 or 2 (%) (Oe)	94	93	97	97	97
Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) (Oe)	94	93	93	93	93

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

Description of Performance - OTS met all of its performance measure targets for FY 2008 except for “Total OTS Cost per $100,000 in Savings Association Assets Regulated,” which missed by only one-tenth of one percent (.1%). OTS is presently repositioning its resources to meet the requirements of supervising a smaller asset base. The FY 2009 Performance Budget describes the goals, strategies, and priorities that will guide OTS’s operations. The FY 2009 budget enables OTS to continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

Percent of thrifts with composite CAMELS ratings of 1 or 2 - On December 9, 1996, the Federal Financial Institutions Examination Council (FFIEC) adopted the CAMELS rating system (Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk) as the internal rating system to be used by the federal and state regulators for assessing the safety and soundness of financial institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. OTS assigns a composite CAMELS rating to savings associations at each examination. OTS adjusts the level of supervisory resources devoted to an association based on the composite rating. The CAMELS rating is based upon a scale of 1 through 5 in increasing order of supervisory concern.

Percent of thrifts with compliance examination ratings of 1 or 2 - 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.

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 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.

Total OTS costs relative to every $100,000 in savings association assets regulated - Beginning in FY 2006, OTS included a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex thrift industry. This measure supports OTS's ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. Approximately 60 percent of all savings associations have total assets of less than $250 million and are generally community-based organizations that provide retail financial services in their local markets. The measure does not include the assets of the holding company enterprises regulated by OTS.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treasury.gov/offices/management/dcfo/accountability-reports/2008-par.shtml

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Human capital represents OTS's 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-five percent of OTS's current staff will reach retirement eligibility 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's compensation program continues to enable OTS to attract, retain, and reward staff comparable to the other federal banking agencies.

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.

4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments							
Major IT Investments / Funding Source	Budget Activity	FY 2007 & Earlier Enacted 1/	FY 2008 Enacted	FY 2009 President's Budget	% Change from FY08 to FY09	FY 2010 Requested	% Change from FY09 to FY10
Major IT Investments		$0.0	$0.0	$0.0	0.0	0.0	0.0
Non-Major IT Investments							
Administrative - Mixed	Supervision	$0.8750	$0.8970	$0.9190	2.4%	$0.9420	2.5%
Examinations	Supervision	$1.9250	$1.9730	$2.0220	2.4%	$2.0730	2.5%
Thrift Financial Data	Supervision	$3.8750	$3.9720	$4.0710	2.4%	$4.1730	2.5%
TFR Validation	Supervision	$1.5750	$1.6140	$1.6550	2.5%	$1.6960	2.5%
Industry Structure and Tracking	Supervision	$1.5750	$1.6140	$1.6550	2.5%	$1.6960	2.5%
CIO Planning	Supervision	$2.5490	$2.6130	$2.6790	2.5%	$2.7460	2.5%
Total Non-Major IT Investments		$12.4	$12.7	$13.0	2.4%	$13.3	2.5%
Infrastructure Investments							
Treasury Consolidated Data Center & Services		$5.0130	$5.1390	$5.2670	2.4%	$5.3990	2.5%
Treasury Consolidated Telecommunications		$1.7340	$1.7770	$1.8220	2.5%	$1.8670	2.5%
Treasury Consolidated End User Services		$3.3690	$3.4530	$3.5390	2.4%	$3.6280	2.5%
Treasury Consolidated Security		$0.0000	$0.0000	$0.0000	0.0%	$0.0000	0.0%
Total Infrastructure Investments		$10.1160	$10.3690	$10.6280	2.4%	$10.8940	2.5%
Enterprise Architecture		$0.1	$0.2	$0.2	2.7%	0.188	2.2%
Total IT Investments		$22.6	$23.2	$23.8	2.4%	$24.4	2.5%

4B – Information Technology Strategy

The OTS Information Technology Investment Review Board (IRB) provides overall direction and vision for how OTS's information technology should contribute to OTS's goals and objectives. It serves as the forum for senior OTS executives to make decisions regarding IT expenditures and investments.

OTS's Chief Information Officer is responsible for the policy, oversight, and improvement of all information systems as well as the information management and data communications used by OTS to carry out its mission. OTS's Chief Information Officer serves as the Executive Director of the IRB; OTS's Director serves as the IRB Chair.

The IRB meetings are incorporated into the Regional Managers meetings to ensure that all senior staff participates in the discussion of the IT program, its budget, projects, strategies, and priorities. Projects are evaluated annually during the budget cycle and can be terminated or funded for further development.

Information Technology projects completed during FY 2008 include:

- <u>Conversion to a New Payroll System</u> - Effective August 17, 2008, OTS converted from the current in-house payroll/personnel processing system to the Department of Agriculture's National Finance Center's (NFC) payroll and the Department of the Treasury's HR Connect System. This migration was a complex project; OTS, NFC, and Treasury teams managed the payroll migration and collaborated in a rigorous examination of the OTS requirements and processes. Detailed system testing was conducted prior to the "go live" date to ensure the accuracy of individual employees' payroll data.
- <u>Security Monitoring</u> - OTS implemented automated internal security controls to address risks, analyze threats, and respond to incidents. OTS implemented the Computer Incident Response Capability which performs incident response, reporting, management, and mitigation. Lessons Learned are developed for each incident.
- <u>Privacy</u> - OTS continues to actively manage privacy concerns. Two employees achieved the Certified Information Privacy Professional/Government credential. This credential is recognized as a measure of an individual's ability to assess privacy concerns. OTS evaluated all systems for privacy considerations using the Privacy Threshold Assessment tool. OTS has seven systems that require a Privacy Impact Assessment. These assessments are underway and, when complete, will be posted on OTS's web site. OTS chairs the Department of the Treasury's Personally Identifiable Information Risk Management Group.
- <u>Training</u> - OTS achieved 100 percent employee compliance on both the Annual Security Awareness and Annual Privacy Awareness training courses in FY 2008.

4B – Information Technology Strategy

IT Projects planned to begin in FY 2009 include:

- Developing a new Business Resumption Program – OTS will begin developing 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.

- Enhancing the Consumer Complaint Systems – During FY 2008, OTS initiated major improvements to its consumer complaint handling process. These improvements included establishing a new call center, assigning additional staff, and initiating the development of a new consumer complaint system. During 2009, OTS will deliver the new consumer complaint system along with other technology solutions. OTS will establish a new Call Log System that will improve efficiency and reduce errors in handling calls. The new system will track calls and generate reports that will provide management with information on the volume of calls and length of time needed to process and respond to calls.

- Replacing the Legal Tracking System - In 2009 OTS will begin to replace the Regional Legal Tracking system (RLT), a legacy application currently used by OTS's Chief Counsel's Office. Replacement of the RLT is necessary to accommodate retirement of the obsolete Alpha servers. OTS will evaluate commercial off-the-shelf case management products for possible purchase, consider the modification of an existing OTS system, and consider the development of a new system using Microsoft SharePoint.

- Training – During FY 2009 OTS employees will be required to complete on-line records management training.

OTS has no major IT investments planned for FY 2009.

4.2 – Program Evaluation Table

Program Name: Thrift Supervision

Strategic Goal: Increase the reliability of the U.S. financial system (F3)

OMB Major Findings

1. The program purpose is clear.
2. The program developed new goals that are outcome-oriented and program measurements which are clear.
3. The program is efficiently and effectively managed.

OMB Recommendations

1. Federal banking regulatory agencies, including the OTS, the OCC, the NCUA, and the FDIC, work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.
2. OTS evaluates the efficiency and effectiveness of a single examination for both Safety and Soundness and Compliance functions.
3. OTS takes steps to examine long-term systemic risks in the industry.

OTS Actions Taken

1. OCC and OTS worked together throughout the strategic and performance planning efforts to ensure that their strategic goals were closely aligned. The banking regulatory agencies share their strategic and performance plans with each other and meet quarterly to discuss strategic and performance planning.
2. Based on feedback received over the past two years, the vast majority of the industry prefers the efficiency and effectiveness of a joint examination. OTS eliminated much of the redundancy of two separate exams. OTS will fulfill its statutory examination responsibilities with less FTEs as a result of this change.
3. During the 2007 strategic planning process, systemic risks were examined and addressed in the Plan.

OTS Actions Planned or Underway

1. OTS will continue to work with the OCC to ensure that strategic goals are closely aligned. OTS will continue to share its strategic and performance plans with the other banking regulatory agencies and meet to discuss strategic and performance planning.
2. OTS will continue to perform a joint examination.
3. OTS will continue to examine and address systemic risks.

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

INTERNATIONAL PROGRAMS

The Department of the Treasury's FY 2010 budget request for International Programs is included in the State, Foreign Operations, and Other Related Programs Appropriations.