

# CITIZENS' REPORT

SUMMARY OF PERFORMANCE AND  
FINANCIAL INFORMATION



THE DEPARTMENT  
OF THE TREASURY

FISCAL YEAR 2012

# THE UNITED STATES DEPARTMENT OF THE TREASURY



## Our Mission

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



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## EXECUTIVE SUMMARY

In fiscal year 2012, the Department of the Treasury undertook a multitude of actions that helped strengthen the U.S. economy, increase job opportunities, and improve the housing market by taking important steps to restore confidence in the financial system while reinforcing U.S. international competitiveness. The Department continued to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act); took aggressive actions in the fight against financial crimes, money laundering, and threats to national security;

continued its pursuit of comprehensive tax and fiscal reform; and strengthened efforts to improve stewardship over the U.S. Government's financial resources. Treasury worked to encourage lending to small businesses, promote economic prosperity, and monitor risk in the financial system. Treasury has also driven a departmental management agenda focused on governing strategically, working smarter, and leveraging advances in technology to gain greater cost savings for the American public, increase productivity, modernize operations, and support the Administration's management agenda.

## ORGANIZATION

The Department of the Treasury is the executive agency responsible for promoting economic prosperity and ensuring the financial security of the United States. The Department is organized into the Departmental Offices, eight operating bureaus, and three inspectors general. The Departmental Offices are primarily responsible for policy formulation, while the bureaus are primarily the operating units of the organization.

### DEPARTMENTAL OFFICES

**Domestic Finance** advises and assists in areas of domestic finance, banking, and other related economic matters. In addition, this office develops policies and guidance for Treasury Department responsibilities in the areas of financial institutions, federal debt finance, financial regulation, financial stability, capital markets, financial management, fiscal policy, and cash management decisions. The staff supporting the Financial Stability Oversight Council, as well as the staffs of the Office of Financial Research (OFR) and the Federal Insurance Office (FIO), created under the Dodd-Frank Act, reside within Domestic Finance. Domestic Finance also includes the Office of Financial Stability (OFS), which is responsible for overseeing the Troubled Asset Relief Program (TARP), and the Office of Financial Institutions, which oversees the Community Development Financial Institutions (CDFI) Fund, the Small Business Lending Fund (SBLF), and the State Small Business Credit Initiative (SSBCI).

**International Affairs** works to ensure the most favorable external environment for sustained jobs and economic growth in the United States. International Affairs economists produce international economic and financial policy analysis to support policymaking and to inform the office's diverse but

interrelated set of activities. These activities help advance U.S. economic and financial policy priorities around the world such as promoting: free trade and open markets; stable international financial markets; and a level playing field for U.S. businesses and financial institutions internationally.

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

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

**Tax Policy** develops and implements tax policies and programs, reviews regulations and rulings to administer the Internal Revenue Code and the tariff laws, negotiates tax treaties, and provides economic and legal policy analysis for

domestic and international tax policy decisions. Tax Policy also provides revenue estimates for the President's Budget.

**Treasurer of the United States** has direct oversight over the United States Mint and the Bureau of Engraving and Printing, and is a key liaison with the Federal Reserve. In addition, the Treasurer serves as a senior advisor to the Secretary in the areas of community development and public engagement.

### **Other Offices**

Internally, Treasury's Departmental Offices are responsible for overall management of the Department. The Office of Management and the Chief Financial Officer is responsible for managing the Department's financial resources and oversees Treasury-wide programs, including human capital, information technology (IT), and minority and women inclusion.

Other support offices include General Counsel, Legislative Affairs, and Public Affairs. Also, three inspectors general—the Office of the Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), and the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) — provide independent audits, investigations, and oversight of the Department of the Treasury and its programs. While SIGTARP is organizationally placed in Treasury, it is not under the general supervision of the Secretary.

### **BUREAUS**

Bureaus employ 98 percent of Treasury's workforce and are responsible for carrying out specific operations assigned to the Department.

**The Alcohol and Tobacco Tax and Trade Bureau (TTB)** collects federal excise taxes on alcohol, tobacco, firearms, and ammunition, and assures compliance with tobacco permitting and alcohol permitting, labeling, and marketing requirements to protect consumers.

### **The Bureau of Engraving and Printing (BEP)**

develops and produces U.S. currency notes that are trusted worldwide.

**The Bureau of the Public Debt (BPD)** borrows the money needed to operate the U.S. Government through the sale of marketable, savings, and special purpose U.S. Treasury securities. It accounts for and services the public debt and provides reimbursable administrative support services to federal agencies.

**The Financial Management Service (FMS)** provides central payment services to federal program agencies, operates the U.S. Government's collections and deposit systems, provides government-wide accounting and reporting services, and manages the collection of delinquent debt owed to the U.S. Government.

Effective October 2012, the BPD and FMS operating bureaus consolidated to form the Bureau of the Fiscal Service.

**The Financial Crimes Enforcement Network (FinCEN)** enhances the integrity of the financial system by facilitating the detection and deterrence of financial crime.

**The Internal Revenue Service (IRS)** is the largest of the Department's bureaus and determines, assesses, and collects tax revenue for the U.S. Government.

**The United States Mint** designs, mints, and issues circulating and bullion coins, prepares and distributes numismatic coins and other items, and strikes Congressional Gold Medals and other medals of national significance. The United States Mint maintains physical custody and protection of most of the nation's gold and all of its silver reserves.

**The Office of the Comptroller of the Currency (OCC)** charters, regulates, and supervises all national banks and federal savings associations to help ensure that they operate in a safe and sound manner and in compliance with laws requiring fair treatment of their customers and fair access to credit and financial products.

# THE DEPARTMENT OF THE TREASURY ORGANIZATIONAL CHART



## TREASURY'S FISCAL YEARS 2012-2015 STRATEGIC FRAMEWORK

The Treasury's Strategic Framework is a summary of the department's goals and objectives. This framework provides the basis for performance planning and continuous improvement.

Economic	Strategic Goals	Strategic Objectives	Indicators and Measures
	<b>Goal 1</b> Repair and Reform the Financial System and Support the Recovery of the Housing Market	Lead the Administration's efforts to continue to implement comprehensive regulatory reform to increase stability and strengthen accountability in the financial system Effectively manage and exit emergency programs Reform and strengthen the housing finance system Help prevent avoidable foreclosures and support the availability of affordable mortgage credit	TARP lifetime cost estimate Income received from dividends, interest, warrants, and repayments of TARP investments Rolling percent of investments remaining (overall and bank-only) Monthly mortgage-backed securities statement Housing scorecard indicators
	<b>Goal 2</b> Enhance U.S. Competitiveness and Promote International Financial Stability and Balanced Global Growth	Protect global economic and financial stability and encourage market-determined exchange rates Promote strong international financial standards and a level playing field for U.S. financial institutions Pursue free trade and open markets Encourage foreign investment in the U.S. economy Enter into bilateral and multilateral tax agreements that encourage cross-border trade and investment Use leadership positions in the multilateral development banks and the International Monetary Fund to advance U.S. national security and economic interests Provide direct assistance to developing countries working to improve public financial management and strengthen their financial systems	Timely review of Committee on Foreign Investment in the United States (CFIUS) cases Percentage of grant and loan proposals containing performance measures Percentage of timely reviews of Multilateral Development Bank (MDB) grant and loan proposals Percentage of timely reviews of International Monetary Fund (IMF) lending proposals Traction and impact of technical assistance



Security	Strategic Goals	Strategic Objectives	Indicators and Measures
	Goal 3 Protect our National Security through Targeted Financial Actions	<p>Collect, analyze, and disseminate financial and other information concerning illicit financing and national security threats</p> <p>Disrupt and dismantle the financial networks of those who threaten national security or engage in illicit financing</p> <p>Shape policy, laws, and regulations to safeguard the U.S. and international financial systems</p> <p>Coordinate with partners, both at home and abroad, including the foreign policy, law enforcement, and intelligence communities, to combat illicit finance</p> <p>Assist partner countries in developing and implementing anti-money laundering and counter terrorist financing regimes compliant with international standards</p>	<p>Impact of economic sanctions</p> <p>Impact of policymaking, outreach, and diplomacy</p> <p>Impact of activities to create safer and more transparent financial systems</p> <p>Ability to effectively collect, disseminate, and analyze financial intelligence</p>

Financial	Strategic Goals	Strategic Objectives	Indicators and Measures
	Goal 4 Pursue Comprehensive Tax and Fiscal Reform	<p>Develop comprehensive proposals to reform and simplify the tax code</p> <p>Increase voluntary tax compliance</p> <p>Promote policies to ensure a sound fiscal footing over the medium term</p>	<p>Voluntary tax compliance</p> <p>Number of tax proposals partially or completely enacted into law</p> <p>Number of administrative initiatives implemented</p> <p>Effects of fiscal policy</p>
	Goal 5 Manage the Government's Finances in a Fiscally Responsible Manner	<p>Optimize the cash and debt portfolio to manage the Government's borrowing costs effectively</p> <p>Expand the use of electronic transactions</p> <p>Modernize financial systems and standardize accounting practices</p> <p>Continuously improve our operations and processes to generate efficiency savings</p> <p>Attract and retain an exceptional workforce</p>	<p>Percentage of Treasury payments made electronically</p> <p>Percentage of vendor invoices processed electronically by Treasury</p> <p>Percentage of total federal government receipts collected electronically</p> <p>Percentage of individual tax returns filed electronically</p> <p>Amount of delinquent debt collected</p> <p>Mean absolute monthly forecast error on a cumulative basis for budget receipts, outlays, and non-marketable debt and mean absolute daily error in cash balance projections</p> <p>Percentage of small business procurement targets met</p> <p>Best Places to Work ranking</p> <p>Percentage of new hires retained after two years</p>

## **TREASURY'S FISCAL YEAR 2012 PERFORMANCE BY STRATEGIC GOAL**

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

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

In 2010, Congress passed and the President signed into law comprehensive financial regulatory reform: The Dodd-Frank Act. Those reforms led by Treasury are helping to make future financial shocks less likely and less damaging by addressing key gaps and weaknesses in the pre-crisis financial system and helping to better protect consumers against fraud and abuse.

Treasury also worked to support the process of repair and recovery of the housing market. The Department has worked with the White House and the Department of Housing and Urban Development (HUD) on the development of loan modification and refinancing programs designed to help prevent avoidable foreclosures and reduce mortgage costs for responsible homeowners as well as on reforms to help transition to a housing market where the private sector is the predominant source of mortgage credit.

#### **DODD-FRANK ACT**

During fiscal year 2012, Treasury continued to focus on building a more efficient, transparent, and stable financial system that contributes to the nation's economic strength and enhances its resiliency. The Dodd-Frank Act addressed key gaps and weaknesses in the financial regulatory structure that contributed to the onset and severity of the financial crisis.

These reforms were designed to help better protect taxpayers, businesses, and American families by:

- Constraining excessive risk taking to prevent financial instability from threatening the health of the economy as a whole

- Restoring investor confidence in the American financial system so that it can support savings and investment
- Leveling the playing field in the U.S. to permit community banks to compete fairly with the nation's largest financial firms
- Promoting and strengthening complementary financial regulatory policies with G-20 member countries to support the resilience of the international financial system, enhance U.S. competitiveness and level the playing field internationally
- Educating and protecting consumers, through authority granted to Treasury and to the new Consumer Financial Protection Bureau (whose mission is to implement and enforce federal consumer financial laws, including the prohibition against unfair, deceptive, or abusive practices relating to consumer financial products and services)

#### **FINANCIAL STABILITY OVERSIGHT COUNCIL**

The Dodd-Frank Act established the Financial Stability Oversight Council (Council), comprised of federal financial regulators, state regulators, and other financial experts, to identify risks to the financial stability of the United States, promote market discipline, and respond to emerging threats to the stability of the U.S. financial system. The Council, chaired by the Secretary of the Treasury, monitors threats to financial stability and facilitates coordination across the financial regulatory community. To that end, the Department of the Treasury has played an important role in a number of Dodd-Frank Act rulemakings.

The Secretary of the Treasury, as Chairperson of the Council, is coordinating the federal regulators' risk retention rulemaking process. This rule will help align interests among mortgage originators, securitizers (i.e. firms that create and sell groups of mortgage loans as securities), and other investors that participate in the housing finance market. The Secretary is also coordinating the rulemaking to implement the Volcker Rule, which prohibits banking entities from

engaging in certain proprietary trading activities and limits hedge fund and private equity fund investments. . The Council has been actively engaged in activities to identify risks, promote market discipline, and respond to emerging threats to U.S. financial stability, such as identifying systematically important entities in the financial markets and working to designate nonbank financial companies for supervision and enhanced prudential standards.

The Council also actively facilitates information-sharing and coordination among its members regarding rulemakings, examinations, reporting requirements, and enforcement actions. Through meetings among its principals, as well as among the deputies and staffs of the Council members and their agencies, the Council has served as an important forum for increasing coordination among the member agencies.

### **OFFICE OF FINANCIAL RESEARCH**

The Dodd-Frank Act established the Office of Financial Research (OFR) within the Treasury Department to serve the Council, its member agencies, and the public by improving the quality, transparency, and accessibility of financial data and information, conducting and sponsoring research related to financial stability, and promoting best practices in risk management. The OFR has established five strategic goals as part of its Fiscal Year 2012-2014 Strategic Plan:

- Support the Council through the secure provision of high-quality financial data and analysis needed to monitor threats to financial stability
- Develop and promote data-related standards and best practices
- Establish a center of excellence for research on financial stability and promote best practices for financial risk management
- Provide the public with key data and analysis while protecting sensitive information
- Establish the OFR as an efficient organization and world-class workplace

In fiscal year 2012, the OFR has made significant and accelerating progress in meeting its goals and priorities.

**Council Support:** The OFR is providing data for use by the Council for its Annual Report, as well as data and analysis

relating to the designation of nonbank financial companies for supervision by the Federal Reserve Board and enhanced prudential standards. The OFR is also continuing to enhance its Financial Stability Monitor—a dashboard of financial stability metrics and indicators—in collaboration with staff from Council members and their agencies. Consistent with its objectives to avoid duplicating existing efforts and to create new efficiencies, the OFR has completed the first two phases of an initial inventory of metadata among Council member agencies, and a third phase is underway. The OFR has established data sharing agreements with a number of Council member agencies and is working on new ones, where needed. It is also supporting the Council’s Data Committee, which supports data collection and information sharing.

**Standards:** The OFR has played a central role in the international initiative to establish a global Legal Entity Identifier (LEI), a code that uniquely identifies parties to financial transactions, with a planned launch of the global system in March 2013.

**Center of Excellence for Research:** In July 2012, the OFR issued its first Annual Report assessing the state of the U.S. financial system, the status of the efforts by the OFR to meet its mission, and key findings of the OFR’s research and analysis. In addition, during fiscal year 2012, the new office launched a Research Seminar Series, initiated a Working Paper Series, co-sponsored with the Council a December 2011 conference, “The Macroprudential Toolkit: Measurement and Analysis,” and hosted an August 2012 workshop on stress-testing. The Financial Research Advisory Committee has been established to provide advice, recommendations, analysis, and information to the OFR.

**Public Information:** To support transparent, accountable operations, the OFR has published key information on its website in fiscal year 2012, including its inaugural Annual Report, its Strategic Framework, two working papers, and broader information about its core outputs and operations.

**Building the Institution:** The OFR has made substantial progress in its hiring (with 120 staff by the end of fiscal year 2012), building its institutional framework, establishing secure IT and business systems needed to carry out its mandate, and putting in place policies and procedures to support sound and efficient operations. As part of these

efforts, the OFR has established, and is continuing to enhance, a comprehensive strategic planning and performance management system, with a foundational set of performance measures to be published as part of the President's fiscal year 2014 Budget.

### **FEDERAL INSURANCE OFFICE**

Treasury's Federal Insurance Office (FIO), also established by the Dodd-Frank Act, monitors all aspects of the insurance industry, including identifying issues or gaps in regulation that could contribute to a systemic crisis in the insurance industry or financial system. FIO also monitors the accessibility and affordability of non-health insurance products to traditionally underserved communities; coordinates and develops federal policy on prudential aspects of international insurance matters; represents the United States at the International Association of Insurance Supervisors (IAIS); serves on and contributes expertise to the Council.

Until the establishment of FIO, the United States was not represented by a single, unified federal voice in the development of international insurance supervisory standards. FIO now provides important leadership in developing international insurance policy. In fiscal year 2012, the FIO Director was elected to serve on the IAIS Executive Committee and as Chair of its Technical Committee. Among other projects, FIO is involved through the IAIS in developing the methodology used to identify and designate insurers important to the international financial system and the process of recommending to the Financial Stability Board (FSB), that such firms should be subject to enhanced oversight. FIO has also led and participated in the E.U. – U.S. insurance project, the goal of which is to increase mutual understanding and enhance insurance supervisory cooperation between the E.U. and the U.S. in order to promote business opportunity, consumer protection, and effective supervision. FIO has and will continue to work closely and consult with state insurance regulators and other federal agencies in its work. Additionally, FIO established and has provided necessary leadership in the European Union-U.S. insurance dialogue regarding such matters as group supervision, capital requirements, reinsurance, and financial reporting. FIO has and will continue to work closely

and consult with state insurance regulators and other federal agencies in its work.

### **HOUSING FINANCE, GOVERNMENT SPONSORED ENTERPRISES (GSEs)**

Treasury is committed to strengthening the economy, including its work with the broader administration on housing finance reform to:

- Ensure access to credit
- Strengthen consumer protection
- Increase transparency for investors
- Improve underwriting standards
- Strengthen taxpayer protections

These reforms will help repair fundamental flaws in the mortgage market and provide support to creditworthy but underserved families who want to own or rent their own homes.

Capital support for the GSEs while those firms are in conservatorship has played an important role in preserving access to mortgage credit for American families in the wake of the financial crisis. However, Treasury also believes it is important to responsibly shrink the government's role in housing finance over time. The Administration is committed to working with Congress to foster the return of private capital to the housing market, subject to stronger oversight and standards for consumer and investor protection. Treasury has sold its Fannie Mae and Freddie Mac Mortgage Backed Securities (MBS) commensurate with improved mortgage availability and recovery in the housing market. During fiscal year 2012 the Treasury restructured its Senior Preferred Stock Purchase Agreements (SPSPAs) to accomplish faster wind-down and better protect taxpayer interests in the GSEs. Treasury also believes that a reformed housing finance market should maintain targeted, transparent support for creditworthy lower-income families who are underserved by the private market, as well as a range of options for the one-third of Americans who are renters.

Treasury is committed to working with Congress to help ensure that all communities and families – including those in rural and economically-distressed areas, and those with low

or moderate incomes – have access to sustainable mortgage credit and adequate rental options.

### **TROUBLED ASSET RELIEF PROGRAM**

The actions taken under TARP, along with other emergency measures put in place by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC) helped prevent the collapse of the U.S. financial system and stabilize the broader economy. TARP's direct fiscal cost is also expected to be much lower than many had anticipated during the financial crisis. TARP's authority to make new commitments expired on October 3, 2010. Today, Treasury is focused on winding down TARP by exiting the remaining TARP investments as soon as practicable in a manner consistent with the duty to maximize returns to the taxpayer and promote financial stability. Treasury is also continuing to implement the various housing programs under TARP to prevent avoidable foreclosures, primarily by helping homeowners achieve mortgage modifications.

Taxpayers have already realized a significant positive return on TARP's investments in banks. As of September 2012, taxpayers have recovered more than \$267 billion in repayments and other income - more than \$21.5 billion above the total funds that were invested under TARP's bank programs. The number of institutions that are remaining as part of the Capital Purchase Program (the largest bank program) has been reduced substantially through repayments, restructuring transactions, and sales.

Working with the Federal Reserve Bank of New York (FRBNY), Treasury made substantial progress winding down the investments in American International Group, Inc. (AIG). The peak amount of assistance offered to AIG by the FRBNY and Treasury was \$182 billion, a part of which was later cancelled. AIG has fully repaid the FRBNY with proceeds in excess of cost of \$17.7 billion. In addition, Treasury has sold a total of 1.4 billion AIG shares resulting in proceeds in excess of costs for non-TARP shares of \$15.0 billion and proceeds less cost of \$11.8 billion for TARP shares and as of September 30, 2012 held 15.9 percent of AIG's outstanding common stock of which OFS held 10.5 percent. (Note: On December 14, 2012, Treasury sold its remaining 234 million shares of AIG common stock for additional proceeds of \$7.6

billion. After this transaction, Treasury owned zero shares of AIG common stock.)

Treasury reduced the overall amount that remains outstanding in TARP's credit market programs by closing the SBA 7(a) Securities Purchase Program and making further progress winding down both the Term Asset Backed Securities Loan Facility (TALF) and the Public-Private Investment Program (PPIP). Additionally, OFS continued to manage the remaining investments in the Automotive Industry Financing Program (AIFP). Finally, using authority granted under the Emergency Economic Stabilization Act (EESA), Treasury established two central housing programs under TARP, the Making Home Affordable (MHA) program and the Hardest Hit Fund (HHF). OFS committed \$45.6 billion to fund Treasury's housing programs under TARP. From inception through September 30, 2012, \$5.5 billion has been disbursed under these programs. More funds are expected to be disbursed over time as incentive payments are paid out for current participants as well as from new homeowners entering into the programs.

- MHA includes the Home Affordable Modification Program (HAMP) and several additional programs to help homeowners facing foreclosure. While the housing market remains fragile, there have been more than 1.2 million homeowner assistance actions taken through MHA to assist struggling homeowners. In addition, TARP's housing programs have helped transform the mortgage servicing industry by changing industry standards and practices and have helped to make mortgage modifications become more sustainable and affordable.
- HHF provides funds to the 18 hardest hit states, plus the District of Columbia, to develop locally-tailored programs to assist struggling homeowners in their communities. HHF had disbursed \$1.5 billion out of \$7.6 billion as of September 31, 2012, and is expected to continue to disburse funds until December 31, 2017.

In addition, Treasury provided support for the Federal Housing Administration's (FHA) Short Refinance Program that assists borrowers who are current on their mortgage (or



complete a trial payment plan) but owe more than their home is worth, to refinance into an FHA-insured loan.

As of September 30, 2012, TARP investment programs (including additional Treasury AIG shares) taken as a whole—including financial support for banks, the domestic auto industry, the targeted initiatives to restart the credit markets, and the investments in AIG, and not including the housing programs—are expected to result in a positive lifetime return of \$3.5 billion excluding the cost related to housing programs funds disbursed under the housing programs were never expected to be returned.) As of September 30, 2012, TARP investment programs are expected to cost \$14.1 billion excluding the cost related to housing programs. Additional proceeds from non-TARP Treasury AIG shares are expected to more than offset TARP investment programs costs as they are projected to total \$17.6 billion of which \$15.0 billion has already been collected. The lifetime cost inclusive of TARP housing programs and Treasury AIG shares is estimated to be \$42.1 billion.

### **SMALL BUSINESS LENDING FUND**

Established by the Small Business Jobs Act of 2010, the SBLF is a dedicated fund designed to provide capital to qualified community banks (banks, thrifts, and bank and thrift holding companies with consolidated assets of less than \$10 billion) and community development loan funds in order to encourage small business lending. The purpose of the SBLF is to encourage Main Street banks and small businesses to work together, help create jobs, and promote economic growth in communities across the nation.

Since capital was disbursed to banks in October 2011, Treasury reports in the January 2013 SBLF “Use of Funds Report” that institutions participating in SBLF have made important progress in increasing their small business lending, helping to support small businesses and local economies across the nation. As of September 30, 2012,

- In total, SBLF participants have increased their small business lending by \$7.4 billion over a \$36.5 billion baseline. Increases in small business lending are widespread across SBLF participants, with 89 percent of participants having increased their small business lending over baseline levels.

- Over three-quarters of SBLF participants (78 percent) have increased their small business lending by 10 percent or more.
- SBLF banks have increased business loans outstanding by a median of 32.2 percent over baseline levels, versus a 5.7 percent median increase for the representative peer group and a 2.1 percent median increase for the broader comparison group.
- SBLF banks have increased business lending by substantially greater amounts across median measures of size, geography, and loan type versus the peer and comparison groups.
- SBLF banks that refinanced CPP funding have increased business lending by a median of 27.2 percent since their initial receipt of CPP funding from Treasury versus a 14.0 percent increase for the peer group and a 6.6 percent increase for the comparison group over the same period.

Investments made through the SBLF program are presently expected to cost less than the originally projected cost of \$1.3 billion. In addition, Treasury is currently projected to incur \$23.6 million in fiscal year 2012 operating expenses for the SBLF program, \$2 million less than the fiscal year 2012 operating expense estimate of \$25.6 million included in the President’s Budget for fiscal year 2013.

### **STATE SMALL BUSINESS CREDIT INITIATIVE**

The Small Business Jobs Act of 2010 also created the SSBCI, which was funded with \$1.5 billion to strengthen state programs that support lending and investing to small businesses and small manufacturers. The SSBCI Program is expected to help spur up to \$15 billion in new lending to and investment in small businesses. The SSBCI program builds on new and existing models for state small business programs, including Capital Access Programs (CAPs), loan participation programs, loan guarantee programs, collateral support programs, and state-run venture capital programs.

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

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### **ENABLING DOMESTIC ECONOMIC GROWTH**

#### **Supporting Distressed Communities**

In fiscal year 2012, the Community Development Financial Institutions Fund's core program (the CDFI Program) awarded \$175.3 million in funding to 177 CDFIs to provide loans, investments, financial services, and technical assistance to underserved populations and low-income communities (LICs), including \$23.1 million to 12 Healthy Food Financing Initiative awardees and \$3 million to 33 technical assistance awardees. CDFI Program awardees reported originating 17,547 loans or investments totaling nearly \$1.3 billion, based on their portfolio of activities in 2011. In addition, the Native American CDFI Assistance (NACA) Program awarded \$11.4 million in financial and technical assistance to 33 Native CDFIs and other Native entities seeking to become or create Native CDFIs. Native CDFIs originated 1,170 loans or investments totaling \$21,701,092 based on their portfolio of activities in 2011. The Bank Enterprise Award (BEA) Program, which provides monetary awards to CDFIs and banks for increasing their investments in LICs, received 71 eligible applications requesting a total of approximately \$88.5 million.

The fiscal year 2012 performance information provided above pertains to each awardee's performance results for program year 2011. It should also be noted that the lag in performance reporting reflects the time it takes to deploy funds and make investments for which actual and projected results can be estimated and are based on information reported by CDFI Program awardees.

The New Markets Tax Credit (NMTC) Program, which provides tax credit allocation authority to Community Development Entities (CDEs) for targeted investments in LICs, competitively awarded \$3.623 billion based on 2011 tax credit allocation authority.

#### **Supporting Consumers**

The Office of Consumer Policy advances developments that provide opportunities for the financial well-being of American consumers, especially in regard to financial products and services, including new and emerging ones. The office leads the Department's work to promote access to safe and affordable financial products and services, as well as clear information that enables individuals to make sound financial decisions. The office is engaged in policy development in the areas of consumer financial education and capability; emerging payments platforms; technology to improve consumers' financial choices; systems to further privacy and data security; and related topics. In support of this work, the office provides leadership for the Federal Financial Literacy and Education Commission, Federal interagency Task Force on Smart Disclosure, and coordinates the President's Advisory Council on Financial Capability.

### **INTERNATIONAL STABILITY AND GLOBAL GROWTH**

The Office of International Affairs monitors and responds to evolving risks in the global economic and financial systems to prevent financial instability abroad from spreading to the U.S. economy. To this end, Treasury engaged one-on-one (or bilaterally) with its counterparts in ministries of finance and through such forums as the U.S.-China Strategic & Economic Dialogue (S&ED) and the U.S. India Economic and Financial Partnership, and with groups of governments (or multilaterally) through such forums as the G-7, the G-20, the FSB, the Basel Committee on Banking Supervision, and international financial institutions such as the International Monetary Fund (IMF) and the World Bank.

Continued concerns in fiscal year 2012 about financial stability in Europe posed a particular risk to the strength of the U.S. and global recoveries. Drawing on lessons learned from the U.S. response to the global financial crisis in 2008 and 2009, Treasury continued to assist and encourage its European counterparts to put in place a robust policy framework with sufficient firepower to stem the contagion to the larger economies in Europe and to restore confidence in the European banking system. By fall of 2012, Europe moved forward on establishing a stronger and larger firewall that supports sovereign access to sustainable market financing. The Europeans also made progress on outlining a road map

toward banking union and Spain took important steps to repair its banking system.

Going forward, Treasury will continue to engage bilaterally and multilaterally to address problems that pose a risk to the U.S. economy and its continued growth, wherever and whenever they arise.

To support robust global growth, the countries of the G-20 need to implement economic policies that are consistent with the overarching goal of strong, sustainable, and balanced global growth. Treasury continues to encourage proactive near-term support for stability, growth, and jobs for economies with sufficient fiscal space to support the global recovery. Treasury also continues to work through the G-20 to encourage countries with external surpluses to implement policies that boost domestic demand. These actions should be reinforced by G-20 countries' commitments to move more rapidly toward market-determined exchange rates that better reflect underlying economic fundamentals, to avoid persistent exchange rate misalignments, to refrain from competitive devaluation of currencies, and to refrain from excessive foreign reserves accumulation.

These matters are of particular concern in Asia, where imbalances are most acute. Through the S&ED and related forums, including the Joint Economic Committee, the Investment Forum, and the U.S.-China Initiative on City-Level Economic Cooperation, we will continue to encourage China to move from an economy based on exports to one driven to a greater degree by domestic demand, and to provide a more level playing field for U.S. workers and firms. By September 2012, the renminbi had appreciated on real bilateral basis over 11 percent against the U.S. dollar since June, 2010. Through the S&ED, we secured new financial sector commitments to reduce market access barriers, boost consumption, reduce the unfair competitive advantage of state-owned enterprises, and began to loosen the chokehold that state-owned banks have on China's financial sector.

More broadly, Treasury seeks to promote sound economic policies among our trading partners. As chair of the G-7/G-8, Treasury led the multilateral Deauville Partnership for Arab Countries in Transition to help transitioning countries in the Middle East and North Africa maintain economic and financial stability, and promote more inclusive economic

growth—especially for young people and women. We led the successful effort to provide Tunisia with a U.S. Government loan guarantee and conceived of and launched a Transition Fund to provide financing for transformational reforms in economic governance in transitioning countries in the Middle East and North Africa region. By supporting these political and economic transitions in the region, Treasury can support U.S. national security goals and boost global growth.

### **PROMOTING STABLE INTERNATIONAL FINANCIAL MARKETS**

The United States is best served by the adoption and enforcement of high-quality financial standards that protect and strengthen our financial system and set an example for other nations. We actively engage and take a leading role in international discussions and forums, such as the G-20 and the FSB, and in negotiations with other major and emerging financial centers. Our objectives continue to be to lead a “race to the top” in the area of financial regulation that must be coordinated globally and to achieve consensus on strong and sensible reforms while protecting the competitiveness of U.S. firms.

### **ENCOURAGING FOREIGN INVESTMENT IN THE U.S. ECONOMY**

Foreign investment in the U.S. economy is vital to economic growth, job creation, and productivity. Treasury is strongly committed to an open investment policy with our counterparts around the world. Our objective is for the United States to continue to be the most attractive place for businesses to locate, invest, grow, and create jobs. At the same time, Treasury works to ensure that foreign investments in U.S. businesses do not compromise national security through our lead role on the CFIUS. We are committed to maintaining a CFIUS review process that is timely and efficient.

### **PURSuing FREE TRADE AND OPEN MARKETS**

Treasury continues to work with the U.S. Trade Representative and other U.S. Government agencies to pursue a strong international trade and investment agenda to help the economy grow, increase U.S. exports, and support job creation.

In fiscal year 2012, the President signed legislation implementing the bilateral trade agreements with Korea, Colombia, and Panama, and Congress renewed a strong and robust Trade Adjustment Assistance program for American workers displaced by trade. The Administration also created a new Interagency Trade Enforcement Center to coordinate enforcement and focus tirelessly on challenging unfair trade practices around the world. This step will open up new opportunities for U.S. businesses to compete in the global marketplace.

Our current priorities include pursuing normal trade relations with Russia as it joins the World Trade Organization, continuing to negotiate a high-standard 21st century Trans-Pacific Partnership trade agreement, and continuing to support the President's National Export Initiative to double exports over five years. In the last year alone, exports have reached historic highs and represent an increase of nearly 36 percent over the 2009 levels. We also will continue efforts to pursue a level playing field with China, including a focus on aligning export credit practices with international best practices standards, and will work to ensure that U.S. trade agreements and trade laws are enforced rigorously.

### **ENTERING INTO BILATERAL AND MULTILATERAL TAX AGREEMENTS**

Treasury also negotiated international tax agreements that promote cross-border trade and investment. Income tax treaties and tax information exchange agreements (TIEAs) eliminate tax barriers to cross-border trade and investment by providing greater certainty to taxpayers regarding foreign tax liabilities, and by reducing the risk of double taxation. The Department will strengthen its network of tax treaties and TIEAs by modernizing existing agreements and by negotiating agreements with new treaty partners that will foster cross-border trade and investment and facilitate enforcement of U.S. tax laws.

### **USE LEADERSHIP POSITIONS IN THE MULTILATERAL DEVELOPMENT BANKS AND THE IMF TO ADVANCE U.S. NATIONAL SECURITY AND ECONOMIC INTERESTS**

In fiscal year 2012, the United States contributed to general capital increases at the multilateral development banks (MDBs), which were necessitated by the landmark actions

taken by the MDBs to help stabilize the global economy during the recent economic crisis. These resources reached countries representing 31 percent of U.S. export markets. The United States continues to use its leadership position in the MDBs to: (1) mitigate emerging threats to the U.S. and global economies, support trade and investment, and open new opportunities for American firms, thus helping to promote job creation in the United States; (2) further reinforce our national security interests in fragile and war-torn countries, reducing the dangers inherent in economic instability; and (3) advocate for MDB assistance in countries that are undergoing profound economic and political transitions, such as those in the Middle East and North Africa, in order to foster freedom, opportunity, and greater economic growth, thus fighting global poverty and providing critical support.

We have placed a special focus on addressing the global challenges of food security and environmental concerns. Treasury plays an important role in addressing food insecurity through its leadership in the Global Agriculture and Food Security Program (GAFSP), an innovative multi-donor food trust fund called for by G-20 leaders. In fiscal year 2012, we successfully brought three new donor countries into GAFSP and contributed to GAFSP's new private sector lending window.

In fiscal year 2012, Treasury also held the first annual Development Impact Honors competition to recognize and promote excellence and effectiveness at the MDBs.

The United States continues to use its leadership position in the IMF to promote global economic and financial stability, which supports U.S. economic growth and job creation. The IMF's crisis-response efforts continue to be critical for promoting the global and domestic economic recoveries. The United States will use its leadership position in the IMF to promote consistent IMF surveillance over its members' exchange rate policies and to support our G-20 objectives of encouraging flexible, market-determined exchange rates, and achieving strong, sustainable, and balanced global growth.

### **DIRECT ASSISTANCE TO DEVELOPING COUNTRIES**

The Department of the Treasury's Technical Assistance program (OTA) continues to provide direct assistance to developing countries that have demonstrated strong

commitments to reforming their financial systems or public financial management. This work encourages prosperity and stability in other parts of the world and supports broader U.S. Government international objectives — such as increasing transparency and accountability, reducing corruption, and strengthening the development of market-based policies and practices — while helping to create more stable international markets for U.S. exports.

In fiscal year 2012, Treasury made special investments through technical assistance in Administration priority programs such as the Partnership for Growth countries of Philippines, El Salvador, and Tanzania, and strengthened its engagement with countries in transition in the Middle East and North Africa.

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

Treasury is devoted to deploying its full range of financial authorities to track, degrade, and disrupt threats to national security from state and non-state actors, including terrorists, Weapons of Mass Destruction (WMD) proliferators, drug traffickers, rogue regimes, and transnational criminal organizations. The Office of Terrorism and Financial Intelligence (TFI) is Treasury's program office charged with the responsibility of carrying out these efforts. TFI marshals the Department's intelligence, enforcement, and economic sanction functions with the twin aims of safeguarding the U.S. financial system and combating those who would undermine our national security.

As the Department works to enhance the accessibility of the financial system to legitimate users, it also works to prevent its exploitation by illicit actors. Financial and other forms of intelligence information, whether from the U.S. Government, law enforcement, administrative, regulatory, or proprietary sources, has been critical to Treasury efforts to stem the flow of funding to terrorist groups and disrupt weapons proliferation and other illicit networks around the world. Money is the common denominator in these networks, and hence understanding how it moves and is used to support their endeavors creates new opportunities for Treasury action.

### **NEW SECURITY COUNCIL RESOLUTIONS AND EXECUTIVE ORDERS**

Through the Executive Order on Assignment of National Security and Emergency Preparedness Communications Functions, the U.S. Government must be able to communicate domestically and internationally, at all times and under all circumstances, to implement critical and time sensitive missions. An Executive Committee was established to:

- Advise and make policy recommendations to the President to enhance the survivability, resilience, and future architecture of national security and emergency preparedness (NS/EP) communications
- Develop a long-term strategic vision for NS/EP communications and propose funding requirements and plans to the President and the Director of the Office of Management and Budget (OMB)
- Coordinate the planning for, and provision of, NS/EP communications for the U.S. Government under all hazards

### **EFFORTS TO COMBAT MORTGAGE FRAUD**

FinCEN continues its work to combat mortgage fraud. FinCEN closed a gap in the regulatory sector by issuing a final rule that made non-bank regulatory mortgage lenders and originators (RMLOs) subject to FinCEN's reporting and recordkeeping regulations. As of August 13, 2012, RMLOs must comply with FinCEN's final rule requiring the establishment of anti-money laundering programs and the filing of suspicious activity reports (SARs). To help RMLOs identify and report suspicious activity related to potential mortgage fraud, FinCEN issued an advisory on red flags that may signal mortgage fraud, and has updated its website with numerous resources for the industry. The new requirements for RMLOs will augment the information available to law enforcement about suspicious activity in this sector.

FinCEN also continues to work with its law enforcement partners to combat mortgage fraud. Law enforcement authorities used FinCEN reports extensively in an investigation that involved a large-scale mortgage fraud scheme resulting in major financial losses and numerous



foreclosures. Investigators queried FinCEN data and found multiple SARs, which assisted in obtaining search warrants and led to multiple interviews with borrowers. Federal and local authorities arrested more than a dozen individuals linked to mortgage fraud schemes that involved the filing of fraudulent loan applications with several banks and other lenders, generated millions of dollars in loan fees and real estate commissions, and caused millions of dollars in losses when homes went into foreclosure.

As a participant in the federal loan modification and foreclosure rescue fraud initiative, FinCEN has supported more than 150 mortgage fraud cases with more than 1,200 subjects and has disseminated more than 190 analytical reports since April 2009.

### **E-FILING**

FinCEN enhanced data quality and significantly reduced costs for the U.S. Government, financial institutions, and U.S. taxpayers by requiring mandatory electronic filing of most FinCEN forms. This new requirement became effective on July 1, 2012. Mandatory E-Filing has enhanced the quality of FinCEN's electronic data, improved its analytical capabilities, and ultimately made it quicker and easier for law enforcement to track criminal money.

Several years ago, FinCEN started encouraging financial institutions to use its free, Web-based system known as the Bank Secrecy Act Electronic Filing System (BSA E-Filing) in an attempt to cut down on paper reports. FinCEN is no longer accepting most paper filings and has considered extensions and exemptions only in certain circumstances. Over the past 20 years, banks, casinos, brokerages, and many other financial businesses have filed millions of paper forms with FinCEN. Last year alone, financial institutions and individuals filed more than 17 million separate reports with FinCEN and more than 2 million of those were on paper.

FinCEN reports create a financial trail that law enforcement and intelligence agencies use to track criminal and terrorist networks and their activities and assets. These reports help detect and deter illicit activity, including money laundering, the financing of terrorist activity, and many other types of fraud.

Mandatory E-Filing supports Treasury's flagship initiative of moving toward a paperless Treasury. It also allows for greater data security and privacy compared with paper forms, ensures compatibility with future versions of FinCEN reports, and allows quicker access to investigators. E-Filing is positively impacting the public by reducing government and industry costs and the environmental waste of paper forms, potentially saving the U.S. Government millions of dollars per year through the reduction of expenditures associated with paper processing, in particular the physical intake and sorting of incoming reports and the manual keying of reported information into FinCEN's database.

### **EFFORTS TO COMBAT HEALTH CARE FRAUD**

Continuing its successful collaboration with the Department of Health & Human Services, the Office of Inspector General, and the Department of Justice, FinCEN provided support to the Health Care Fraud Prevention and Enforcement Action Team (HEAT) Task Force. The Task Force was formed in 2009 to combat health care fraud abuse in the Medicare and Medicaid programs.

FinCEN researched and analyzed data collected under the provisions of the Bank Secrecy Act (BSA) pertaining to subjects identified by the Task Force as suspects in health care fraud schemes. These schemes have been defrauding the U.S. Government of an estimated \$98 billion per year.

FinCEN has provided analytical support to more than 200 cases and continues to develop intelligence to further disrupt and dismantle major health care fraud networks in cities such as Miami, Tampa, Brooklyn, Los Angeles, Houston, Detroit, and Atlanta. By identifying commonalities and shared entities in these cases, FinCEN, the Department of Justice's Criminal Division, and the Federal Bureau of Investigation initiated a project to identify third party money launderers who service the perpetrators of health care fraud and other crimes. Through this initiative, FinCEN will be able to provide the investigators with an overall assessment of the targeted jurisdictions, individuals, and sophisticated and complex organizations that are suspected of being engaged in health care fraud schemes.

### **TREASURY EXECUTIVE OFFICE FOR ASSET FORFEITURE**

The Treasury Executive Office For Asset Forfeiture (TEOAF) manages the Treasury Forfeiture Fund (TFF). The mission of the TFF is to promote the strategic use of asset forfeiture in order to disrupt and dismantle criminal enterprises. TEOAF and its member agencies focus on investigations that result in high impact forfeitures, disrupting criminal organizations that engage in money laundering, financial fraud and a myriad of other illegal acts.

### **FINANCIAL SANCTIONS (IRAN AND SYRIA)**

Treasury exercises a broad range of intelligence, regulatory, policy, and enforcement authorities to track and disrupt illicit finance networks. Treasury also implements economic sanctions against various foreign threats to protect U.S. national security and foreign policy interests. Through these means, Treasury seeks to degrade the financial and other support networks of terrorists, weapons proliferators, drug traffickers, rogue regimes, and other illicit actors. The Treasury Department's identification of these networks reinforces foreign or domestic efforts against these targets.

The Department of the Treasury administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals through the Office of Foreign Assets Control (OFAC).

The United States is imposing additional sanctions and publicly exposing numerous Iranian front companies, in order to convince Iran to address the international community's concerns about its nuclear program and to prevent the circumvention of international sanctions on Iran. Continuing to target Iran's nuclear and missile proliferation activities, the Treasury Department has issued successive rounds of aggressive designations under Executive Order 13382, with significant impact on proliferation networks. Treasury is leading efforts to bring an end in Syria to the Assad regime's abhorrent campaign of violence against the Syrian people by working to apply sanctions on those involved in human rights abuses. Treasury hosted the Friends of the Syrian People International Working Group on Sanctions, a working session in which countries strove to harmonize restrictive measures against the Syrian regime.

## **GOAL #4: PURSUE COMPREHENSIVE TAX AND FISCAL REFORM**

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

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

### **TAX REFORM EFFORTS**

Treasury, in conjunction with the White House, has developed a framework for business tax reform that reduces the statutory tax rate, eliminates provisions that are inefficient, increases the incentives for job creation and retention in the United States, simplifies the tax system, and does this in a fiscally responsible manner. Treasury is also committed to utilizing traditional and innovative ways to improve communication with policymakers, interested parties, and the public about matters related to tax policy.

### **INCREASE VOLUNTARY TAX COMPLIANCE**

The tax gap is the difference between taxes paid and taxes owed in any given year. Reliance on a voluntary compliance tax system requires effective taxpayer services to enable taxpayers to understand and meet their tax obligations as well as effective enforcement to ensure that all businesses and individuals pay the tax they owe. Improvement of both service and enforcement, along with reforms to simplify the tax law, are essential to ensure that the U.S. tax system remains the most effective and fairest voluntary compliance system in the world. This goal is one of Treasury's two Agency Priority Goals (APGs) and is discussed more thoroughly later in this report.

To encourage voluntary compliance with the tax laws, Treasury has sought to reduce the burden of compliance by reducing record keeping requirements and expanding the use of simplified “safe harbor” rules that eliminate liability for unintentional tax underpayment. Treasury has also published administrative guidance that clearly explains the tax law and illustrates its application to common situations.

### **NEW COLLABORATIONS WITH INTERNATIONAL PARTNERS**

The Treasury Department has jointly issued statements with Japan, Switzerland, the United Kingdom, France, Spain, Italy, and Germany expressing mutual intent to pursue a framework for intergovernmental cooperation to facilitate the implementation of the Foreign Account Tax Compliance Act (FATCA) and to improve international tax compliance. The Treasury and the United Kingdom have already signed a bilateral agreement and the Treasury will continue to work with other governments to conclude bilateral agreements. FATCA is an important part of the U.S. Government’s effort to improve tax compliance. The Treasury and the IRS continue to move forward with joint efforts to combat offshore tax evasion and make our tax systems more efficient and fair by implementing FATCA in a way that is targeted and effective.

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

The Treasury Department is responsible for managing the finances of the U.S. Government and strives to maintain public trust and confidence in U.S. and international economic and financial systems. The Department’s ability to be efficient, effective, accountable, and transparent enables the smooth, continuous operation of essential governmental services and meeting the U.S. Government’s financial obligations. To that end—and while supporting and maintaining governmental operations—during fiscal year 2012, the Department has focused on achieving greater cost savings for the American public, increasing productivity, modernizing operations, and supporting the Administration’s management agenda. It has done this by developing systems, tools, and a culture of governing strategically, working smarter, and leveraging technologies.

### **GOVERNING STRATEGICALLY**

Treasury has employed a robust suite of tools and processes to perform data-driven, performance-focused, and outcome-based strategic oversight and management of all its component organizations. These continually evolving processes are embedded in the way the Department does its business and within its corporate culture. They serve as the foundation for Treasury’s leadership and stewardship agenda.

#### **Treasury’s Quarterly Performance Reviews**

Treasury’s management and performance agenda are set by the Deputy Secretary serving as the Chief Operating Officer who, with the Assistant Secretary for Management and Performance Improvement Officer, conducts quarterly performance reviews of each bureau. These quarterly reviews were recognized by OMB as a best practice and codified in law as part of the Government Performance Results Act Modernization Act.

These sessions bring key Treasury leaders together for regular, formal discussions with the Deputy Secretary to focus on management challenges and priority projects. These meetings drive accountability to make and sustain improvements, align expectations and priorities across Treasury bureaus and offices, and encourage data-driven decision-making. The Department has strengthened its partnership with OMB and the federal Performance Improvement Council through open dialogue and consultative problem-solving on numerous government performance matters, including Treasury’s two APGs: (1) increasing voluntary tax compliance, and (2) increasing electronic transactions with the public to improve services, prevent fraud, and reduce costs.

An example of a positive outcome from these reviews is that Treasury earned an A+ rating from the Small Business Administration (SBA) for small business contracting achievement in fiscal year 2011. Treasury was the only federal agency to achieve and substantially exceed all five statutory small business goals—Small Business, Women Owned Small Business, Small Disadvantaged Business, Service Disabled Veteran Owned Small Business, and Historically Underutilized Business (HUB) Zones. By all indications, Treasury has exceeded these small business goals

again in fiscal year 2012, demonstrating the continuing success of the quarterly performance reviews.

### **Shared Services Council**

In addition to the quarterly performance reviews, Treasury's "shared services first" approach to managing across organizational boundaries has resulted in increased transparency, cost savings, and improved operational effectiveness as management support services are provided by those with demonstrated expertise and Treasury bureaus focus on mission accomplishment. The Treasury Shared Services Council (SSC) provides a portfolio-wide approach to shared services across the Department, optimizing capability stewardship and services delivery and driving accountability for performance and risk management.

In addition to providing additional accountability for cost and performance issues, the SSC provides a common governance structure for Treasury's multiple shared services programs and advocates for and promotes the value of shared services. This group has tackled numerous issues, including discussing how to reduce Treasury's office space footprint as well as providing insight into the strategic direction of Treasury's various shared services providers—notably the Bureau of Public Debt's Administrative Resource Center (ARC) and HR Connect (both government-wide shared service providers).

### **Cost Savings Guidance**

Treasury's Office of Financial Innovation and Transformation (FIT) aims to achieve government-wide financial management savings by leveraging new technologies and the shared service provider model. For example, the Centralized Receivables Service (CRS), an end-to-end billing and collections capability for federal agency receivables in the pre-delinquency stage (e.g., fees and penalties due to an agency) allows agencies to focus on their core mission by outsourcing certain receivables collection activities. Once fully implemented, CRS will deliver an estimated \$350 million in annual cost savings government-wide from increased collections and reduced financial systems costs.

### **WORKING SMARTER**

Treasury is reducing spending and improving the way business is conducted at all levels—from reduction of the

Department's real estate footprint to improving how information is being managed; and from the employment of Treasury's Procurement Savings Program and strategic sourcing efforts, to taking the lead role in implementing the President's initiative to reduce improper payments through the Do Not Pay Business Center.

### **Improper Payments**

Following the President's June 2010 memorandum directing agencies to improve payment accuracy by using a "Do Not Pay List," the Department of the Treasury established the Do Not Pay Business Center for use by all federal agencies to prevent ineligible recipients from receiving federal payments or awards. Do Not Pay uses key data sources to review eligibility, including data to verify that the beneficiary is not deceased or debarred and meets employment/income requirements and provides trend analysis and fraud alert capabilities. In the short time since the Do Not Pay Business Center was launched in fiscal year 2012, significant progress has been made towards providing agencies with a one-stop-shop to verify eligibility prior to issuing a payment. To date, all 24 Chief Financial Officer (CFO) Act agencies have finalized and submitted plans to Treasury and OMB specifically describing how they will use Do Not Pay to prevent payments from being made to deceased individuals, debarred contractors, or incarcerated individuals.

In its ongoing efforts to combat tax refund fraud, the IRS is using data analytics to help identify tax preparers who submit incorrect or fraudulent tax returns. This year, the IRS conducted a pilot which identified tax preparers from the previous year that were associated with the most erroneous tax returns claiming refundable credits.

### **Procurement**

The Department has launched multiple initiatives to broaden efficiency within its procurement operations. In fiscal year 2011, Treasury established an enterprise-wide strategic sourcing program governed by a Quad Council comprised of Department-wide representatives from procurement, IT, human resources, and financial organizations and chaired by the Assistant Secretary for Management. In fiscal year 2012, the Department brought all procurement spending under management by designated category leaders. Procurement obligations are analyzed, opportunities for consolidation and

leveraging of the Department's buying power are identified, and targeted contract actions are directed to the most appropriate strategic sourcing methodology. Approximately 16 procurement spending categories were targeted for improvement and \$80 million in savings were achieved through the Department's strategic sourcing efforts.

Treasury Procurement exceeded its fiscal year 2011 OMB-mandated goals for acquisition-related savings and reduction of high-risk contracting obligations. The Department achieved \$326 million in acquisition savings versus its goal of \$319 million and decreased high risk contracting by 21 percent, well above the targeted 10 percent reduction. In fiscal year 2012, Treasury elected to continue both the acquisition savings and high risk contracting reduction initiatives in the absence of a continuing OMB mandate. The Department exceeded its internal savings goal of \$92 million by achieving over \$240 million in acquisition-related savings (including strategic sourcing savings).

### **LEVERAGING TECHNOLOGY**

Treasury has a long history of identifying and leveraging commodity IT opportunities. In 1996, the Administrative Resource Center (ARC) began operation, offering commodity business services across organizations. Since that time, Treasury has launched several enterprise initiatives, including: (1) HR Connect, a government HR Line of Business; (2) Treasury Enterprise Identity Credential and Access Management (TEICAM), which has expanded to other departments including Homeland Security; and (3) Enterprise Content Management, which has already garnered interest from other departments. Other commodity IT initiatives are ongoing such as developing an Invoice Processing Platform (IPP), formerly known as Internet Payment Platform and a Do Not Pay platform as a government-wide shared services.

### **Information Technology**

Implementation of Mobile Treasury, Treasury's technology modernization campaign, has been the key enabler for transforming Treasury's business and services delivery systems, resulting in streamlined business processes, costs savings, and employee empowerment. Through a combination of governance and management oversight initiatives, the Department has developed innovative E-

Government enterprise architecture for bridging the gap between business processes and their supporting IT. As a result, numerous opportunities for performance improvement and business transformation have been identified, including the elimination of redundant and duplicative IT investments. This has focused Treasury's lines of businesses to facilitate better business alignment and cross-bureau collaboration in investments.

Treasury's investment in leading and planning these efforts has already yielded results, both in terms of financial savings and operational efficiencies, allowing the Department to further leverage other opportunities for improvement. For example, the Department's footprint reduction efforts have led to business process redesign, which is leading to installation of collaborative office spaces and even greater ability to leverage the federal telework program. TTB has established one of the most robust telework programs at the Department. TTB's workforce is widely dispersed, with many personnel working from home full time and over 80 percent of the workforce regularly teleworking. Advancements in TTB's IT network completed in 2012 have both furthered the effectiveness of its telework program and contributed to the Administration's goals under the "Bring Your Own Device" (BYOD) initiative of improving mobile work capabilities and reducing IT costs across government.

TTB achieved significant savings by reducing the cost of refreshing employee IT hardware, such as PCs and laptops. Replacing desktop and laptop computers every 3 to 4 years costs TTB about \$2 million and disrupts the IT program and business users for several months.

TTB determined that the best solution was to create a "virtual desktop" by centralizing all computing power, applications, user data, and user settings and allow access to TTB resources by thin client computing devices. A thin client is a computing device or program that relies on another device for computational power. Currently about 70 percent of TTB personnel use thin client devices to access all TTB applications and data.

In August, TTB's virtual desktop implementation was cited by the White House as a case study for the federal BYOD initiative. TTB's virtual desktop solution is a major achievement that resulted in \$1.2 million in IT savings, as



well as additional savings in phone and fax lines and potential reductions to dedicated office space. Additional benefits include enhanced IT security, as the virtual desktop/thin client infrastructure eliminates the need to have

information stored locally on a user's machine, and reduced data loss, as the virtual desktop provides for the centralization of information.

## TREASURY'S FISCAL YEAR 2012-2013 AGENCY PRIORITY GOALS AND STATUS

The Treasury Department established two APGs to support improvements in near-term outcomes related to the Strategic Plan.

### INCREASE VOLUNTARY TAX COMPLIANCE

Helping taxpayers understand their obligations under the tax law is critical to improving compliance and addressing the tax gap. Therefore, the IRS is committed to making tax law easier to access and understand. The IRS remains committed to improving voluntary compliance and reducing the tax gap through both taxpayer service and enforcement programs.

The IRS continued to increase the amount of tax information and services available to taxpayers online and through social media. IRS.gov provides alternative online and self-help service options. Through September 30, 2012, taxpayers viewed IRS.gov web pages more than 1.7 billion times as they used the website to:

- Get forms and publications. Beginning in fiscal year 2011, the IRS reduced the number of forms and publications that were mailed to taxpayers. For this reason, during the fiscal year 2012 filing season, more than 347 million tax products were downloaded, an increase of 51 percent from fiscal year 2011
- Link to the Electronic Federal Tax Payment System (EFTPS). EFTPS processed more than 132.4 million electronic tax payments totaling \$2.1 trillion
- Get answers. More than 1.1 million visits to the Interactive Tax Assistant introduction page where taxpayers can receive answers to tax law questions
- Use "Where's My Refund?" Taxpayers used "Where's My Refund?" more than 132.3 million times to check on the status of their tax refunds

The IRS is increasing communications with taxpayers who may not get their information from traditional sources, such as newspapers and broadcast cable news. By employing social and new media, such as YouTube, Twitter, and iTunes,

the IRS can reach these taxpayers and provide important service and compliance messages. In February 2012, the IRS released a new version of IRS2Go, a Smartphone application that lets taxpayers check on the status of their tax refund and obtain tax information including requesting their tax return or account transcripts. Since its February 2012 release, the new features helped attract more than 6.2 million application launches from IRS2GO.

In October 2011, the IRS began a pilot of Virtual Service Delivery (VSD) to test a new means of service delivery in Taxpayer Assistance Centers (TACs) and partner sites. VSD provided face-to-face contact with more than 16,000 taxpayers at 15 IRS locations using video communication technology. Preliminary participant feedback from the survey through December 31, 2011 indicated they were very satisfied with VSD technology and 92 percent reported they would be willing to use video assistance again during a future visit.

During the 2012 filing season, through September 30, 2012, the IRS received more than 147.6 million individual returns (113.8 million electronically filed) and issued more than 121.6 million refunds totaling \$333 billion.

In fiscal year 2012, the IRS continued to implement its Return Preparer Initiative, the foundation of which is mandatory registration for all paid tax return preparers. Through September 2012, more than 860,000 preparers requested Preparer Tax Identification Numbers (PTINs) using the online registration system. The process gives the IRS an important and improved view of the return preparer community from which the IRS can leverage information to improve communications, analyze trends, spot anomalies, and detect potential fraud. The IRS also leveraged real time data during the 2012 filing season to improve the compliance of more preparers with high numbers of Earned Income Tax Credit (EITC) errors.

The IRS also launched the Registered Tax Return Preparer (RTRP) competency test in November 2011 for all paid tax return preparers except attorneys, certified public accountants, and enrolled agents. More than 31,000 tests were conducted, and applications from approximately 570

continuing education providers were approved. All RTRPs are also required to complete 15 hours of Continuing Education (CE) courses annually beginning in 2012. To address this requirement, the IRS deployed a registration system for CE providers, issued Revenue Procedures outlining the IRS standards for CE accreditors and providers, and launched a webpage for CE accreditors, providers, and preparers.

In January 2012, the IRS announced a third Offshore Voluntary Disclosure Program due to continued interest from taxpayers after the closure of the 2011 and 2009 programs. As part of an overall strategy to improve offshore compliance, taxpayers who voluntarily come forward and file all original and amended tax returns and pay taxes, interest, and accuracy-related and/or delinquency penalties, can avoid criminal prosecution. The offshore voluntary disclosure programs have resulted in over 38,000 disclosures and the collection of more than \$5.5 billion in back taxes, interest, and penalties.

The IRS modernization efforts focus on building and deploying advanced IT systems, processes, and tools to improve efficiency and productivity. In 2012, the IRS delivered the most significant update to its core tax processing system in decades with the deployment of the initial phase of the Customer Account Data Engine 2 (CADE 2), modernizing tax processing. After more than 50 years of posting returns and transactions on a weekly batch cycle, in January 2012, CADE 2 moved the IRS to a daily cycle for tax processing of individual taxpayer accounts. For the 2012 filing season, the IRS completed the 3-year migration of the 1040 form family from the original efile system to the Modernized eFile system. With this capability, plus significant performance improvements to support the anticipated volumes, the IRS will process all electronically enabled 1040 forms and schedules through Modernized eFile system during filing season 2013.. In the coming years CADE 2 will provide the IRS with significantly expanded service and enforcement capabilities that will drive additional voluntary compliance.

## INCREASE ELECTRONIC TRANSACTIONS WITH THE PUBLIC TO IMPROVE SERVICE, PREVENT FRAUD, AND REDUCE COSTS

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The safety, security, efficiency, and reliability of Treasury transactions are paramount to maintaining public trust. Billions of transactions, including payments to federal benefits recipients, savings bonds purchases, and tax collections, are executed by Treasury each year. The paper processes associated with these transactions can be slow, unsecure, inaccurate, and wasteful. In an effort to improve customer service, decrease the public's vulnerability to fraud, and efficiently manage resources, the Secretary of the

Treasury approved several initiatives to move towards electronic transactions, including discontinuing the sale of paper savings bonds, increasing electronic benefit payments, and increasing electronic tax collection. Treasury has already discontinued the issuance of paper savings bonds through traditional employer-sponsored payroll savings plans, and the sale of over-the-counter paper savings bonds ended on December 31, 2011. Treasury will continue to make progress toward a fully paperless set of processes by paying benefits electronically and encouraging businesses to pay taxes electronically rather than by paper coupon. This priority goal is related to the strategic goal of "Manage the Government's Finances in a Fiscally Responsible Manner."

### PAYMENTS

In support of the goal to increase electronic payments government-wide, the FMS has a number of efforts underway. In December 2010, Treasury announced a final rule to extend the safety and convenience of electronic payments to all Americans receiving federal benefit and non-tax payments. Anyone who applied for benefits on or after May 1, 2011, was required to begin receiving their payments electronically, while those who were already receiving paper checks need to switch to electronic payment by March 1, 2013. This important change will provide significant savings to American taxpayers who will no longer incur the price tag associated with paper checks.

As a result of the final rule, the Go Direct® campaign shifted from a marketing focus to a national public education effort

building on previous successes to provide federal benefit recipients with the tools and resources they need to transition to electronic payments. The campaign reaches current check recipients as well as people who will apply for federal benefits soon. Benefit checks have declined from 10.3 million per month in January 2011 to 5.5 million as of August 2012, saving millions of dollars for the United States Treasury and taxpayers in the years to come.

A big part of the success of the All-Electronic Treasury is the Direct Express® card. The Direct Express® card offers the convenience and security of receiving benefit payments electronically for those who prefer a debit card or do not have a bank account. Instead of receiving a paper check, the benefit payment is automatically deposited into the recipient's card account on the payment date. It is currently available to Social Security, Supplemental Security Income, Veterans, and other federal benefit types. As of December 2012, more than 4.3 million benefit recipients have signed up for the Direct Express® card.

The U.S. Debit Card Program has expanded to 36 separate and distinct uses by federal agencies, including uses in criminal investigations, Native American trust disbursements, and international student per diem reimbursements, since program inception in 2000. At present, the program that has delivered the largest savings to the taxpayer has been the Department of Transportation's TRANServe debit card for the disbursement of federal transit subsidies encouraging federal workers to utilize public transportation. Since Program inception (July 2011) TRANServe has deployed 60,000 cards and has recouped \$11.9 million in unspent funds.

The Stored Value Card (SVC) Program is a joint program by the Departments of Treasury and Defense with major goals to enhance security, improve processing of financial transactions, and reduce the float loss associated with the coin and currency in circulation at military bases in the U.S. and overseas, on ships at sea, and at other "closed" Government locations around the world. SVCs reduce the high costs of securing, transporting, and accounting for cash. Through fiscal year 2012, SVCs have replaced more than \$6 billion in cash or other paper payment mechanisms used in military environments. Additionally, SVCs streamline and help automate the otherwise manually intensive back end

operations that were necessary to support cash and cash equivalents. The SVC Program has saved the Government more than \$48 million in operating costs.

Treasury is also exploring the feasibility of extending E-Wallet and mobile payment technology to our payments area. As payment technology advances, Treasury is looking to meet the expectations of citizens in how they wish to interact with the U.S. Government.

Also in support of President Obama's "Campaign to Cut Waste" across the U.S. Government, Treasury has mandated the IPP for all Treasury offices and bureaus. IPP will reduce Treasury's invoice processing costs by 50 percent, saving approximately \$7 million annually. Implementation by all Treasury bureaus will be complete by the end of December 2012. FIT estimates that adopting electronic invoicing across the U.S. Government will reduce the cost of entering invoices and responding to invoice inquiries by \$450 million annually. In addition to Treasury, as of December 2012 IPP supports 52 agencies, with eight additional agencies beginning implementation. The program continues to advocate its cloud-based shared service government-wide to improve government efficiency and cut costs for taxpayers.

## **COLLECTIONS**

As part of this effort to increase electronic collections, FMS has undertaken the Non-Tax Paperless Initiative (NTPI), aimed at moving all collections and remittances processed by FMS to electronic means, resulting in greater efficiencies for FMS and its agency partners and greater convenience for the public. FMS is laying the groundwork for NTPI by analyzing cash flows (including both collections and remittances, processes, and remitter databases) to develop a transition strategy as well as investigating best practices in government and the private sector and emerging payment technologies (online banking, mobile payments, E-Wallets).

## **Debt Collections**

FMS collects delinquent Government and child support debt by providing centralized debt collection, oversight, and operational services to Federal Program Agencies (FPAs) and states pursuant to the Debt Collection Improvement Act of 1996 and related legislation. FMS uses two debt collection programs: Treasury Offset Program and Cross Servicing.

In fiscal year 2012, FMS increased debt collections by (1) repurposing the Austin Payment Center as a debt collection center, (2) undertaking three management and administrative reforms, which include improving the offset match process, improving analytic tools, and expanding Administrative Wage Garnishment, (3) enhancing the FedDebt system, and (4) expanding offset services by increasing debt referral, adding new debt types such as unemployment insurance compensation debts and expanding the usage to federal agencies and states.

Finally, FMS, in partnership with FIT, is developing a CRS Pilot. Treasury's long-term vision is to provide a centralized receivables service to federal agencies that will increase collections on current receivables and delinquent debt.

### **Government-wide Accounting (GWA) and Reporting**

The GWA Program supports the FMS's strategic goal to produce timely and accurate financial information that

contributes to the improved quality of financial decision making by operating and overseeing the Government's central accounting and reporting system. The GWA Program also works with FPAs to adopt uniform accounting and reporting standards and systems. It provides support, guidance, and training to assist FPAs in improving their Government-wide accounting and reporting responsibilities. The FMS collects, analyzes, and publishes Government-wide financial information, which is used by the U.S. Government to establish fiscal and debt management policies and 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 U.S. Government.



## DEPARTMENT'S KEY PERFORMANCE MEASURES FOR 2012

The following table contains key performance metrics providing a representative overview of the department's performance for 2012. Discussion of the factors contributing to each measure's performance results, and plans to improve the measure's results in future years, follows the table.

Performance Measure Official Title	Bureau	2008 Target	2008 Actual	2009 Target	2009 Actual	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
Percentage Collected Electronically of Total Dollar Amount of Federal Government Receipts (%)	FMS	79.0	80.0	80.0	84.0	80.0	85.0	82.0	96.0	96	97
Percentage of Treasury Payments and Associated Information Made Electronically (%)	FMS	79.0	79.0	80.0	81.0	81.0	82.0	83.0	84.0	85	88
Amount of Delinquent Debt Collected Through All Available Tools	FMS	3.4	4.41	3.9	5.03	4.65	5.45	4.84	6.17	6.67	6.17
Customer Service Representative (CSR) Level of Service (%)	IRS	82.0	52.8	70.0	70.0	71.0	74.0	71.0	70.1	61.0	67.6
Taxpayer Self-Assistance Rate	IRS	51.5	66.8	64.7	69.3	61.3	64.4	68.7	70.1	72.2	78.5
Percentage of Business Returns Processed Electronically (%)	IRS	20.8	19.4	21.6	22.8	24.3	25.5	27.0	31.8	32.0	36.7
Percentage of Individual Returns Processed Electronically (%)	IRS	61.8	57.6	64.0	65.9	70.2	69.3	74.0	76.9	79.0	80.5
Affordable Housing Units Created by CDFI Fund Programs (data starting 2011)	CDFI Fund	-	-	-	-	-	-	Baseline	19,083	16,419	27,433
OTA Scope and Intensity of Engagement (Traction)	DO	Baseline	3.6	3.6	3.7	3.6	3.5	3.6	3.7	3.6	3.9
Impact of TFI Programs and Activities	DO	-	-	Baseline	7.81	7.4	7.4	7.6	8.4	7.8	8.1*
Note: Performance measures were not audited. *Estimated value.											

On December 7, 2010, Treasury published a regulation that required businesses with an annual tax liability of at least \$10,000 to pay their taxes electronically. The new requirement, combined with FMS's efforts to transition taxpayers to electronic payments, resulted in FMS processing over 132.5 million payments electronically during fiscal year 2012. Accordingly, Treasury significantly exceeded its performance target on the measure: "Percentage collected electronically of total dollar amount of federal government receipts." With continued emphasis on the All Electronic Treasury initiative, FMS has undertaken the NTPI, aimed at moving all collections and remittances processed by FMS to electronic means, resulting in greater efficiencies for FMS and its agency partners and greater convenience for the public.

In support of the All Electronic Treasury initiative, FMS also continued to expand and market the use of electronic funds transfer to deliver federal payments, improve service to payment recipients, and reduce government program costs. In fiscal year 2012, FMS made 88 percent of payments electronically, exceeding its performance goal of 85 percent. FMS attributes the performance outcome to considerable success in implementing its nationwide Go Direct® campaign to encourage beneficiaries that receive their payments via check to switch to electronic payment. As a result, benefit checks have declined from 10.3 million per month in January 2011 to 5.5 million as of August 2012, saving millions of dollars for the United States Treasury and the taxpayers in the years to come.

In fiscal year 2012, the IRS achieved a 67.6 percent - "Customer Service Representative Level of Service," exceeding its performance target of 61 percent. The IRS answered more than 30 million assistor calls and 59.2 million automated calls, with an accuracy rate of 93.2 percent of tax law and 95.6 percent of account questions received via the telephone. Moving forward, the IRS will staff telephone service as effectively as possible to meet anticipated telephone demand.

The IRS exceeded its performance target and achieved a 78.5 percent "Taxpayer Self Assistance Rate," as a result of the

increased popularity of IRS web-based applications. The self-assistance rate is expected to increase in future years as more taxpayers choose automated customer service methods over more traditional methods such as telephone and paper correspondence.

The IRS achieved an electronic-filing rate of 36.7 percent for business returns, exceeding its performance target by more than four percentage points. The IRS also exceeded the target on its electronic filing metric, "Percentage of Individual Returns Processed Electronically." Performance in this area continues to be driven by increased demand for the overall benefits of e-file, such as its accuracy; quick acknowledgement of receipt; the ability to file amended, and/or prior year returns.

The CDFI Fund programs developed or produced 27,433 housing units across all programs, reflecting the impact of Recovery Act investments in 2012. Targets will be adjusted upward for fiscal year 2014 based on the increase in housing portfolio loans to reflect the results of new awardee reporting.

OTA developed its Traction goal based on project evaluations to measure the degree to which financial technical assistance programs bring about changes in behavior of counterpart countries. In fiscal year 2011, OTA slightly exceeded its target. The nature of the OTA program is such that country projects that reach performance goals and objectives are concluded and new projects are begun where the challenges are significant. The effect of this dynamic keeps the target goal always challenging but reachable if performance remains high across all teams and projects.

TFI created a composite measure that consists of three overall program office focus areas related to its mission and strategic goals. TFI estimated that it exceeded its performance target of 7.81 on its composite measure, "Impact of TFI Programs and Activities." Note that the fiscal year 2012 outcome is an estimate as of the publication of this report because a customer service survey that contributes to the composite score has not been fully completed.

## HIGHLIGHTS OF MANAGEMENT AND PERFORMANCE CHALLENGES

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Annually, in accordance with the *Reports Consolidation Act of 2000*, OIG and TIGTA identify the most significant management and performance challenges facing the Department. These challenges do not necessarily indicate deficiencies in performance; rather, some represent inherent risks that must be monitored continuously. Treasury made much progress on these issues in fiscal year 2012, and will

continue to focus on resolving them during fiscal year 2013 and beyond. Refer to Section C of Part 3, Other Accompanying Information, of the FY12 Agency Financial Report for a detailed discussion of these challenges, listed below.

Note: SIGTARP does not provide the Secretary with an annual report on management and performance challenges.

### **TREASURY-WIDE MANAGEMENT CHALLENGES – AS IDENTIFIED BY OIG**

- Transformation of Financial Regulation
- Management of Treasury's Authorities Intended to Support and Improve the Economy
- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement
- Gulf Coast Restoration Trust Fund Administration (new)

### **IRS MANAGEMENT CHALLENGES – AS IDENTIFIED BY TIGTA**

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

# FINANCIAL HIGHLIGHTS

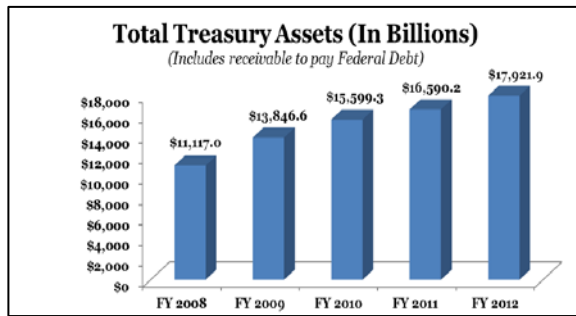


Figure 1

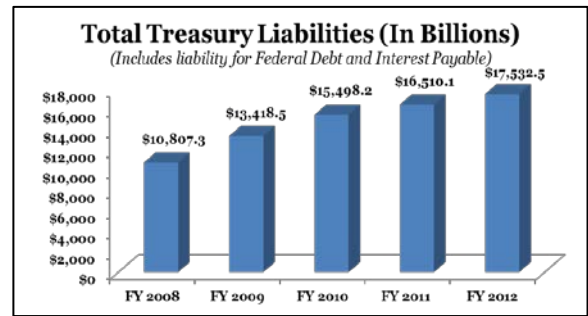


Figure 2

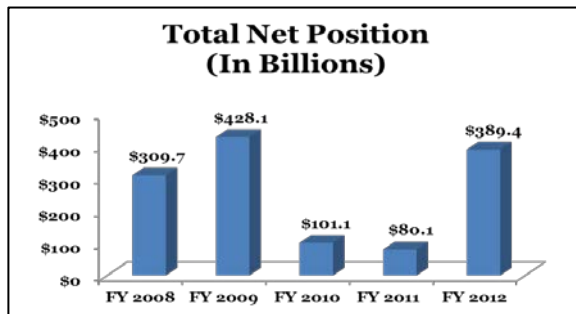


Figure 3

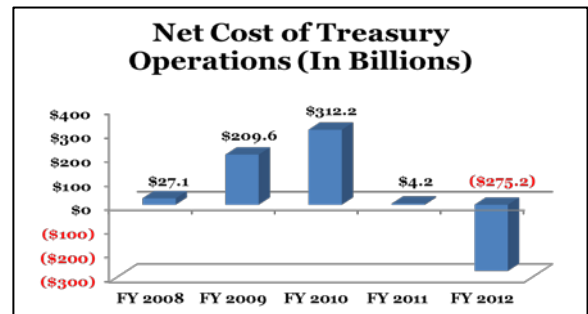


Figure 4

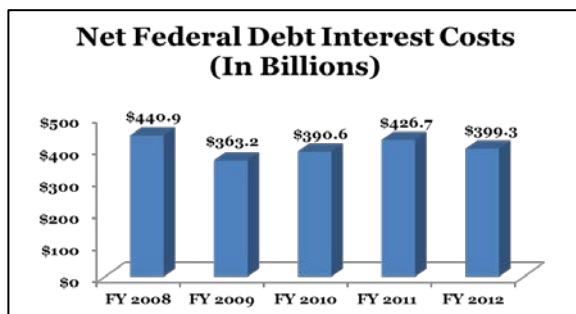


Figure 5

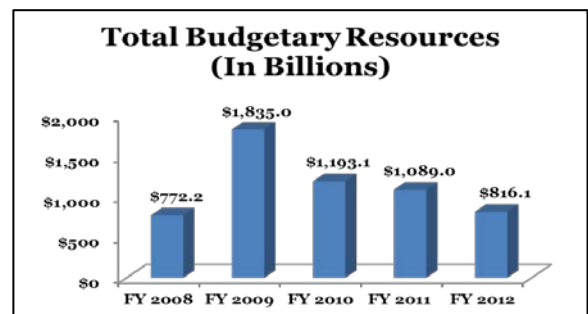


Figure 6

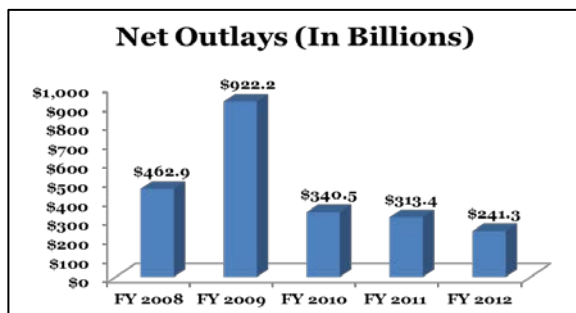


Figure 7

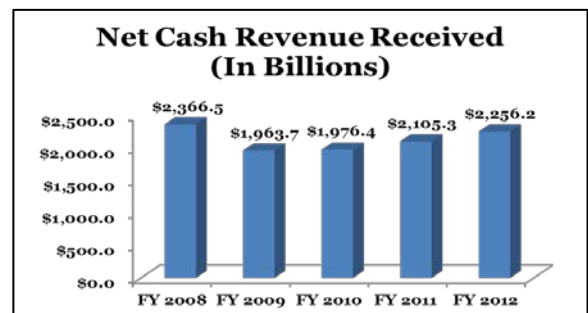


Figure 8

The financial highlights below are an analysis of the information included in the Department's consolidated financial statements which appear within the "Annual Financial Report" section of this report. The Department's principal financial statements have been prepared to report the agency's financial position and results of operations, pursuant to the requirements of 31 USC 3515(b). While these financial statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles (GAAP) for federal entities

and the formats prescribed by OMB, the consolidated financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The chart below presents changes in key financial statement line items as of and for the fiscal year ended September 30, 2012 compared to September 30, 2011.

**Summary Financial Information** (*dollars in billions*)

		<b>2012</b>	2011	\$ Change	% Change
Total Treasury Assets	\$	<b>17,921.9</b>	\$ 16,590.2	\$ 1,331.7	8.0%
Total Treasury Liabilities	\$	<b>17,532.5</b>	\$ 16,510.1	\$ 1,022.4	6.2%
Net Position	\$	<b>389.4</b>	\$ 80.1	\$ 309.3	386.1%
Net Cost of (Revenue From) Treasury Operations	\$	<b>(275.2)</b>	\$ 4.2	\$ (279.4)	6652.4%
Net Federal Debt Interest Costs	\$	<b>399.3</b>	\$ 426.7	\$ (27.4)	(6.4)%
Total Budgetary Resources	\$	<b>816.1</b>	\$ 1,089.0	\$ (272.9)	(25.1)%
Net Agency Outlays	\$	<b>241.3</b>	\$ 313.4	\$ (72.1)	(23.0)%
Net Revenue Received (Custodial)	\$	<b>2,256.2</b>	\$ 2,105.3	\$ 150.9	7.2%

**Financial Overview.** The Department's financial performance as of and for the fiscal year ended September 30, 2012 reflects several major trends. Most significantly, the outstanding federal debt, including interest, rose by \$1.3 trillion to finance the U.S. Government's budget deficits.

Additionally, the Department amended its Senior Preferred Stock Purchase Agreements (SPSPAs) with the two GSEs in 2012 which, among other things, changes the basis by which quarterly dividends are paid by the GSEs to the U.S. Government commencing with the quarter ending March 31, 2013. This amendment impacted the end-of-year valuation of the Department's senior preferred stock investment and contingent liability associated with the GSE program. At the end of 2012, the Department reduced its estimated future liability to the GSEs over the life of the SPSPA program by \$307.2 billion, and reduced the fair value of its GSE senior preferred stock and other related investment holdings by \$42.2 billion. This compares to the \$22.9 billion reduction in the estimated liability and \$3.1 billion increase in the fair value of the GSE investment holdings recorded at the end of 2011. The declines in both the asset and liability at the end of 2012 were primarily due to lower anticipated future draws by the GSEs since they will no longer need to make draws to

fund dividend payments to Treasury as a result of the revised dividend provisions of the amended SPSPAs. Future dividend payments pursuant to the amendment are expected to be lower than previously forecasted.

The Department's 2012 financial performance also reflects the ongoing wind-down of both the GSE MBS and TARP credit programs, principally through sales of securities and principal repayments of loans made under these programs. In fiscal year 2012, the Department completed the sale of its entire MBS portfolio; these sales commenced in mid-2011. TARP's wind-down activity included, among other things, continued sales of its AIG common stock held. The wind-down of the GSE MBS and TARP programs drove significant fluctuations in the subsidy costs associated with these programs during both fiscal years 2012 and 2011 caused by program modifications and end-of-year reestimates. Subsidy costs recorded in connection with each credit program represent the difference between the projected costs of the program and the future cash flows anticipated to be received from the program. Reestimates may occur due to changes in a program's estimated future cash flows caused by changes in market conditions and actual program performance, thereby resulting in an upward or downward reestimate in the credit



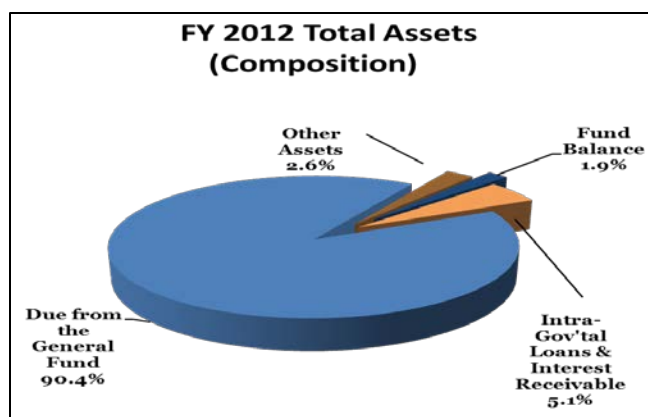
program receivable to reflect an increase or decrease, respectively, in the estimated total cost of the program.

**Total Treasury Assets** of \$17.9 trillion at September 30, 2012 consist of a receivable due from the General Fund of the U.S. Government of \$16.2 trillion, intra-governmental loans and interest receivable of \$914.3 billion, and fund balance and various other assets which totaled \$805.4 billion (Figure 9). The \$1.3 trillion (or 8.0 percent) increase in total assets at the end of fiscal year 2012 over the prior year is primarily due to a \$1.3 trillion rise in the federal debt and related interest payable, which caused a corresponding rise in the “Due from the General Fund of the U.S. Government” account. This account represents future funds required from the General Fund of the U.S. Government to pay borrowings from the public and other federal agencies.

Intra-governmental loans and interest receivable represent loans issued primarily by the BPD to other federal agencies for their own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. This receivable grew by \$185.7 billion (or 25.5 percent) to \$914.3 billion at the end of fiscal year 2012 due to increased borrowings by various federal agencies – such as the Departments of Education, Agriculture, and Energy – to fund their existing programs.

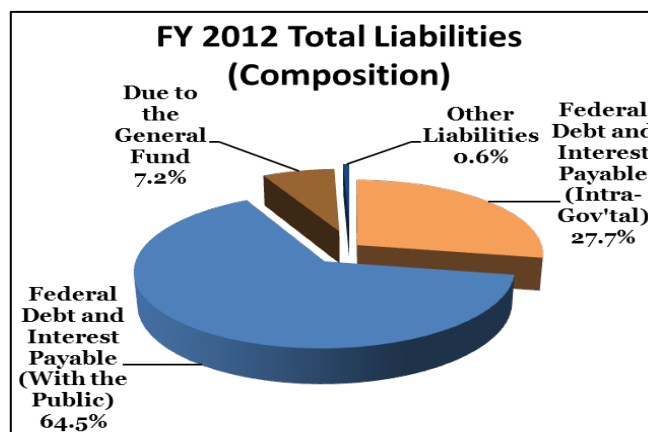
Other assets include, among other things, TARP and non-TARP credit program receivables due from, and other investments in, certain financial institutions for which the Department provided financial assistance in an effort to stabilize financial markets. Other assets decreased by almost \$153.5 billion primarily due to the ongoing wind-down of these programs through sales of securities or principal repayments of loans made under these programs, as well as from declines in the fair value of the GSE preferred stock investments held principally due to the SPSPA amendment.

**Total Treasury Liabilities** of \$17.5 trillion at September 30, 2012 principally consist of the federal debt held by the public, including interest, of \$11.3 trillion which were mainly issued as Treasury Notes and Bills (Figure 10). Liabilities also include intra-governmental liabilities totaling \$6.1 trillion (of which \$4.9 trillion represent principal and interest of federal debt in the form of Treasury securities held by federal agencies), and various other liabilities totaling \$98.4



**Figure 9**

billion. The \$1.0 trillion (or 6.2 percent) increase in total liabilities at the end of fiscal year 2012 over the prior year is attributable to a \$1.3 trillion increase in federal debt, including interest, held by the public and federal agencies that was needed to finance the U.S. Government's budget deficits. This was partially offset by a \$307.2 billion decrease in the estimated future liability to the GSEs.



**Figure 10**

**Net Position** of \$389.4 billion at September 30, 2012 represents the combined total of the Department's cumulative results of operations and unexpended appropriations at the end of the fiscal year. The \$309.3 billion increase in the net position at the end of fiscal year 2012 was principally attributable to a \$279.4 billion increase in net revenue from Treasury operations, combined with a \$27.4 billion decrease in net federal debt interest costs, as discussed below.

**Net Revenue From Treasury Operations**, as presented on the Department's Consolidated Statements of Net Cost, represents the Department's gross and net costs by strategic

program. There are three main categories of strategic programs: financial, economic, and security. The Department generated \$275.2 billion in total net revenue from its operations for 2012 compared to a net cost of \$4.2 billion in the prior year, primarily due to increased net revenue associated with the Department's economic programs, and lower net costs from its financial programs.

Economic programs generated net revenue of \$288.8 billion in 2012 compared to \$9.9 billion in fiscal year 2011 (Figure 11). The \$278.9 billion increase in economic program net revenue in fiscal year 2012 is primarily due to a \$307.2 billion reduction in the Department's estimated future liability to the GSEs in 2012, via a reduction in expense, as a result of the SPSPA amendment, as compared to a \$22.9 billion reduction in this liability in 2011. Fiscal year 2012 net revenue was also favorably impacted by changes in subsidy costs associated with the ongoing wind-down of both the GSE MBS and TARP programs, offset by increased foreign currency exchange losses incurred by ESF due to the strengthening of the U.S. dollar in the world market.

The net cost of financial programs was \$11.8 billion, down \$1.8 billion from fiscal year 2011. Fiscal year 2012 reflects increased interest earnings on higher levels of intra-governmental loans issued to other federal agencies, as discussed under the section "Total Treasury Assets" above.

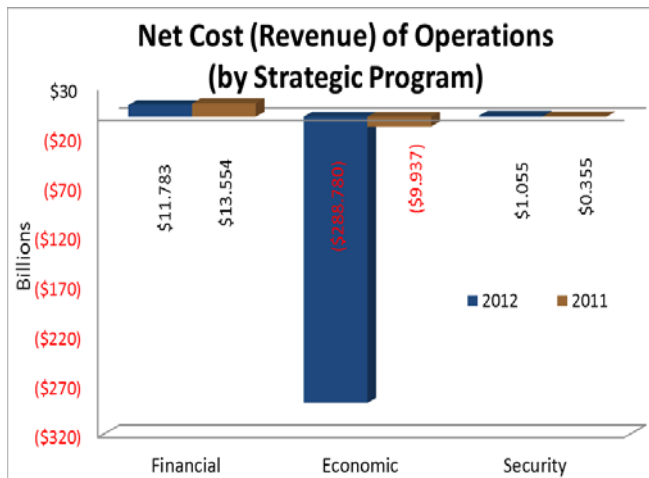


Figure 11

**Net Federal Debt Interest Costs** primarily reflect interest expense on the federal debt. Federal interest costs declined by \$27.4 billion (or 6.4 percent) in fiscal year 2012 despite the rise in the federal debt, due to a decline in the average interest rate on the Treasury debt securities.

**Total Budgetary Resources** of \$816.1 billion were lower in fiscal year 2012 by \$272.9 billion (or 25.1 percent) primarily due to decreases in both borrowing authority and appropriations. Borrowing authority resources decreased \$146.0 billion principally related to the IMF and TARP programs. IMF established two new credit reform programs in fiscal year 2011 for which it received \$107.5 billion in borrowing authority in that year when compared to fiscal year 2012. Additionally, TARP's borrowing authority requirement fell by \$32.9 billion for fiscal year 2012 due to a reduction in downward reestimates of credit reform subsidies associated with certain of its programs. Total budgetary resources also reflect reduced appropriations of \$66.7 billion primarily due to less funding needed in fiscal year 2012 to service the federal debt.

**Net Agency Outlays** of \$241.3 billion were lower in fiscal year 2012 by \$72.0 billion (or 23.0 percent) primarily due to fewer program disbursements associated with the TARP, GSE MBS, and SBLF programs due to the wind-down of certain of these programs.

**Net Revenue Received (Custodial)**, representing net revenue collected by Treasury on behalf of the U.S. Government, includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue. Over 90 percent of these revenues are related to income and social security taxes. Net revenue received was \$2.3 trillion for fiscal year 2012, an increase of \$150.9 billion (or 7.2 percent) over the prior fiscal year. This increase is attributed mainly to an overall improvement in individual and corporate income tax collections, coupled with a reduction in tax refunds.

## CONDENSED FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets (in millions):	2012	2011
Due From the General Fund	\$ 16,202,179	\$ 14,902,717
Other Intra-governmental Assets	1,293,077	1,154,355
Cash, Foreign Currency, and Other Monetary Assets	145,551	117,121
Gold and Silver Reserves	11,062	11,062
Troubled Asset Relief Program (TARP) - Credit Program Receivables, Net	40,231	80,104
Investments in Government Sponsored Enterprises	109,342	133,043
Non-TARP Investment in American International Group, Inc.	2,611	10,862
Reserve Position in the International Monetary Fund	21,573	20,682
Other Credit Program Receivables, Net	19,888	92,820
Taxes, Interest and Other Receivables, Net	41,463	36,690
Other Assets	34,885	30,770
<b>Total Assets</b>	<b>\$ 17,921,862</b>	<b>\$ 16,590,226</b>
Federal Debt and Interest Payable	\$ 16,168,588	\$ 14,869,128
Other Intra-governmental Liabilities	1,265,487	1,235,467
Liability to Government Sponsored Enterprises	9,003	316,230
Other Liabilities	89,388	89,263
<b>Total Liabilities</b>	<b>17,532,466</b>	<b>16,510,088</b>
Unexpended Appropriations	317,509	342,978
Cumulative Results of Operations	71,887	(262,840)
<b>Total Net Position</b>	<b>389,396</b>	<b>80,138</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 17,921,862</b>	<b>\$ 16,590,226</b>

Condensed Consolidated Statements of Changes in Net Position (in millions):	2012	2011
Beginning Balance	\$ (262,840)	\$ (299,461)
Budgetary Financing Sources	429,433	553,644
Other Financing Sources (Uses)	50,475	(112,868)
Total Financing Sources	479,908	440,776
Net Cost of Operations	(145,181)	(404,155)
Net Change	334,727	36,621
<b>Cumulative Results of Operations</b>	<b>\$ 71,887</b>	<b>\$ (262,840)</b>
Beginning Balance	\$ 342,978	\$ 400,557
Appropriations Received	419,130	498,723
Appropriations Used	(428,479)	(548,129)
Other	(16,120)	(8,173)
Total Budgetary Financing Sources	(25,469)	(57,579)
<b>Total Unexpended Appropriations</b>	<b>317,509</b>	<b>342,978</b>
<b>Net Position - Year End</b>	<b>\$ 389,396</b>	<b>\$ 80,138</b>

Condensed Consolidated Statements of Net Cost (in millions):	2012	2011
Net Financial Program Cost	\$ 11,783	\$ 13,554
Net Economic Program (Revenue)/Cost	(288,780)	(9,937)
Net Security Program Cost	1,055	355
<b>Total Net Program Cost (Revenue) before Assumption Changes</b>	<b>(275,942)</b>	<b>3,972</b>
Losses Due To Changes in Actuarial Assumptions	695	195
<b>Total Net Cost of (Revenue from) Treasury Operations</b>	<b>(275,247)</b>	<b>4,167</b>
<b>Total Net Non-Entity Costs (primarily interest on the Federal Debt)</b>	<b>\$ 420,428</b>	<b>\$ 399,988</b>

Condensed Combined Statements of Budgetary Resources (in millions):	2012	2011
Unobligated Balance, Brought Forward	\$ 368,954	\$ 372,243
Recoveries of Prior Year Unpaid Obligations & Other Changes	(27,677)	(6,297)
Budget Authority	474,784	723,055
<b>Total Budgetary Resources</b>	<b>\$ 816,061</b>	<b>\$ 1,089,001</b>
Obligations Incurred	\$ 476,463	\$ 720,047
Unobligated Balance, End of Year	339,598	368,954
<b>Total Status of Budgetary Resources</b>	<b>\$ 816,061</b>	<b>\$ 1,089,001</b>
Total Unpaid Obligated Balances Net	\$ 270,983	\$ 208,189
Obligations Incurred	476,463	720,047
Outlays, Gross	(482,094)	(663,362)
Recoveries of Prior Year Unpaid Obligations, Actual	(13,349)	(16,729)
Changes in Uncollected Customer Payments federal sources	166	22,838
<b>Obligated Balance, End of Year</b>	<b>\$ 252,169</b>	<b>\$ 270,983</b>
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 241,318</b>	<b>\$ 313,354</b>

Condensed Statements of Custodial Activity (in millions):	2012	2011
<b>Sources of Custodial Revenue</b>		
Individual and FICA Taxes	\$ 2,159,990	\$ 2,102,030
Corporate Income Taxes	281,462	242,848
Other Revenues	188,516	176,595
<b>Total Revenue Received</b>	<b>2,629,968</b>	<b>2,521,473</b>
Less Refunds	(373,752)	(416,221)
<b>Net Revenue Received</b>	<b>2,256,216</b>	<b>2,105,252</b>
Non-Cash Accrual Adjustment	5,543	(150)
Non-TARP Investments in American International Group, Inc.:		
Cash Proceeds from Sale of Stock	12,992	1,973
Non-Cash Market Adjustments	(8,251)	(9,944)
<b>Total Custodial Revenue</b>	<b>2,266,500</b>	<b>2,097,131</b>
<b>Disposition of Custodial Revenue</b>		
Amounts Provided to Fund Non-Federal Entities	386	462
Amounts Provided to Fund the Federal Government	2,255,830	2,104,790
Non-Cash Accrual Adjustment:		
Amounts to be Provided to the General Fund	4,000	-
Accrual Adjustment	1,543	(150)
Non-TARP Investments in American International Group, Inc.:		
Cash Proceeds from Stock Sales Provided to Fund the Federal Government	12,992	1,973
Non-Cash Market Adjustments	(8,251)	(9,944)
<b>Total Disposition of Custodial Revenue</b>	<b>2,266,500</b>	<b>2,097,131</b>
<b>Net Custodial Revenue</b>	<b>\$ -</b>	<b>\$ -</b>