THE DEPARTMENT OF THE TREASURY

November 15, 2010

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2010

THE UNITED STATES DEPARTMENT OF THE TREASURY

OUR VISION

Set the global standard in financial and economic leadership

OUR MISSION

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

OUR VALUES

SERVICE
Work for the benefit of the American people

INTEGRITY
Aspire to the highest ethical standards of honesty, trustworthiness, and dependability

EXCELLENCE
Strive to be the best, continuously improve, innovate, and adapt

OBJECTIVITY
Encourage independent views

ACCOUNTABILITY
Responsible for our conduct and work

COMMUNITY
Dedicated to excellent customer service, collaboration, and teamwork while promoting diversity

THE DEPARTMENT OF THE TREASURY

FISCAL YEAR 2010

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TABLE OF CONTENTS

Part 2: Annual Performance Report

Part 3: Annual Financial Report

Part 4: Other Accompanying Information

MESSAGE FROM THE SECRETARY OF THE TREASURY

November 15, 2010

Over the past two years, the Treasury Department has taken a series of unprecedented steps to pave the way for the nation's recovery from the worst recession in our lifetimes. The Department's top priority has been to serve the American people by strengthening the U.S. economy, helping create jobs, and restoring confidence in our financial system.

Since the last report, we have made important progress on all fronts. Over the past year, in addition to continued implementation of the Recovery Act, we have recovered most of our investments in the financial system; helped usher in a historic law to reform our financial system; crafted important new consumer protections; and significantly increased support for small businesses.

There is much work still to be done to get our economy growing faster. In 2010, the private sector added more than 1.1 million jobs—an average of 112,000 jobs a month for 10 straight months. Treasury will continue to work to build on these positive trends, accelerate job creation, and drive economic recovery.

The financial system today is also much stronger—and looks much different—than it did two years ago. The firms that remain are in a much better position to withstand future stress. Most banks have more capital than before the crisis and more than their global competitors. Overall, private capital has replaced public funds, and the government is winding down its financial system rescue efforts faster than anticipated.

Because of Treasury's careful stewardship of taxpayer dollars and the further strengthening of the financial system, the Troubled Asset Relief Program will likely cost substantially less than originally thought possible. Since its inception, the projected cost of this program has continued to decline dramatically. The Department has stopped committing new funds and has already recovered $204.1 billion of the total $387.7 billion that has been disbursed for the program, and has received nearly $28 billion in additional profits from dividends, interest, warrants, and other transactions. Moving forward, further progress towards replacing public support with private investment will continue to demonstrate Treasury's ongoing commitment to maximize repayments to taxpayers.

In addition to the important efforts to meet our immediate obligations, the Department worked closely with Congress to pass fundamental financial reform. Our financial system helped trigger the most severe economic recession in 70 years. The flaws in that system had to be fixed to protect future generations. In July, after months of negotiations and hard work, Congress passed the *Dodd-Frank Wall Street Reform and Consumer Protection Act*—the most sweeping financial reforms since the Great Depression. The President quickly signed it into law, and Treasury immediately began implementing the new reforms. The Department is now standing up the Consumer Financial Protection Bureau, conducting meetings of the Financial Stability Oversight Council, and putting in place the Office of Financial Research.

Against this backdrop of dramatic change, Treasury continues to pursue its goals of effectively managing U.S. Government finances, helping U.S. and world economies perform at full economic potential, promoting the nation's security through strengthened international financial systems, and efficiently managing the Department's resources.

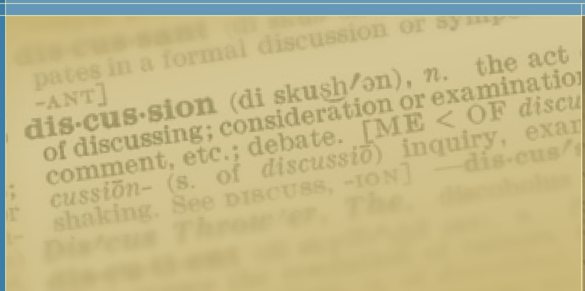
The Department again received an unqualified opinion on our Treasury consolidated financial statements, and we also received another unqualified opinion on the financial statements of our Office of Financial Stability/Troubled Asset Relief Program, which reflect the financial results of their second year of operations.

We have validated the accuracy, completeness, and reliability of the financial and performance data in this report. Maintaining our commitment to continuous program and operational improvement, the Department also made progress in reducing management control weaknesses and in efforts to achieve federal financial systems and control objectives.

Timothy F. Geithner
Secretary of the Treasury

PART I:

MANAGEMENT'S DISCUSSION AND ANALYSIS



INTRODUCTION

To repair and reform the financial system, Treasury implemented measures ranging from preparation and initial implementation of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank Act) to ongoing rescue and economic recovery initiatives begun in 2008 and 2009 and to work with international partners to reform the international financial system. Treasury also plays a critical role in achieving one of the Obama Administration's top domestic priorities in the implementation of health care reform. In addition to these priorities, Treasury continued to focus on managing the government's finances and streamlining operations, including maximizing paperless transactions and strong performance management in fiscal year 2010.

The Dodd-Frank Act, passed in July 2010, introduced wide-ranging financial reforms to better protect consumers, prevent financial firms from taking risks that threaten the economy, and provide the government more effective tools to manage financial crises. To implement the Dodd-Frank Act, Treasury is establishing new regulatory bodies, including the Consumer Financial Protection Bureau, Financial Stability Oversight Council, Office of Financial Research, and Federal Insurance Office; overseeing the closure of the Office of Thrift Supervision and its integration into the Office of the Comptroller of the Currency; and working with other government agencies to develop new market regulations and guidance.

As the economy recovers from the financial crisis and recession, Treasury has continued its efforts to restore growth and create jobs through implementation of the *Housing and Economic Recovery Act of 2008* (HERA), the *Emergency Economic Stabilization Act of 2008* (EESA), and the *American Recovery and Reinvestment Act of 2009* (Recovery Act); coordination with federal and state partners; execution of Treasury's Housing Programs; regulation of national banks and thrifts; and various other initiatives. As the financial system continues to stabilize and the economy recovers, the Troubled Asset Relief Program (TARP) will wind down and efforts will be focused on implementing financial regulatory reform and protection for consumers.

Treasury continued to secure strong international support through the Group of 20 (G-20) to reform the international financial system based on the fundamental principles of a strong regulatory framework, effective supervision, management of risks associated with systemic institutions, and transparent international assessment and peer review. The Department also helped strengthen global bank capital standards through establishment of a new Basel III capital agreement.

The Department has a major role in implementing health care reform. The IRS began developing new systems and business processes for near term provisions, conducting initial planning for longer-term provisions, and defining appropriate outreach activities for each affected taxpayer group. While implementing new provisions, the IRS continued to focus on its priority performance goal of improving voluntary tax compliance.

Fiscal year 2010 saw strong demand in wholesale government securities. During the year, the Department conducted over 290 government securities auctions, a near record, and issued $8.41 trillion in marketable Treasury securities. Only fiscal year 2009 had a greater number of auctions. On average, nominal note and bond auctions have been oversubscribed by 1.9 times, significantly above the previous record of 1.5 times in fiscal year 2009.

The Department accelerated its efforts to increase the number of electronic transactions with the public to reduce paper use, increase efficiency, and reduce costs. One of Treasury's three priority performance goals sets a target to increase electronic transactions with the public by 33 percent by the end of fiscal year 2011. Initiatives related to tax payments, savings bond purchases, benefit payments, and vendor invoicing will all be included in this effort. Savings are estimated at $400 million over five years. In addition to these initiatives, E-filing of tax returns continued to increase in 2010. Sixty-nine percent of individual returns were filed electronically, up from 66 percent in fiscal year 2009. Business returns electronically filed increased 12 percent over 2009, reaching 25.5 percent.

Finally, the Department launched a new performance management process led by the Deputy Secretary and coordinated through the Assistant Secretary for Management. Performance review meetings are conducted every quarter for Treasury bureaus and policy offices. The meetings in 2010 focused on clarifying missions, goals, and performance measures and formulation of the fiscal year 2012 budget. The performance review process will mature over the next fiscal year as a deeper understanding of the factors that drive performance are analyzed, and strategies are developed to deliver improved results.

For the online version of this report, please see *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

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 and nine 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, capital markets, financial management, fiscal policy, and cash management decisions.

International Affairs protects and supports U.S. economic prosperity by strengthening the external environment for U.S. growth, preventing and mitigating global financial instability, and managing key global challenges.

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

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

Tax Policy develops and implements tax policies and programs, reviews regulations and rulings to administer the Internal Revenue Code, negotiates tax treaties, and provides economic and legal policy analysis for domestic and international tax policy decisions. Tax policy also provides revenue estimates for the President's budget.

Treasurer of the United States serves as a senior advisor and representative of Treasury on behalf of the Secretary in the areas of community development, real estate, and other business development initiatives. The Treasurer also serves as one of the agency's principal advisors and is a spokesperson in the areas of financial literacy, education and public engagement.

Community Development Financial Institutions Fund (CDFI Fund) expands the capacity of community development financial institutions and community development entities to provide credit, capital, tax credit allocations, and financial services to underserved domestic populations and communities.

Internally, the departmental offices are responsible for overall management of the Department. *The Office of Management and the Chief Financial Officer* is responsible for internal management and controls, as well ensuring contracting opportunities through the *Office of Small and Disadvantaged Business Utilization*. Support organizations 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 for the Department of the Treasury and its programs.

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) designs and manufactures high quality notes and other financial documents that deter counterfeiting and meet customer requirements for quality, quantity, and performance.

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

The Financial Crimes Enforcement Network (FinCEN) safeguards the financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity.

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

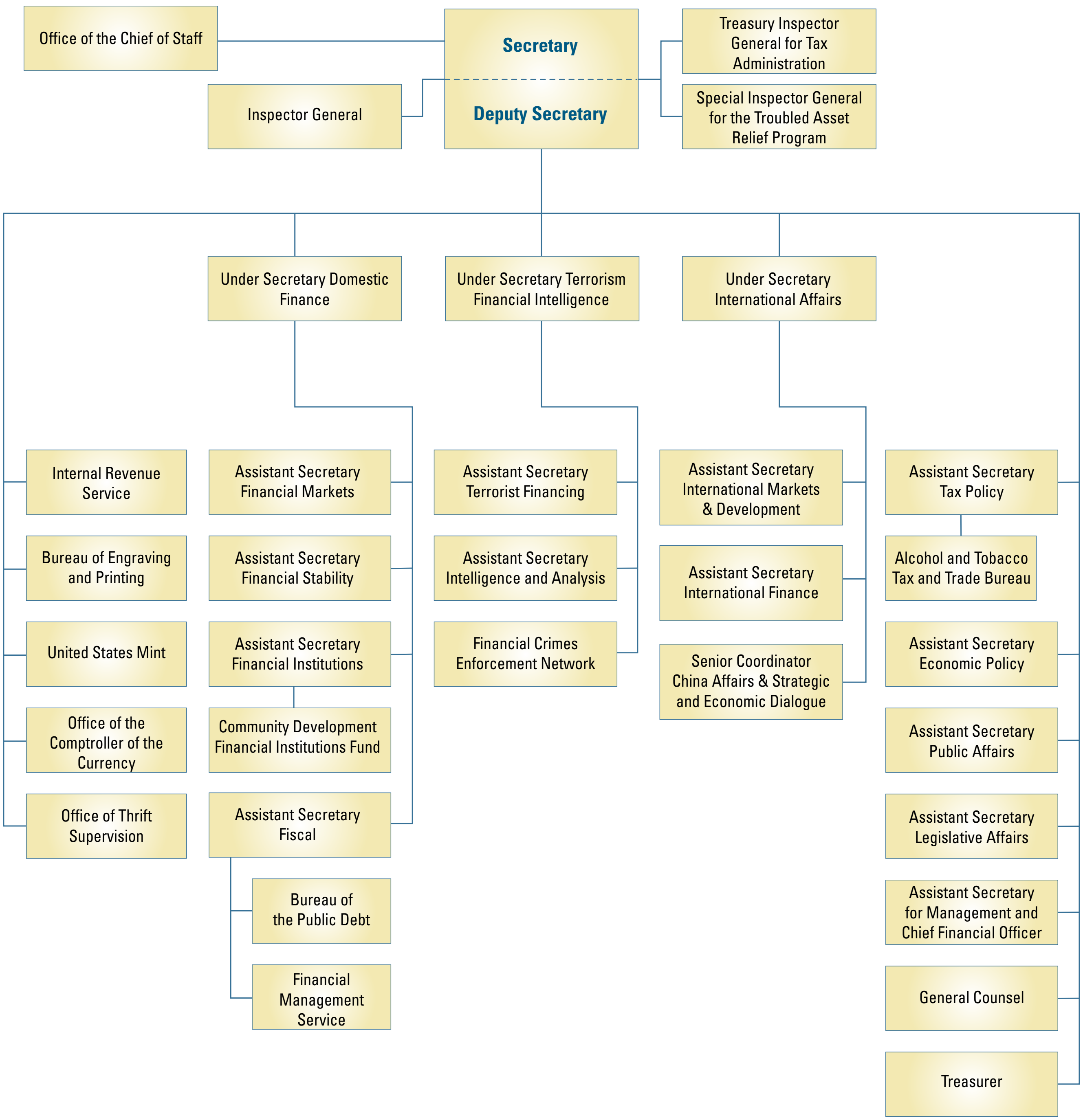
The Internal Revenue Service (IRS) is the largest of the Department's bureaus and determines, assesses, and collects tax revenue for the federal government.

The United States Mint designs, produces, and issues circulating and bullion coins, numismatic coins and other items, Congressional gold medals, and other medals of national significance. The United States Mint maintains physical custody and protection of the nation's gold assets.

The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks to ensure compliance with consumer laws and regulations and a safe, sound, and competitive banking system that supports citizens, communities, and the economy.

The Office of Thrift Supervision (OTS) charters, examines, supervises, and regulates federal and state-chartered savings associations and their holding companies in order to maintain each thrift's safety and soundness and compliance with consumer laws.

The Department of the Treasury Organizational Chart



THE TREASURY DEPARTMENT'S 2007-2012 STRATEGIC FRAMEWORK

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

	Strategic Goals	Strategic Objectives	Value Chains**	Value Chain Outcomes
Financial	Effectively Managed U.S. Government Finances	Available cash resources to operate the government	Collect Disburse Borrow Account Invest	• Revenue collected when due through a fair and uniform application of the law at the lowest possible cost • Timely and accurate payments at the lowest possible cost • Government financing at the lowest possible cost over time • Effective cash management • Accurate, timely, useful, transparent and accessible financial information
Economic	U.S. and World Economies Perform at Full Economic Potential	Improved economic opportunity, mobility and security with robust, real, sustainable economic growth at home and abroad	Strengthen Regulate	• Strong U.S. economic competitiveness • Free trade and investment • Decreased gap in global standard of living • Competitive capital markets • Prevented or mitigated financial and economic crises
		Trust and confidence in U.S. currency worldwide	Manufacture	• Commerce enabled through safe, secure U.S. notes and coins
Security	Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems	Pre-empted and neutralized threats to the international financial system and enhanced U.S. national security	Secure	• Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, narcotics trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks • Safer and more transparent U.S. and international financial systems
Management	Management and Organizational Excellence	Enabled and effective Treasury Department	Manage	• A citizen-centered, results-oriented and strategically aligned organization • Exceptional accountability and transparency

** Value Chains – Programs grouped by a common purpose.

FISCAL YEAR 2010 SUMMARY OF PERFORMANCE BY STRATEGIC GOAL

Strategic Goal	Key Accomplishments	Key Challenges	Trend
Effectively Managed U.S. Government Finances Cost*: 2009: $14.4 billion 2010: $15.5 billion	• Collected $2.3 trillion in tax revenue and $23.8 billion in federal excise taxes on tobacco, alcohol, firearms, and ammunition • Processed over 141.9 million individual returns and issued over 109.5 million refunds • Processed 69 percent of individual tax returns electronically, up from 66 percent in fiscal year 2009 • Converted nearly 1.5 million federal benefit check recipients to direct deposit in fiscal year 2010, 50 percent more than fiscal year 2009 • Conducted 47 percent more auctions than the fiscal year 2000 to 2008 average • Extended the average maturity of the debt by five months to an historic average of 58 months	• Continue to work toward the Congressional goal of having 80 percent of tax returns filed electronically • Continue "Paperless" initiatives to convert paper savings bonds, payments, vendor invoices, and collections to electronic forms • Implement tax provisions in the Patient Protection and Affordable Care Act • Expand efforts to address offshore tax evasion • Increase compliance among corporate returns • Improve audit coverage of high net-worth/high-income taxpayers • Continue to make progress toward completing the new taxpayer account database (the Customer Account Data Engine II) • Accurately forecast government receipts • Develop standard electronic invoicing platform and intra-governmental transaction processing systems	Performance ▶ Budget ▲ Cost ▲
U.S. and World Economies Perform at Full Economic Potential Cost*: 2009: $4.4 billion 2010: $5.5 billion	• Supported enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and initiated implementation of financial reforms • Continued implementation of the Emergency Economic Stabilization Act of 2008 to repair financial and housing markets • Improved mortgage availability and housing market stability by implementing the Housing and Economic Recovery Act of 2008 • Implemented economic stimulus measures under the American Recovery and Reinvestment Act of 2009 • Supported enactment of the Small Business Jobs Act of 2010 to strengthen the capacity of small businesses to create jobs • Coordinated with G-20 nations and other partners to strengthen international financial regulations • Contributed to fiscal stabilization efforts in countries most directly affected by the financial crisis and economic recession • Coordinated the economic track of the U.S. – China Strategic and Economic Dialogue • Led U.S. engagement in the multilateral development banks to further alleviate poverty and foster broad-based economic growth	• Stand up the Consumer Financial Protection Bureau, Financial Stability Oversight Council, Office of Financial Research, and Federal Insurance Office • Close the Office of Thrift Supervision and transfer its functions to the Office of the Comptroller of the Currency, the Federal Reserve, and the Federal Deposit Insurance Corporation • Reform the housing finance system to improve long-term market stability • Continue to monitor and mitigate risks at national banks and thrifts • Reduce mortgage delinquency and foreclosure rates • Maintain and promote open economies despite rising protectionist interests • Reform Medicare and Social Security to ensure long-term solvency • Manage cost, productivity, and quality issues related to coin and currency production • Increase financial literacy and access to financial services in low-income and underserved communities • Monitor compliance of Recovery Act tax provisions	Performance ▼ Budget ▲ Cost ▲

Table continued on next page

Strategic Goal	Key Accomplishments	Key Challenges	Trend
Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems Cost*: 2009: $570 million 2010: $668 million	• Obtained commitment from financial institutions to reduce business relations with Iran and Iranian banks • Implemented sanctions against North Korean arms trafficking, luxury goods procurement, and illicit economic activities • Supported establishment of the Afghanistan Threat Finance Cell • Enhanced mechanisms to combat mortgage and loan modification fraud and detect health care fraud • Provided key information on Southwest border cash flows to law enforcement • Seized over $1 billion in forfeitures and recoveries	• Fully implement anti-money laundering and counter-terrorist financing laws in key countries • Continue to support efforts in Mexico to detect, interdict, and investigate the flow of illicit proceeds from narcotics and human smuggling • Modernize Bank Secrecy Act information and analysis • Develop compliance practices and regulations for newly regulated industries, such as pre-paid access cards and mortgage brokers • Strengthen evaluation methodology for Terrorism and Financial Intelligence impact measure	Performance ▲ Budget ▲ Cost ▲
Management and Organizational Excellence Cost*: 2009: $296 million 2010: $337 million	• Achieved second most-improved agency in the Best Places to Work Rankings by the Partnership for Public Service • Provided management, financial, budget, IT, facilities, procurement, and human capital support to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act • Exceeded procurement savings and high-risk contract reduction goals set by Office of Management and Budget (OMB) • Maintained status as the only agency to consistently receive fully green marks on the OMB Environment and Energy Scorecard • Established and conducted data driven budget and performance reviews at the Deputy Secretary level for all bureaus	• Increase implementation of SIGTARP recommendations for the Troubled Asset Relief Program • Launch re-designed Treasury website • Implement next stage of Homeland Security Presidential Directive 12 (HSPD-12) logical and physical access • Continue consolidation of Treasury data centers • Implement Enterprise Content Management technology initiative to improve Department-wide efficiency • Continue to implement aggressive paper reduction targets • Complete all material loss review work (due to bank failures) on time • Close planned corrective actions from audits on time • Streamline hiring process	Performance ▲ Budget ▲ Cost ▲

* Cost is stated as "Performance Cost," and in addition to budgetary resources, includes imputed costs, depreciation, losses, and other expenses not requiring budgetary resources.

Legend	Symbol
Favorable upward trend	▲ (green)
Favorable downward trend	▼ (green)
Unfavorable upward trend	▲ (red)
Unfavorable downward trend	▼ (red)
No change in trend, no effect	▶ (black)
No change in trend, favorable effect	▶ (green)
No change in trend, unfavorable effect	▶ (red)
Baseline	B

TREASURY'S PRIORITY PERFORMANCE GOALS

The Department established three Priority Performance Goals in 2010 to drive its focus and achieve measurable results for the American people in the next two years. These goals are based on existing priorities and the strategic goals of the Treasury Department.

Repair and Reform the Financial System

The financial crisis of the last two years, with its attendant recession, job losses, and foreclosures, has required the Department to take extraordinary actions to preserve the functioning of financial and housing markets and restore confidence in the integrity of the financial system. Gaps and weaknesses in the supervision and regulation of financial firms limited the government's ability to:

- Monitor and prevent risks that built up in the financial system
- Provide adequate protections for consumers and investors

Increase Voluntary Tax Compliance

Improving both service and enforcement, along with reforms to simplify the tax law, are essential to ensure the U.S. tax system remains the most effective and fairest voluntary compliance system in the world. Reliance on a voluntary compliance tax system requires:

- Effective taxpayer services that enable taxpayers to understand and meet their tax obligations
- Effective enforcement to ensure that all businesses and individuals pay the tax they owe

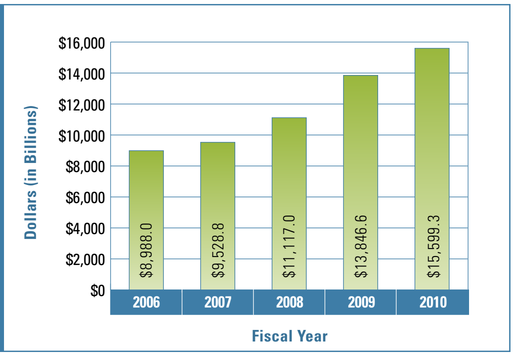
Significantly Increase the Number of Electronic Transactions with the Public

The safety, security, efficiency, and reliability of Treasury transactions are paramount to maintaining public trust. Billions of transactions for payments to recipients, savings bonds purchases, and tax collections are executed in a year. Increasing the number of electronic transactions with the public will:

- Reduce costs
- Reduce errors
- Decrease the public's vulnerability to fraud
- Increase convenience for recipients and taxpayers
- Reduce environmental impact

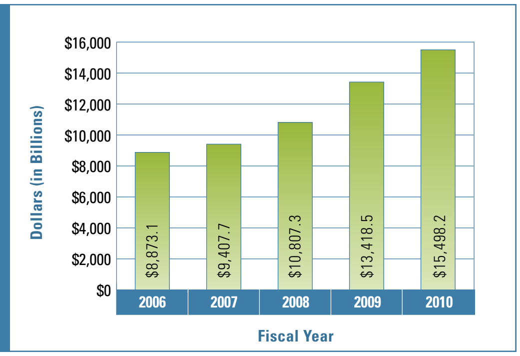
FINANCIAL HIGHLIGHTS

Total Assets



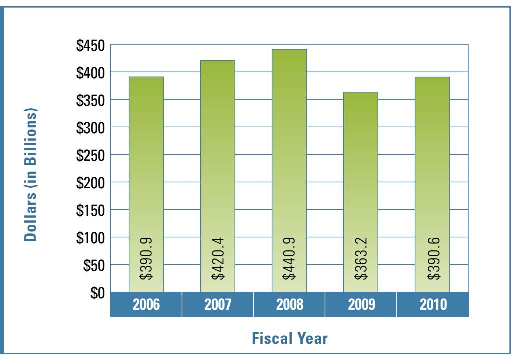
The increase of $1.8 trillion in total assets in fiscal year 2010 is largely due to the increase in future funds required from the General Fund of the U.S. Government to pay for the federal debt owed to the public and other federal agencies.

Total Liabilities



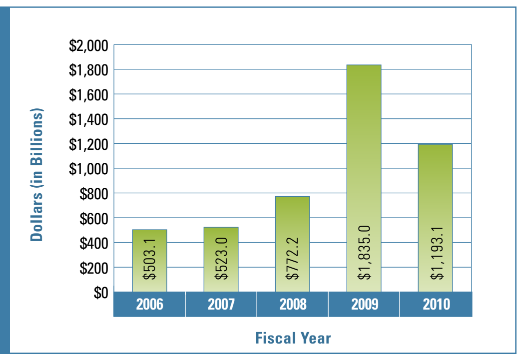
Total liabilities increased by $2.1 trillion from fiscal year 2009 to fiscal year 2010. The majority of the increase is due to borrowings from other federal agencies and debt issued to the public.

Net Federal Debt Interest Costs



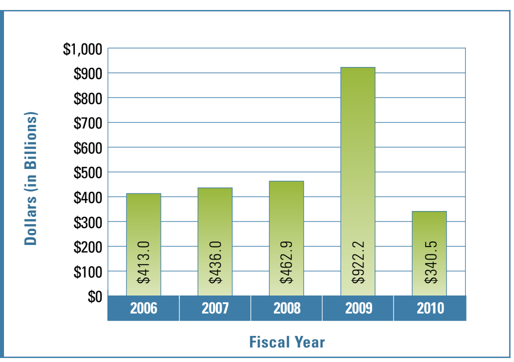
The increase of $27.4 billion in net interest paid on the federal debt is due to the increase in the debt. Total federal debt and interest payable increased by $1.66 trillion in fiscal year 2010.

Total Budgetary Resources



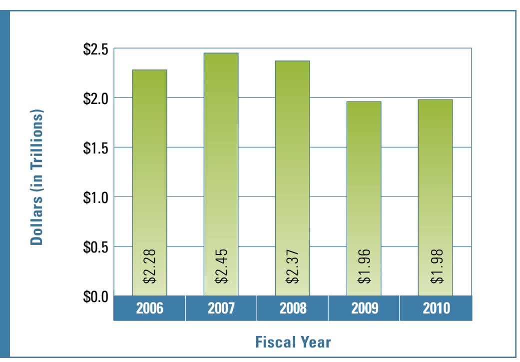
The majority of the decrease in total budgetary resources for fiscal year 2010 was due to the reduction of Troubled Asset Relief Program (TARP) activity and investments in the Government Sponsored Enterprises (GSEs).

Net Outlays



The majority of the $581.7 billion decrease in net outlays was due to the reduction of Troubled Asset Relief Program (TARP) activity and investments in the Government Sponsored Enterprises (GSEs).

Net Cash Revenue Received



Net cash revenue received on behalf of the U.S. Government increased by $12.7 billion for fiscal year 2010. This increase can be attributed to an overall improvement in the economy.

FISCAL YEAR 2010 PERFORMANCE BY STRATEGIC GOAL

Effectively Managed U.S. Government Finances

The Treasury Department manages the nation's finances by collecting money due to the United States, making its payments, managing its borrowing, investing when appropriate, and performing central accounting functions. In fiscal year 2010, the Treasury implemented tax provisions contained in the *Patient Protection and Affordable Care Act of 2010* (ACA) and the *Hiring Incentives to Restore Employment Act of 2010* (HIRE). The Department also sought to improve processes for tax filing and payments and created a new Office of Financial Innovation and Transformation (FIT).

IRS Implementation of the Patient Protection and Affordable Care Act of 2010

The ACA was signed into law on March 23, 2010 and was later amended by the *Health Care and Education Reconciliation Act of 2010* on March 30, 2010. ACA represents the largest set of tax law changes in more than 20 years, with more than 40 provisions that amend the tax laws. Although the new law goes into effect gradually over many years, numerous provisions like the Small Business Health Care Tax Credit, the Qualifying Therapeutic Discovery Credit, and the expanded Adoption Credit require immediate action.

The IRS established teams to implement the various provisions. Efforts focused on:

- Developing new systems and business processes for near-term provisions
- Conducting initial planning for longer-term provisions
- Defining appropriate outreach activities for each affected taxpayer group

The IRS and the Department of Health and Human Services (HHS) partnered to form a coordinating committee to assess cross-cutting policy considerations. Interagency working teams were formed to assess operational needs such as data infrastructure, eligibility, enrollment, customer service, communications, and payment of premium tax credits. The IRS is assessing the overall impact of new health insurance exchanges on tax administration and analyzing information technology (IT) system designs that will be needed for enrollment verification, payment and accounting processes, tax reconciliation, and administration of both individual and employer requirements.

Provisions effective in later years will place new administrative responsibilities on the IRS and require new systems, business processes, and coordination with other federal and state entities. Efforts will continue into fiscal year 2011. In addition, TIGTA reviewed the ACA for its impact on tax administration.

Creation of Office of Financial Innovation and Transformation

In fiscal year 2010, Treasury created the FIT to develop a standard electronic invoicing platform and intra-governmental transaction processing systems. The goals of this effort are to lower overall financial transaction processing costs, facilitate the resolution of audit issues, and increase transparency of financial information. FIT's work comes at a critical time as agencies are looking for ways to improve financial transaction procedures that are inefficient, fragmented, and expensive. Performance will be measured by the reduction in duplicative systems and improved transparency. Potential government-wide savings are estimated at hundreds of millions of dollars annually.

Implemented the Hiring Incentives to Restore Employment Act

The HIRE Act of 2010 provides employers an incentive to hire workers who have been unemployed for 60 days or longer by exempting wages paid to these workers from the employer's 6.2 percent share of Social Security payroll taxes for the remainder of the year. In addition to exempting employers from these payroll taxes, the HIRE Act allows employers to claim a tax credit of up to $1,000 for each newly hired qualifying worker who is retained for one year.

The IRS collaborated with the payroll industry to implement these provisions. Treasury estimated that businesses hired

8.1 million new workers who were unemployed for 60 days or longer between February to August 2010, making those businesses eligible to receive HIRE Act tax exemptions and credits.

Increased Tax Compliance through Greater Openness and Transparency

The IRS continues to use more efficient strategies to ensure large corporate taxpayers are in compliance. The Commissioner of the IRS announced changes to filing uncertain tax positions, mainly that filers will now be required to provide a concise description for positions taken on their tax returns. Providing descriptions will increase certainty and lead to more efficient examinations. Over the next year, IRS examiners will receive special training on the handling of uncertain tax positions.

In exchange for more openness and transparency before filing, the IRS Compliance Assurance Process (CAP) program has helped resolve issues with large corporate taxpayers earlier and ensured filing of more accurate returns. The CAP program allows taxpayers who identify their tax issues to get certainty with respect to their tax obligations at the time of filing, as opposed to having to wait for the IRS to examine issues during an audit. The CAP program benefits both the IRS and the taxpayer by fostering compliance, reducing the time it takes to process a return, and improving both customer and employee satisfaction while maintaining a high level of quality. In fiscal year 2010, participation increased to 112 corporate taxpayers, with all 102 from 2009 returning.

Tax Returns Filed Electronically

In fiscal year 2010, Treasury processed 141.9 million individual returns and issued more than 109.5 million refunds totaling $366 billion. Sixty-nine percent of individual returns were filed electronically, up from 66 percent in fiscal year 2009. Business returns filed electronically increased 12 percent over 2009, reaching 25.5 percent. Although this is a clear improvement, Treasury has not yet reached the Congressional goal of 80 percent of tax returns filed electronically. Treasury is improving online resources and engaging in a tax preparer strategy to improve the E-file rate.

Improved Outreach and Automated Tools to Improve Taxpayer Service

Treasury strives to ensure taxpayers have access to the information and support necessary to meet their tax obligations. The IRS continued to improve its automated web tools and services, such as "Where's My Refund?," Earned Income Tax Credit (EITC) assistant, and podcasts. Over 213 million tax products were downloaded, an increase of almost 12 percent. In addition, the IRS created YouTube videos on subjects including the Education Tax Credit, Making Work Pay, and the Homebuyer Credit (see *www.youtube.com/user/irsvideos*). Many were available in English, American Sign Language, and Spanish.

The IRS and its partners provide free tax assistance to the elderly, disabled, and people with limited English proficiency at more than 12,000 Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites throughout the nation. More than 3.1 million tax returns were prepared in fiscal year 2010. To assist taxpayers in the Gulf Coast, Treasury provided a dedicated toll-free telephone line and hosted a Gulf Coast Assistance Day at seven Taxpayer Assistance Centers in the Gulf Coast region. Overall, the customer service representative level of service increased from 70 percent in fiscal year 2009 to 74 percent in fiscal year 2010.

TTB continued its efforts to promote voluntary compliance among industry members in 2010 through industry seminars, web site tutorials, and other outreach efforts. Despite the prolonged economic downturn, efforts were successful in maintaining the voluntary compliance rate achieved in fiscal years 2008 and 2009. TTB had a compliance rate of 94 percent for timely filed tax payments among large excise taxpayers this fiscal year.

Expanded Enforcement of Tax Laws to Ensure Tax Compliance

IRS enforcement initiatives continued to focus on pursuing noncompliant high-income and high net-worth individuals and reducing overseas tax evasion. As a result of these efforts, fiscal year 2010 IRS total enforcement revenue was $57.6 billion, exceeding the $48.9 billion in revenue received in fiscal year 2009 by 18 percent. The number of audits of high net-worth individuals increased more than five percent.

The IRS strengthened international enforcement efforts by doubling its offshore presence, including establishing new offices in Asia and Central America, placing additional law enforcement personnel at existing offices, and expanding interactions with key international organizations involved in tax and financial law compliance. The IRS also identified and examined 17,888 foreign resident tax returns with tax deficiencies totaling over $1.4 billion.

To enforce the floor stocks tax (FST) on tobacco products in the *Children's Health Insurance Program Reauthorization Act of 2009* (CHIPRA), TTB developed a targeted audit plan. TTB completed more than 250 field visits to verify FST payment, which identified $10.2 million in additional tax, or an average underpayment of $40,000. FST collections at the end of the fiscal year totaled nearly $1.3 billion. During fiscal year 2010, TTB carried out 35 joint investigations with various federal, state, and local law enforcement agencies, resulting in the seizure of more than 3,000 cases of alcohol beverage products and nearly 100,000 cartons of cigarettes having an estimated federal and state tax liability of $30 million.

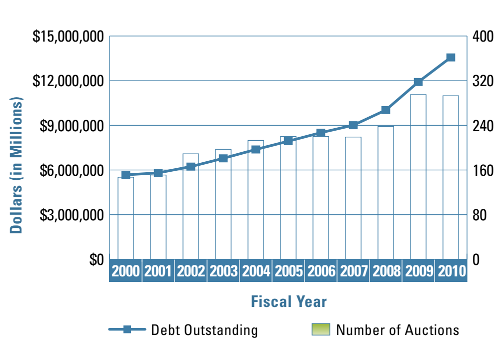
High Number of Debt Auctions with High Demand

There has been an unprecedented demand for Treasury securities. In fiscal year 2010, the Department conducted over 290 government auctions, a near-record. On average, nominal note and bond auctions have been oversubscribed by 1.9 times, significantly above the previous record of 1.5 times in fiscal year 2009. The value of marketable securities issues, $8.41 trillion, was only lower than the fiscal year 2009 level of $8.87 trillion. In this strong demand environment, Treasury extended the average maturity of the debt by 5 months, back to an historic average of 58 months.

Prepared to End Paper Payroll Saving Bonds and Expanded Online Savings Bond Customer Base

In fiscal year 2010, Treasury announced an initiative to end the sale of paper savings bonds through payroll savings plans by January 2011. Throughout 2010, the BPD worked with Federal Reserve Banks, agents, and employers to encourage customers to transition to TreasuryDirect, an online system for purchasing electronic Treasury securities. Outreach efforts included direct mail, bond inserts, webcasts and other online information, and targeted print and radio advertising.

Number of Debt Auctions vs. Debt Outstanding



TreasuryDirect continued to grow, adding 99,800 new customer accounts to reach nearly one million accounts in fiscal year 2010. BPD continues to improve the system and added a streamlined process for reinvesting marketable securities.

Greater Use of Electronic Fund Transfers for Payments

During fiscal year 2010, FMS continued to expand the use of electronic fund transfers to deliver federal payments, improve service to payment recipients, and reduce government program costs. Go Direct, a campaign to motivate federal benefit recipients to use direct deposit, recently concluded a successful fifth year in which nearly 1.5 million conversions were attributed to the campaign. A total of five million conversions have occurred since the inception of the campaign in 2005. FMS has also helped unbanked federal check recipients receive electronic payments through Direct Express, a program which allows federal benefits recipients to receive payments on a pre-paid debit card. More than one million people have signed up for the card since it was introduced in April 2008. Overall, 82 percent of Treasury payments and associated information were made electronically, an increase of one percentage point from fiscal year 2009.

Challenges Forecasting Government Receipts During the Recovery

Several factors in the current climate have complicated efforts to forecast government receipts. Key economic factors such as gross domestic product and employment did not improve as much as assumed in the President's fiscal year 2011 budget. In addition, individual tax payments in April 2010 came in below forecast as liabilities for tax year 2009 were much lower than expected. Credits from the *American Recovery and Reinvestment Act of 2009* (Recovery Act) further reduced these taxes. Corporate profitability and thus corporate tax receipts also turned around, showing strong increases in fiscal year 2010. Federal Reserve Earnings, reflecting the increase in securities held by the Federal Reserve, more than doubled from their level in fiscal year 2009.

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

To achieve conditions that enable economies to perform at full economic potential, the Treasury Department must stimulate growth through the development and implementation of policies that effectively strengthen private sector growth, regulate banking and financial markets, create pro-growth tax policies, advocate free trade and investment, and foster sustained and broad-based economic development.

In fiscal year 2010, the Department focused primarily on repairing and reforming the financial system and implementing stimulus measures to restore the country's foundation for economic growth and jobs creation. The *Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010* (Dodd-Frank Act), enacted in July 2010, is the most comprehensive reform of financial regulation since the Great Depression. The Department is implementing these reforms in partnership with other federal agencies, state regulators, and international authorities. Continuing implementation of the Recovery Act and passage of the *Small Business Jobs Act of 2010* provide important support for businesses and consumers contending with a weakened economy. In addition, the Department continued to implement the Troubled Asset Relief Program (TARP) under the *Emergency Economic Stabilization Act of 2008* (EESA); manage initiatives to support the housing market under the *Housing and Economic Recovery Act of 2008* (HERA); regulate national banks and thrifts; and execute other initiatives to stabilize the financial system and support economic recovery.

Financial Regulatory Reform

On July 21, 2010, President Obama signed the Dodd-Frank Act into law, enacting historic reforms that replaced an outdated financial regulatory system with a new foundation for investment, innovation, and growth. These reforms will help ensure that risks taken by financial institutions do not threaten the health of the economy as a whole.

Monitoring and mitigating systemic risk

In the recent crisis, insufficient monitoring of emerging concentrations of risk in the financial system created the perception that some large firms were "too-big-to-fail." To eliminate this perception, the Dodd-Frank Act reformed the financial regulatory system by providing an effective system for monitoring and responding to systemic risks that could threaten financial stability; creating a single point of accountability for tougher, more consistent supervision of the largest and most interconnected institutions; and providing regulatory coverage of the full range of risks and participants in the financial system. The Act addressed these reforms in the following ways:

- ***Created a Financial Stability Oversight Council.*** The Financial Stability Oversight Council (the Council) includes the heads of the principal federal financial regulators and is chaired by the Secretary of the Treasury. The Council has primary responsibility for examining emerging threats to the financial system, facilitating the coordination of financial regulatory policy, designating firms for heightened supervision by the Federal Reserve, and making recommendations to the Federal Reserve and other federal financial regulators concerning heightened prudential standards.
- ***Created an Office of Financial Research.*** The Office of Financial Research (OFR) is a new Treasury office established to support the Council in its identification and analysis of risks in the financial system. OFR will collect and standardize financial data, develop and publish key reference databases, and conduct research on financial market activities to identify potential sources of systemic risk.
- ***Established a Federal Insurance Office.*** The Federal Insurance Office (FIO) is a new Treasury office established to advise the Secretary on insurance policy and regulatory issues; monitor the insurance industry to identify gaps in regulation that could contribute to a systemic crisis; and assist the Secretary and the U.S. Trade Representative in negotiating international insurance agreements.
- ***Improved supervision and regulation of the largest, most interconnected financial firms.*** Any financial firm which could pose a threat to financial stability through a combination of size, leverage, or interconnectedness will be subject to comprehensive supervision and regulation by the Federal Reserve. Larger, more interconnected firms will be subject to higher prudential standards requiring them to internalize the risks they impose on the system and submit to early remediation action should their capital levels decline. Through the reforms, shareholders and creditors will bear the risks, and the ultimate costs, of failure, not taxpayers.

- ***Strengthened oversight of systemically important payment, clearing, and settlement systems.*** The Council has been provided authority under the Act to designate systemically important payment, clearing, and settlement systems and activities, and subject them to risk management standards. These will generally be prescribed by the Federal Reserve, SEC, and Commodity Futures Trading Commission (CFTC) in consultation with the Council.
- ***Constrained the size of the largest firms.*** The Dodd-Frank Act prevents any financial firm from growing by acquisition to hold more than ten percent of the liabilities in the financial system, limiting the adverse effects from the failure of any single firm, and preventing further concentration within the financial system.
- ***Comprehensive oversight of the over-the-counter (OTC) derivatives markets for the first time.*** Growth and rapid innovation of credit default swaps and other OTC derivatives created new financial risks. The Dodd-Frank Act regulates OTC derivative markets for the first time, requiring standardized derivative contracts be centrally cleared and traded on regulated exchanges or other trading platforms, and establishes stronger prudential and business conduct standards for all major participants in OTC derivatives markets.
- ***Separated banking and speculative trading.*** The Dodd-Frank Act separates speculative proprietary trading from the business of banking to safeguard taxpayers and depositors. The Act further limits banks' investments in hedge funds and private equity funds.
- ***Required registration of advisors to hedge funds and other private pools of capital.*** Under the Dodd-Frank Act, hedge funds and other private pools of capital, including private equity funds, are now required to register with the SEC. Prior to the financial crisis, the government lacked the data necessary to monitor these funds' activities and assess potential risks in the market.

Requiring basic reform of capital, supervision, and resolution authority

The Dodd-Frank Act imposes higher prudential standards on the largest, most interconnected firms, including stronger capital, leverage, and liquidity requirements.

- ***Raised standards for all financial firms.*** The Dodd-Frank Act, together with the Basel III capital agreements, raised capital ratios for financial firms, as well as the standards for the quality of capital held. In addition, significant exposures between financial firms will carry added capital charges. The combination of higher capital ratios, new capital requirements, and tougher and more extensive measurement standards will help ensure that firms have sufficient resources to weather financial crises without government assistance.
- ***Enhanced resolution authority.*** Although bankruptcy is the primary solution for failing non-bank financial companies, the recent financial crisis demonstrated the need for an additional legal mechanism to wind down these firms. The Dodd-Frank Act established an emergency resolution regime, modeled on the existing system for Federal Deposit Insurance Corporation (FDIC) resolution of failed banks, to resolve any large, interconnected financial firm whose imminent failure could threaten the stability of the financial system. Under the regime, major financial firms are required to develop rapid resolution plans to be deployed in the event of their failure and Treasury possesses the authority to appoint the FDIC as receiver for any failing firm which poses a threat to the broader system.

Restoring discipline to the market

The Dodd-Frank reforms help restore market discipline by limiting regulatory arbitrage and reducing incentives for excessive risk-taking.

- ***Abolished OTS and transferred its duties to the OCC, Federal Reserve, and FDIC.*** The Dodd-Frank Act abolishes OTS, and transfers its duties to OCC, the Federal Reserve, and FDIC. This reform streamlines the regulatory system and reduces potential for regulatory arbitrage.
- ***Strengthened supervision and regulation of securitization markets.*** To better align investor and issuer interests, the Dodd-Frank Act requires that originators or issuers of certain asset-backed securities retain a five percent stake in the credit risk of the securities they sell. The Act also provides the SEC authority to require robust reporting by these originators and issuers.
- ***Strengthened credit rating agency regulation.*** The Dodd-Frank Act includes provisions expanding transparency and disclosure requirements for credit rating agencies and institutes tougher examinations of internal controls at these agencies to help ensure investors have more reliable information to assess the risks they are taking.

- ***Realigned executive compensation.*** The Dodd-Frank Act requires all publicly-traded companies hold non-binding shareholder votes on executive compensation packages and establishes greater independence for board compensation committees. The measures are intended to better align executive compensation with long-term shareholder value and prevent use of compensation incentives that could threaten a firm's safety and soundness.

Protecting consumers and investors from financial abuse

The Dodd-Frank Act contains historic reforms to protect consumers and investors from the kinds of abuse that contributed to the recent financial crisis.

- ***Created a Consumer Financial Protection Bureau.*** The Dodd-Frank Act consolidates authorities for consumer financial protection—which were fragmented across seven federal agencies—into a single, independent Consumer Financial Protection Bureau (CFPB) within the Federal Reserve System. The CFPB will protect consumers in the financial marketplace against deceptive and unscrupulous practices and ensure that they have the information needed to choose financial products wisely.
- ***Strengthened investor protections.*** The Dodd-Frank Act strengthens the SEC's authority to protect investors by establishing consistent standards of conduct and accountability for broker-dealers and investment advisors, improving the timing and quality of disclosures, and restricting "short sale" activities. The Act also creates an Investor Advocate to identify issues of concern to investors and raises the maximum cash advance amount provided by the Securities Investor Protection Corporation from $100,000 to $250,000.

Treasury's implementation of the Dodd-Frank Act

In implementing the Dodd-Frank Act, Treasury is working hard to ensure that the new rules provide necessary protections against financial excess, while preserving the benefits of financial innovation.

Guiding Principles for Implementation

- Reforms are implemented as quickly as possible to provide clarity to the public and the markets
- Full transparency and disclosure are provided in the implementation process, through publication of draft rules, available opportunities for public comment, and consultation with a broad range of groups and individuals
- Regulations are streamlined and simplified where possible to minimize duplication and eliminate rules that do not work
- Implementation is coordinated with other federal agencies to ensure that new rules across government work together and not against each other
- Every effort is made to create a more level playing field, both between banks and non-banks in the U.S., as well as between major financial institutions globally
- Freedom of innovation is protected to ensure economic growth

Treasury's support for new entities

Treasury has primary responsibility under the legislation to stand-up the CFPB, the Council, OFR, and FIO. The Secretary also has general direction over the transfer of authorities from OTS to OCC.

The Consumer Financial Protection Bureau

Under the Act, the Secretary is responsible for standing up the CFPB until the first Director is confirmed by the Senate. The Secretary has designated July 21, 2011, as the "designated transfer date" on which the CFPB will assume certain authorities from seven federal agencies. After the designated transfer date, the CFPB will implement rules for consumer financial products and services, develop supervision programs to regularly examine the most critical bank and nonbank financial services providers, operate programs to promote greater financial literacy among consumers, and establish a nationwide consumer complaint response unit. Immediate tasks include designing an organizational structure, establishing program and administrative support offices, and recruiting staff. On September 17, 2010, President Obama named Elizabeth Warren as Assistant to the President and the Secretary named her as Special Advisor on the CFPB to help stand-up the bureau.

Financial Stability Oversight Council

Prior to the Dodd-Frank Act, the regulatory framework was structured to focus regulators narrowly on individual institutions and markets, allowing loopholes, gaps and inconsistencies to emerge which weakened standards. The Council's primary role is to overcome this siloed structure and improve coordination between financial regulators. The Council also plays an important role in making regulatory decisions, including determining which major non-bank financial firms and critical financial market utilities should be subject to heightened supervision and development of prudential standards. Federal and state regulators will work together through the Council to identify risks to financial stability, respond to any emerging threats in the system, and promote market discipline. The first meeting of the Council was held on October 1, 2010.

The Office of Financial Research

OFR was established to support the Council by providing information and analysis necessary to fulfill its mission. Under the legislation, OFR has two primary divisions: a Data Center and a Research and Analysis Center. The Data Center will set standards for financial reporting and collect data to improve the quality of information that supervisors and market participants rely on to manage risk. The Data Center will also develop and publish reference databases identifying and describing financial contracts and institutions to increase market transparency and facilitate research on the financial system. The Research and Analysis Center will analyze market activities to identify possible concentrations of risk or sources of market instability and report findings to Council members and Congress. Treasury is committed to seeking advice and expertise from the private sector, academia, and Congress in standing up OFR and will make every effort to avoid duplicating existing government data collection efforts or imposing unnecessary burdens on industry participants.

The Federal Insurance Office

FIO was created to provide the Federal Government dedicated expertise for the first time regarding the insurance industry. The office will monitor the insurance industry, including identifying gaps or issues in the regulation of insurance that could contribute to a systemic crisis in the insurance industry or the financial system. FIO may receive and collect data and information on and from the insurance industry and insurers; enter into information-sharing agreements; analyze and disseminate data and information; and issue reports. Treasury will work closely with the U.S. Trade Representative to effectively engage representatives from other countries on prudential insurance issues.

Transfer of OTS Authorities

Under the Dodd-Frank Act, the responsibilities of OTS are transferred to OCC, the Federal Reserve, and FDIC. The bulk of these responsibilities will be transfered to OCC. Currently, OCC and OTS staff are working together under the general direction of the Secretary to ensure a smooth transfer of authorities to OCC.

Troubled Asset Relief Program (TARP)

TARP was established by Treasury following passage of EESA on October 3, 2008. Established during the height of the financial crisis, TARP, in conjunction with other federal government actions, helped to unfreeze the markets for credit and capital, bringing down the cost of borrowing for businesses, individuals, and state and local governments, restoring confidence in the financial system, and restarting economic growth. TARP did so faster, and at a much lower cost, than many anticipated.

At the peak of the financial crisis, many banks were not making new loans to businesses, or even to one another. Many businesses could not get financing in capital markets. Numerous municipalities and state governments could not issue bonds at reasonable rates. The securitization markets — which provide financing for credit cards, student loans, auto loans and other consumer financing — had basically stopped functioning. The economy was contracting at an accelerating rate, with millions of Americans losing their jobs.

By the middle of 2009, assisted by the combined impact of the federal government's financial programs, borrowing rates had fallen sharply for businesses, individuals, and state and local governments. More companies could fund themselves in private markets by issuing equity and long-term debt. Housing prices began to stabilize. The value of the savings of American workers had begun to recover. Economic growth turned from negative to positive.

EESA provided the Secretary of the Treasury with the authority to purchase or guarantee $700 billion but it has been clear for some time that TARP will cost taxpayers substantially less than $700 billion. In December 2009, the Secretary of the Treasury announced that no more than $550 billion of the authority would be used. In July 2010, the Dodd-Frank Act reduced the cumulative authority to $475 billion, in line with expected investment amounts. Finally, many of the investments under the program, particularly those aimed at stabilizing banks, have thus far delivered positive returns for taxpayers.

As a result of improved market conditions, lower utilization of the program, and careful stewardship, the expected cost of TARP over its lifetime continues to decline. In the August 2009 Midsession Review of the President's 2010 Budget, the lifetime cost of TARP, based on budget scoring conventions, was projected to be $341 billion (assuming the full $700 billion of TARP authority was utilized). By the February 2011 President's Budget, the lifetime cost of TARP had decreased to $117 billion (assuming $546 billion of the $700 billion TARP authority was utilized).

The Department's most recent analysis of the potential lifetime cost of TARP suggests that if the proposed restructuring of AIG is completed as announced the lifetime cost of TARP could be less than $50 billion. Under the proposed restructuring of AIG, Treasury would receive 1.1 billion shares of AIG common stock in exchange for its TARP investment. While this cost is based on the October 1, 2010 market price, it should be noted that the proceeds that would actually be received by Treasury from the future sale of such stock would be based on the market price at the time of sale, which may differ materially from the October 1, 2010 market price. Of course, the final lifetime cost of TARP will depend on how financial conditions evolve in the future, including the price of AIG shares, and other common stock held by TARP.

The estimated lifetime cost of TARP reflects several factors, including the cost of the initiatives to help responsible homeowners avoid foreclosure, for which $45.1 billion is budgeted and which has not yet been spent. All funds disbursed for housing programs result in a cost because these funds will not be returned. It also reflects primarily losses on investments in the auto companies and AIG. These losses are largely offset in part by gains on TARP investments in banks and gains in other programs.

Because the restructuring has not occurred and its completion is subject to contingencies, the value of the AIG investment in the fiscal year 2010 financial statements does not reflect any potential from the restructuring.

Note that the lifetime cost of TARP, based on budget scoring conventions, differs from the cost included in the Treasury financial statements. Estimates of lifetime costs assume that all planned expenditures are made. By contrast, the TARP financial statement costs are based on transactions through September 30, 2010.

The reported cost of TARP activities from inception (October 3, 2008) through September 30, 2010 based on the Treasury financial statements was $18.5 billion. Unlike the federal budget cost estimate, this reflects only transactions through September 30, 2010. Thus, it does not include the committed but undisbursed funds for housing programs as well as other programs, all of which are included in the expected lifetime cost for budget purposes. The $18.5 billion cost consists of $23.1 billion of reported TARP net income in the Treasury financial statements for fiscal year 2010 and the $41.6 billion of reported TARP net cost for the year ended September 30, 2009. The change since last year is primarily due to the early repayment of TARP investments by the larger banks and an improvement in the financial markets and the economy.

Since its inception, TARP has disbursed $387.7 billion in direct loans and equity investments; collected $204.1 billion in repayments; and reported $16.7 billion in dividends, interest, and fees, and $10.9 billion in net proceeds from the sale and repurchase of assets in excess of cost. As of September 30, 2010, TARP had $179.2 billion in gross outstanding direct loans and equity investments, which are valued at $142.4 billion. In addition, from inception through September 30, 2010, TARP incurred costs related to Treasury Housing programs of $0.8 billion and administrative costs of $0.5 billion.

The cost estimates for budget and financial statement purposes are only estimates. They are based on current market prices where available. Because market prices change, such estimates will change. The ultimate cost of the outstanding TARP investments is therefore subject to significant uncertainty and will depend on, among other things, how the economy, financial markets and particular companies perform.

Treasury is moving quickly to recover the federal government's investments. Treasury aims to dispose of its investments as quickly as practicable, in a timely and orderly manner consistent with the duty to promote financial stability and protect taxpayers' interests.

- Treasury continues to carefully manage the TARP assets and has recovered more than 75 percent of the TARP funds provided to banks, principally through the Capital Purchase Program (CPP), and expects these capital support programs for banks to provide an overall positive return for taxpayers.

- Treasury is beginning to recover investments in the auto industry. GM has repaid the assistance it received that remained outstanding as a loan and has recently agreed to repurchase the preferred stock issued to Treasury. The ultimate loss estimate on investments in Chrysler and Ally Financial, Inc. (formerly GMAC) is expected to be less than last year as well due to financial improvements in both firms.
- The restructuring plan announced by AIG on September 30, 2010, assuming it is completed as announced, will accelerate the timeline for repaying the federal government and put taxpayers in a considerably stronger position to recoup Treasury investments in the company. As noted earlier, the AIG restructuring is not yet completed and its closing is subject to contingencies.

Treasury also expanded the Treasury Housing Programs under TARP. Treasury launched the Housing Finance Agency (HFA) Innovation Fund for the Hardest Hit Housing Markets (HFA Hardest Hit Fund, or HHF) to help state housing finance agencies provide additional relief to homeowners in the states hit hardest by unemployment and house price declines. In addition, Treasury and the Department of Housing and Urban Development (HUD) enhanced the FHA-Refinance program to enable homeowners whose mortgages exceed the value of their homes to refinance into more affordable mortgages if their lenders agree to reduce the unpaid principal balance by at least ten percent.

Final authority to make commitments within the reduced TARP authorization expired on October 3, 2010. Servicers that participate in the Making Home Affordable Program (MHA) can continue to make mortgage modifications through the end of calendar year 2012. The HFA Hardest Hit Fund permits participating state housing agencies to provide support through their programs until as late as calendar year 2017, depending on available funding. The FHA-Refinance program is designed to enable homeowners to refinance their mortgage loans and reduce their overall mortgage debt through the end of calendar year 2012.

Treasury continues to provide detailed information about TARP to insure transparency. Treasury published a *Two-Year Retrospective Report* on TARP on October 5, 2010. This report includes information on TARP programs and the effects of TARP and other federal government actions to address the financial crisis. Readers are invited to refer to this document at *www.financialstability.gov*.

Housing and Government Sponsored Enterprise Programs

Treasury's housing initiatives have sought to assist responsible homeowners who are struggling in the aftermath of the recent financial crisis and recession. The Home Affordable Modification Program (HAMP) in TARP and tax relief for first-time home buyers provided direct assistance to homeowners. Treasury support for state HFAs, ongoing functions of the government sponsored enterprises (GSEs, in this case Fannie Mae and Freddie Mac), and stability in the mortgage-backed securities (MBS) market have sought to ensure overall stability in housing financial markets.

The HAMP program is designed to help make housing affordable to American homeowners who are strained by the double impact of high mortgage payments and a significantly reduced home value. The program has reached out to these borrowers and provided an industry-leading solution for servicers to negotiate lower mortgage payments with qualifying homeowners, allowing those homeowners to make continued mortgage payments through a trial program and remain in their homes. Through September 30, 2010, Treasury has made commitments to fund up to $29.9 billion in HAMP payments. Eighteen months into the program, Treasury under HAMP has helped more than 619,000 homeowners enter a trial modification, reducing their monthly mortgage payments to more affordable levels. This includes nearly 220,000 homeowners whose mortgage terms have been modified permanently.

Senior Preferred Stock Purchase Agreements

The *Housing and Economic Recovery Act of 2008* (HERA) authorized Treasury to purchase obligations and other securities issued by Fannie Mae, Freddie Mac or one of the 12 Federal Home Loan Banks. At the time the Federal Housing Finance Agency (FHFA) placed Fannie Mae and Freddie Mac into conservatorship in September 2008, Treasury established Senior Preferred Stock Purchase Agreements (SPSPAs) to ensure that each firm maintained a positive net worth. The maximum amount available to each GSE under this agreement was originally $100 billion and in May 2009 was raised to $200 billion. In December 2009, the Department amended the SPSPAs to replace the $200 billion per GSE funding commitment cap with a formulaic cap that will allow continued draws for three years at amounts that will automatically adjust upwards quarterly by the cumulative amount of any losses realized by either GSE and downward by the cumulative amount of any gains, but not below $200 billion, and will become fixed at the end of the three years. At the conclusion of the three year period, the remaining commitment will then be fully available to be drawn per the terms of the agreements. As of September 30, 2010, Treasury's gross investment in Fannie Mae and Freddie Mac were $85.9 billion and $63.9 billion, respectively. The losses the GSEs continue to report are largely the result of delinquencies and defaults on loans that were originated and guaranteed in 2006, 2007, and 2008. Less than one percent of losses have come from loans originated in 2009 or 2010.

The U.S. Government's investment in and support of the GSEs through the SPSPAs was structured in such a way that ensures that virtually all profits in the company revert to the Government in the form of dividends on the preferred shares in Fannie Mae and Freddie Mac. To get a true picture of the Government's exposure in the companies, it is critical to factor in those dividends and net them against the draws that the GSEs make from Treasury. For instance, while for Fiscal Year 2010 the GSEs' draws exceeded dividends by $40.5 billion, in the quarter ending September 30, 2010 the Government received more in dividend payments than the companies drew from the Treasury SPSPAs.

The GSEs are projected to have positive net operating income after 2012. However, over time their net income will be inadequate to cover the senior preferred dividend payments due to Treasury based on the balance of preferred stock outstanding and the accretion of the balance due to incremental draws over time to fund further dividends. The projections take into account that the GSEs will be gradually winding down their retained mortgage portfolios to the $250 billion cap specified in the SPSPAs and do not assume any changes to operating assumptions on the single family guarantee business.

The chart below depicts the expected gross and net draws under the existing SPSPAs, without considering the likely future fair value adjustments to the senior preferred stock liquidation preference. The net draws reflect the net payout by Treasury for each GSE to maintain positive net worth at the end of each period. As shown below, beyond 2013 the GSEs' draws under the SPSPAs are only required to cover dividend payments above the amount of anticipated positive net income. No dividend receipts are projected beyond the years when the commitment caps are reached, which is 2022 and 2031 for Fannie Mae and Freddie Mac, respectively.

GSEs Actual and Projected Draw Payments and Dividend Receipts (in millions):

	Fiscal Year Ending September 30	Draw Payments	Dividend Receipts	Net Draws (Dividends)
Beginning Balance	2009	$ 95,600	$ (4,336)	$ 91,264
Actual	2010	52,600	(12,142)	40,458
Projected[1]	2011-2013	87,600	(61,772)	25,828
Projected[2]	2014-2017	51,400	(102,781)	(51,381)
Projected[2]	2018-2022	113,000	(151,795)	(38,795)
Projected[3]	2023-2031	107,900	(139,334)	(31,434)
Net Cumulative Draws		$ 508,100	$ (472,160)	$ 35,940

1 / No cap
2 / Fannie Mae and Freddie Mac with cap
3 / Freddie Mac only with cap

The $508 billion in total gross draw payments, of which $360 billion is recorded as an accrued contingent liability as of September 30, 2010, has a counterpart increase in the projected senior preferred stock liquidation preference and this asset value would then be subject to any expected fair value adjustments. Ultimately, the cost to the Government is expected to be the valuation losses on the senior preferred stock and common stock warrants, partly offset by dividend revenues received from the GSEs, which will be received until the point in time in which the funding commitment caps are reached. Freddie Mac would reach its adjusted cap of $224 billion in 2031. While Fannie Mae is projected to begin generating positive net income in 2013, because of its greater level of credit losses (and draws) than Freddie Mac, it would reach its cap of $284 billion in 2022. As shown, the projections would imply that a total of $472 billion of dividends are received, resulting in a total net draw of $36 billion.

GSE MBS Purchase Program

The GSE MBS Purchase Program helped support the availability of mortgage credit by temporarily providing additional capital to the mortgage market. By purchasing these securities, Treasury sought to broaden access to mortgage funding for current and prospective homeowners, as well as promote market stability. In total, since inception of the program in September 2008, the Treasury Department purchased MBS worth approximately $225.5 billion, $29.9 billion of which were purchased in fiscal year 2010. In total, Treasury has received back $61.1 billion in principal and $13.9 billion in interest from MBS holdings; of those amounts, $38.9 billion in principal and $8.9 billion in interest were received in fiscal year 2010. As of September 30, 2010, the valuation of MBS held under HERA programs was $172.2 billion. The GSE MBS Purchase Program expired on December 31, 2009.

Housing Finance Agencies Initiative

State and local HFAs are agencies or authorities created by state law charged with helping individuals and families of low or moderate income obtain affordable housing. HFAs provide mortgage financing for new homebuyers, refinancing and modification opportunities to existing homeowners at risk, loans for rehabilitation of single-family homes, and support for the development and rehabilitation of multifamily properties. In the course of the financial crisis, HFAs experienced challenges obtaining funding in private markets, limiting their ability to provide support for economically-distressed communities. The HFA Initiative provided funding to more than 90 HFAs to enable them to continue supporting housing markets. In fiscal year 2010, Treasury under the HFA New Issue Bond Purchase Program (NIBP) purchased $15.3 billion of GSE-issued securities backed by HFAs' mortgage revenue bonds. Under the HFA Temporary Credit and Liquidity Program, Treasury purchased participation interests from the GSEs in liquidity facilities supporting $8.2 billion of existing HFA variable rate demand obligations (VRDOs) single family and certain multi-family mortgage loans. Since inception of the program, Treasury's obligation has been reduced to $7.6 billion. Treasury's actions are authorized by HERA authority, which expired on December 31, 2009.

Helping those hit hardest

In February 2010, the Obama Administration announced the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HFA Hardest Hit Fund, or HHF), allowing HFAs in the nation's hardest hit housing markets with high unemployment to design innovative, locally-targeted foreclosure prevention programs. States included those with average home price declines greater than 20 percent since the housing market downturn, accounting for the majority of "underwater" mortgages in the country; those with concentrated areas of economic distress due to unemployment; or those with an unemployment rate at or above the national average for the past year.

A total of $7.6 billion is being made available to 18 states and the District of Columbia. These states include Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee. As of September 30, 2010, $56.1 million has been disbursed to states participating in HHF, largely for administrative and startup expenses. Further information on the funded programs is available at *http://www.FinancialStability.gov/roadtostability/hardesthitfund.html*.

Comprehensive reform of the U.S. housing finance system

The Dodd-Frank Act includes fundamental reform of mortgage market rules, including ability-to-pay requirements and risk retention standards for mortgages, and Treasury and HUD are preparing to offer recommendations for further reform of the housing finance system. In April 2010, Treasury and the Department of Housing and Urban Development (HUD) posted seven questions for public comment and received over 300 responses from a broad cross-section of stakeholders. In August, Treasury and HUD hosted a Conference on the Future of Housing Finance, including experts from academia, consumer and community organizations, industry groups, market participants, Congressional staff, and other stakeholders. In September, the Secretary and Elizabeth Warren, Assistant to the President, held a forum on simplifying mortgage disclosure forms. To provide for long-term stability in housing markets, the Obama Administration has committed to deliver a proposal for comprehensive reform of the U.S. housing finance system to Congress in January 2011.

Supporting America's Small Businesses

Treasury and the Small Business Administration (SBA) led efforts to pass the *Small Business Jobs Act of 2010*. Enacted on September 27, 2010, the Act will strengthen the capacity of small businesses to create jobs and support economic recovery by:

- Creating a Small Business Lending Fund (SBLF) to provide $30 billion in capital to small banks
- Establishing a State Small Business Credit Initiative (SSBCI) to provide $1.5-2 billion to spur $20 billion of private sector lending through innovative state programs
- Extending and expanding key SBA loan programs
- Instituting small business tax cuts, including zero capital gains for key small business investments

Under the legislation, Treasury will manage implementation of the tax cuts and distribution of funding through the SBLF and SSBCI.

American Recovery and Reinvestment Act of 2009

The Department of the Treasury played a pivotal role in implementing the *American Recovery and Reinvestment Act of 2009* (Recovery Act). By providing targeted investments and implementing tax provisions to benefit both businesses and individuals, the Department continued to stimulate the U.S. economy, create and sustain jobs, and build the foundation for long-term economic growth. Of the $787 billion provided by the Recovery Act, Treasury is managing programs that will contribute nearly $300 billion in benefits to the American people through the year 2019. Treasury's Recovery Act programs include the following:

- **Making Work Pay Tax Credit:** In 2009 and 2010, the Making Work Pay provision of the Recovery Act provided a refundable tax credit of up to $400 for working individuals and up to $800 for married taxpayers filing joint returns. An estimated $49 billion will have been made available to taxpayers under the Making Work Pay provision through calendar year 2010.
- **American Opportunity Tax Credit:** The American Opportunity Tax Credit expanded the number of parents and students who qualify for a tax credit to pay for college expenses for 2009 and 2010. To date, 8.8 million people have benefitted from this tax credit totaling over $7 billion.
- ***Consolidated Omnibus Budget Reconciliation Act of 1985* (COBRA) health insurance continuation premium subsidy:** The Recovery Act expanded eligibility for COBRA health insurance premium assistance to longer-term unemployed workers. Nearly four million households have benefited from the COBRA premium assistance program.
- **Build America Bonds:** Build America Bonds are taxable municipal debt for which the issuer receives a direct federal subsidy equal to 35 percent of the borrowing costs. Since April 2009 there have been 1,556 issuances of Build America Bonds, which provided over $107 billion for states and local governments throughout the country to help finance projects including schools, utilities, public safety and transportation. States, counties and municipalities also received allocations of authority to issue Recovery Zone Bonds, which modified Build America Bonds with a higher subsidy rate of 45 percent of the borrowing costs, based on individual employment declines in 2008.
- **Sales tax deduction for vehicle purchases:** The Recovery Act allowed taxpayers to deduct state and local sales and excise taxes paid on the purchase of certain new cars, light trucks, motor homes, and motorcycles through calendar year 2009.
- **Economic recovery payments:** The Recovery Act provided $250 one-time economic recovery payments to eligible retirees, veterans, and other high-need recipients. FMS, in coordination with the Social Security Administration, the Railroad Retirement Board, and the Department of Veterans Affairs, issued over 55 million payments, totaling over $13.8 billion to benefit recipients. FMS processed 46.6 million of these payments electronically rather than by paper check, saving taxpayers over $17 million.
- **Community Development Financial Institutions (CDFI) awards:** The Recovery Act appropriated $98 million in grants to expand funding for the CDFI and Native American CDFI Assistance (NACA) programs, providing community banks, credit unions, loan funds, and venture capital funding to increase lending to individuals or businesses lacking access to mainstream financial institutions.
- **New Markets Tax Credit (NMTC):** The NMTC Program, administered by the CDFI Fund, facilitates investment in low-income communities by permitting credits against federal income taxes for equity investments in designated Treasury-certified Community Development Entities (CDEs). CDEs are required to use substantially all NMTC proceeds to make loans and investments in businesses and real estate developments in low-income and distressed urban and rural communities. The Recovery Act provided a total of $3 billion for the credits. A total of $3 billion was awarded to 56 organizations in 2009.
- **Health Coverage Tax Credit (HCTC):** HCTC was created by the *Trade Adjustment Assistance Reform Act of 2002* to help displaced workers and retirees who have lost their jobs due to free trade to assist eligible beneficiaries to receive affordable health care. The program originally provided a refundable tax credit for 65 percent of the cost of qualified insurance. In May 2009, the tax credit was

increased from 65 percent to 80 percent of qualified health insurance premiums, allowing participants to only pay 20 percent for health insurance each month. The increased credit will expire on December 31, 2010. The Recovery Act provisions have assisted 32,000 additional taxpayers with enrolling in HCTC.

- **Payments for Specified Energy Property in Lieu of Tax Credits:** This program responded to the devaluation of after-market tax credits as a result of the credit crisis and recession by converting an existing tax credit for investments in renewable energy production to a cash payment of equivalent value. As of the end of fiscal year 2010, Treasury has awarded $4.3 billion in cash assistance to over 3,000 eligible applicants. Treasury estimates that $16 billion in financial support will be distributed over the life of the program to thousands of renewable energy production facilities.
- **Payments for Low-Income Housing Projects in Lieu of Tax Credits:** The Recovery Act gives state housing credit agencies the choice to receive cash payments for all or part of their 2009 low-income housing tax credit allocation. As of the end of fiscal year 2010, 55 state housing agencies have applied for funds, and $4.9 billion in awards have been made to those agencies. State agencies used these funds to finance nearly 1,100 affordable housing projects that will add over 67,000 units of affordable housing to the housing supply and create approximately 105,000 jobs.
- **First-Time Homebuyer Credit Expansion:** The Recovery Act allowed eligible first-time homebuyers to claim a refundable credit up to $8,000 without a payback requirement. Nearly 2.4 million taxpayers claimed over $17 billion in First Time Homebuyer credits for houses purchased in 2009.
- **Indian Tribal Economic Development Bonds:** The Recovery Act added $2 billion in bond-issuing authority for Indian Tribal Governments. The new bond program gives Indian Tribal Governments the same broad flexibility afforded to state and local governments to use tax-exempt bonds to finance economic development projects. Certain gaming facilities are excluded from participation. Two award rounds of $1 billion each were conducted in 2009 to 76 Indian tribal governments
- **Qualified School Construction Bond Allocation:** The Recovery Act established an allocation cap of $11 billion for Qualified School Construction Bonds in 2009, and another $11 billion in 2010, totaling $22 billion over two years. The Act provides a federal subsidy for school construction financing to states and the 100 largest educational agencies based on school funding data. The bonds provide a federal tax credit to investors designed to cover 100 percent of the interest. Over $7.4 billion in Qualified School Construction Bonds were issued through September 2010.
- **Qualified Energy Conservation Bonds and Clean Renewable Energy Bonds:** Qualified Energy Conservation Bonds provide a subsidy for energy conservation-oriented repair and rehabilitation of public schools through a federal tax credit to investors covering 70 percent of the interest on the bonds. The Recovery Act established a cap of $3.2 billion for these bonds. New Clean Renewable Energy Bonds ("New CREBs") provide incentives for entities not eligible for renewable energy tax credits, such as public power providers, government bodies, and cooperative electric companies, to invest in renewable electricity generation. A total of $2.4 billion of Clean Renewable Energy Bonds (CREBs) was allocated to 1,067 applicants through September 30, 2010.
- **Net Operating Loss Carry Back:** The Recovery Act extended the period for business taxpayers to carry back a 2008 net operating loss (NOL) to offset taxable income in preceding taxable years from two to five years. Over $3.5 billion in NOL Carryback Adjustments were claimed by businesses to offset taxable income for the preceding three to five years.

Strengthened International Economic Coordination

Treasury protects and supports economic prosperity at home by encouraging financial stability and sound economic policies abroad. In fiscal year 2010, Treasury pursued this agenda by focusing on restarting economic growth following the financial crisis, encouraging open trade and investment policies, supporting multilateral and bilateral engagements, reforming the international financial system by addressing international financial regulatory reform and the role and responsibilities of the international financial institutions (IFIs), and by continuing to encourage broad-based, sustainable economic growth around the world to create new engines of growth in the global economy.

Demonstrated U.S. leadership at G-20 meetings

The G-20 is a multilateral forum that includes the leaders from the 20 largest economies in the world, accounting for 85 percent of world output. Beginning with the G-20 Summit in London, when President Obama joined other G-20 leaders to develop collaborative and coordinated responses to the economic crisis, the Obama Administration and Treasury have actively engaged with the G-20 nations, and through other multilateral and bilateral forums, to foster economic growth and address challenges, including the need for international financial regulatory reform and transnational issues, such as food security and climate change.

Participated in development of new global capital standards for banks

One of the lessons of the financial crisis was that more robust capital standards must be at the heart of efforts to make the financial system stronger and more secure. Treasury has played a key role with global partners in strengthening capital standards. In September 2010, new global capital standards—Basel III— were announced, which will require banks to hold enough capital so they can withstands losses similar to those witnessed during the depths of the financial crisis without turning to the taxpayer for help. The standards require banks to hold significantly more capital against risky trade-related assets and obligations, hold a higher percentage of their capital reserves in common equity and other less risky assets, and hold an additional 2.5 percent capital conservation buffer on top of an eight percent reserve, which if breached would trigger restrictions on a firm's ability to pay dividends or buy back stock. Through the G-20 process, the Financial Stability Board, and engagement with international standard setting bodies, Treasury led efforts to ensure that reforms in the international financial system matched domestic regulatory reform initiatives.

Worked with global partners to avert regional economic instability

The IFIs responded quickly to meet their members' needs for financial support and policy advice during the global economic and financial crisis. U.S. support for the International Monetary Fund (IMF)—including the IMF's recent lending commitments to Europe—were critical to restoring market confidence and stability, promoting global growth and recovery, and protecting U.S. jobs.

Similarly, U.S. support for and continued engagement in the multilateral development banks (MDBs) has also been vital. The MDBs acted with speed and force to protect the poorest around the world from the worst impacts of the crisis, and continued U.S. leadership in these institutions will help further strengthen the global economy, reduce poverty and help fragile nations. For example, in July, following passage of the *2010 Supplemental Appropriations Act*, the Treasury Department announced that the United States, the IFIs, and other donors had achieved the goal of eliminating Haiti debt owed to the IFIs at the time of the January earthquake. The announcement marked one of the fastest multilateral debt reductions in history. In September 2010, Treasury delivered U.S. funds allowing the Inter-American Development Bank (IDB) to cancel $447 million in debt and initiate the provision of $2.5 billion in grants which will extend over the next decade.

National Export Initiative and support for free trade and investment

Treasury, with other agencies, helped launch and implement the President's National Export Initiative (NEI). President Obama underscored the importance of trade as a catalyst for American jobs and set the goal to "double our exports over the next five years, an increase that will support two million jobs in America." Treasury's primary role in the NEI focuses on macroeconomic rebalancing. Treasury works to promote free trade and investment as part of the Obama Administration's broader economic agenda, and partners with G-20 nations and other countries to achieve these objectives.

U.S.-China Strategic and Economic Dialogue

The U.S.-China Strategic and Economic Dialogue (S&ED) was established by President Obama and Chinese President Hu in April 2009 and represents the highest-level bilateral forum to discuss a broad range of issues between the two nations. Treasury Secretary Geithner and Secretary of State Clinton, as special representatives of President Obama, and Vice Premier Wang and State Councilor Dai, as special representatives of President Hu, co-chair the Dialogue, which includes Strategic and Economic tracks and takes place annually in alternating capitals. The second meeting of the S&ED took place in Beijing in late May 2010. Secretary Geithner led ten heads of U.S. Government agencies for discussions with Chinese President Hu, Premier Wen, Vice Premier Wang, and a delegation comprised of key Chinese economic ministries and agency heads. Discussions focused on creating new opportunities for

U.S. workers and firms; promoting strong recovery and more balanced growth; promoting more resilient, open, and market-oriented financial systems; and strengthening the international financial architecture. Significant progress was made on top Obama Administration priorities, including encouraging China to move towards a more market-based exchange rate, agreeing to launch expert and high-level bilateral innovation discussions to ensure innovation policies encourage the best ideas wherever they originate, and strengthening opportunities for U.S. firms and workers by reducing barriers to foreign investment in services, high-technology goods, high-end manufacturing, and energy saving products. Economic policy cooperation between the United States and China, including mutual efforts to boost domestic demand through decisive monetary and fiscal policy actions, has been one of the most important elements of the international effort to bring about a global economic recovery. The U.S. will host the next round of the Strategic and Economic Dialogue in 2011.

Global Agricultural and Food Security Program

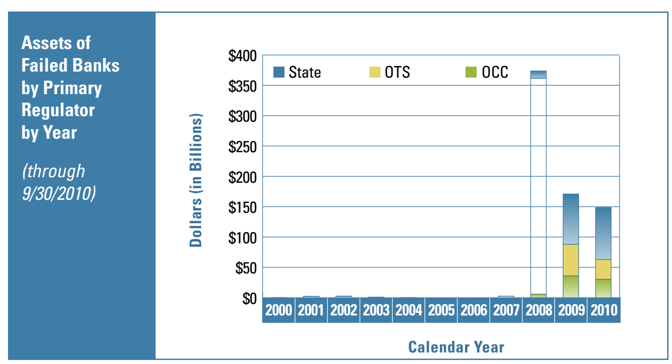
Treasury led efforts to establish the Global Agriculture and Food Security Program (GAFSP) , a food security trust fund that is administered by the World Bank and is an integral part of the Obama Administration's broader "Feed the Future" initiative. The GAFSP seeks to improve food security and reduce poverty by delivering rapid and predictable financing for agriculture sectors in low-income countries. Launched in April 2010 with $880 million in commitments from the United States, Canada, South Korea, Spain, and the Bill & Melinda Gates Foundation, GAFSP represents a global effort to aid vulnerable populations afflicted by hunger and poverty and is a key element of the Obama Administration's initiative to enhance food security in poor countries. The fund was created in response to a call by G-20 leaders at the Pittsburgh Summit in 2009 for nations to address the food security challenge in order to foster economic growth over time.

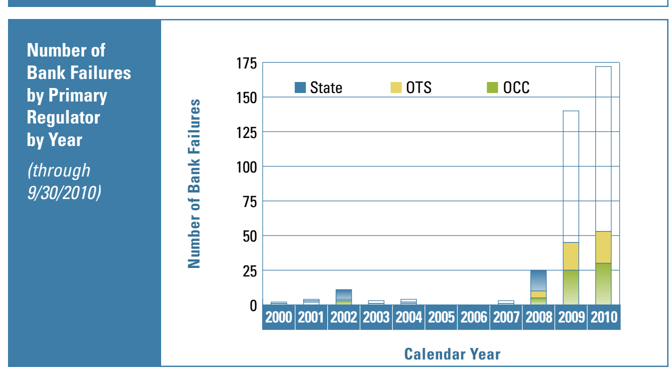
Supported global agreement on climate change

Treasury supports U.S. efforts to address climate change by managing U.S. engagement in the multilateral climate finance funds, the Global Environment Facility (GEF) and Climate Investment Funds (CIF). The GEF provides partial funding, mostly in grants, for projects that provide global environmental benefits, such as reducing greenhouse gas emissions and conserving bio diversity. CIF are comprised of the Clean Technology Fund (CTF) and Strategic Climate Fund (SCF). The CTF seeks to reduce the growth of greenhouse gas emissions in developing countries through financing the additional costs of deploying commercially available cleaner technologies over dirtier, conventional alternatives. The SCF supports three targeted programs: the Pilot Program for Climate Resilience, the Forest Investment Program, and the Program for Scaling-Up Renewable Energy in Low-Income Countries. Each program seeks to pilot new approaches and scaled-up activities to address climate change challenges in developing countries, while promoting low-carbon, climate-resilient economic growth.

Regulation of Banks and Thrifts

OCC and OTS are the primary regulators of national banks, savings associations, and savings and loan holding companies. Given the weak economy, fiscal year 2010 activity focused on monitoring and responding to adverse conditions in credit and financial markets, improving credit risk management at supervised institutions, and monitoring loan portfolios. To streamline the regulatory system, the Dodd-Frank Act provides for the abolishment of OTS and transfer of its duties to OCC, the Federal Reserve, and FDIC. OCC and OTS are currently working with other agencies to ensure a smooth transition.





Despite efforts to identify and correct issues at an early stage, federal regulators closed a number of national banks and thrifts in fiscal year 2010. In total, 172 insured depository institutions insured by FDIC with $121.7 billion in deposits were resolved by the FDIC over the year. Of these, 30 were national banks regulated by OCC with $25.7 billion in deposits, 23 were federal thrifts regulated by OTS with $25.1 billion in deposits, and 119 were state banks with $70.9 billion in deposits. Work-out solutions, whereby some or all deposits and assets were assumed by another existing bank, were arranged by FDIC and regulators for almost all failed institutions.

OCC's and OTS's on-site supervisory assessments focused on the quality of credit risk management practices (including effective credit risk rating systems and problem loan identification), adequacy of loan-loss reserves, and effective loan work-out strategies. Primary emphasis was placed on ensuring the strength of capital buffers to weather earnings pressures and asset quality deterioration. Other critical areas included sound liquidity risk management through diversified funding sources and realistic contingency funding plans, and maintenance of consistent underwriting standards regardless of intent to hold or sell a loan. For troubled institutions, OCC and OTS employed a number of remedial measures, including Prompt Corrective Action determinations when institution capital deteriorated below specified thresholds, requirements to increase available capital and liquidity, required changes in bank management, and required approval for changes in business plans. To combat mismanagement, formal enforcement actions such as cease-and-desist orders, removal or prohibition orders, civil money penalties, and formal agreements were utilized. In severe cases, financial institutions were required to enter into sales, mergers, or liquidation or enter FDIC receivership. Through the first half of fiscal year 2010, the OCC issued 207 enforcement actions against national banks and 82 against institution-affiliated parties. OTS issued a total of 170 formal enforcement actions against institutions and 68 formal enforcement actions against individuals.

In addition to individual bank examinations, the OCC conducted a variety of other activities aimed at identifying and responding to systemic trends and emerging risks that could adversely affect asset quality or the availability of credit at national banks and the banking system. OCC examiners and Credit Risk staff completed the Annual Survey of Credit Underwriting Practices, assessing standards at the 51 largest national banks with assets of $3 billion or more. OCC and OTS issued industry guidance related to concentration risks and meeting the credit needs of small businesses. OCC, OTS, and the Federal Reserve, and FDIC continued their Shared National Credit Review of large syndicated loans held by multiple banks. The 2010 review covered 8,700 credit facilities with commitments totaling $2.7 trillion. OCC, OTS, and other federal banking agencies also warned financial institutions of the risks that were accumulating in many banks' commercial real estate (CRE) loan portfolios. OCC developed several diagnostic tools to help assess risks in CRE portfolios and conducted asset quality reviews of all community and mid-size banks that have significant CRE concentrations to assess the adequacy of credit underwriting, problem loan identification, and loan-loss reserves for these portfolios. OCC also provided additional supervisory guidance on accounting and classification issues associated with residential mortgage modifications and CRE work-outs. Monitoring banks with significant CRE concentrations will continue to be a primary focus of OCC supervisory strategies in 2011 and 2012.

In an effort to make key aspects of mortgage loan data more transparent and publicly available, the OCC and OTS publish joint quarterly reports on loan performance, delinquencies, and foreclosures. The *Mortgage Metrics Report* presents data from nine national banks and thrifts with the largest mortgage portfolios (about 65 percent of all first-lien mortgages in the country). The report can be used by examiners to assess emerging trends, evaluate asset quality and loan-loss reserve needs, identify anomalies, and evaluate loss mitigation actions among federally-regulated banks and thrifts. OCC and OTS continue to encourage bankers to work with creditworthy borrowers who may be facing financial difficulties.

OCC and OTS are also working closely with other domestic and international supervisors, including members of the Council, the Basel Committee on Bank Supervision, the Financial Stability Board (FSB), and the Senior Supervisors' Group (SSG), to identify and coordinate actions aimed at both restoring functioning markets and strengthening risk management practices.

Key initiatives related to these efforts are the following:

- ***Enhanced capital standards.*** The financial crisis highlighted areas where the Basel II capital framework required strengthening. The OCC worked together with other Basel Committee members to revise and publish the new Basel III rules to improve capital standards. The OCC and other U.S. banking agencies will implement the new Basel standards through the U.S. notice and rulemaking process.

- ***Enhanced liquidity risk management and liquidity buffers.*** In March 2010, the OCC, with Federal Financial Institutions Examination Council (FFIEC) member agencies and the Conference of State Banking Supervisors, issued Interagency Guidance on Funding and Liquidity Risk Management.
- ***Correspondent banking concentrations.*** In April 2010, the OCC and other federal banking agencies issued guidance to address risks associated with funding and credit concentrations arising from correspondent relationships.
- ***Interest rate risk.*** In January 2010, the OCC, the other federal banking agencies, and the Conference of State Banking Supervisors issued a joint advisory statement reminding institutions of supervisory expectations regarding sound practices for managing interest rate risk. The advisory statement reminds institutions of the importance of maintaining processes for measuring and, where necessary, mitigating exposure to unexpected or substantial increases in rates.
- ***Incentive compensation structures.*** OCC participated with the Federal Reserve in a horizontal review of incentive compensation structures and practices across the largest financial institutions. Follow-up work is being conducted by the agencies' examination teams and will continue into 2011. As announced in June 2010, the OCC along with the Federal Reserve, the FDIC, and OTS, issued guidance on incentive compensation policies to ensure that these policies take into account risk and are consistent with safe and sound practices.
- ***Addressing off-balance sheet risks.*** In January 2010, the OCC and other federal banking agencies amended their risk-based capital rules to include certain consolidated asset-backed commercial paper in their list of risk-weighted assets. In addition, new regulations were issued requiring banking organizations to include all of their entities in their calculations of risk-based capital needs, including those they typically do not report in their financial statements. This rule is in response to changes in the accounting for certain off-balance sheet structures that went into effect in January 2010.
- ***Accounting and financial disclosure issues.*** The OCC and other federal banking agencies continue to work closely with the SEC, Financial Accounting Standards Board, and International Accounting Standards Board to improve financial disclosure rules.

As a participant in the Council, OCC will be actively involved in promoting measures to improve coordination among federal regulators to help identify and address systemic risks.

Provided Assistance to Low-Income and Underserved Communities

The CDFI Fund provides grants, loans, and tax credits to CDFIs, which provide capital, credit, and financial services to underserved populations and economically distressed communities in the United States. The CDFI Fund awards funds through an annual competitive application process. Since its inception, the CDFI Fund has awarded over $932 million through its largest program, the CDFI Program. The CDFI Program competitively awarded $104.8 million in fiscal year 2010 to 179 CDFIs and organizations.

Managed Currency and Coin Manufacturing

Planned productivity improvements for printing and engraving currency notes

At the BEP, the production of newly-redesigned $100 currency notes led to a 8.8 percent decrease in productivity due to high spoilage and slower operating speeds. To improve productivity and efficiency, the BEP is undertaking a multi-year project to install new equipment to enable production of 50 currency notes per printed note sheet, which is expected to increase productivity by 40 to 50 percent. This project is slated for completion in fiscal year 2013.

Improved supply management for bullion coin production

As financial market volatility continued, investors increased their holdings of precious metals. Throughout fiscal year 2010, the United States Mint made significant efforts to expand raw materials supply and enhance productivity to meet demand. Revenue from the sale of gold and silver bullion coins increased from $1.7 billion in fiscal year 2009 to $2.9 billion in fiscal year 2010, a 70.6 percent increase. The U.S. Mint expanded average monthly gold and silver blank supply by 1.5 million ounces (a 56 percent increase from fiscal year 2009 to 2010) by working with fabricators and identifying a new supplier. The production facility in West Point, New York realized higher output without incurring significant costs by automating processes, shifting employees where they were needed, and maintaining continuous assaying, inspection, and coin production. Output per labor hour increased 23 percent from 175 ounces per hour in fiscal year 2009 to 215 ounces per hour in fiscal year 2010.

In fiscal year 2010, the U.S. Mint fully satisfied demand for American Eagle gold bullion products and sufficiently expanded silver blank supply to remove ordering limits on silver bullion coins in August 2010. By the close of fiscal year 2010, expanded supply reached levels sufficient to allow the U.S. Mint to redirect a portion of both gold and silver blanks to numismatic production, enabling the Mint to launch previously suspended American Eagle proof numismatic products late in calendar year 2010.

Explored cost-reduction options related to the penny, nickel, and other coin denominations

For the fifth year in a row, the penny and nickel cost more to produce than their face value. Global prices for copper, nickel, and zinc (the metals used to produce the penny and nickel) remain high, elevating per-unit production costs. The United States Mint and the Department of the Treasury are developing options for more cost-effective ways to produce circulating coins.

Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems

While promoting financial and economic growth at home and abroad, the Treasury Department performs a unique role in preserving national security. In fiscal year 2010, Treasury continued to disrupt the financial networks of terrorists, drug traffickers, and weapons of mass destruction (WMD) proliferators. Treasury safeguarded the nation's financial security and carried out critical law enforcement responsibilities pertaining to predatory lending practices.

Combated Iran's Efforts to Acquire Proliferation-Related Materials

In June 2010, the United Nations (UN) adopted United Nations Security Council Resolution (UNSCR) 1929, broadening the existing UN sanctions on Iran. Shortly thereafter, Treasury announced new designations under Executive Order (EO) 13382 targeting individuals and entities that facilitate Iranian proliferation activities. Most prominently, Treasury designated Post Bank, an Iranian state-owned bank, for providing support to and acting on behalf of UNSCR 1929 designee Bank Sepah. Treasury also designated five Islamic Republic of Iran Shipping Lines (IRISL) front companies and blocked 27 vessels due to their connection to IRISL. In August, Treasury announced a set of designations targeting the Government of Iran's support for terrorism and terrorist organizations, including Hizballah, Hamas, Palestinian Islamic Jihad, the Popular Front for the Liberation of Palestine-General Command, and the Taliban.

The European Union (EU), Australia, Canada, Norway, Japan, and South Korea have implemented sanctions to press Iran to resume negotiations on its nuclear program and meet its international obligations. The financial measures the U.S. and others have implemented are imposing serious costs and constraints on Iran. Iran is effectively unable to access financial services from reputable banks, conduct major transactions in dollars or euros, or secure needed foreign investment, financing, and technology to modernize its aging energy infrastructure. These financial measures threaten Iran's oil and gas production and export capacity.

Prevented North Korean Proliferation and Other Illicit Activities

A new sanctions program, established by President Obama on August 30, targets North Korean arms trafficking, luxury goods procurement, and illicit economic activities. These sanctions enhance U.S. implementation of UNSCR 1718 and 1874 on North Korea, address threats to U.S. national security, and protect the international financial system. The Treasury Department continues to implement sanctions targeting North Korean proliferation activities.

Supported Counterterrorism Efforts in Afghanistan

Treasury served a leading role in establishing the Afghanistan Threat Finance Cell (ATFC). The ATFC is a Kabul-based task force charged with collection, analysis, and dissemination of intelligence to disrupt funding and support for the Taliban and other terrorist and insurgent networks in Afghanistan. The ATFC provides threat finance expertise to U.S. civilian and military leaders and assists Afghan authorities in investigations of insurgent finance, narcotics trafficking, and government corruption. Through this assistance, the ATFC has helped build the capacity of Afghan authorities to operate independently, a key U.S. policy goal in Afghanistan.

In June 2010, the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA) formally entered the Egmont Group under Treasury sponsorship. The Egmont Group is the world's organization of financial intelligence units (FIUs), which share financial intelligence to improve global law enforcement. FinTRACA can now engage with the other 119 FIUs that form this global network.

Treasury will continue to investigate bulk cash movements and illicit financial flows into and out of Afghanistan. To support these efforts, Treasury is planning to deploy additional personnel to the Attaché Office in Kabul to bolster the regulatory and investigative capacity of the Afghan government.

Finalized Terrorist Finance Tracking Program Agreement

Treasury, in conjunction with the Departments of Justice (DOJ) and State, successfully led negotiations for a new Terrorist Finance Tracking Program Agreement (TFTP) with the EU. The new agreement which came into effect on August 1, allows Treasury to subpoena financial payment messaging data stored in the EU for use in U.S. counterterrorism investigations. The TFTP was initiated by Treasury to identify, track, and pursue terrorists and their networks. Since the start of the program, the TFTP has provided thousands of valuable leads to U.S. Government agencies and other governments to investigate and prevent terrorist attacks.

Supported Efforts to Combat Money Laundering and Drug Trafficking in Mexico

Over the past year, Treasury and its Mexican counterparts increased efforts to combat money laundering and target the financial underpinnings of criminal organizations in Mexico. Treasury provided technical assistance to Mexico through training on forensic accounting, financial investigations, and financial sector supervision to address money laundering. In August 2010, the Director of the Office of Foreign Assests Control (OFAC) met with private and public sector officials in Mexico City to strengthen coordination between Treasury and Mexican actions against cartels. During the year, Treasury has designated 49 individuals and 25 entities associated with Mexican drug cartels, enhanced information exchange with the Mexican FIU, and improved coordination on a variety of counter narcotics initiatives.

Treasury continued to leverage partnerships with U.S. law enforcement and the Mexican FIU to support the detection, interdiction, and investigation of the flow of illicit proceeds from narcotics and human smuggling into U.S. and Mexican banks. In support of these efforts, Treasury completed a joint study with the Mexican FIU to more accurately baseline U.S. dollar currency activity in Mexico. The study will allow both countries to more effectively measure the scope of bulk cash smuggling into Mexico and the effectiveness of future anti-money laundering (AML) and cash interdiction efforts. Treasury and the Mexican FIU produced a joint intelligence advisory with the National

Drug Intelligence Center (NDIC) on trends in trade-based money laundering and black market peso exchange. Further, Treasury initiated support for a newly-created Southwest Border Anti-Money Laundering Alliance through analysis of wire remittance data; issued an advisory on a new Mexican regulation that may precipitate a significant change in recent cash smuggling trends; and identified and referred Mexican cartel money laundering suspects to U.S. and Mexican law enforcement.

Major Asset Seizures and Forfeitures

The Treasury Forfeiture Fund collected over $1 billion in forfeitures and recoveries. The ABN AMRO Bank signed a Deferred Prosecution Agreement with the U.S. Government and agreed to forfeit $500 million to the Treasury Forfeiture Fund in connection with a conspiracy to defraud the United States, violate the International Emergency Economic Powers Act (IEEPA), violate the Trading with the Enemy Act (TWEA), and violate the Bank Secrecy Act (BSA). Of this amount, $250 million was shared with the Justice Forfeiture Fund. In another case jointly managed by Treasury and the DOJ, Credit Suisse Bank signed a Deferred Prosecution Agreement and agreed to a total forfeiture of $536 million. The District Attorney of the County of New York received half, $268 million, the Treasury Forfeiture Fund received $134 million in equitable sharing from the Justice Forfeiture Fund, and the balance of $134 million was retained by DOJ as the lead Agency. In both cases, these banks permitted illegal transactions on behalf of customers and other countries sanctioned in programs administered by the Department of the Treasury.

Enhanced Mechanisms to Combat Mortgage and Loan Modification Fraud

Treasury continued to combat mortgage fraud, foreclosure rescue scams, and loan modification fraud, an activity begun in prior years. Treasury developed a notice of proposed rulemaking that would require non-bank residential mortgage lenders and originators to guard against and report on illicit financial transactions. FinCEN published an advisory to financial institutions on fraud related to home equity conversion mortgages (HECMs) in April 2010 and an updated advisory to financial institutions on loan modification fraud in June 2010.

FinCEN released a report specifically describing trends found in depository institution Suspicious Activity Reports (SARs) on loan modification and foreclosure rescue scams in June 2010. The relevant SARs increased from 28 reports filed by depository institutions and money services businesses in 2004, to over 3,000 SARs filed in 2009. The SARs in the sample dataset revealed that in the eight months between the issuance of an April 2009 FinCEN Advisory requesting filers report loan modifications and foreclosure rescue fraud activity in SARs, filers increased reporting by over 100 percent In addition, FinCEN published its latest mortgage fraud report in July 2010, which provided analysis of depository institution SARs and described filing trends, evolving patterns, and emerging typologies. The report is intended to benefit law enforcement, regulators, and financial industries.

FinCEN was recognized by the DOJ for playing an important role in Operation Stolen Dreams, an effort over 3.5 months to take down mortgage fraud schemes across the country. The operation involved 1,215 criminal defendants nationwide who were allegedly responsible for more than $2.3 billion in losses.

Collaborated to Detect Health Care Fraud

Treasury is working with the Health Care Fraud Prevention and Enforcement Action Team (HEAT), which brings investigators and prosecutors together in selected geographical areas to target individuals and organizations who are defrauding the health care system. Treasury is working closely with HHS, DOJ, and other federal and state law enforcement agencies to identify increasingly complex health care fraud schemes. Treasury developed an initiative to use the Bank Secrecy Act (BSA) analytical assessments to identify the most egregious individual perpetrators and organized groups in these schemes. Through this analytical process, Treasury will be able to provide the investigators with an overall assessment of the targeted jurisdictions, as well as the organizations and individuals that are suspected of being engaged in health care fraud.

Management and Organizational Excellence

The Department of the Treasury strives to achieve excellence in the design and execution of its management processes, enabling it to better accomplish its mission. Continual improvement in the effectiveness and efficiency of these processes through institutionalized performance reviews and relentless follow-up will drive improved results. Some of the highlights of these areas follow.

Performance Management

In fiscal year 2010, the Department began to conduct quarterly formal performance reviews of its bureaus and policy offices. Meetings are held with the Deputy Secretary, the Assistant Secretary for Management, and bureau and policy officials. The intent is to utilize performance information to drive improved results and improve the performance culture of the organization. The first session in 2010 reviewed existing bureau missions, goals, and measures. The second session focused on the fiscal year 2012 budget formulation. The third session reviewed 2010 performance and plans for 2011.

Improved Management of Human Capital

Attention in fiscal year 2010 focused on Employee Viewpoint Survey (now called the FedView Survey) scores, the Best Places to Work rankings, and revisions to the Senior Executive Service (SES) rating system. By targeting key areas for improvement, the Department moved from 17th to 12th on the Best Places to Work in Government Survey, making Treasury one of the most improved agencies across the Federal Government. The Department also improved its scores in all four key areas of the Employee Viewpoint Survey: leadership and knowledge management, results-oriented performance culture, talent management, and job satisfaction. See *http://bestplacestowork.org/BPTW/rankings/overall/large* for survey rankings.

Treasury implemented several changes to the SES performance management process to clarify performance expectations and support more meaningful distinctions in ratings and rewards. Because SES reform has been identified as a major priority of the President's Management Council, Treasury plans to pursue additional initiatives in fiscal year 2011 related to performance, hiring, and executive development.

Modernized Information Technology

With an annual IT budget of over $3 billion dollars, the Department is focused on enabling innovation in support of its expanding financial and economic missions, while increasing the operational efficiency and effectiveness of existing IT assets. Primary examples of this innovation include Enterprise Content Management, the IRS's Customer Account Data Engine II, FinCEN's IT Modernization, IT projects central to Treasury's duties under the Dodd-Frank Act, Data Center Consolidation, and increasing the amount of data that is readily accessible to the public through the Obama Administration's Open Government effort. To track performance, Treasury utilizes the Federal IT Dashboard to monitor and assess its key programs. Treasury had two high risk investments in fiscal year 2010.

For the Department's first high risk investment related to its network, "TNet," the following actions were taken during fiscal year 2010:

- Treasury officials met with the Federal CIO, Vivek Kundra, on September 29, 2010, to discuss the investment
- Treasury and OMB finalized a plan on actions to improve performance
- In fiscal year 2011 Treasury's legacy wide area network will be fully decommissioned and Treasury will complete its data transition to GSA's network realizing a cost savings of $40 million per year
- Treasury will corporatize the decision making related to the investment and appointed a new program manager

For the Department's second high risk investment, Treasury Enterprise Identity, Credential and Access Management (TEICAM), the following actions were taken during fiscal year 2010:

- Treasury officials met with the Federal CIO on October 25, 2010 to discuss the investment
- An improvement plan is in development but is not yet finalized

The Department continues to implement effective information security tools to thwart attacks and keep key information safe. Two of Treasury's Department-wide strategic security objectives include use of Homeland Security Presidential Directive-12 credentials for access to business applications and use of data-loss prevention tools to prevent the accidental leakage of information. Treasury is also enhancing its capability to monitor the use of illegal and unauthorized software in its networks and systems. This capability will help prevent software piracy and the introduction of hostile software which would put Treasury's IT-based business processes and information at risk of theft, compromise, or disruption.

Increased Use of Electronic Transactions

In 2010, Treasury began implementing a "paperless" initiative to increase the use of electronic transactions with the public. The largest effort involves migrating Social Security, Supplemental Security Income, Veterans, Railroad Retirement, and Office of Personnel Management payments to electronic transactions. Individuals will be able to receive benefits either through direct deposit or Treasury's Direct Express debit card. Today, one million Americans are receiving their benefit payments through Direct Express. Beginning March 1, 2011, Treasury will require that new enrollees receive payments electronically. All recipients will be required to receive payments electronically by March 1, 2013. Currently, 85 percent of federal benefit recipients receive their payments electronically. Moving all recipients of these benefits to electronic payments is expected to save upwards of $300 million in the first five years.

Currently, nearly 98 percent of all business tax dollars are paid electronically through Treasury's free Electronic Federal Tax Payment System (EFTPS). IRS research has shown that businesses using EFTPS are 31 times less likely to make an error. For tax collection, businesses with $2,500 or more in quarterly tax liabilities that are permitted to use paper Federal Tax Deposit coupons will have to make those deposits electronically beginning in 2011. This change will save an estimated $65 million in the first five years.

Finally, Treasury will eliminate the option to purchase paper savings bonds through payroll deductions for federal employees on September 30, 2010 and for the private sector by January 1, 2011. Individuals will still be able to purchase paper savings bonds at financial institutions for themselves and as gifts. Payroll savers will be encouraged to continue their purchases through TreasuryDirect, a web-based system that allows investors to buy and hold electronic Treasury securities. This change is estimated to save nearly $50 million in the first five years.

Achieved Acquisition Savings

The Department executed its fiscal year 2010 plan to meet the OMB acquisition improvement mandate to deliver 3.5 percent in procurement savings in fiscal year 2010 and achieve a ten percent reduction in high risk contracting in fiscal year 2010. As of September 30, Treasury had exceeded both goals, realizing over $241.9 million in savings versus the goal of $158.4 million, and $129.4 million in high risk contracting reduction versus the goal of $48.8 million.

The Department has taken steps to achieve 3.5 percent savings in fiscal year 2011 ($158 million) and reduce the use of high risk contracting authorities. Treasury will continue to actively transition to lower risk contracting strategies. Treasury will achieve its targets through active management of acquisition operations and increased examination of high dollar/risk contracts.

Improved Transparency and Accountability

In April 2010, the Department of Treasury published its first Open Government plan in line with the Obama Administration's Open Government Directive. An Open Government Steering Committee with representatives from each of Treasury's bureaus was established to develop guidance and lead activities across the Department. In executing the plan, Treasury released 84 data sets, increased stakeholder outreach efforts, and began a more focused approach to tracking reductions in the Freedom of Information Act (FOIA) request backlog. In addition, the Department identified costs savings from Open Government initiatives such as tracking the impact of proactive disclosure through *FinancialStability.gov* on FOIA requests to the Office of Financial Stability (OFS). Using this data, Treasury developed a cost-benefit matrix to assess open government initiatives.

The Department of the Treasury received a Leading Practices Award for Participation and Collaboration for achievement above and beyond the requirements of the Directive. This award recognized Treasury as an agency that outlined the best and most innovative strategies for promoting open government over the next two years. Treasury was only one of eight agencies to receive an award.

Provided Effective Oversight of Treasury Programs

The Treasury Inspector General chairs the Council of Inspectors General on Financial Oversight (CIGFO), which was established by the Dodd-Frank Act. CIGFO facilitates information sharing among inspectors general with a focus on concerns that may apply to the broader financial sector and on ways to improve financial oversight. The Treasury Inspector General also serves as a statutory member of the Recovery Accountability and Transparency Board which was established in 2009 to coordinate and conduct oversight of Recovery Act funds to prevent fraud, waste, and abuse.

The OIG committed nearly all audit resources to mandated work primarily related to material loss reviews of failed banks during the fiscal year. Due to the unprecedented number of Treasury-regulated bank failures requiring review, the OIG was unable to meet its performance goal of completing 100 percent of audits by the statutory deadline. During fiscal year 2010, 53 Treasury-regulated banks failed. By comparison, 27 Treasury-regulated banks failed during fiscal year 2009. For fiscal year 2010, OIG had 18 required material loss reviews in progress at the start of the year; initiated 20 new material loss reviews during the year; and completed ten. During fiscal year 2010, material loss reviews were required when the bank failure caused a loss to the Deposit Insurance Fund of $25 million or more. This threshold was recently increased to $200 million. In addition, the Office of Investigations initiated four criminal investigations of failed Treasury banks as a result the Office of Audit's findings. During fiscal year 2010, the OIG Office of Audit completed 50 percent of statutory audits by their required deadline and completed 68 products overall.

TIGTA is responsible for successful investigations of entities and individuals who threaten the U.S. tax system. TIGTA estimates approximately $11.46 billion in potential financial benefits could be realized through implementation of its audit recommendations in fiscal year 2010 and $230 million in potential savings could be realized from investigative recoveries from embezzlements, thefts, court order fines, penalties, and restitution. These benefits included $2.8 billion in cost savings recommendations, $8.6 billion in potential increased revenue/revenue protected recommendations, $0.2 million in taxpayer rights and entitlement recommendations, and $36 million in recommendations related to inefficient use of resources. These reports also included recommendations impacting over two million taxpayer accounts.

SIGTARP promotes efficiency and effectiveness in Treasury's management of the TARP through transparency, coordinated oversight, and robust enforcement against those who waste, steal, or abuse TARP funds. SIGTARP's primary tools for informing taxpayers about TARP are audit and quarterly reports, which are available for inspection at *www.sigtarp.gov*. Since its inception, SIGTARP has conducted 22 distinct audits and issued 11 audit reports on topics such as use of TARP funds, external influences on program decision-making, oversight of AIG's executive compensation, and Treasury's role in the decision to reduce the number of GM and Chrysler dealerships. SIGTARP's investigations division has over 104 ongoing major criminal and civil investigations. SIGTARP closely coordinates its oversight activities with other TARP oversight bodies to ensure maximum coverage while avoiding redundancy and undue burden.

DEPARTMENT OF THE TREASURY KEY PERFORMANCE MEASURES FOR 2010

The following table contains ten key performance metrics providing a representative overview of the Department's performance for 2010. Discussion of the factors contributing to each measure's performance results, and plans to improve the measures' results in future years, follows the table.

Performance Measure Official Title	Bureau	2007 Target	2007 Actual	2008 Target	2008 Actual	2009 Target	2009 Actual	2010 Target	2010 Actual	Percent Target Achieved 2010	2010 Actual vs. Target	4-year Target Trend	4-year Actual Trend
Percentage collected electronically of total dollar amount of Federal government receipts (%)	FMS	80	79	79	80	80	84	80	85	106%	Exceeded	►	▲
Customer Service Representative (CSR) Level of Service (%)	IRS	82	82.1	82	52.8	70	70	71	74	104%	Exceeded	▼	▼
Percent of Business Returns Processed Electronically (%)	IRS	19.5	19.1	20.8	19.4	21.6	22.8	24.3	25.5	105%	Exceeded	▲	▲
Percent of Individual Returns Processed Electronically (%)	IRS	57	57.1	61.8	57.6	64	65.9	70.2	69.3	99%	Unmet	▲	▲
Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI program awardees	CDFI	34,009	35,022	28,676	29,539	30,000	70,260	85,000	80,796	95%	Unmet	▲	▲
Rehabilitated national banks as a percentage of problem national banks one year ago (CAMELS 3, 4 or 5) (%)	OCC	40	52	40	47	40	29	40	23	58%	Unmet	►	▼
Clean audit opinion on TARP financial statements	DO					Baseline	Met	1	1	100%	Met	►	►
Percent of customers satisfied with Financial Stability.gov (%)	DO					Baseline	65	70	63	90%	Unmet	▲	▼
Percent of timely completed Planned Corrective Actions (%)	DO	85	71.7	85	82.5	85	85.6	87.5	88.4	101%	Exceeded	▲	▲
Impact of TFI programs and activities	DO					Baseline	7.81	7.4	8.1	109%	Exceeded	►	▲

Note: Performance measures were not audited.

In fiscal year 2010, FMS collected nearly $2.94 trillion through approximately 9,000 financial institutions, with 85.3 percent of the dollars collected electronically. FMS's metric "Percentage collected electronically of total dollar amount of Federal government receipts" exceeded its performance target by five percentage points and showed a one percentage point improvement over 2009. More than 108 million payments were processed through EFTPS, an increase in transaction volume of seven percent, despite only a 3.5 percent growth in tax revenue collected. FMS regularly reaches out to the banking community to promote electronic collection and is implementing marketing programs to encourage migration of paper-based collections to electronic collection systems and Pay.gov.

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	►
No change in trend, favorable effect	►
No change in trend, unfavorable effect	►
Baseline	B

The IRS metric "Customer Service Representative (CSR) Level of Service" exceeded its performance target by four percent in fiscal year 2010 and improved on the prior fiscal year's result by four percentage points. The IRS is addressing demand through improved self-service options. Twenty-one percent more automated calls were completed compared to fiscal year 2009, reaching 35.1 million calls. The number of assistor answered calls was 36.7 million, lower than the 39 million assistor calls answered in fiscal year 2009.

IRS electronic filing metric "Percent of Business Returns Processed Electronically" exceeded its performance target by five percent, a 12 percent increase over fiscal year 2009. The "Percent of Individual Returns Processed Electronically" came within one percent of meeting its target. Increased electronic filing can be attributed to changes in filing patterns, economic and demographic trends, legislative requirements, and IRS administrative processes. IRS expects the percentage of both business and individual returns filed electronically to increase in fiscal year 2011 based on recent experience, historical growth trends, increased marketing, and expanded programs aimed at boosting electronic filing. IRS will continue to pursue additional legislative mandates to increase electronic filing for businesses taxpayers, such as a 2011 provision requiring taxpayers filing more than ten individual returns during a calendar year to file electronically.

The CDFI Fund's metric "Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI Program awardees" achieved 80,796, a 15 percent increase over the prior year and within five percent of the target. This target was unmet primarily due to the effects of the economic downturn. The CDFI Program in fiscal year 2010 competitively awarded $104.8 million in funding to 179 CDFIs and organizations for providing loans, investments, financial services, and technical assistance to underserved populations and low-income communities. The amount of money CDFIs were able to attract from private investment reached nearly $2 billion, more than triple the 2010 target of $600 million, largely due to higher program funding provided in legislation passed after the target was set.

During fiscal year 2010, OCC's metric "Rehabilitated national banks as a percentage of problem national banks one year ago (CAMELS 3, 4 or 5)" achieved 58 percent of its performance target, dropping by 21 percent compared with fiscal year 2009. National banks continued to operate in a highly challenging and volatile environment. The impact of the past and current economic climates on these banks requires longer term rehabilitation efforts. Given the weak economy, OCC focused on monitoring and responding to adverse conditions in credit and financial markets, improving credit risk management at supervised institutions, and monitoring loan portfolios. For all national banks, OCC is continuing to focus on quick responses to deteriorating bank credit quality and on ensuring banks maintain adequate liquidity, loan-loss reserves, and capital buffers. Because of changing conditions, OCC should consider changing their target setting methodology.

For fiscal year 2010, the Office of Financial Stability (OFS) received a clean audit opinion on TARP financial statements. This is a significant accomplishment, and OFS will continue to strive for accuracy and transparency in its financial statements. However, the metric "Percent of customers satisfied with FinancialStability.gov" fell short of its 70 percent target by seven percentage points and was also two percentage points lower than fiscal year 2009. OFS is using survey analysis results to identify opportunities for implementing new webpage layouts.

During fiscal year 2010, the Department achieved 88.4 percent of timely completed Planned Corrective Actions (PCAs), which exceeded its target of 87.5 percent. Throughout fiscal year 2011, the Department will continue to monitor progress on the timely completion of PCAs and continue to provide valuable information on various aspects of audit follow-up. In addition, the target completion rate has been raised to 90 percent for fiscal year 2011.

TFI's performance metric "Impact of TFI programs and activities" exceeded its performance target and improved on the fiscal year 2009 results by nine percent. This metric consists of four overall focus areas, with additional detailed focus area components. These components align to performance goals established by TFI. The external review process for this measure still needs to be developed, but the implementation of this measure is a large step in the effort to measure performance for a policy office that also has operational responsibilities.

SUMMARY OF MANAGEMENT AND PERFORMANCE CHALLENGES AND HIGH-RISK AREAS

Annually, in accordance with the *Reports Consolidation Act of 2000*, the Treasury Office of Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA) identify the most significant management and performance challenges facing the Department. The Government Accountability Office (GAO) identifies high-risk areas biennially. 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 2010, and will continue to focus on resolving them during fiscal year 2011.

Summaries of the IG-identified management challenges and GAO-identified high-risk areas are below. For details, refer to Appendix C for this year's OIG and TIGTA memoranda identifying major management and performance challenges, and the Secretary's responses.

Treasury-wide Management Challenges – As Identified by OIG

Management Challenge	Summary of Major Issues
Transformation of Financial Regulation	• Implement and enforce the provisions of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and other federal consumer financial laws consistently • Identify risks to financial stability that could arise from the activities of large, interconnected financial companies; respond to emerging threats to the financial system; and promote market discipline • Assess and report on systemic risks • Monitor the insurance industry • Streamline and improve supervision of depository institutions and holding companies

Management of Treasury's Authorities Intended to Support and Improve the Economy	• Protection of the taxpayer from unnecessary risk associated with the implementation and administration of programs intended to support and improve the economy, including the provisions of:
	  • *Small Business Jobs Act of 2010*
	  • *American Recovery and Reinvestment Act of 2009*
	  • *Housing and Economic Recovery Act of 2008*
	  • *Emergency Economic Stabilization Act of 2008*

Anti-Money Laundering and Terrorist Financing/ Bank Secrecy Act Reporting	• Prevent and detect money laundering and terrorist financing • U.S. and international financial systems that are safe and transparent • Efficient management, safeguarding, and use of Bank Secrecy Act information
Management of Capital Investments	• Effective use of taxpayer funds for large capital investments

IRS Management Challenges – As Identified by TIGTA

Management Challenge	Summary of Major Issues
Security	Appropriate physical security and protection of financial, personal, and other information
Modernization	Improve taxpayer service and efficiency of operations
Tax Compliance Initiatives	Improve compliance and fairness in the application of the tax laws
Implementing Health Care and Other Tax Law Changes	Responsiveness to new tax provisions, including tax-related health care provisions of the *Patient Protection and Affordable Care Act*, the Recovery Act, and adjusting to expiring provisions
Providing Quality Taxpayer Service Operations	Improve taxpayer service
Human Capital	Enable the IRS to achieve its mission
Erroneous and Improper Payments and Credits	Effective use of taxpayer funds
Globalization	Increase outreach efforts to foreign governments on cross-border transactions
Taxpayer Protection and Rights	Apply the tax laws fairly
Leveraging Data to Improve Program Effectiveness and Reduce Costs	Use resources to focus on producing the best value for stakeholders

High-Risk Areas – As Identified by GAO

Enforcement of the Tax Laws

Issue: The IRS needs to improve its enforcement of tax laws, not only to catch tax cheats, but also to promote broader compliance by giving taxpayers confidence that others are paying their fair share.

Goal: Improve research on noncompliance, increase the use of third party information reporting, focus on improving standards among tax return preparers, and increase emphasis on international noncompliance.

Challenges and Actions Taken/Planned:

Reduce the opportunity for evasion

- During fiscal year 2010, the IRS continued to focus on the many taxpayers that shift income abroad and engage in offshore tax evasion schemes in order to hide their wealth and avoid paying taxes. With cross-border transactions on the rise, the IRS more than doubled offshore presence by opening new offices in Asia and Central America, placing additional personnel at its existing offices throughout the world, and expanding its interaction with key international organizations involved in tax and financial law compliance.
- In fiscal year 2010, the IRS began mining the information from participants of its offshore voluntary disclosure program started in 2009, to identify financial institutions, advisors, and others who promoted or otherwise helped U.S. taxpayers hide assets and income offshore. The IRS also used audit results and intelligence from ongoing offshore initiatives to refine case identification and selection methods and to identify promoters, facilitators, and participants in abusive offshore arrangements.
- In fiscal year 2011, the IRS will use mined data from the offshore voluntary disclosure program to develop additional strategies to prohibit promoters and facilitators from soliciting new clients.

Target specific areas of noncompliance and improve voluntary compliance with extensive research

- The IRS continued to focus examinations on high-net worth individuals, flow-through entities, and large corporations (assets > $10 million). In fiscal year 2010, the IRS conducted over 153,000 high-net worth audits, an increase of 5.5 percent. Audits of large corporations increased by 8.1 percent, a significant achievement given the size (more than $10 million in assets) and complexity of these corporate entities. The number of flow through audits totaled more than 29,000.
- During fiscal year 2010, the IRS began laying the groundwork to ensure the quality and integrity of professional tax return preparation, which most taxpayers rely on in one form or another. The IRS successfully implemented an application process to comply with the mandate that all paid tax return preparers obtain a preparer tax identification number.
- In fiscal year 2010, the IRS released the Research Community Strategic Plan. The plan focuses on research efforts aimed at effectively determining ways to address taxpayer compliance.
- In fiscal year 2011, the IRS will continue to expand its efforts to address international tax evasion, expand the focus on corporate and high net-worth returns to integrate significant new information reporting authorities into compliance programs, and proceed with additional mandates for paid tax preparers. The mandates include the requirement that all paid tax return preparers except attorneys, certified public accountants, and enrolled agents pass a competency test and complete continuing professional education of 15 hours per year. The IRS also plans to conduct research to enhance compliance and use analytically-based technologies to provide tools for detecting and reducing noncompliance.

IRS Business Systems Modernization

Issue: The Business Systems Modernization (BSM) program is developing and delivering a number of modernized systems to replace the aging business and tax processing systems currently in use. This effort is highly complex and scheduled to be carried out over a numbers of years, ultimately creating a more efficient and effective IRS. Though the IRS experienced delays and cost overruns in the early years of the effort, improved practices and oversight are now contributing to better delivery of outcomes.

Goal: Meet all BSM project milestones within a cost and schedule variance of 10 percent of the initial estimate.

Challenges and Actions Taken/Planned:

Fully implement all projects and programs for the BSM program

- In fiscal year 2010, IRS modernization efforts continued to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. The Customer Account Data Engine (CADE), Modernized e-File (MeF), and Account Management Services (AMS) modernization projects delivered the changes necessary for a successful filing season, and continued to support implementation of Recovery Act tax provisions.
- The IRS revised its CADE strategy (CADE 2) to implement a new taxpayer account database for the 2012 filing season that provides for daily updating of individual taxpayer accounts to improve taxpayer service and accuracy, reduce interest paid on late refunds, improve data security, and allow the development of new tools to combat fraud and improve enforcement activities. Completion of the taxpayer account database is the prerequisite for other major initiatives, including significant expansion of online services and transactions and next generation of enforcement technologies.
- The IRS also deployed an additional release of MeF that enabled acceptance of the forms and schedules to reach 61 percent of the e-file population, and with enhanced disaster recovery capabilities to manage operational risk. In addition, the IRS deployed the final release of AMS, enabling users to view correspondence images online, eliminating manual processing and reducing case cycle time from 10-14 days to zero days. AMS also facilitated the identification of unallowable or fraudulent claims for First-Time Home Buyer Credits claimed by taxpayers filing amended returns.
- In fiscal year 2011, the IRS will continue to focus on modernization of the tax administration systems to provide additional benefits to taxpayers. The IRS will further develop CADE 2 to accommodate tax law changes in the 2012 filing season.

Modernizing the Outdated U.S. Regulatory System

Issue/Goal: Efficient and effective implementation of financial regulatory reform legislation.

Challenges and Actions Taken/Planned:

Actions related to this high-risk area are provided on page 15 (Financial Regulatory Reform), page 24 (Strengthened International Economic Coordination), and page 26 (Regulation of Banks and Thrifts).

ANALYSIS OF FINANCIAL STATEMENTS

CONDENSED BALANCE SHEET (in millions):	2010	2009
Due From the General Fund	$ 13,655,637	$ 11,992,719
Other Intra-governmental Assets	1,025,169	923,457
Cash, Foreign Currency, and Other Monetary Assets	375,282	341,308
Gold and Silver Reserve	11,062	11,062
TARP Direct Loans and Equity Investments, Net and Asset Guarantee Program	144,692	239,657
Investments in Government Sponsored Enterprises	109,216	64,679
Investments and Related Interest	12,639	13,565
Credit Program Receivables and Direct Loans, Net	186,396	184,460
Tax, Other Related Interest Receivables, Net	36,976	30,408
Beneficial Interest in Trust	20,805	23,472
Other Assets	21,383	21,814
Total Assets	$ 15,599,257	$ 13,846,601
Federal Debt and Interest Payable	$ 13,623,731	$ 11,962,385
Other Intra-governmental Liabilities	1,424,976	1,275,613
Liabilities to Government Sponsored Enterprises	359,900	91,937
Other Liabilities	89,554	88,610
Total Liabilities	15,498,161	13,418,545
Unexpended Appropriations	400,557	455,144
Cumulative Results of Operations	(299,461)	(27,088)
Total Net Position	101,096	428,056
Total Liabilities and Net Position	$ 15,599,257	$ 13,846,601

CONDENSED STATEMENT OF NET COST (in millions):	2010	2009
Net Financial Program Cost	$ 13,243	$ 13,055
Net Economic Program (Revenue)/Cost	297,234	195,705
Net Security Program Cost	340	322
Net Management Program Cost	526	509
Total Program Cost before Assumption Changes	311,343	209,591
(Gains)/Losses Due To Changes in Actuarial Assumptions	820	0
Total Net Cost of Treasury Operations	$ 312,163	$ 209,591
Net Federal Costs (primarily interest on the Federal Debt)	$ 346,678	$ 313,341

CONDENSED STATEMENT OF CHANGES IN NET POSITION (in millions):	2010	2009
Beginning Balance	$ (27,088)	$ 37,743
Budgetary Financing Sources	503,042	668,894
Other Financing Sources (Uses)	(116,574)	(210,793)
Total Financing Sources	386,468	458,101
Net Cost of Operations	(658,841)	(522,932)
Net Change	(272,373)	(64,831)
Cumulative Results of Operations	$ (299,461)	$ (27,088)
Beginning Balance	$455,144	$271,968
Appropriations Received	456,970	855,762
Appropriations Used	(502,439)	(668,153)
Other	(9,118)	(4,433)
Total Budgetary Financing Sources	(54,587)	183,176
Total Unexpended Appropriations	400,557	455,144
Net Position - Year End	$ 101,096	$ 428,056

CONDENSED STATEMENT OF BUDGETARY RESOURCES (in millions):		2010		2009
Unobligated Balances, Brought Forward	$	457,588	$	284,630
Recoveries of Prior Year Obligations		42,349		8,096
Budget Authority		929,687		1,814,086
Other Budget Authority		(236,543)		(271,778)
Total Budgetary Resources	**$**	**1,193,081**	**$**	**1,835,034**
Obligations Incurred	$	820,838	$	1,387,195
Unobligated Balance		301,811		413,998
Unobligated Balance, Not Available		70,432		33,841
Total Status of Budgetary Resources	**$**	**1,193,081**	**$**	**1,835,034**
Total Unpaid Obligated Balances, Net	$	158,323	$	56,977
Obligations Incurred, Net		820,838		1,387,195
Gross Outlays		(733,710)		(1,248,916)
Recoveries of Prior Year Unpaid Obligations, Actual		(42,349)		(8,096)
Changes in Uncollected Customer Payments Federal		5,087		(28,748)
Total Unpaid Obligated Balance, Net, End of Year	**$**	**208,189**	**$**	**158,412**
Net Outlays	$	340,510	$	922,165

CONDENSED STATEMENT OF CUSTODIAL ACTIVITY (in millions):		2010		2009
Individual Income and FICA Taxes	$	1,988,760	$	2,036,557
Corporate Income Taxes		277,937		225,482
Other Revenues		179,613		139,648
Total Cash Revenue Received		**2,446,310**		**2,401,687**
Less Refunds		(469,937)		(437,972)
Net Cash Revenue Received		**1,976,373**		**1,963,715**
Beneficial Interest in Trust		(2,666)		23,472
Accrual Adjustment		6,539		(1,097)
Total Custodial Revenue		**1,980,246**		**1,986,090**
Amounts Provided to Fund the Federal Government		1,975,986		1,963,228
Amounts Provided to Fund Non-Federal Entities		387		487
Non-cash Revenue - Beneficial Interest in Trust		(2,666)		23,472
Accrual Adjustment		6,539		(1,097)
Total Disposition of Custodial Revenue		**1,980,246**		**1,986,090**
Net Custodial Revenue Activity	**$**	**0**	**$**	**0**

Summary of Auditor's Report on the Treasury Department's Financial Statements

The Department received an unqualified audit opinion on its fiscal year 2010 financial statements. As summarized in the table below, the auditor reported one open material weakness as of September 30, 2010. During the fiscal year 2010 financial audit, the auditors downgraded the material weakness they identified in the fiscal year 2009 audit, "Financial Management Practices at the Departmental Level," to a significant deficiency. The Office of Accounting and Internal Control (AIC) and the Office of Performance Budgeting (OPB) worked diligently during the year to close many of the planned corrective actions to improve its financial management practices and made significant progress. The auditor also reported significant deficiencies related to financial reporting at the Office of Financial Stability and information system controls at the Financial Management Service. In addition, the auditor reported an instance of noncompliance with laws and regulations related to Section 6325 of the Internal Revenue Code (release of federal tax liens), and that the Department's financial management systems did not substantially comply with the requirements of the *Federal Financial Management Improvement Act of 1996*.

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Systems and Reporting at the IRS	1	0	0	0	1
Financial Management Practices at the Departmental level	1	0	1	0	0
Totals	2	0	1	0	1

Limitations on the Principal Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the Department of the Treasury, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Department of the Treasury, in accordance with GAAP for federal entities and the formats prescribed by OMB, the 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 a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

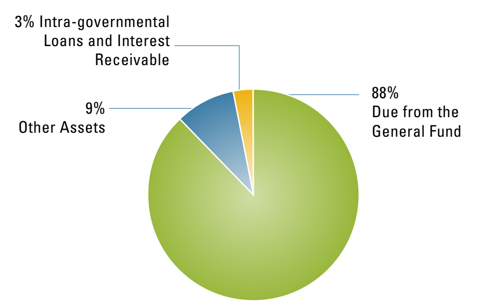
Major Highlights

The following provides the major highlights of the Department's financial position and results of operations for fiscal year 2010.

Assets. Total assets increased from $13.9 trillion at September 30, 2009 to $15.6 trillion at September 30, 2010. The primary reason for the increase is the rise in the federal debt, which causes a corresponding rise in the "Due from the General Fund of the U.S. Government" account ($13.7 trillion.) 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.

The majority of loans and interest receivable ($552.9 billion) included in "Intra-governmental" assets are the loans issued by the Bureau of the Public Debt to other federal agencies for their own use or to private sector borrowers, whose loans are guaranteed by the federal agencies.

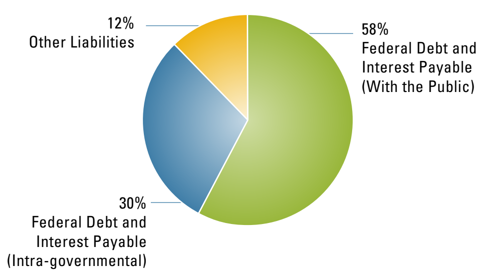
Total Assets



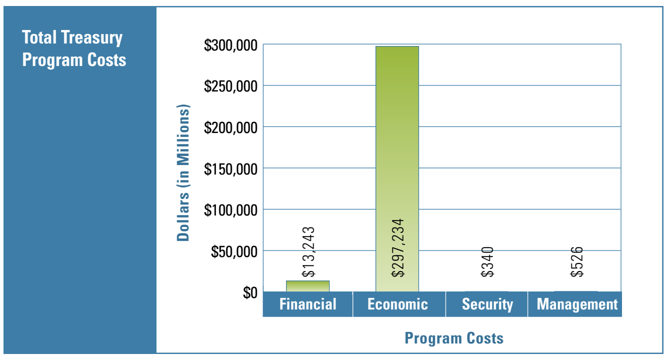
Liabilities. Intra-governmental liabilities totaled $6 trillion, and include $4.6 trillion of principal and interest payable to various federal agencies, such as the Social Security Trust Fund. These borrowings do not include debt issued separately by other governmental agencies, such as the Tennessee Valley Authority or the Department of Housing and Urban Development.

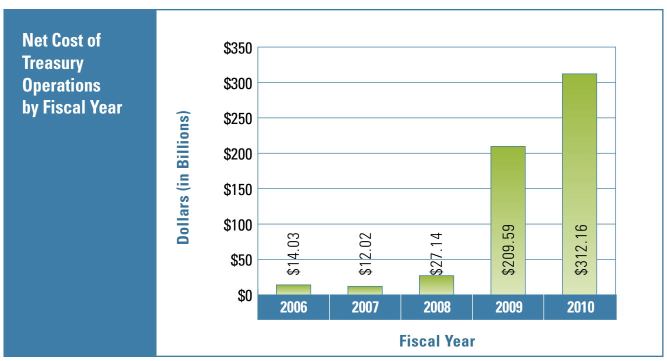
Liabilities also include federal debt held by the public, including interest, of $9 trillion; this debt was mainly issued as Treasury Notes. The increase in total liabilities in fiscal year 2010 over fiscal year 2009 ($2.1 trillion and 15.5 percent), is the result of increases in borrowings from various federal agencies ($184.7 billion), and federal debt held by the public, including interest, ($1.5 trillion). Debt held by the public increased primarily because of the need to finance budget deficits.

Total Liabilities

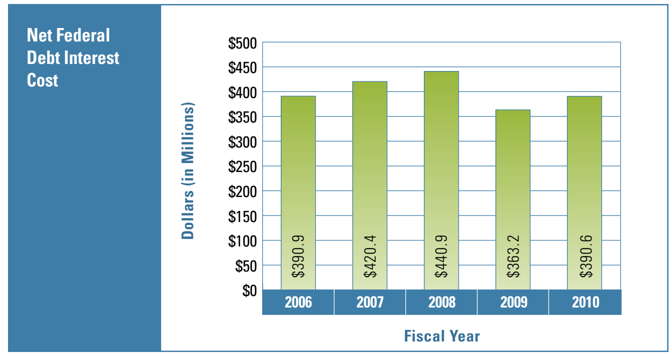


Net Cost of Treasury Operations. The Consolidated Statement of Net Cost presents the Department's gross and net cost for its four strategic missions: financial program, economic program, security program, and management program. The majority of the Net Cost of Treasury Operations is in the economic program which includes Troubled Asset Relief Program (TARP) activity and investments in the Government Sponsored Enterprises (GSEs). Financial program costs include costs associated with Treasury's role as the primary fiscal agent for the Federal Government in managing the nation's finances by collecting revenue, making federal payments, managing federal borrowing, performing central accounting functions, and producing coins and currency sufficient to meet the demand.

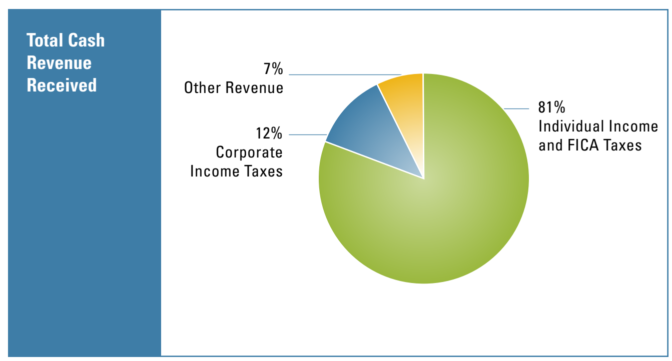


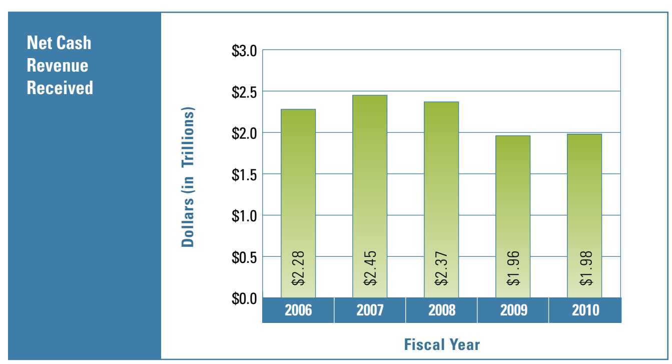


Net Federal Debt Interest Costs. The increase of $27.4 billion in net interest paid on the federal debt is due to the increase in the debt.



Custodial Revenue. Total net cash revenue collected by Treasury on behalf of the Federal Government includes various taxes, primarily income taxes, user fees, fines and penalties, and other revenue. Over 92.7 percent of the revenues are from income and social security taxes.





IMPROPER PAYMENTS INFORMATION ACT AND RECOVERY AUDITING ACT

Improper Payments Information Act

Background

The *Improper Payments Information Act of 2002* (IPIA) requires agencies to review their programs and activities annually to identify those susceptible to significant improper payments. According to Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (A-123, Appendix C), "significant" means that an estimated error rate and a dollar amount exceed the threshold of 2.5 percent and $10 million of total program funding. A-123, Appendix C also requires the agency to implement a corrective action plan that includes improper payment reduction targets.

However, some federal programs are so complex that developing an annual error rate is not feasible. The government-wide Chief Financial Officers Council developed an alternative for such programs to assist them in meeting the IPIA requirements. Agencies may establish an annual estimate for a high-risk component of a complex program (e.g., a specific program population) with OMB approval. Agencies must also perform trend analyses to update the program's baseline error rate in the interim years between detailed program studies. When development of a statistically valid error rate is possible, the reduction targets are revised and become the basis for future trend analyses.

Treasury's Risk Assessment Methodology and Results for Fiscal Year 2010

Each year, Treasury develops a comprehensive inventory of all funding sources and conducts a risk assessment for improper payments on all of its programs and activities. The risk assessment performed on all of Treasury's programs and activities in fiscal year 2010 resulted in low and medium risk susceptibility for improper payments except for the Internal Revenue Service's (IRS) Earned Income Tax Credit (EITC) program. The high-risk status of this program is well-documented. OMB has deemed the EITC a complex program for the purposes of the IPIA.

Earned Income Tax Credit

The EITC is a refundable tax credit that offsets income tax owed by low-income taxpayers and, if the credit exceeds the amount of taxes due, provides a lump-sum payment in the form of a refund to those who qualify. The fiscal year 2010 estimate is that a maximum of 28.7 percent ($18.4 billion) and a minimum of 23.9 percent ($15.3 billion) of the EITC total program payments are overclaims.

The IRS has a robust base enforcement program for the EITC which consists of examinations (audits), math error notices, and document matching. In fiscal year 2010, the IRS expanded its approach to decrease improper payments.

Executive Order 13520 - Reducing Improper Payments and Eliminating Waste in Federal Programs

On November 20, 2009, President Barack Obama issued Executive Order 13520 - *Reducing Improper Payments and Eliminating Waste in Federal Programs* (EO 13520). According to EO 13520, the purpose of the order is to *"reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government, while continuing to ensure that Federal programs serve and provide access to their intended beneficiaries."*

Section 2 of the order, "Transparency and Public Participation," directed OMB "to identify Federal programs in which the highest dollar value or majority of Government-wide improper payments occur." OMB identified the EITC as a "high-priority program" under EO 13520. The requirements of the high-priority programs are described in Appendix B.

Recovery Auditing Act

Background

In accordance with the *Recovery Auditing Act of 2002*, A-123, Appendix C, requires agencies issuing $500 million or more in contracts to establish and maintain recovery auditing activities and report on the results of those recovery efforts annually. Recovery auditing activities include the use of (1) contract audits, in which an examination of contracts pursuant to the audit and records clause incorporated in the contract is performed; (2) contingency contracts for recovery services in which the contractor is paid a percentage of the recoveries; and (3) internal review and analysis in which payment controls are employed to ensure that contract payments are accurate.

For Recovery Auditing Act compliance, Treasury requires each bureau and office to review its post-payment controls and report on recovery auditing activities, contracts issued, improper payments identified, and recoveries achieved. Bureaus and offices may use recovery auditing firms to perform many of the steps in their recovery program and identify candidates for recovery action.

Results for Fiscal Year 2010

During fiscal year 2010, Treasury issued $6.4 billion in contracts (defined as issued and obligated contracts, modifications, task orders, and delivery orders). The Department identified improper payments in the amount of $467,000 from recovery auditing efforts, and recovered $518,000, including prior year recoveries, with $58,000 outstanding as accounts receivable on September 30, 2010.

Note: Additional detail on Treasury's IPIA and Recovery Auditing Act Programs can be found in Appendix B.

MANAGEMENT ASSURANCES

The Secretary's Letter of Assurance

The Department of the Treasury's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). Treasury has evaluated its management controls, internal controls over financial reporting, and compliance with federal financial systems standards. As part of the evaluation process, we considered results of extensive testing and assessment across the Department and independent audits.

Treasury provides assurance that the objectives of the *Federal Managers' Financial Integrity Act* over operations have been achieved, except for the material weaknesses noted below. In accordance with OMB Circular A-123, Appendix A, we provide qualified assurance that internal control over financial reporting was operating effectively based on the results of the assessment as of June 30, 2010. Treasury is not in substantial compliance with the *Federal Financial Management Improvement Act* due to the material weakness related to revenue accounting systems.

As of September 30, 2010, Treasury has four material weaknesses as follows (with origination/resolution timeframes indicated):

Operations:

Internal Revenue Service

- Improve Modernization Management Controls and Processes (fiscal year 1995/2011)
- Computer Security (fiscal year 2001/2012)

Financial Management Service

- Systems, Controls, and Procedures to Prepare the Government-wide Financial Statements (fiscal year 2001/2014)

Financial Reporting:

Internal Revenue Service

- Unpaid Assessments (remaining portions of Financial Accounting of Revenue – Custodial) (fiscal year 1995/2015)

Treasury management remains dedicated to the resolution of these weaknesses. Overall, Treasury continues to make progress in reducing management and control weaknesses and in meeting federal financial systems requirements.

Timothy F. Geithner

Timothy F. Geithner
November 15, 2010

MATERIAL WEAKNESSES, AUDIT FOLLOW-UP, AND FINANCIAL SYSTEMS

Summary of Management Assurances

Summary of Material Weaknesses						
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
IRS – Unpaid Assessments (remaining portions of Financial Accounting of Revenue – Custodial)	1	0	0	0	0	1
IRS – Improve Modernization Management Controls and Processes	1	0	0	0	0	1
IRS – Computer Security	1	0	0	0	0	1
FMS – Systems, Controls, and Procedures to Prepare the Government-wide Financial Statements	1	0	0	0	0	1
DO – Financial Management Practices	1	0	1	0	0	0
Total Material Weaknesses	5	0	1	0	0	4

As of September 30, 2010, Treasury has four material weaknesses under Section 2 of the *Federal Managers' Financial Improvement Act* as shown in the tables below.

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	**Qualified**					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
IRS – Unpaid Assessments (remaining portions of Financial Accounting for Revenue – Custodial) (See Appendix D)	1	0	0	0	0	1
DO – Financial Management Practices	1	0	1	0	0	0
Total Material Weaknesses	2	0	1	0	0	1

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	**Qualified**					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
IRS – Improve Modernization Management Controls and Processes	1	0	0	0	0	1
IRS – Computer Security	1	0	0	0	0	1
FMS – Systems, Controls, and Procedures to Prepare the Government-wide Financial Statements	1	0	0	0	0	1
Total Material Weaknesses	3	0	0	0	0	3

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	**Systems conform to financial management system requirements**					
Non-Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Non-conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	**No**	**No**
1. System Requirements	No	
2. Accounting Standards	No	
3. USSGL at Transaction Level	Yes	

Federal Managers' Financial Integrity Act (FMFIA)

The management control objectives under FMFIA are to reasonably ensure that:

- Programs achieve their intended results
- Resources are used consistent with overall mission
- Programs and resources are free from waste, fraud, and mismanagement
- Laws and regulations are followed
- Controls are sufficient to minimize any improper or erroneous payments
- Performance information is reliable
- System security is in substantial compliance with all relevant requirements
- Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels
- Financial management systems are in compliance with federal financial systems standards

Deficiencies that seriously affect an agency's ability to meet these objectives are deemed "material weaknesses." Treasury can provide assurance that the objectives of the FMFIA have been achieved, except for the material weaknesses noted in the Secretary's Letter of Assurance. During fiscal year 2010, Treasury downgraded or closed one material weakness. Although the last open material weakness is targeted to be closed in fiscal year 2015, Treasury is focusing on making sufficient progress to downgrade the weakness sooner.

Each year, material weaknesses, both the resolution of existing ones and the prevention of new ones, receive special attention from management. In fiscal year 2010, Treasury continued to make resolution of material weaknesses a performance requirement for every executive, manager, and supervisor.

Office of Management and Budget Circular A-123, Appendix A

The Department continues to strengthen and improve the execution of the Treasury mission through the application of sound internal controls over financial reporting. In response to Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, Appendix A, *Internal Control over Financial Reporting*, Treasury developed and implemented an extensive annual testing and assessment methodology that identified and documented internal controls over financial reporting at the transaction level integrated with the Government Accountability Office's *Standards for Internal Control*. The testing and assessment were completed across all material Treasury bureaus and offices by June 30, 2010. Treasury provides qualified assurance that internal controls over financial reporting are effective as of June 30, 2010, due in large part to the unpaid assessment weakness (remaining portions of the financial accounting of revenue - custodial weaknesses) at the Internal Revenue Service (IRS).

Audit Follow-Up

During fiscal year 2010, Treasury continued its efforts to improve both the general administration of management control issues throughout the Department and the timeliness of the resolution of all findings and recommendations identified by the Office of the Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the Government Accountability Office (GAO), and external auditors.

Treasury management at every level will maintain the momentum on accomplishing planned corrective actions (PCAs) to resolve and implement sound solutions for all audit recommendations. Treasury has made considerable progress by focusing on achieving a high rate of timely implementation of planned corrective actions (PCAs). In fiscal year 2010, Treasury's offices and bureaus completed 88.4 percent of PCAs on time or early.

Federal Financial Management Improvement Act (FFMIA)

The *Federal Financial Management Improvement Act* (FFMIA) of 1996 mandates that agencies "... implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level." FFMIA also requires that remediation plans be developed for any entity that is unable to report substantial compliance with these requirements.

During fiscal year 2010, the Department issued revised FFMIA guidance and procedures based on federal guidance issued by the Office of Management and Budget (OMB). OMB requires agencies to use a risk-based approach to assess their financial management systems' compliance with FFMIA. In compliance with the revised guidance, Treasury's bureaus and offices conducted a self-assessment to determine their risk level.

With the exception of the Internal Revenue Service (IRS), all Treasury bureaus and offices are in compliance with FFMIA. As required, the IRS has a remediation plan in place to correct the identified deficiencies. For each identified deficiency, the remediation plan provides specific remedies, target dates, responsible officials, and estimated resources required to correct the deficiencies. This plan is reviewed and updated quarterly. (Refer to Appendix D for detailed information.)

Financial Management Systems Framework

The Department's overall financial management systems framework consists of a Treasury-wide financial data warehouse, supported by a financial reporting tool, and separate bureau core financial systems. Bureaus submit their monthly financial data to the data warehouse within three business days of the month-end. The Department then produces monthly financial statements and reports for management analysis. This framework satisfies both the bureaus' diverse financial operational and reporting needs, as well as the Department's internal and external reporting requirements. The financial data warehouse is part of the overarching Treasury-wide Financial Analysis and Reporting System (FARS), which also includes applications for the bureaus to report the status of their planned audit corrective actions. In addition to the existing FARS applications, the Department is reviewing existing government owned and operated systems for the implementation of a Department-wide fleet management information system, which would streamline and enhance management controls and reporting and improve fleet management planning and decision making.

Treasury's FARS applications operate at a contractor operated hosting facility. In accordance with the guidance contained in the American Institute of Certified Public Accountants' Statement of Auditing Standards (SAS) No. 70, *Service Organizations*, the service provider's independent auditors examined the controls for the dedicated hosting service. In the opinion of the auditors, the description of the controls presents fairly, in all material respects, the relevant aspects of the provider's controls that had been placed in operation as of September 30, 2010.

Fourteen Treasury bureaus and offices use the financial operations services and systems support from the Bureau of the Public Debt's Administrative Resource Center. Utilizing these services reduces the need for Treasury to maintain duplicative financial management systems; enhances the quality, timeliness, and accuracy of financial management processes; and achieves a more efficient and cost-effective business model. Treasury continues to work with the bureaus to evaluate plans for continuous improvement to their financial management systems structure.

PART 2:

ANNUAL PERFORMANCE REPORT

INTRODUCTION

The Annual Performance Report (APR) provides information that enables the public to assess the Department's performance relative to its mission and stewardship of the resources entrusted to it. The report is organized by strategic goal, objective, and outcome, and provides detail on how each of the metrics contributes to the Department's overall mission. A performance statement is provided for each objective, along with charts and tables for cost and budget. Baseline measures are included in the calculations and count as having "met" their targets. As in prior years, Treasury has developed new measures and discontinued measures based on analysis of performance management needs.

The table of key performance measures in each goal section includes data from the last two years; a performance rating for 2010; the percent of target achieved; the percent change in actual results from the last fiscal year; the fiscal year 2011 target; and trends in both performance and targets over the last four years. Trends are indicated by colored arrows, with red indicating an unfavorable direction, green a favorable direction, black indicating no change, and "B" for a baseline measure. The Department considers external factors when evaluating performance. In some cases, additional indicators are discussed to provide an enhanced description of progress.

Each section of the APR concludes with a "Moving Forward" piece that describes future actions to be taken. Actions could include closing performance gaps, developing new measures, or drafting new polices and regulations.

Throughout the report, cost is stated as "Performance Cost," and represents imputed costs, depreciation, losses, and other expenses not requiring budgetary resources. Performance cost was used rather than net cost because it more accurately represents the total cost to achieve a result or outcome. For instance, while the net cost to manufacture coins and currency for non-appropriated bureaus such as the U.S. Mint and the Bureau of Engraving and Printing is zero because it is essentially self-funded, the real cost of operating these organizations is over $4 billion once all imputed costs, depreciation, losses, and other expenses are included. While performance cost is more than net cost, it is less than the gross cost reported on the statement of net cost because it excludes accounts that do contribute to the cost of achieving performance for the agency, such as the Exchange Stabilization Fund and the Federal Financing Bank. Fiscal year 2010 is the fourth year that Treasury has included this information.

Overall, the Department set more aggressive targets on 37 percent of its measures in 2010 compared to 2009, and achieved 72 percent of those targets compared to 80 percent in 2009. The Treasury Department continues to review its performance measure set and eliminate or modify measures to obtain the best information possible on performance. Treasury's Annual Performance Report has not been audited.

See *http://www.treasury.gov/offices/management/dcfo/accountability-reports* for the Full Report of the Treasury Department's Fiscal Year 2010 Performance Measures.

COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

Accuracy of Performance Measures*

Measures are classified for accuracy as follows:

- *Reasonable Accuracy:* Judged to be sufficiently accurate for program management and performance reporting purposes (specified in Office of Management & Budget Circular A-11, Section 230-4(f))
- *Questionable or Unknown Accuracy:* Judged to be materially inadequate (specified in Office of Management & Budget Circular A-11, Section 230-4(f) as "materially inadequate")

Procedures for Conducting Review of the Department's Performance Measure Data

The Department of the Treasury's Office of Strategic Planning and Performance Management prepares the annual report on performance measures and monitors component-submitted performance information. Based on a finding in fiscal year 2006, it was determined that improvements to the internal control process for performance measures were needed. Improvements to the process included:

- All measures are now prioritized as high, medium, or low, based on the relationship to achieving the Department's goals
- A representative sample of measures are selected for review every fiscal quarter
- Supporting documentation from that sample is reviewed for accuracy, reliability, and completeness
- All measure calculations are verified, data sources are validated, and comparisons are made to prior year results
- Information related to the measures is maintained in hard-copy form and can be reviewed at any time

As a result, performing this process will uncover any potential data or calculation error and will provide additional assurances on the integrity of the information and data presented in the annual Performance and Accountability Report.

Completeness of Data

Not Available: There were no measures in fiscal year 2010 for which data was not available.

Discontinued: The following performance measures were discontinued in fiscal year 2010 and will not have data available for this report. Explanations for why these measures were discontinued can be found at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Bureau	Performance Measure
BEP	Currency Production
BEP	Improper and/or erroneous payments or purchases
BEP	Maintain ISO certification
BEP	Other financial losses
BEP	Security costs per 1000 notes delivered
BEP	Total financial losses
BEP	Total regulatory fines and claims paid
CDFI	Administrative cost per number of Bank Enterprise Award (BEA) applications processed
CDFI	Administrative costs per financial assistance (FA) application processed
CDFI	Administrative costs per number of Native American CDFI Assistance (NACA) applications processed
CDFI	Administrative costs per number of New Markets Tax Credit (NMTC) applications processed
DO	Number of material weaknesses closed (significant management problems identified by GAO, the IGs and/or other bureaus)
MINT	Absolute Value of Production Percent Deviation from net Pay
MINT	Employee Confidence in Protection
MINT	Numismatic Net Margin
MINT	Protection Cost Per Square Foot
Treasury Franchise Fund	Operating expenses as a percentage of revenue – Consolidated/ Integrated Administrative Management
Treasury Franchise Fund	Operating expenses as a percentage of revenue – Financial Systems, Consulting and Training

* Performance measures were not audited.

Baseline: The following measures established baseline values and targets in fiscal year 2010:

Bureau	Performance Measure
BPD	Percent of overall customer satisfaction with Government Agency Investment Services
BPD	Percent of Summary Debt Accounting business processes restructured or eliminated
BPD	Percent of Primary Dealers that submit live bids from their disaster recovery site on two separate auction dates
CDFI	Application Cycle Time - BEA
CDFI	Application Cycle Time - CDFI
CDFI	Application Cycle Time - NMTC
CDFI	Application Cycle Time - Native Initiatives
CDFI	Disbursement Cycle Time - BEA
CDFI	Disbursement Cycle Time - CDFI
CDFI	Disbursement Cycle Time - NMTC
CDFI	Disbursement Cycle Time - Native Initiatives
Mint	Circulating on-time delivery
MINT	Safety Incident Recordable Rate

Data Reliability: Performance data presented in this report meets the standards for reliability set forth in Office of Management & Budget Circular A-11, Section 230-5(f). The circular states that performance data must be accurate and reliable and that verification and validation techniques should be in place.

For additional details on performance measure information, see *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

STRATEGIC GOAL:
EFFECTIVELY MANAGED U.S. GOVERNMENT FINANCES

STRATEGIC OBJECTIVE:
Available Cash Resources to Operate the Government

The Treasury Department manages the nation's finances by collecting money due to the United States, making its payments, managing its borrowing, investing when appropriate, and performing central accounting functions. Sound fiscal management ensures the continual operation of essential government services and allows the Department to meet its financial obligations while minimizing borrowing costs. Accurate projections of the U.S. Government's cash requirements ensure that funds are available to cover federal payments on an ongoing basis. The ability of the Treasury to manage the nation's finances is essential to maintaining the stability and integrity of the financial system.

The bureaus and policy offices responsible for the achievement of this objective are the following:

- Alcohol and Tobacco Tax and Trade Bureau (TTB)
- Bureau of the Public Debt (BPD)
- Financial Management Service (FMS)
- Internal Revenue Service (IRS)
- Office of Domestic Finance

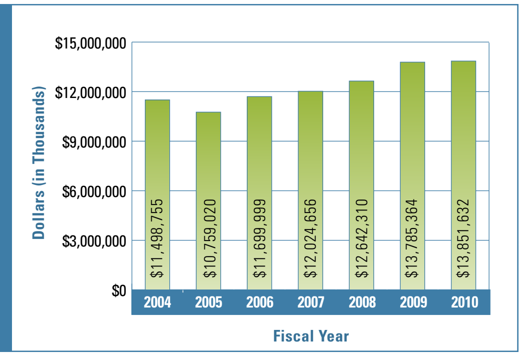
The outcomes associated with this objective are the following:

- Revenue collected when due through a fair and uniform application of the law at the lowest possible cost
- Timely and accurate payments at the lowest possible cost
- Government financing at the lowest possible cost over time
- Effective cash management
- Accurate, timely, useful, transparent and accessible financial information

Performance measures associated with this objective had 46 percent more aggressive targets compared to 2009.

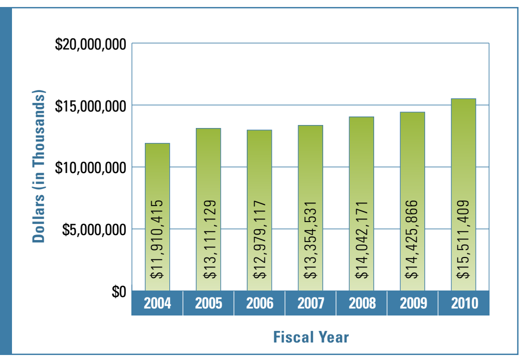
Budget Trend

Available Cash Resources to Operate the Government



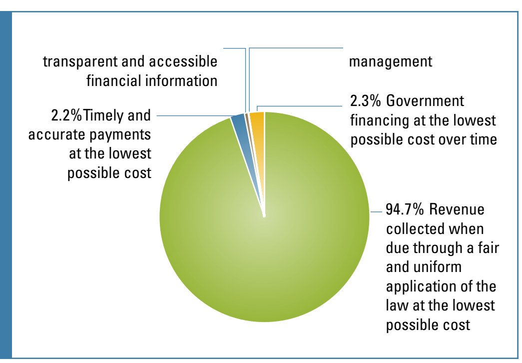
Performance Cost Trend

Available Cash Resources to Operate the Government



Performance Cost by Outcome

Available Cash Resources to Operate the Government



Revenue Collected When Due Through a Fair and Uniform Application of the Law at the Lowest Possible Cost

Based on performance results, Treasury was mostly successful in achieving this strategic outcome for fiscal year 2010 as demonstrated by the chart below. It is important to note that 2010 targets for this outcome were over 50 percent more aggressive than in 2009.

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Amount of delinquent debt collected per $1 spent ($)	FMS	$53.76	$43.00	$54.54*	126.8%	1.5%	Exceeded	$43.00	▲	▲
Amount of delinquent debt collected through all available tools ($ billions)	FMS	$5.03	$4.65	$5.45	117.2%	8.4%	Exceeded	$4.84	▲	▲
Percentage collected electronically of total dollar amount of Federal government receipts (%)	FMS	84	80	85	106.3%	1.2%	Exceeded	82	▶	▲
Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral (%)	FMS	100	97	100	103.1%	0.0%	Exceeded	97	▲	▶
Unit cost to process a Federal revenue collection transaction ($)	FMS	$1.57	$1.25	$1.67	66.4%	6.4%	Unmet	$1.70	▼	▲
Customer Contacts Resolved per Staff Year	IRS	12,918	9,398	10,744	114%	-16.8%	Exceeded	10,181	▲	▲
Customer Service Representative (CSR) Level of Service (%)	IRS	70	71	74	104.2%	5.7%	Exceeded	75	▼	▼
Examination Quality (LMSB) - Industry (%)	IRS	88	89	87	97.8%	-1.1%	Unmet	89	▲	▶
Field Collection National Quality Review Score	IRS	80.5	81	80.6	99.5%	0.1%	Unmet	82	▼	▼
Field Examination National Quality Review Score (%)	IRS	85.1	86.3	84.9	98.4%	-0.2%	Unmet	86.3	▼	▼
Percent of Business Returns Processed Electronically (%)	IRS	22.8	24.3	25.5	104.9%	11.8%	Exceeded	25.4	▲	▲
Percent of Individual Returns Processed Electronically (%)	IRS	65.9	70.2	69.3	98.7%	5.2%	Unmet	74.7	▲	▲
Refund Timeliness - Individual (paper) (%)	IRS	99.2	98.4	96.1	97.7%	-3.1%	Unmet	98.4	▼	▼
Taxpayer Self Assistance Rate	IRS	69.3	61.3	64.4	105.1%	-7.1%	Exceeded	62.7	▲	▲
Amount of revenue collected per program dollar ($) (New data compilation methodology, 2008)	TTB	$427	$400	$478	119.5%	11.9%	Exceeded	$410	▲	▲
Percent of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)	TTB	94	92	94	102.2%	0.0%	Exceeded	94	▶	▶

*Estimated

Analysis of Performance Results

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

The table presents a sample of the measures associated with the achievement of the revenue collection outcome. Based on the full suite of measures relating to this outcome, during fiscal year 2010, Treasury met or exceeded targets for 69 percent of its performance measures relative to this strategic outcome (27 measures out of 39). This was a decrease from fiscal year 2009, when targets for 73 percent of performance measures were either met or exceeded. However, 50 percent of our performance targets were made more aggressive in fiscal year 2010 contributing to the lower percentage of met or exceeded. Two measures were discontinued in fiscal year 2010.

IRS is the largest contributor to this outcome. For fiscal year 2010, IRS achieved an overall success rate of 66 percent, meeting or exceeding the target for 21 of its 32 performance measures. In fiscal year 2010, IRS met or exceeded 56 percent (10 of 18) of its Enforcement targets, and 50 percent (one of two) of its Business System Modernization targets.

In fiscal year 2010, the IRS met or exceeded 83 percent (10 of 12) of the Taxpayer Service performance targets. The two measures that fell short of the target were the individual E-file rate and refund timelines, which were both within 97 percent of their targets. The individual E-file rate fell short of the target due to a higher than anticipated number of paper returns received during fourth quarter. Refund timeliness fell short of the target due to delays caused by the computation of the Making Work Pay Credit and the First Time Homebuyer Credit.

Performance at FMS was generally positive. Performance targets for four of FMS's five measures were either met or exceeded in fiscal year 2010. FMS failed to meet its target for "Unit cost to process a federal revenue collection transaction." The average cost to process a collection item has increased in recent years due to a downturn in the economy, and due to additional development expenses related to the Collections and Cash Management Modernization (CCMM) Initiative.

The TTB measures for this outcome, "Amount of Revenue per Program Dollar" and "Percent of Voluntary Compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)," exceeded their fiscal year 2010 performance targets by 19.5 percent and two percent, respectively. Voluntary compliance results were 94 percent of revenue, the same compliance rate achieved in 2009. Amount of revenue per program dollar was $478, an increase from $427 in fiscal year 2009.

Taxpayer Service and Revenue Processing

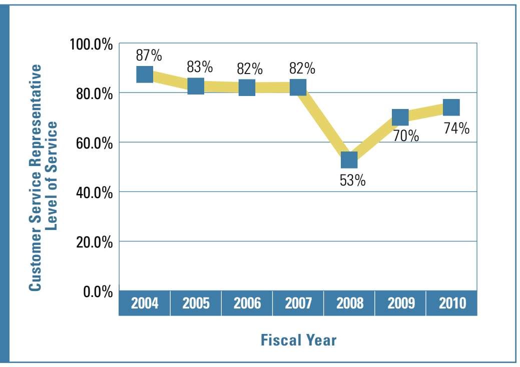
Internal Revenue Service

The IRS delivered a successful 2010 filing season, while rising to challenges posed by the implementation of provisions in the *American Reinvestment and Recovery Act of 2009* (Recovery Act), the *Worker, Homeownership, and Business Assistance Act of 2009* (WHBAA), and increased telephone demand for Economic Recovery Payment inquiries. In fiscal year 2010, the total revenue collected by the IRS was $2.3 trillion. Results of the 2010 filing season include:

- Processed 141.9 million individual returns and issued more than 109.5 million refunds totaling $366 billion, compared to 144.4 million returns resulting in 111.4 million refunds totaling $339.6 billion for the same period in 2009
- Achieved a 74 percent telephone level of service, an increase from 70 percent in 2009, while answering 36.7 million assistor calls
- Processed over 2.9 million Free File returns
- Responded to more than 5.6 million web and 815,300 telephone requests for information on the one time $250 Economic Recovery Payment

In fiscal year 2010, electronic filing increased compared to 2009 results. Individual returns electronically filed increased to 69.3 percent, up from 65.9 percent in 2009, with the total number of individual returns filed electronically reaching 98.4 million. Business returns electronically filed increased 12 percent over 2009, reaching 25.5 percent. Tax professional use of E-file reached 62.3 million returns. Filing via home-computer reached 34.6 million returns, 7.4 percent greater than 32.2 million in 2009.

IRS Customer Service Representative Level of Service



"Customer Contacts Resolved per Staff Year" was 10,744, achieving 114 percent of the target. The IRS is addressing demand through improved self-service options. More automated calls were completed, reaching 35.1 millions calls, a 21 percent increase from the 29 million automated calls completed in fiscal year 2009. The number of assistor answered calls was 36.7 million, lower than the 39 million assistor calls answered in fiscal year 2009. Responses to account questions received via the telephone were correct 95.7 percent of the time, an increase over the 94.9 percent accuracy achieved in fiscal year 2009.

In addition to E-filing, IRS internet presence facilitates better information and service. The IRS added more automated web tools and services in 2010. Over 213 million tax products were downloaded by taxpayers, an increase of almost 12 percent. More than 108.8 million electronic payments totaling over $1.9 trillion were processed through the Electronic Federal Tax Payment System (EFTPS). More than 66.9 million taxpayers used "Where's My Refund?" an increase of 23.8 percent from 2009. The IRS website also:

- Provided taxpayers with electronic tools such as the Earned Income Tax Credit (EITC) Assistant to determine if they qualify for the refundable tax credit
- Provided explanations of tax benefits of the Recovery Act
- Developed an automated service for taxpayers to obtain a PIN to satisfy signature requirements when E-filing a current year return
- Created a system that allows taxpayers to self screen and make online appointments for return preparation in the Taxpayer Assistance Centers. Taxpayers made approximately 19,000, or 18 percent of scheduled appointments, on-line
- Created a special section on IRS.gov titled "Tax Center to Assist Unemployed Taxpayers" for taxpayers who are struggling financially

Reaching taxpayers through social media was expanded by the IRS during the fiscal year 2010 filing season. The IRS produced a number of podcasts that were available on IRS.gov and iTunes. In addition, the IRS created YouTube videos on subjects including the Education Tax Credit, Making Work Pay, and the New Homebuyer Credit. Many were available in English, American Sign Language, and Spanish (*www.youtube.com/user/irsvideos*). The IRS and its partners educated and promoted asset building to low- and moderate- income taxpayers by creating six customized webcasts to cover a wide range of activities, such as establishing savings and Individual Development Accounts (a special savings account where money is matched by donations), credit counseling, and financial coaching.

To help taxpayers address questions, the IRS partnered with external stakeholder organizations to expand the availability and hours of service at taxpayer assistance sites. The IRS also helped facilitate filing compliance by developing new products and enhancing communication with the taxpayer community. The IRS updated forms and made forms accessible to the visually impaired. The IRS also translated more tax products into Spanish and implemented a multilingual website.

Each year, the IRS and its partners provide free tax assistance to the elderly, disabled, and people with limited English proficiency at Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites. In fiscal year 2010, more than $13.5 million in VITA and TCE Grants were awarded to 171 organizations, a 17 percent increase in the number of organizations from 2009. The IRS developed a "VITA Site List" on IRS.gov to provide information on site locations throughout the nation, which attracted over 45,000 visits. Assistors at the more than 12,000 VITA and TCE sites throughout the nation prepared more than 3.1 million tax returns. The number of returns prepared for individuals with disabilities and/or families with disabled dependents increased by 99 percent, preparing 360,500 returns, compared to 181,200 prepared in fiscal year 2009.

In an effort to assist the taxpayer community during the economic downturn, the IRS and its partners hosted five Open House events at 200 Taxpayer Assistance Centers (TACs) and partner sites across all 50 states. The goals of these events were to help resolve tax issues and assist taxpayers in preparation of tax returns. As a result, more than 31,400 taxpayers were served, and over 7,700 returns were prepared. Other outreach efforts included:

- Held two special Saturday events in which more than 9,500 taxpayers faced with unresolved tax related issues were assisted, and over 4,000 returns were prepared
- Provided a dedicated toll-free telephone line and hosted a Gulf Coast Assistance Day at seven TACs in the Gulf Coast region, that provided guidance and assistance to taxpayers affected by the oil spill in the Gulf of Mexico
- Used state-of-the-art automated check processing to deposit checks electronically at point of receipt at ten

TACs, thereby protecting a taxpayer's personal identifiable information (PII) from identity theft when mailing checks to processing sites, resulting in $95 million in checks processed

The IRS also assisted taxpayers who owed delinquent taxes, especially those who were having difficulties meeting their tax obligations because of unemployment or other financial problems, by:

- Granting assistors greater authority to suspend collection actions in certain hardship cases, preventing an automatic default of an installment agreement and expediting levy releases, if warranted
- Considering Offers in Compromise from taxpayers facing economic troubles, including those who were recently unemployed
- Increasing taxpayers' ability to speak to an assistor by expanding the number of call sites for taxpayers looking to resolve their balance due and/or delinquent return account while experiencing shorter wait times

As one of the Federal Government's largest benefit programs for working families and individuals, the Earned Income Tax Credit (EITC) provides additional help for those taxpayers struggling financially. In fiscal year 2010, the IRS conducted its fourth annual EITC Awareness Day in order to educate the public on the availability and benefits of this important tax credit. The IRS hoped to reach qualifying taxpayers by communicating the benefits of EITC through interviews, news conferences, and media tours.

Alcohol and Tobacco Tax and Trade Bureau

TTB collects excise taxes associated with the sale of alcohol, tobacco, firearms, and ammunition through its Collect the Revenue program. In fiscal year 2010, TTB collected $23.8 billion in federal taxes from nearly 7,100 excise taxpayers. This represents a 15 percent increase in tax revenue compared with fiscal year 2009, collected from a taxpayer base that grew by only six percent. TTB collected $478 in revenue for every dollar spent on its revenue collection program, an 11.9 percent increase over the prior year.

The increased rate of return is principally due to the higher federal excise tax rate imposed on tobacco products by the Children's Health Insurance Program Reauthorization Act (CHIPRA), enacted in February 2009. Tobacco excise tax collections nearly doubled between fiscal year 2008 and fiscal year 2009 and, in the first full year of collections under the new tax rate, tobacco revenues were up nearly 38 percent compared to the prior year.

Firearms and ammunition excise tax (FAET) collections have also grown significantly in recent years. Since TTB assumed responsibility for administering the FAET tax program in 2003, collections have increased 87 percent. Consumer spending patterns contributed to a spike in FAET revenues in fiscal year 2009, followed by a decline in collections of approximately 20 percent in fiscal year 2010. However, FAET collections remain 15 percent above fiscal year 2008 levels, due to the enforcement efforts of TTB tax specialists and auditors.

TTB expanded its electronic tax filing program to enable all excise taxpayers to file and pay taxes electronically through the Pay.gov web-based system. More than 6,400 TTB taxpayers are registered to use Pay.gov to pay excise taxes and file excise tax returns and monthly operational reports, an increase of 23 percent over the prior year.

The National Revenue Center (NRC), TTB's tax processing center, receives approximately 68,000 telephone calls and inquiries on an annual basis. In fiscal year 2010, TTB developed and implemented an improved phone tree menu system for the main toll-free telephone number that better directs calls related to routine questions to clerks or contractors, and evenly rotates incoming calls of a technical nature to specialists. This system ensures that specialists' time is reserved for more complex or specific questions.

Financial Management Service

FMS collects revenues needed to operate the federal government. In fiscal year 2010, FMS collected nearly $2.94 trillion through a network of roughly 9,000 financial institutions, with 85.3 percent of the dollars collected electronically. The most important program that supports electronic collections is the Electronic Federal Tax Payment System (EFTPS), which supports electronic tax payments at any time. In fiscal year 2010, more than 108 million payments were processed through EFTPS, reflecting an increase in transaction volume of seven percent despite only a 3.5 percent growth in tax revenue collected.

Pay.gov is a system that allows individuals and businesses to make non-tax payments to federal agencies over the internet. Pay.gov provides collections, form submittal, bill presentment, and agency financial reporting services. Pay.gov, which has been implemented with 153 federal agencies representing 667 cash flows, has collected $81.9 billion and processed 49.4 million transactions in fiscal year 2010.

The Paper Check Conversion Over-the-Counter (PCC OTC) program converts paper checks received at federal agency points-of-sale locations throughout the United States and overseas into electronic debits to the check writer's account through the Automated Clearing House (ACH) system or into a substitute check image that is truncated and cleared under the authority of Check 21. PCC OTC fully automates and improves the collection, reconciliation, research of returned checks, and reporting processes associated with the over the counter collections of Federal Program Agencies (FPAs). PCC OTC has been implemented with 11 new agencies and collected $16.6 billion in fiscal year 2010. Since the inception of PCC OTC in 2001, 70 agencies have used the program.

In addition, FMS is implementing Collections and Cash Management Modernization, a comprehensive effort to streamline, modernize, and improve the processes and systems supporting Treasury's collections and cash management program. This effort will improve financial performance by enabling FMS and FPAs to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes. For example, the Transaction Reporting System is a single touch point to standardize and consolidate collections information and eliminate redundancies in the federal government's collections reporting processes.

Additionally, partnerships are being formed with FPAs to implement the holistic approach to improve cash management practices. Through this effort, agencies are signing Strategic Cash Management Agreements (SCMAs) to convert electronic and paper processes to more efficient electronic collection mechanisms. In fiscal year 2010, 11 SCMAs were signed.

FMS' Debt Collection program recovers delinquent government and child support debt by providing centralized debt collection management and operational services to FPAs and states as required by the Debt Collection Improvement Act of 1996 (DCIA) and related legislation.

In fiscal year 2010, FMS collected $5.45 billion in delinquent debt including Economic Recovery Payments in the following categories:

- $2.10 billion in past due child support
- $2.30 billion in federal non-tax debt
- $435 million in state tax offsets
- $618 million in tax levies

As a result of FMS' continued improvements to the program, collections have steadily increased to more than $47.9 billion since the enactment of the DCIA in 1996. Agencies referred 100 percent of their eligible delinquent debt at the end of fiscal year 2010. In calendar year 2010, IRS is expected to refer an additional $47.7 billion of tax debts for continuous levy, a 13 percent increase from calendar year 2009.

The Department of Education started the Federal Salary Offset Pilot in June 2010 by removing the salary bypass indicator from 170 of their direct loan debts. The Centers for Medicare and Medicaid Services, U.S. Postal Service, U.S. Army Corps of Engineers, and Defense Finance and Accounting Service continue to take offsets and levies using the Non-Treasury Disbursing Office process. FMS continues to roll out the State Reciprocal Program, allowing states to submit other state debt to Treasury Offset Program (TOP) for offset against federal vendor payments and offset of state tax and vendor payments to satisfy federal non-tax debt. Currently, three states are participating in the program. FMS also continued to roll out Debt Check, an online program used to help agencies bar delinquent debtors from obtaining new loans or loan guarantees. The Department of Commerce's Economic Development Administration will be the next agency to utilize Debt Check. In addition, FMS began providing Debtor Locator Report data with partial matches to the federal and state agencies in TOP. With partial match information, the agencies and states will be able update their debtor files, improve their debt matching in TOP, and increase offset collections.

Improving Voluntary Compliance and Narrowing the Tax Gap

The IRS remains committed to finding ways to increase compliance and reduce the tax gap. In fiscal year 2010, the IRS developed new methodologies for estimating the corporate income tax gap; updated the estate and gift tax nonfiling and underreporting tax gap estimates; and developed a new basis for estimating the individual income tax nonfiler gap.

Research allows the IRS to target specific areas of noncompliance to improve voluntary compliance and allocate resources more effectively to reduce the tax gap. The fiscal year 2010 National Research Program (NRP) efforts included a study to assess the reporting compliance of employment taxes. The study spans three tax years from 2008 through 2010 and examines approximately 2,200 randomly-selected taxpayers each year. This new study complements the ongoing study of individual reporting compliance and the study of subchapter S Corporations due to be released in 2011.

The IRS continues to study the effects of services it offers to taxpayers on the internet, at walk-in sites, and on its toll-free telephone lines as well as exploring the relationships between taxpayer errors and unclear correspondence. As part of this effort, the IRS is testing the impact of on-line assistance and instruction, and the impact of service quality to aid in the development of new approaches to service.

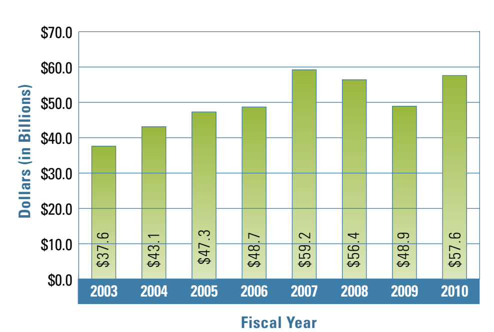
TTB continued its efforts to promote voluntary compliance among industry members in 2010 through industry seminars, web site tutorials, and other outreach efforts. Despite the prolonged economic downturn, TTB believes its outreach efforts were successful in improving upon the voluntary compliance rate. TTB had a compliance rate of 94 percent for timely filed tax payments among large excise taxpayers this fiscal year.

Enforcement

Internal Revenue Service

Enforcement of the tax laws is an integral component of the IRS effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, target elements of the tax gap and are a high priority.

IRS Enforcement Revenue



In fiscal year 2010, the IRS met 56 percent (10 of 18) of examination performance measures in fiscal year 2010. Of the eight measures that fell short of the target, two were within 99 percent (field collection quality and collection coverage) of the fiscal year 2010 target, three were within 98 percent (field exam quality, exam quality for coordinated industry, and conviction rate), one was within 97 percent (exam quality – industry), one was within 96 percent (collection efficiency), and one (Tax Exempt/Government Entity (TE/GE) determination case closures) fell within 74 percent of the target.

Of the eight IRS measures that did not meet their target, four were related to quality of the Examination and Collection programs. The Field Exam National Quality Review Score was 84.9 percent, within two percentage points of the 86.3 percent target. Examination quality for industry was 87 percent, two percentage points below the target. Field collection quality, at 80.6 percent, was only half a percentage point away from the target. Quality for coordinated industry was 95 percent, within one percentage point of target. Major contributors to the shortfall were gaps in quality related to efficient resolution of issues, meeting timeframes, income determination and verification, and documentation of the audit trail.

The conviction rate in fiscal year 2010, 90.2 percent, missed the target of 92 percent because of the increase in the number of dismissals caused by unavailability of witnesses or fugitive subjects. These are primarily money laundering investigations in which more than three years passed since the date of indictment. Collection efficiency and coverage were not met due to delays in the issuance of return delinquency notices resulting in fewer balance due dispositions.

The last measure, TE/GE determination case closures, was 105,247 and fell short of the target for two reasons. First, a planned system conversion took longer than expected, requiring staff to switch to manual processing multiple times throughout the year. Second, TE/GE received 47 percent fewer applications of plans that required much less time (0.25 hrs) to complete than anticipated.

The IRS enforcement activities, which target elements of the tax gap, showed steady progress, building on fiscal year 2009 successes in key enforcement programs:

- Total individual audits increased 11 percent
- Automated underreporter contact closures increased almost 20 percent

- Number of high net-worth audits increased more than five percent
- Large corporate audits increased 8.1 percent—a significant achievement given the size (more than $10 million) and complexity of these corporate entities

As a result of these efforts, fiscal year 2010 IRS total enforcement revenue was $57.6 billion, exceeding the $48.9 billion in revenue received in fiscal year 2009.

In fiscal year 2010, the IRS placed extraordinary focus on identifying those who hide assets overseas to avoid paying taxes. As part of an overall strategy to improve offshore compliance, the IRS continued to take aggressive steps to track tax evaders who hide their wealth by engaging in offshore tax evasion schemes. The IRS more than doubled its offshore presence by opening new offices in Asia and Central America, placed additional law enforcement personnel at its existing offices throughout the world, and expanded its interaction with key international organizations involved in tax and financial law compliance. All of these steps are designed to develop new leads in ongoing criminal tax and financial crime investigations.

Some notable accomplishments include:

- Expanding international presence and coordination with treaty partners and international organizations to improve offshore compliance
- Establishing a global illicit financial unit to identify and investigate large multinational tax and financial crime cases generally perpetrated by organized crime syndicates
- Identifying and examining 17,888 foreign resident tax returns with tax deficiencies totaling over $1.64 billion

The voluntary disclosure program the IRS offered in 2009, combined with powerful whistle-blower initiatives, yielded information on illegal transactions and violations of international laws and fraud by banks and professionals. In fiscal year 2010, the IRS began reviewing the information from program participants to identify financial institutions, advisors, and others who promoted or otherwise helped U.S. taxpayers hide assets and income offshore. The U.S. expanded its crackdown on offshore tax evasion beyond the largest Swiss bank to Europe's biggest lender by market share. The Justice Department is conducting criminal investigations of clients who kept accounts at overseas bank branches and failed to report them to the IRS.

The pressure on offshore financial institutions known to facilitate concealment of income by U.S. citizens resulted in:

- A large bank entering into a deferred prosecution agreement on charges of conspiring to defraud the United States. Investigations resulted in indictments or guilty pleas of clients and bankers on federal income tax related charges, including filing false income tax returns, failing to report foreign bank accounts, and concealing over millions in income subject to taxation.
- A bank in Scotland agreeing to forfeit $500 million as part of a deferred prosecution agreement. The bank violated the Bank Secrecy Act (BSA) and conspired to defraud the U.S. by altering or removing names and references from payment messages to sanctioned countries, thereby allowing these entities to move hundreds of millions of dollars through the U.S. financial system without identification.
- A Swiss corporation agreeing to forfeit $536 million to the United States. The violations relate to transactions illegally conducted on behalf of customers and other countries sanctioned in programs administered by the Department of the Treasury. The corporation deliberately removed material information from payment messages so that wire transfers would pass undetected through filters at U.S. financial institutions.

Original Issue Discount (OID) redemption is a tax scheme in which promoters convince taxpayers to file a series of false IRS forms and request fraudulent tax refunds based on fictional claims of large income tax withholding. The IRS identifies and blocks the vast majority of these refund requests, however, clients of these promoters are subject to significant tax, penalty, and interest for obtaining a fraudulent refund. In fiscal year 2010, the IRS set up a task force to investigate OID cases resulting in:

- 100 open investigations
- Decreases in frivolous returns filed from 14,290 in 2009 to 5,540 in 2010
- Decreases in frivolous refund claims from $24 trillion in 2009 to $1.2 trillion in 2010

The IRS continues to ensure large corporate taxpayers are in compliance and use strategies that are less time and resource intensive. The Compliance Assurance Process (CAP) program has been the most successful example of enhanced transparency between the IRS and large corporate taxpayers. In exchange for more openness and transparency before filing, the IRS resolves issues early and ensures filing of accurate returns. The CAP program allows taxpayers who identify their tax issues to get certainty with respect to their tax obligations at the time the return is filed, rather than waiting for the IRS to examine issues during an audit.

The CAP program benefits both the IRS and the taxpayer by fostering compliance, reducing the time it takes to process a return, and improving both customer and employee satisfaction while maintaining a high level of quality. In fiscal year 2010, participation increased to 112 corporate taxpayers, with all 102 from 2009 returning.

In fiscal year 2010, the IRS introduced a new quality examination process to replace the old joint audit planning process. The new process improves efficiency by streamlining internal administrative processes, increasing consistency, clearly defining roles and responsibilities, and providing the examination teams with more administrative flexibility. This approach ensures taxpayers are actively engaged with the audit team throughout the entire examination process.

The IRS criminal investigation program continued investigating egregious tax, money laundering, and other financial crimes that adversely affect tax administration. Improved case development and selection methods, coupled with heightened fraud awareness resulted in the successful prosecution of taxpayers involved in abusive tax schemes, high income non-filers, employment tax evasion cases, and other flagrant forms of tax evasion. Using its unique statutory jurisdiction and financial expertise, the IRS made significant contributions to important national law enforcement priorities. Performance levels for the IRS criminal investigation program remained high in fiscal year 2010, as indicated by the following:

- Completion of 4,325 criminal investigations
- A conviction rate of 90.2 percent
- A Department of Justice acceptance rate of 93.9 percent, with a U.S. Attorney acceptance rate of 91.8 percent, which compares favorably with other federal law enforcement agencies
- 2,184 convictions secured

In fiscal year 2010, the IRS continued to ensure compliance of exempt organizations and expanded its enforcement presence in the tax return preparer community.

Colleges and universities make up one of the largest non-profit segments in terms of revenue and assets. The Colleges and Universities project is part of an ongoing effort by IRS to review the largest, most complex organizations in the tax-exempt sector to identify issues that warrant additional guidance or scrutiny. In fiscal year 2010, the IRS released an interim report summarizing responses to compliance questionnaires sent to 400 public and private colleges and universities. The report discusses the respondents' organizational structures, demographics, exempt and unrelated business activities, endowments, executive compensation, and governance practices. The IRS opened examinations on several organizations that were selected based on responses to the questionnaire. These examinations focus primarily on unrelated business income and executive compensation issues.

In fiscal year 2010, the IRS launched a number of important changes to its oversight of the tax return preparer community to improve tax administration and tax compliance. These included a coordinated return preparer compliance strategy to ensure that the more than one million tax return preparers are competent, helping ensure the IRS collects the right amount of tax. Key elements of this compliance strategy include:

- Requiring registration and the assignment of preparer tax identification number (PTIN) for all paid tax return preparers
- Establishing mandatory testing and continuing education for paid tax return preparers who are not an attorney, certified public accountant, or enrolled agent
- Developing a public database so taxpayers can ensure their tax return preparer is registered with the IRS
- Making all tax return preparers subject to ethical standards of Treasury Circular 230 and subject to discipline by the IRS
- Increasing the IRS enforcement presence in the tax return preparer community

In fiscal year 2010, the IRS made a number of due diligence visits and took enforcement actions where warranted on paid tax preparers resulting in the following:

- Completed more than 5,000 field visits to tax return preparers
- Completed 265 undercover "shops," of which 62 percent resulted in preparation of fraudulent returns during the 2010 filing season

- Completed 165 Knock and Talk Visits, which identified at-risk tax return preparers during the 2010 filing season
- Achieved 91 convictions (a 100 percent conviction rate) on tax return preparer program criminal investigations
- Promoted compliance through publicity and education by participating in several outreach events for the tax return preparer program

Alcohol and Tobacco Tax and Trade Bureau

In conjunction with the increased excise tax rate, CHIPRA imposed a requirement to pay a floor stocks tax (FST) on all tobacco products held for sale as of April 1, 2009. Through on-premises visits to industry and targeted post audit verifications, TTB auditors enforced collection of the tobacco FST from the manufacturers, importers, wholesalers, and retailers who held tobacco products for sale at the time of the tax rate increase. TTB combined technology, outreach to federal and state agency stakeholders, and sophisticated targeting techniques to develop a targeted audit plan.

Using a short field examination program developed for its auditors and investigators, TTB completed more than 250 field visits to verify FST payment, which identified $10.2 million in additional tax, or an average underpayment of $40,000. FST collections to date to more than $1.3 billion. The strategic approach used to deploy limited staff resources enabled TTB to leverage its field presence to cover a wide universe of potential FST taxpayers without adversely impacting the bureau's other audit and investigation priorities. In addition to FST examinations, TTB completed 145 targeted audits to ensure overall tax compliance, resulting in the identification of $7.4 million in additional tax, penalties, and interest in fiscal year 2010.

Tax fraud in the alcohol and tobacco industries poses a high risk to federal revenue collection, as well as a lucrative funding source for criminal or terrorist organizations. Diversion includes tax evasion, theft, distribution of counterfeit products, and distribution in the United States of products marked for export or for use outside the country. The Department of the Treasury's February 2010 report to Congress on "Federal Tobacco Receipts Lost Due To Illicit Trade and Recommendations for Increased Enforcement" estimated that the federal revenue loss on cigarettes diverted from lawful commercial channels may have reached $1.5 billion in the years prior to the tax increase imposed by CHIPRA. At the new tax rate, revenue losses could exceed $3 billion. In June 2010, the TTB Administrator testified before the House Ways and Means Committee, Subcommittee on Oversight regarding the illicit tobacco trade and TTB's jurisdiction and enforcement profile.

During fiscal year 2010, TTB carried out 35 joint investigations with various federal, state, and local law enforcement agencies, resulting in the seizure of more than 3,000 cases of alcohol beverage products and nearly 100,000 cartons of cigarettes having an estimated federal and state tax liability of $30 million. TTB closed 33 investigations involving diversion of products having an estimated tax liability of more than $30.3 million. As a result of these activities, TTB assessed or collected roughly $1.9 million in taxes owed. TTB is also involved in multiple ongoing criminal investigations of illegal activity.

TTB collaborated with several federal agencies, international organizations, and other stakeholders to ensure that the revenue due on imported alcohol and tobacco products is collected. Through its partnership with U.S. Customs and Border Protection (CBP), and by using data from CBP's International Trade Data System, TTB identified 165 entities (15 percent of those who imported cigarettes or other tobacco products in fiscal year 2010) as having imported tobacco products without a federal permit. TTB notified each entity to cease their illegal operations, and all have stopped importing or obtained a permit to import tobacco products. The tax value of these imports is $500,000.

TTB participated with CBP and Immigration and Customs Enforcement on the Fraud Investigative Strike Team (FIST). The FIST initiative addresses smuggling and fraud activity along United States' borders. TTB field personnel participated in FIST operations in six U.S. cities with ports or international borders. Through these efforts, TTB identified regulated industry members for comprehensive audits and identified more than $250,000 of additional excise tax liability based on these examinations.

Business Systems Modernization

Internal Revenue Service

The IRS modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. In 2010, 50 percent (one of two) of its Business System Modernization targets were achieved. The schedule variance measure was met, but only two of the five releases met the cost variance threshold of +/- ten percent.

IRS accomplishments in fiscal year 2010 include:

- Customer Account Data Engine (CADE). CADE posted more than 41.2 million tax returns and processed more than 35.8 million refunds. For the first time, CADE posted more than seven million payments submitted with taxpayer returns and issued 8,128 Savings Bonds Refunds. In fiscal year 2010, the IRS revised its CADE strategy to implement a new taxpayer account database for the 2012 filing season. This new database will support daily processing and accelerate the refund processing time for most taxpayers. The cost of CADE Release 5.2 Milestone 4b was less than planned because legislative and filing season changes were reduced in scope and complexity.
- Modernized e-File (MeF). The IRS deployed an additional release that enabled the acceptance of individual Forms 1040 (federal and state returns), Form 4868 extensions, and 21 other supporting 1040 forms and schedules. Modernize E-File Release 6.1 Milestone 4a-5 required additional funding to support unplanned, required needs including disaster recovery activities, increased performance testing, and back-end validation and expanded functionality, including the development of a transactional national account profile. In fiscal year 2010, MeF accepted over 6.9 million returns.
- Account Management Services (AMS). AMS deployed its final release in February 2010. The cost of AMS Release 2.1 Milestone 5 deployment was less than planned due to the required realignment of AMS project funds to support R1.3 software and infrastructure design activities. Since the deployment, AMS processed more than 2.3 million accounts and distributed more than 2.2 million electronic transcript cases. The final AMS release provided users the ability to view correspondence images online and on-demand, eliminating manual processing and reducing case cycle time from days to minutes. AMS also facilitated the identification of unallowable or fraudulent claims for First-Time Home Buyer Credits claimed through amended returns.

Alcohol Tobacco Tax and Trade Bureau

TTB continued with business application development to improve internal efficiency and to reduce regulatory burden on industry members. TTB undertook a major software development effort in fiscal year 2010 that will allow industry members to electronically submit new and amended permit applications for approval. The Permits Online (PONL) project will provide a secure, web-based system to support online submission, routing, and processing of original and amended permit applications. PONL will allow TTB to screen and authorize applicants to operate alcohol and tobacco businesses under the *Federal Alcohol Administration Act* and the Internal Revenue Code. PONL will reduce costs to the industry and to TTB, help meet increasing demand for services, and improve customer satisfaction. The system will be released in early fiscal year 2011.

TTB made significant progress in its development of the Formulas Online (FONL) business application development project in fiscal year 2010. This system will allow industry members to submit beverage and nonbeverage alcohol formula forms and documentation via the web, and grants formula read access rights to Certificate of Label Approval (COLAs) Online industry users based on their permit numbers stored in Integrated Revenue Information System (IRIS), TTB's permit and tax database. This effort also enables industry members to register for both FONL and COLAs Online via the web. This online filing solution is scheduled for release in fiscal year 2011.

Protection of Sensitive Information

The IRS takes the issue of identity theft very seriously. In fiscal year 2010, to preserve and enhance public confidence, the IRS advocated the protection and proper use of identity information by:

- Placing markers on more than 284,000 taxpayer accounts to alert employees the account belongs to a substantiated identity theft victim; and
- Ensuring identity theft indicators and business rules isolate returns for additional screening to validate whether the true taxpayer filed the return. More than 82,000 returns were selected for additional screening and closed; and $245 million was protected from being refunded to perpetrators on thousands of fraudulent returns.

The IRS also protects its systems and taxpayers from evolving online threats. By identifying fraudulent sites and phishing scams, the IRS helps to reduce the number of taxpayers who fall victim to online fraud schemes. During fiscal year 2010, the IRS shut down 4,109 phishing sites (899 domestic and 3,210 international), compared to 3,444 sites in fiscal year 2009.

Conclusion

The Treasury Department, through its bureaus IRS, FMS, and TTB, was relatively successful in achieving its strategic outcome "Revenue collected when due through a fair and uniform application of the law." In fiscal year 2010, 69 percent of the targets were met or exceeded. Going forward, target setting in fiscal year 2011 for 14 of 39 metrics (36 percent) is more aggressive than in 2010.

Despite missing some key performance targets for fiscal year 2010, such as its quality metrics, IRS generally met or exceeded its performance targets. The IRS remains committed to finding ways to increase compliance and reduce the tax gap. In fiscal year 2010, the IRS developed new methodologies for estimating the corporation income tax gap; updated the estate and gift tax non-filing and underreporting tax gap estimates; and developed a new basis for estimating the individual income tax non-filer gap.

Moving Forward

In fiscal year 2011, the IRS will focus efforts on the following priorities:

- **Taxpayer Service** – Increase the telephone level of service and improve the IRS website where an increasing percentage of taxpayers find the help they need
- **Enforcement** – Expand efforts to address offshore tax evasion and expand the focus on corporate and high-wealth returns
- **Business Systems Modernization** – Complete the new taxpayer account database. Build and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity. Ensure the privacy and security of data and safety and security of employees.
- **Human Capital** – Make the IRS the best place to work in government

The IRS will continue to invest in strong compliance programs, including a robust international enforcement initiative to address offshore tax evasion. Enforcement initiatives will address underreporting of income associated with international activities and expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers and the complex business enterprises they control (including corporations, partnerships, and trusts).

In 2010, the IRS announced new recommendations to improve oversight of federal tax return preparers, including new registration, testing, and continuing education requirements. The recommendations are intended to increase taxpayer compliance and ensure uniform and high ethical standards of conduct for tax return preparers. Primary implementation of the initial changes is anticipated in fiscal year 2011.

Assisting taxpayers with their tax questions before they file prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. In fiscal year 2011, the IRS plans to increase level of service by adding resources to meet the ever increasing demand and continue to make efficiency improvements such as automated self-service applications that allow taxpayers to obtain information on less complex issues such as refund inquiries. These improvements free up staff to deal with the more complex tax law issues stemming from the passage of new legislation.

Data and technology are central to the future of tax administration. In fiscal year 2011, the IRS plans to complete the new taxpayer account database and continue investments in electronic filing systems. Completion of the core taxpayer account database is the cornerstone of IRS IT modernization that will expedite refunds to 140 million individual taxpayers. It is also a prerequisite for other major initiatives, such as expansion of online paperless services. In addition, next generation compliance systems require a relational database structure and movement away from the legacy data storage model. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until the new taxpayer account database is completed.

Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:

- Provide Treasury regulatory authority to require that information returns be filed electronically
- Require corporations and partnerships with assets of $10 million or more that are required to file Schedule M-3 to file their tax returns electronically
- Provide Treasury regulatory authority to reduce the current threshold, filing 250 or more returns during a calendar year, to require electronic filing of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations)

- Implement standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes
- Increase certainty about the rules pertaining to classification of employees as independent contractors

FMS will continue to expand the use of electronic collection mechanisms that use the most advanced and secure collection technologies that are flexible enough to accommodate the varying needs and technical sophistication of all taxpayers and FPAs.

In fiscal year 2011, TTB expects to support the Department's high priority performance goal related to voluntary tax compliance by achieving a compliance rate of 94 percent for timely filed tax payments among its largest taxpayers (those paying more than $50,000 in excise taxes annually). TTB will sustain its high compliance rate through its continued efforts to promote industry member use of the online tax return and payment filing system, Pay.gov. TTB will further enhance its tax verification program, building on the Error Tracking Database (ETD) developed in fiscal year 2010 to identify late filers, non-filers, and errant filings of operational reports. In fiscal year 2011, the ETD will be expanded to include operational reports for all TTB-regulated commodity types. TTB also intends to create a module in the ETD to address missing and late excise tax returns.

In the first full year of collections under the new tobacco tax rates imposed by CHIPRA, TTB collection efforts resulted in year-to-year revenue increase of 15 percent. Going forward, revenue collection activities will focus both on legitimate industry members and those operating outside of legal distribution chains. TTB will continue to include in its audit plan a mix of comprehensive audits, limited scope audits, and examinations in order to maximize TTB's audit resources and provide broad industry coverage. TTB also plans to address revenue risk areas in fiscal year 2011 through enhanced risk modeling and audit programs.

Timely and Accurate Payments at the Lowest Possible Cost

As the government's financial manager, FMS oversees a daily cash flow in excess of $94 billion, disbursing over $2.3 trillion in payments to more than 100 million people. These payments include income tax refunds, social security benefits, veterans' benefits and other federal payments to individuals and businesses. Based on performance results, Treasury was successful in achieving timely and accurate payments at the lowest possible cost during fiscal year 2010.

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Percentage of paper check and electronic funds transfer (EFT) payments made accurately and on-time (%)	FMS	100.0	100.0	100.0	100.0%	0.0%	Met	100.0	▶	▶
Percentage of Treasury payments and associated information made electronically (%)	FMS	81.0	81.0	82.0	101.2%	1.2%	Exceeded	83.0	▲	▲
Unit cost for federal government payments ($)	FMS	$0.37	$0.40	$0.36*	110.0%	-2.7%	Exceeded	$0.40	▶	▼

*Estimated

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

In fiscal year 2010, Treasury exceeded targets for 67 percent and met targets for 33 percent of its measures related to this outcome. FMS has consistently made 100 percent of payments accurately and on-time. The percentage of payments made electronically increased by one percentage point, and the unit cost for federal government payments was down 2.7 percent, or $0.01.

Financial Management Service

During fiscal year 2010, FMS 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. Through FMS, Treasury met or exceeded targets for 100 percent of its performance measures relative to this strategic outcome. This is in line with fiscal year 2009, when the bureau met or exceeded 100 percent of its targets.

The first of the three performance measures for this strategic outcome concern accuracy and timeliness of payments. During fiscal year 2010, 100 percent of paper check and electronic funds transfer (EFT) payments were made accurately and on time, matching the performance target and actual performance results from fiscal year 2009.

The second measure is the percentage of Treasury payments and associated information made electronically. This measure is an indication of the decrease in the number of paper checks issues, which reduces costs associated with postage, printing, and re-issuance of checks. Overall, 82 percent of Treasury payments and associated information were made electronically in fiscal year 2010 versus 81 percent in fiscal year 2009, a one percentage point increase.

FMS manages several payment systems and technologies to promote electronic payments. The Payments Application Modernization (PAM) is an effort to replace legacy applications that are used to disburse approximately one billion federal payments valued at over $2.3 trillion. PAM involves replacing over thirty applications with a single standardized application. In addition, FMS manages a Stored Value Card program that facilitates transactions by military personnel in remote and dangerous locations. Finally, the Automated Standard Application for Payments (ASAP.gov) allows grantee organizations receiving federal funds to electronically draw from accounts.

FMS's nationwide Go Direct campaign, encouraging current federal benefit check recipients to switch to direct deposit, is now in its sixth year. Go Direct recently concluded an extremely successful fifth year in which over 1.5 million conversions were attributed to the campaign. The current number of total conversions obtained since the inception of the campaign in 2005 is five million. FMS has also facilitated unbanked federal check recipients to receive electronic payments through Direct Express. More than one million people have signed up for the card since it was introduced in April 2008.

The third measure is unit cost for federal government payments. This is a measure showing the efficiency of payments. In fiscal year 2010, the unit cost was $0.36, a decrease from fiscal year 2009.

Bureau of the Public Debt

In 2010, BPD implemented an electronic payment system using Pay.gov that allows debtors to pay what they owe online. Debtors began using the system the same day it was implemented and within the first two weeks, 36 payments were received totaling over $11,400. Earlier, in 2010, BPD implemented a similar system, also using Pay.gov, which allows individuals to give gifts online to reduce the public debt.

Conclusion

During fiscal year 2010, Treasury, through FMS, successfully achieved timely and accurate payments at a unit cost of $0.36 as indicated by having met or exceeded its performance measure targets. As the acceptance of electronic payments continues to expand, increased efficiency should result in further cost reductions. FMS is working to support greater adoption of electronic payments and to renovate systems that accept electronic payments.

Moving Forward

Over the next fiscal year, FMS will continue efforts to expand electronic funds transfer, improve service to payment recipients, and decrease the average unit cost of payments. The fiscal year 2011 target for percent of electronic payments is 83 percent, an increase of two percentage points from the fiscal year 2010 target. FMS will also continue its Go Direct campaign. For fiscal year 2011, FMS plans to continue issuing 100 percent of payments accurately and on-time. The PAM will contribute to more efficient processing of payments.

Government Financing at the Lowest Possible Cost Over Time

BPD conducts the Department's debt financing operations by issuing and servicing Treasury securities. In fiscal year 2010, BPD conducted more than 290 auctions resulting in the issuance of more than $8.41 trillion in marketable Treasury bills, notes, bonds, and Treasury Inflation Protected Securities. BPD's Government Agency Investment Services (GAIS) program supports federal, state, and local government agency investments in non-marketable Treasury securities and also manages over $4 trillion in customer assets.

Based on performance results, through BPD, Treasury was generally successful in achieving or exceeding the performance measures for government financing at the lowest possible cost over time during fiscal year 2010 by meeting or exceeding 89 percent of its targets.

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Cost per debt financing operation ($)	BPD	$170,214	$193,962	$154,790*	120.2%	-9.1%	Exceeded	$201,258	▼	▼
Cost per federal funds investment transaction ($)	BPD	$41.71	$45.70	$74.05*	38.0%	77.5%	Unmet	$76.91	▼	▲
Cost per TreasuryDirect assisted transaction ($)	BPD	$8.72	$8.57	$8.17*	104.7%	-6.3%	Exceeded	$7.95	▲	▲
Cost per TreasuryDirect online transaction ($)	BPD	$5.21	$5.69	$5.60*	101.6%	7.5%	Exceeded	$5.46	▲	▲
Percent of auction results released in two minutes +/- 30 seconds (%)	BPD	100	95	100	105.3%	0.0%	Exceeded	100	▶	▲

*Estimated

Analysis of Performance Results

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

The table above is a sample of the measures associated with the achievement of the government financing outcome. BPD exceeded 56 percent of its nine performance measures associated with this outcome, met 33 percent, and failed to meet 11 percent (one measure) related to this outcome. These results are consistent with fiscal year 2009 performance when BPD met or exceeded all but one target. This year, "Cost per federal funds investment transaction" was unmet, while BPD met the target for the metric it missed last year, "Cost per TreasuryDirect online transaction."

In order to effectively finance the U.S. Government, Treasury must efficiently execute its securities auctions. By minimizing the time that bidders are exposed to the risk of adverse market movements, participants are likely to bid at rates and yields more favorable to the federal government. BPD consistently releases securities auction results within two minutes, plus or minus 30 seconds, of the auction close. BPD exceeded its target of 95 percent for the percent of auctions with results released within two minutes and achieved 100 percent.

In fiscal year 2010, the Department conducted over 290 government securities auctions, similar to the number conducted in fiscal year 2009. However, the cost per debt financing operation fell considerably from $170,214 in fiscal year 2009 to $154,790 in fiscal year 2010. Going forward, Treasury will start to measure the cost of debt financing operations using a five-year rolling average, which will smooth out the effects of spikes in the number of auctions.

In 2010, BPD made the decision to end SellDirect services effective December 17, 2010. This program allows investors who hold marketable securities in the TreasuryDirect and

Legacy Treasury Direct systems the option to sell their securities on the secondary market through the Federal Reserve Bank of Chicago. The decision was based on escalating operating costs, which would result in user fees comparable to those charged by brokers/dealers. Transaction volumes for this service are low, averaging 13,000 per year.

A key component of Treasury's Retail Securities programs is TreasuryDirect, which continues to grow in size and function. In the past year, 99,800 new customer accounts were added and TreasuryDirect reached a milestone one million accounts in August. BPD enhances the system regularly, and in 2010, the bureau added a streamlined process for reinvesting marketable securities. In addition, BPD partnered with its largest issuing agent, National Bond and Trust, to reach that agent's customer base, and 12,000 new customers enrolled in TreasuryDirect in the first half of August, up from a consistent monthly average of about 6,000 new accounts. Overall, the cost per TreasuryDirect online transaction was $5.60, meeting the target of $5.69, but an increase from the fiscal year 2009 cost of $5.21.

The GAIS program accounts for over $6 trillion in investment and borrowing activities implemented by various federal, state, and local government entities. This year BPD completed its long-term goal of consolidating the entire GAIS line of business into one information technology system. The systems reduction allows Public Debt to streamline the diversity of technology involved in supporting GAIS programs, as well as consolidate and standardize internal control processes. Fifty-five percent of GAIS customers reported overall "excellent" satisfaction with the program, a baseline for this new measure. In addition, the cost per federal funds investment transaction was $74.05, greater than the target of $45.70 due to a methodology change that better aligns costs with transactions.

Bureau of the Public Debt

In fiscal year 2010, Treasury announced an initiative to end the sale of paper savings bonds through payroll savings plans by January 2011. Throughout 2010, BPD worked with Federal Reserve Banks, agents, and employers to encourage customers to transition to TreasuryDirect. Extensive outreach efforts were employed including: direct mail, bond inserts, use of Public Debt and Federal Reserve Bank websites, on-demand webcasts and targeted print, and radio advertising.

In support of the Treasury-wide initiative to reduce paper, BPD implemented electronic issue folders for Treasury's marketable securities auctions. An auction issue folder, created each time a security was auctioned, contained up to 32 different documents related to auction processing. This initiative eliminated the retention of multiple copies of paper-based folders.

Office of Debt Management

The long-standing goal of the Treasury's Office of Debt Management (ODM) is to maintain the lowest cost of borrowing over time. This objective is achieved by being regular and predictable with Treasury debt issuance and communication to market participants while optimizing the size, mix, and calendar of debt issuance. The ability of Treasury to manage the nation's debt management is essential to maintaining the stability and integrity of the financial system. ODM pursued a number of policies to support the liquidity and functioning of the market for Treasury securities.

Treasury auctions in fiscal year 2010 have witnessed unprecedented demand. On average, nominal note and bond auctions have been oversubscribed by 1.9 times, significantly above the previous record of 1.5 times in fiscal year 2009. In this strong demand environment, Treasury extended the average maturity of the debt by 5 months, back to an historic average of 58 months. After large scale changes to the auction calendar in fiscal year 2009, this year's financing need have been reached mainly through changes to auction sizes.

Conclusion

In fiscal year 2010, Treasury met or exceeded 89 percent of the targets that were established to demonstrate the achievement of financing the government at the lowest possible cost over time. There was a nearly 9 percent year over year decrease in cost per debt financing operation associated with the increased number of auctions.

Moving Forward

BPD will move toward an all-electronic environment for retail securities. Although a date has not been established, proposed future plans include eliminating the issuance of paper over-the-counter savings bonds and decommissioning the legacy system for marketable securities. TreasuryDirect will be enhanced to streamline payroll savings purchases and make it easier for investors to purchase securities as gifts. Retail payment systems will be updated to refer payments to the TOP to offset any debts that payees owe to the federal government.

BPD is also exploring the feasibility of conducting Treasury's marketable securities auctions via remote access. Remote access will strengthen BPD's ability to continue to execute auctions in a contingency situation.

Along with the Federal Reserve Bank of Philadelphia, BPD is working to automate the regression testing of major functionality within the Treasury Automated Auction Processing System. Scheduled for completion by the end of calendar year 2010, this project will save time and improve the quality of application software releases.

The GAIS program will work to maintain a high customer satisfaction rating from customers. Additionally, system functionality and reporting will continue to be enhanced to better serve customer needs.

Treasury anticipates that ODM will continue to be challenged given continued volatility in global financial markets. ODM has been working with outside consultants to develop models to improve its forecasting ability and is currently in the process of testing those models.

Effective Cash Management

The Treasury manages the Government's central operating account and cash position to support gross annual transactions totaling $24 trillion. The Department's Office of Fiscal Projections (OFP) provides forecasts of federal receipts, outlays, and debt transactions to ensure that funds are available on a daily basis to cover federal payments. By increasing the accuracy of fiscal projections, the Department is able to minimize borrowing costs, which has direct and material impact on the government's net operating cost.

To analyze the effectiveness of the cash management techniques employed, the Department measures the variance between actual and projected receipts. This has been particularly challenging for the past few years due to the financial crisis. Treasury did not meet its aggressive goal of a five percent or lower variance in fiscal year 2010. The fiscal year 2010 result is consistent with the variance in the past four years.

Key Performance Measure Table

The following table contains the key performance measure associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Variance between estimated and actual receipts (annual forecast) (%)	DO	5.5	5	5.8	84.0%	5.5%	Unmet	5	▶	▲

Analysis of Performance Results

Given economic uncertainties and legislative changes, the forecasts for fiscal year 2010 were not as good as those for fiscal year 2009. The estimated variance for fiscal year 2010 is 5.8 percent, higher than the 5.0 percent target. Revenue has been volatile over the past few years due to the financial crisis.

Individual tax payments in April came in below forecast as liability for tax year 2009 was much lower than expected. Credits from the Recovery Act, while stimulating the economy, further reduced these taxes. Corporate profitability and thus corporate tax receipts turned around, showing strong increases in fiscal year 2010. Federal Reserve Earnings, reflecting the increase in securities held by the Federal Reserve, more than doubled from their level in fiscal year 2009.

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Conclusion

OFP continues to effectively manage the government's daily cash position and to minimize borrowing costs over time to ensure that government activities and services continue uninterrupted. Despite not meeting the targeted variance between forecast and actual budget receipts, OFP continues to update and modify existing models and monitor new initiatives as they are introduced. The actual results came in close to the target considering the volatility and extent of the current economic environment.

Moving Forward

Treasury anticipates that forecasting government receipts and outlays in fiscal year 2011 will continue to be challenging due to the difficulty in forecasting the strength of the current recovery. Volatility caused by changing economic conditions and new programs enacted by Congress will have to be accounted for in current forecasting models.

Further, Treasury is currently working to enhance its forecasting ability. OFP is in the process of developing a new system to create and manage its forecasts and expects this system to facilitate and strengthen its estimation process. The targeted variance between estimated and actual receipts will continue to be 5 percent in fiscal year 2011.

Accurate, Timely, Useful, Transparent and Accessible Financial Information

The Government-wide Accounting and Reporting Program maintains the federal government's books and accounts for its monetary assets and liabilities by operating and overseeing the government's central accounting and reporting system. Based on performance results, Treasury was successful in achieving accurate, timely, useful, transparent and accessible financial information during fiscal year 2010.

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Cost per summary debt accounting transaction ($)	BPD	$8.66	$11.81	$11.41*	103.4%	31.8%	Exceeded	$12.54	▲	▲
Release federal government-wide statements on time	DO	1	1	1*	100.0%	0.0%	Met	1	▶	▶
Percentage of government-wide accounting reports issued accurately (%)	FMS	100	100	100	100.0%	0.0%	Met	100	▶	▶
Percentage of government-wide accounting reports issued timely (%)	FMS	100	100	100	100.0%	0.0%	Met	100	▶	▶
Unit cost to manage $1 million dollars of cash flow ($)	FMS	$7.08	$11.77	$7.36	139.8%	4.0%	Exceeded	$10.15	▲	▼

*Estimated

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

FMS met or exceeded all three of its performance targets for this strategic outcome during fiscal year 2010. The unit cost to manage one million dollars of cash flow was $7.36, substantially lower than the $11.77 target but above the $7.08 level achieved in fiscal year 2009. FMS also met both its targets of 100% for accurate and timely reports on government-wide accounting.

BPD surpassed the target for its performance measure "Cost per Summary Debt Accounting Transaction." The cost was $11.41 in fiscal year 2010, below the target of $11.81. However, the cost was 32 percent above the fiscal year 2009 actual of $8.66.

Financial Management Service

The Department, through FMS' Government-wide Accounting and Reporting Program, maintains the Federal Government's books and accounts for its monetary assets and liabilities by operating and overseeing its accounting and reporting system. The Consolidated Financial Report of the United States Government (FR) provides a comprehensive view of the Federal Government's finances and is critical to a fully informed budget process. FMS met the 45-day reporting deadline for the past five years for the FR. However, in fiscal year 2009, the OMB extended the release date of the Financial Report to February 26, 2010, due to substantial reporting requirements of the Recovery Act. The Department anticipates a return to the regular release schedule for the fiscal year 2010 FR of just 75 days after the close of the fiscal year.

To complement and support the accelerated release of the FR, Treasury continues to release the *Monthly Treasury Statement* on the eighth workday of each month. This release schedule allows Treasury to provide agency financial managers complete and accurate financial data more often as a basis for preparation of their financial statements.

Office of the Fiscal Assistant Secretary (OFAS), in cooperation with OMB, and with the support of the Government Accountability Office (GAO) develops, produces, and issues *The Federal Government's Financial Health – A Citizens' Guide to the Financial Report of the U.S. Government.* This Guide provides a summary of the key data and issues addressed in the full FR in a manner that is user-friendly to the general public.

The Government-wide Accounting (GWA) Modernization Program is improving long standing federal accounting processes and provides agencies with methodologies and tools to improve the accuracy and consistency of their financial data. This multi-year effort will improve the reliability, usefulness, and timeliness of the government's financial information and provide agencies and other users with better access to that information. It will also eliminate duplicate reporting and reconciliation burdens by agencies, resulting in significant government-wide savings.

To date, the program has implemented several improvements to provide agencies more timely data and enhanced tools to reconcile their fund balances with Treasury. The Authority Transaction Module automated the processes for borrowing from Treasury, non-expenditure transfers, and appropriation warrant transactions. The Provisional Account Statement now provides GWA Reporting Organizations the capability to view their submitted transactions on a daily basis, permitting a daily reconciliation of fund balances.

Bureau of the Public Debt

Through its Summary Debt Accounting program, BPD continues to reliably account for the borrowing activity of the federal government and report timely on the resulting debt. During fiscal year 2010, 100 percent of daily financial statements were produced within three business days, and 100 percent of monthly ledgers closed within one business day. As noted in the *Schedules of Federal Debt*, these accomplishments contributed to continuous unqualified audit opinions and no material weaknesses of internal controls.

Conclusion

FMS continues to make improvements to its policies, procedures, information systems, and internal controls associated with compiling and issuing the FR. GAO closed two of 44 recommendations in the fiscal year 2009 Audit Report. FMS will continue to resolve the preparation issues that are within its realm of control. OFAS continues to oversee increased efforts to resolve the significant disclaimers that have impacted the government-wide audit for more than a decade, including the development of a General Fund reporting entity, which is intended to facilitate interagency accounting, promote centralization and efficiency, and improve data integrity.

Moving Forward

Treasury will continue to work to produce more accurate and useful financial statements and reports for the public. The Financial Information and Reporting Standardization (FIRST) initiative addresses the core of federal financial management problems, which is improving the quality of agency accounting. Once this foundation is in place, the Federal Government will be in a position to receive a clean audit opinion on the Financial Report of the U. S. Government. More importantly, FIRST will be the foundation for a central repository of accurate financial information.

Early in fiscal year 2011, the GWA Modernization Program will implement enhancements to all of its public facing components to allow agencies to enter and review the component based Treasury Account Symbol as published in the Common Government-wide Accounting Classification Code July 2007 Version 1.0 Document. Additionally, in mid fiscal year 2011, the program will implement the first Non-Treasury Disbursed Organization as a GWA Reporter. Additionally, the new Classification Transaction and Accountability Module will be deployed in 2011, facilitating the ability of agencies to more quickly transition to becoming GWA Reporters.

BPD will continue to accurately account for and report on federal debt. BPD will modernize its current summary debt accounting system and has established a goal to migrate to a shared service solution by fiscal year 2013. This approach will standardize business, system, and data elements and reduce operational risk and costs.

STRATEGIC GOAL:

U.S. AND WORLD ECONOMIES PERFORM AT FULL ECONOMIC POTENTIAL

STRATEGIC OBJECTIVE:

Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad

Economic growth stimulates economic opportunity, mobility, and security for Americans and others around the world. Promoting the development of new markets in the U.S. ensures that all Americans benefit from economic growth. The expansion of underdeveloped economies abroad opens markets, enhances regional stability, reduces the spread of disease, creates opportunities for profitable trade, and demonstrates democracy in action. Treasury promotes economic growth through direct and indirect regulation of financial markets; regulation of national banks and thrifts; implementation of policies promoting international trade, investment, and economic security; programs encouraging investment in economically distressed communities; and policy initiatives directed at expanding the capacity of financial institutions to provide affordable credit, capital, and financial services to the American people.

The bureaus and offices responsible for achievement of this objective are:

- Alcohol and Tobacco Tax and Trade Bureau (TTB)
- Community Development Financial Institutions Fund (CDFI Fund)
- The Office of the Comptroller of the Currency (OCC)
- The Office of Domestic Finance
- The Office of Economic Policy
- The Office of International Affairs
- The Office of Thrift Supervision (OTS)
- The Office of Financial Stability (OFS)

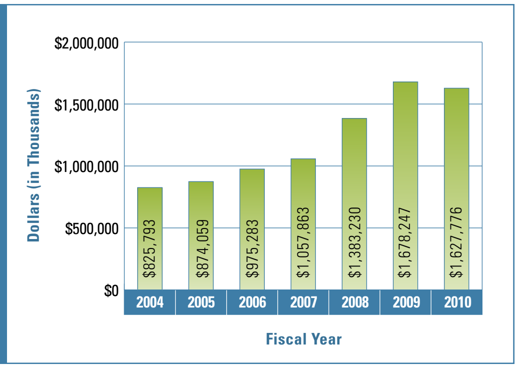
Performance measures associated with this objective had 24 percent more aggressive targets compared to 2009.

The outcomes associated with this objective are:

- Strong U.S. economic competitiveness
- Competitive capital markets
- Free trade and investment
- Prevented or mitigated financial and economic crises
- Decreased gap in global standard of living

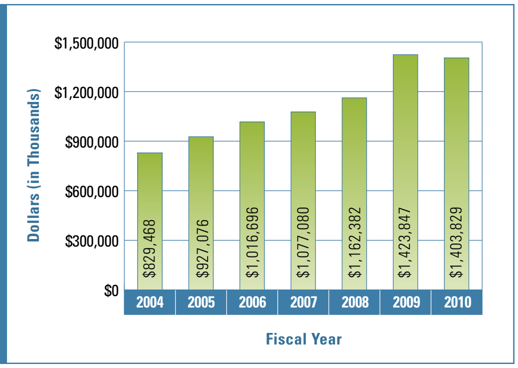
Budget Trend

Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad



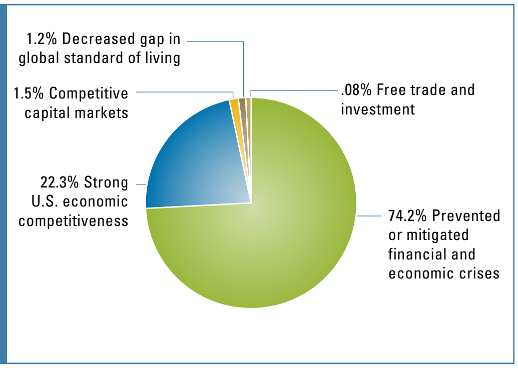
Performance Cost Trend

Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad



Performance Cost by Outcome

Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad



Assessing the Effectiveness of Economic Policy

The Department's economic policy efforts can be separated into two categories: policy initiatives and established programs. Differences between them largely correspond to timing in the policy process. Policy initiatives are efforts to influence economic growth and financial market activity through new legislative proposals or government-wide policy. The Management Discussion and Analysis in Part One covers policy initiatives. Established programs are typically already defined by law or administrative function and have specific objectives and management scope. For performance management, it is generally easier to assess the performance of established programs, given their clearer objectives and scope. Most of the Department's performance measures consequently assess established programs and not policy initiatives.

Strong U.S. Economic Competitiveness

Strong U.S. economic competitiveness is crucial for robust economic growth worldwide, continued investment in the United States, and job creation. The Treasury Department develops policies and programs intended to promote a prosperous financial infrastructure, a balanced macroeconomy, market efficiency, technological readiness, and innovation. For fiscal year 2010, Treasury generally met or exceeded its performance targets for established programs promoting U.S. economic competitiveness.

Key Performance Measure Table

The following table contains key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Annual percentage increase in the total assets of Native CDFIs (%)	CDFI	23	15	26	173.3%	13.0%	Exceeded	19	▼	▲
Commercial real-estate properties financed by BEA Program applicants that provide access to essential community products and services in underserved communities	CDFI	500	285	283	99.3%	-43.4%	Unmet	DISC	▼	▼
Community Development Entities' annual investments in low-income communities ($ billions)	CDFI	$3.60	$2.50	$3.10	124.0%	-13.9%	Exceeded	$2.50	▲	▲
Community Development Entities' cumulative investments in low-income communities ($ billions)	CDFI	$12.50	$10.00	$15.80	158.0%	26.4%	Exceeded	$10.00	▲	▲
Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance ($ millions)	CDFI	$1,298	$600	$1,989	331.5%	53.2%	Exceeded	$1080	▼	▲
Increase in community development activities over prior year for all BEA program applicants ($ millions)	CDFI	$292	$210	$290	138.1%	-0.7%	Exceeded	$210	▲	▲
Increase in the percentage of eligible areas served by a CDFI	CDFI	25.1	21	27.5	131.0%	9.6%	Exceeded	20	▲	▲
Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI program awardees	CDFI	70,260	85,000	80,796	95.1%	15.0%	Unmet	85,000	▲	▲
Number of small businesses located in underserved communities financed by BEA Program applicants	CDFI	640	252	1005	398.8%	57.0%	Exceeded	250	▼	▲
Percent of CDFIs that increased their total assets (cumulative) (%)	CDFI	88	65	84	129.2%	-4.6%	Exceeded	60	▼	▲
Percent of CDFIs that increased their total assets over the previous year (%)	CDFI	69	66	52	78.8%	-24.6%	Unmet	DISC	▼	▼
Percentage of eligible areas served by one or more CDFI (%)	CDFI	14.8	5	16.6	332.0%	12.2%	Exceeded	DISC	▲	▲
Percentage of loans and investments that went into severely distressed communities (%)	CDFI	81	66	73.4	111.2%	-9.4%	Exceeded	66	▶	▼
Average number of days to process an original permit application at the National Revenue Center (%)	TTB	64	72	65	109.7%	1.6%	Exceeded	70	▲	▲
National Revenue Center (NRC) customer satisfaction survey	TTB	89	85	89	104.7%	0.0%	Exceeded	85	▼	▼
Percent of electronically filed Certificate of Label Approval applications (%)	TTB	74	78	79	101.3%	6.8%	Exceeded	81	▲	▲
Percentage of importers identified by TTB as illegally operating without a Federal permit (%)	TTB	15	19	15	121.1%	0.0%	Exceeded	15	▼	▼

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼

Legend	Symbol
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

Performance for established programs promoting strong U.S. economic competitiveness exceeded target levels for 56 percent of measures, met targets for 32 percent of measures, and did not meet target levels for 12 percent of measures. Five performance measures were discontinued. CDFI Fund met or exceeded 18 of its 21 active performance measures, while TTB exceeded its four active performance measures. These results indicate that these programs generally succeeded in achieving their performance goals, although targets may need to be set more aggressively in some cases.

Community Development Financial Institutions Fund

The CDFI Fund promotes economic opportunity by expanding the capacity of community development financial institutions to provide capital, credit, and financial services to underserved populations and economically distressed communities in the United States. The CDFI Fund receives applications on an annual basis and awards funds through a competitive process. The Fund's fiscal year 2010 activities can be broken up into six program areas: Financial and Technical Assistance (CDFI Program), New Markets Tax Credits Program (NMTC Program), Native Initiatives, Bank Enterprise Award Program (BEA Program), Financial and Education Counseling Pilot Program (FEC Pilot Program), and the Capital Magnet Fund (CMF).

- The CDFI Program in fiscal year 2010 awarded $104.8 million in funding to 179 community development financial institutions (CDFIs) and organizations to provide loans, investments, financial services, and technical assistance to underserved populations and low-income communities. In fiscal year 2010, the CDFI Program met its administrative target for cycle time from application deadline to the date of award announcement. The CDFI Program also met its administrative target of disbursing at least 85 percent of award funds in 60 days from the date of announcement. Due to increased program funding associated with the economic downturn, CDFIs were able to attract $1,989 million in private investment, far more than the target of $600 million. CDFIs provided funds for projects that created or maintained 80,796 jobs, which in the aftermath of the recession is lower than the target of 85,000 jobs. Since its inception in 1994, the CDFI Fund has awarded over $932 million through the CDFI Program.
- The NMTC Program, which provides tax credit allocation authority to CDEs for targeted investments in low-income communities, awarded $5 billion in tax allocation authority, including both the Recovery Act and regular tax credit authority. Cumulative investments in low-income communities rose to $15.8 billion, exceeding the performance target, an increase of $3.1 billion over the prior year. Allocatees projected 77,000 jobs will be created which would exceed the target of 60,000 jobs.
- NACA provides financial assistance, technical assistance, and training to Native American CDFIs and other Native entities seeking to become or create Native American CDFIs. NACA awarded $10.3 million in financial and technical assistance to 45 organizations. The NACA program disbursed 85 percent of both award fund rounds (Recovery Act and regular appropriations) 60 days from announcement. The NACA program registered a 26 percent increase in the total assets of NACA awardees, thereby exceeding its target.
- The BEA Program, which provides cash awards to banks for increasing their investment in low-income communities and CDFIs, registered an increase in community development activities. Fiscal year 2010 BEA Program awardees increased their qualified community development activities by $343.4 million over the prior fiscal year. This included a $276.2 million increase in loans and investments in distressed communities, a $53.4 million increase in loans, deposits, and technical assistance to CDFIs, and a $13.8 million increase in the provision of financial services in distressed communities. In fiscal year 2010, the BEA Program met its administrative cycle time target for processing applications to the date of award announcement in 21 weeks (which was less than the six month target). The BEA Program met its administrative cycle time target for disbursing at least 85 percent of the award funds within 60 from the date of award announcement.
- The FEC Pilot Program provides grants to organizations to establish and expand financial education and counseling services for prospective homebuyers. A total of $2 million was awarded equally to five organizations.
- The CMF will provide $80 million in grants to CDFIs and qualified nonprofit housing organizations in fiscal year 2011 following an application cycle which began in fiscal year 2010. CMF awards can be used to finance affordable housing activities, related economic development activities,

and community service facilities. Applications identified proposed housing projects in 49 states, the District of Columbia, and Puerto Rico and requested more than $1 billion in grants that would leverage an estimated $23.38 billion in total investments. The CDFI Fund met the application-award cycle time of 6 months with an application deadline of April 15 and an award announcement date of October 14, 2010.

Protecting the Public through Alcohol and Tobacco Regulation

TTB uses its label approval, formula approval, and product integrity enforcement functions to protect alcohol consumers from fraud and deception. TTB received and processed about 6,700 domestic and imported alcohol beverage formulas and laboratory analyses to ensure that all ingredients met the Food and Drug Administration (FDA) food safety standards and were properly classified for tax and labeling purposes. Before alcohol beverages can be introduced into interstate commerce, a Certificate of Label Approval (COLA) or an exemption must be obtained from TTB by the importer or bottler. TTB seeks to protect consumers through its permitting process, ensuring that operators in the alcohol and tobacco industries are qualified. In fiscal year 2010, TTB issued 5,770 original and 18,200 amended permits; the total number of regulated industry members is now well over 52,000. TTB averaged 65 days to process original permit applications. Expeditiously processing permit applications allows qualified persons to commence operations sooner, and contributes to the overall growth and health of the U.S. and global economy. Additionally, through its screening process, TTB works to prevent illegal operations in the alcohol and tobacco industries. Because alcohol and tobacco trade is a lawful trade, and subject to substantial tax, it provides a compelling venue for organized crime and terrorist organizations to use the commodities for unlawful profits.

In fiscal year 2010, TTB approved 102,500 (78 percent) of the 132,600 COLA applications received; the remaining 30,100 applications were either rejected, returned for correction, withdrawn, expired, or surrendered. Applications received increased by more than six percent over fiscal year 2009, bringing total applications back to levels seen in 2008. As of August 23, 2010, 79 percent of the applications received were filed electronically through TTB's electronic label application system, COLAs Online, an increase of 5 percent over the prior year. Usage rates for the COLAs Online have increased more than 75 percent since the end of fiscal year 2003 when the system was introduced. Ongoing system enhancements and outreach efforts have contributed to high adoption rates.

In fiscal year 2010, TTB investigators closed more than 560 field investigations into permit applications, product integrity, and consumer complaints, and continued work on 280 in-progress investigations. To increase program effectiveness TTB revised its operating plan, directing resources to more complex and long-term investigations. Under the plan, TTB reduced its caseload to enable more in depth reviews of civil violations to determine if criminal conduct was involved. The flexibility built in to the new operating plan allowed TTB to redirect resources to address a scandal involving the fraudulent labeling of wine imported as Pinot Noir from France. TTB's work prevented approximately 1.9 million bottles of mislabeled Pinot Noir wine from reaching U.S. consumers in the marketplace.

TTB's International Trade program helps keep the U.S. economy strong by facilitating import and export trade in alcohol and tobacco products, while administering the consumer protection standards provided under its jurisdiction. By maintaining and enhancing collaboration with its counterpart regulators in foreign countries, TTB ensures that products entering the U.S. market are safe and compliant. TTB made significant progress in working with foreign counterparts and negotiating international agreements. Memoranda of Understanding (MOUs) in progress will facilitate trade by increasing mutual understanding of each country's alcohol and tobacco production requirements, labeling and licensing standards, and revenue protection measures. These agreements also provide a formal process whereby each party can exchange information that has the potential to impact trade, regulatory compliance, and product safety.

Improving Access to Financial Services and Promoting Financial Capability

The Office of Financial Education promotes policies and programs that help empower Americans with the knowledge and skills they need to make wise financial choices. The Office also works to expand access to financial services for those outside the financial mainstream, such as Americans without bank accounts. Individuals and families with strong financial capabilities and access to financial services are more likely to be financially stable and invest for future goals such as homeownership, education, and retirement. The Office launched a pilot to help use tax refund season as an opportunity to provide unbanked and underbanked Americans with access to safe, low-cost financial accounts.

Recent financial education efforts include launching an enhanced nationwide "Financial Capability Challenge" with the Department of Education to improve high school students' financial capabilities; providing leadership and support to the multi-agency Financial Literacy and Education Commission, which promotes federal interagency collaboration on financial education; overhauling the Financial Literacy and Education Commission's financial education website, *www.MyMoney.gov*, to make it a more powerful tool for consumers; and developing a national strategic plan to promote financial literacy.

Conclusion

The CDFI Fund increased essential financial support to institutions serving low-income communities and underserved populations in the U.S. Through its programs and initiatives, the CDFI Fund enabled locally-based organizations to further economic development related to affordable housing, small businesses, community facilities, and community development financial services. To improve program management, the CDFI fund has initiated development of new performance measures.

TTB's Protect the Public program exceeded all of its performance targets in fiscal year 2010. TTB's efforts to boost electronic filing of alcohol beverage label applications resulted in performance results that exceeded the fiscal year target and improved upon 2009 performance results by seven percent. The bureau's rate of customer satisfaction with the permit and claims processing services at the NRC did not change from the prior year but efforts to improve turnaround times still helped TTB achieve a level of customer satisfaction five percent greater than its target. TTB's push for processing efficiency resulted in an average cycle time of 65 days to process an original permit application, better than its target of 72 days. However, this is one day longer than the 2009 average cycle time. TTB's ongoing mission to protect the public through improved enforcement is further evidenced by TTB's identification of only 15 percent of importers operating without a permit, unchanged from 2009. This measure gauges the threat to consumers and federal revenue collection by illicit import activity. TTB is reviewing alternative methods to assess importer compliance.

Moving Forward

Economic recovery in low-income communities has historically lagged recovery elsewhere in the country. Like the communities they serve, CDFIs were hit especially hard by the economic downturn, and have found it more challenging to obtain sources of capital. In response, the CDFI Fund has been asked to implement several new programs and expand existing core programs. These initiatives will enable the CDFI Fund to expand assistance to underserved communities in new and highly focused ways.

In order to keep pace with this growth, the CDFI Fund has several priority projects planned for fiscal year 2011. The CDFI Fund is streamlining and enhancing its IT systems and data management processes to ensure there is sufficient capability to handle increased application workloads and the implementation of new programs. The CDFI Fund will continue to evaluate the high demand and impact of its programs and devise additional strategies to help meet those demands. The CDFI Fund will also evaluate innovative financial tools to promote access to capital and stimulate local economic growth. Finally, the launch of an enhanced compliance, monitoring, and certification effort is underway to ensure that CDFIs are satisfying all requirements.

In fiscal year 2011, TTB will continue to inform industry members of the benefits of E-filing and will continue to provide system demonstrations and publish online guidance to the user community. The introduction of Formulas Online (FONL), the new E-filing system that enables the online submission of alcohol beverage formulas, will also support increased user rates for COLAs Online. The integration of FONL with the existing COLAs Online system will streamline the process of obtaining both formula and label approval for those in the alcohol beverage trade. TTB adjusted its targets for fiscal year 2011 in response to the noncompliance rates reported in the last two years.

Even during the economic contraction, applications to open new businesses in the alcohol and tobacco industries continued to rise. Original permit applications have grown 19 percent over the last five years, and four percent in the last fiscal year. To address growing workloads, TTB purchased a commercial product to enable the electronic submission and processing of original and amended permit applications. In fiscal year 2011, TTB will begin its phased release of the new Permits Online (PONL) system. The first phase will enable electronic filing for the three highest volume permit areas. TTB anticipates increased customer satisfaction as applicants experience faster response times and the ease of using the electronic filing system. Additionally, to streamline the permit application process, TTB created a task force to analyze and improve TTB bond forms, instructions, and internal business processes to improve service to industry.

TTB will continue to monitor imports of tobacco products by non-permitted entities, placing special emphasis on enforcing the *Prevent All Cigarette Trafficking Act* (PACT), legislation enacted in April 2010 to prevent tobacco smuggling and ensure the proper payment of all tobacco taxes. The methods most commonly used to import tobacco products without a permit and without payment of the appropriate taxes are internet and mail-order purchases. The PACT Act prohibits shipments of tobacco products via the U.S. Postal Service (USPS). In fiscal year 2011, TTB will coordinate with the USPS and other common carriers to provide enforcement assistance. Furthermore, under CHIPRA, all importers of processed tobacco are required to obtain an importers permit from TTB. In the year ahead, TTB will assess the number of legitimate importers of processed tobacco and ensure they apply for and obtain a permit or cease importations.

Competitive Capital Markets

Prosperous capital markets play an important role in facilitating economic growth by inspiring investor confidence and ensuring fair asset pricing. Treasury strives to preserve the integrity of the U.S. market, which is essential to maintaining effectiveness.

Robust supervision and regulation of financial firms, more comprehensive supervision of financial markets, provisions to protect consumers and investors from financial abuse, and establishment of viable government tools to manage financial crises are fundamental to a thriving and competitive financial system.

For a description of Treasury's initiatives associated with the maintenance of capital market stability, please refer to Management's Discussion and Analysis and the "Prevented and Mitigated Financial and Economic Crises" section.

Free Trade and Investment

Open foreign and domestic markets for goods and services are vital for a robust, growing, and sustainable U.S. economy. Treasury continues to work with other agencies to fight protectionism and maintain open markets for American products and services. For fiscal year 2010, Treasury exceeded its performance targets for programs seeking to promote free trade and investment.

Key Performance Measure Table

The following table contains key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Number of New Trade and Investment Negotiations Underway or Completed	DO	15	6	13	216.7%	-13.3%	Exceeded	6	▼	▼
Number of specific new trade actions involving Treasury interagency participation in order to enact, implement and enforce U.S. trade law and international agreements	DO	98	40	83	207.5%	-15.3%	Exceeded	50	▼	▲

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

Performance for programs aimed at promoting free trade and investment greatly exceeded target levels for both measures. While actual results decreased from their 2009 levels, performance stayed well above operational targets for the year. This performance reflects the aggressive role Treasury is taking to strengthen international trade partnerships.

Maintaining Attractiveness of Investment and Trade Environment

Maintaining the attractiveness of Investment and Trade environment in a global economy requires coordination with and the cooperation of international partners. In this area, Treasury worked with partners to improve joint stewardship of the global economy and has continued to play a leading role in advocating for a stronger and safer global financial system while fighting against protectionism.

- Treasury helped advance Strategic & Economic Dialogue (S&ED) trade issues with China, in particular indigenous innovation, government procurement, and investment liberalization, to ensure that U.S. invested companies and exports are treated fairly.
- Treasury supports trade liberalization and budget discipline through its role in negotiating, implementing, and policing international agreements to reduce official export subsidies. Treasury drastically reduced the number of subsidies that Organization for Economic Co-operation and Development (OECD) member governments can provide when financing national exports. The OECD agreements open markets and level the playing field for U.S. exporters and save U.S. taxpayers about $800 million annually.
- Treasury has actively engaged in interagency deliberations and decisions impacting more than 80 specific trade actions, including trade legislation (Generalized System of Preferences and Andean Trade Preferences Act extensions and enactment of the Haiti Economic Lift Program Act), trade disputes, review of country eligibility for preference programs, and review of specific trade petitions and recommendations.
- U.S initiatives to negotiate trade and investment agreements, particularly with regard to financial services and

financial transfers, were advanced by Treasury. Treasury participated in the launching, negotiation and, implementation of 13 trade and investment agreements. The centerpiece of the fiscal year 2010 trade agenda was the commencement of negotiations of the Trans-Pacific Partnership (TPP) Agreement, which includes Australia, New Zealand, Singapore, Chile, Peru, Brunei, Malaysia, and possibly Vietnam. Successful conclusion of the TPP Agreement, which could serve as a platform for economic integration across the Asia-Pacific region, can help America ensure its share of the job-creating economic opportunities this region has to offer.

- Efforts were made to further advance an ambitious and balanced Doha Round that would provide substantial new market access, and to address outstanding concerns with pending free trade agreements with Korea, Colombia, and Panama. Intensified engagement is expected to continue during the next fiscal year. In addition, several negotiations of Bilateral Investment Treaties are expected to continue.

Conclusion

Improving trade and investment linkages with international partners is essential to sustaining the U.S. economy in a global market. To that end, Treasury exceeded its targets with regard to trade and investment negotiations, as well as trade actions. However, measures should be reassessed since results are heavily dependent on actions not necessarily within Treasury's control.

Moving Forward

The Department will continue to play a critical role in advocating for free trade and preventing the effects of the global recession from leading to increased protectionism. In fiscal year 2011, Treasury is committed to moving forward with the pending free trade agreements with Korea, Columbia, and Panama as soon as possible. However, progress towards the Department's goals could be slowed if weaker economic conditions persist.

Prevented or Mitigated Financial and Economic Crises

Treasury has been at the forefront of the U.S. Government's response to the financial crisis and economic recession. Through implementation of the *Dodd–Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank Act), *Housing and Economic Recovery Act of 2008* (HERA), *Emergency Economic Stabilization Act of 2008* (EESA), *American Recovery and Reinvestment Act of 2009* (Recovery Act), coordination with federal, state and international partners, Treasury's Housing Programs, regulation of national banks and thrifts, and various other initiatives, Treasury made concerted efforts in fiscal year 2010 to restore economic growth and create jobs. A description of some of these initiatives can be found in the Management Discussion and Analysis in Part I. Summary descriptions of these programs and their performance follows.

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Average days to close a FOIA case	DO	67	64	95	51.6%	41.8%	Unmet	80	▼	▲
Changes that result from project engagement (Impact)	DO	3.1	3.1	3	96.8%	-3.2%	Unmet	3.1	▶	▼
Clean audit opinion on TARP financial statements	DO	1	1	1	100.0%	0.0%	Met	1	▶	▶
Percentage of Congressional correspondence responses drafted within 48 hours (%)	DO	87	90	97	107.8%	11.5%	Exceeded	93	▲	▲
Percentage of Customers Satisfied with FinancialStability.gov (%)	DO	65	70	63	90.0%	-3.1%	Unmet	65	▲	▼
Percentage of SIGTARP and GAO oversight recommendations responded to on time	DO	100	100	93	93.0%	-7.0%	Unmet	100	▶	▼
Scope and intensity of engagement (Traction)	DO	3.7	3.6	3.5	97.2%	-5.4%	Unmet	3.6	▶	▼
Percent of national banks with composite CAMELS rating of 1 or 2 (%)	OCC	82	90	70	77.8%	-14.6%	Unmet	90	▶	▼
Percentage of national banks that are categorized as well capitalized (%)	OCC	86	95	90	94.7%	4.7%	Unmet	95	▶	▼
Rehabilitated national banks as a percentage of problem national banks one year ago (CAMELS 3, 4 or 5) (%)	OCC	29	40	23	57.5%	-20.7%	Unmet	40	▶	▼
Total OCC costs relative to every $100,000 in bank assets regulated ($)	OCC	$8.81	$9.22	$9.28*	99.4%	5.3%	Unmet	$9.22	▼	▲
Percent of safety and soundness exams started as scheduled (%)	OTS	94	90	97	107.8%	3.2%	Exceeded	90	▶	▲
Percent of thrifts that are well capitalized (%)	OTS	97	95	95	100.0%	-2.1%	Met	95	▶	▼
Percent of thrifts with composite CAMELS ratings of 1 or 2 (%)	OTS	84	80	77	96.3%	-8.3%	Unmet	80	▼	▼
Total OTS costs relative to every $100,000 in savings association assets regulated ($)	OTS	$19.88	$22.00	$24.01	90.9%	20.8%	Unmet	$24.00	▲	▲

*Estimated

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼

Legend	Symbol
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

Performance results for this outcome generally reflect the challenges associated with the slow economic recovery and still-weakened financial system. The performance measures for these programs are to a significant degree outcome-oriented, and their results will improve as the economy grows and the impact of the Department's programs mature. Target trends were generally level with 2009 results. Of the 11 measures that did not meet their targets, eight measures achieved 90 percent or higher of the target level.

Six new measures were baselined in fiscal year 2009 for OFS. The measures assess management of program operations and are intended to complement performance indicators used by the Department to track financial market conditions. In fiscal year 2010, OFS exceeded targets for 17 percent of these measures, met targets for 50 percent, and did not meet targets for 33 percent of measures. The widest gap between target and actual was for average days to process a FOIA request, which was 95 days rather than the target of 64. The result is associated with managing the most difficult legacy FOIA requests as the majority of FOIA cases on backlog were completed during the fiscal year.

OCC exceeded targets for 33 percent of its six measures and did not meet targets for 66 percent. OTS exceeded targets for 40 percent of its five measures, met targets for 20 percent, and did not meet targets for 40 percent.

OFS Strategic and Operational Goals

The purpose of EESA was to provide the Secretary of the Treasury with the authorities and facilities necessary to restore liquidity and stability to the U.S. financial system. In addition, the Secretary was directed to ensure that such authorities were used in a manner that protects home values, college funds, retirement accounts, and life savings; preserves homeownership; promotes jobs and economic growth; maximizes overall returns to taxpayers; and provides public accountability. EESA also provided specific authority to take certain actions to prevent avoidable foreclosures.

In light of this statutory direction, Treasury established the following as its operational goals:

1. Ensure the overall stability and liquidity of the financial system
    a. Make capital available to viable institutions
    b. Provide targeted assistance as needed
    c. Increase liquidity and volume in securitization markets
2. Prevent avoidable foreclosures and help preserve homeownership
3. Protect taxpayer interests
4. Promote transparency

1. Ensure the Overall Stability and Liquidity of the Financial System

To ensure the overall stability and liquidity of the financial system, Treasury developed several programs under TARP that were broadly available to financial institutions. Under the Capital Purchase Program (CPP), Treasury provided capital infusions directly to banks and insurance companies deemed viable by their regulators but in need of a stronger asset base to weather the crisis. The Capital Assistance Program (CAP) was developed to supplement the Supervisory Capital Assessment Program (SCAP), or "stress test" of the largest U.S. financial institutions. If these institutions were unable to raise adequate private funds to meet the SCAP requirements, Treasury stood ready to provide additional capital.

In addition, Treasury provided direct aid to certain financial industry participants through the Targeted Investment Program (TIP), the Asset Guarantee Program (AGP), and the AIG Investment Program. These programs were designed to mitigate the potential risks to the system as a whole from the difficulties facing these firms.

Similarly, the Automotive Industry Financing Program (AIFP) provided funding for General Motors Corporation (GM) and Chrysler LLC (Chrysler), as well as their financing affiliates, in order to prevent a significant disruption of the automotive industry that would have posed a systemic risk to financial markets and negatively affected economic growth and employment. Treasury's actions helped GM and Chrysler undertake massive and orderly restructurings through the bankruptcy courts that have resulted in leaner and stronger companies.

The Public-Private Investment Program (PPIP) was established to facilitate price discovery and liquidity in the markets for troubled real estate-related assets as well as the removal of such assets from the balance sheets of financial institutions. In addition to these initiatives, Treasury implemented the Consumer and Business Lending Initiative (CBLI) to enhance liquidity and restore the flow of credit to consumers and small businesses.

Treasury developed programs to revitalize asset-backed securities markets critical to restoring the flow of credit to consumers and small businesses. CBLI is composed of the Term Asset-Backed Securities Loan Facility, the SBA 7a Securities Purchase Program, and the Community Development Capital Initiative.

2. *Prevent Avoidable Foreclosures and Help Preserve Homeownership*

To prevent avoidable foreclosures and preserve homeownership, Treasury launched the Making Home Affordable Program (MHA), which includes the Home Affordable Modification Program (HAMP). After 18 months, more than 1.3 million homeowners participating in HAMP have entered into trial modifications that reduced their mortgage payments to more affordable levels. This includes 619,000 homeowners with non-GSE loans. Nearly 500,000 homeowners participating in the HAMP Program have had their mortgage terms modified permanently, with over 220,000 of those participants in non-GSE loans that would be funded by the Department. HAMP participants (both GSE and non-GSE loans) collectively have experienced a 36 percent median reduction in their mortgage payments—more than $500 per month—amounting to a total, program-wide anticipated savings for homeowners of more than $3.2 billion. MHA has also spurred the mortgage industry to adopt similar programs that have helped millions more at no cost to the taxpayer.

In addition, Treasury launched the Housing Finance Agency (HFA) Innovation Fund for the Hardest Hit Housing Markets (HFA Hardest Hit Fund, or HHF) to help state housing finance agencies provide additional relief to homeowners in the states hit hardest by unemployment and house price declines, and Treasury and the Department of Housing and Urban Development (HUD) enhanced the FHA Refinance Program by creating the FHA Short Refinance option to enable more homeowners whose mortgages exceed the value of their homes to refinance into more affordable mortgages if their lenders agree to reduce principal by at least ten percent.

3. *Protect Taxpayer Interests*

Federal government financial programs, including TARP, helped prevent the U.S. financial system from collapse, which could have resulted in a much more severe contraction in employment and production. The manner in which TARP was implemented is also designed to protect taxpayers and to compensate them for risk. For example, in exchange for capital injections, recipients of TARP funds have to adhere to corporate governance standards, limit executive pay, and provide additional reporting on lending activity. In addition, Treasury generally received preferred equity, which provides dividends. The dividend rates increase over time to encourage repayment.

Further, EESA stipulated that the taxpayer benefit as the institutions which received TARP funds recovered. In connection with most investments, Treasury also receives warrants for additional securities in the institutions. Under the broad programs described above, the Treasury has priority over existing shareholders of TARP recipients for which TARP holds equity investments. This gives taxpayers the ability to share in the potential upside along with existing shareholders.

Finally, Treasury seeks to achieve the goal of protecting the taxpayer through the effective management and disposition of all TARP investments.

4. *Promote Transparency*

EESA requires transparency and accountability. Specifically, EESA requires Treasury to provide Congress with a variety of reports. These include a monthly report to Congress on TARP activity, and transaction reports posted within two days detailing every TARP transaction. In carrying out its operations, Treasury has sought to not only meet the statutory requirements but also to be creative and flexible with respect to additional transparency initiatives. Treasury proactively provides to the public monthly "Dividends and Interest Reports" reflecting dividends and interest paid to Treasury from TARP investments, loans, and asset guarantees, as well as monthly reports detailing the lending activity of participants in the CPP.

EESA also provided for extensive oversight of the TARP, including by the Congressional Oversight Panel, the Special Inspector General for the TARP, the Financial Stability Oversight Board (FSOB), and the GAO. In addition, Treasury officials frequently testify before Congress on the progress of TARP programs, and Treasury staff provide briefings to Congressional staff on programmatic developments.

Troubled Asset Relief Program and the Office of Financial Stability

Table 1: TARP Summary[1]
From TARP Inception through September 30, 2010
Dollars in billions

	Purchase Price or Guarantee Amounts	Total $ Disbursed	Investment Repayments	Outstanding Balance[2]	Received from Investments
Capital Purchase Program[3]	204.9	204.9	152.5[4]	49.8	19.8
Targeted Investment Program	40.0	40.0	40.0	0.0	4.2
Asset Guarantee Program	5.0	0.0	0.0	0.0	0.7
American International Group Investment Program[5]	69.8	47.6	0.0	47.6	0.0
Consumer and Business Lending Initiative	5.3	0.9[4]	—	0.9	—
Public Private Investment Program	22.4	14.1	0.4	13.7	0.2
Automotive Industry Financing Program	81.8	79.7	11.2	67.2	2.9
Treasury Housing Programs Under TARP	45.6	0.5	N/A	N/A	N/A
Totals	474.8	387.7	204.1	179.2	27.8

1 / This table shows the TARP activity for the period from inception through September 30, 2010, on a cash basis. Received from investments includes dividends and interest income reported in the Statement of Net Cost, and Proceeds from sale and repurchases of assets in excess of costs.

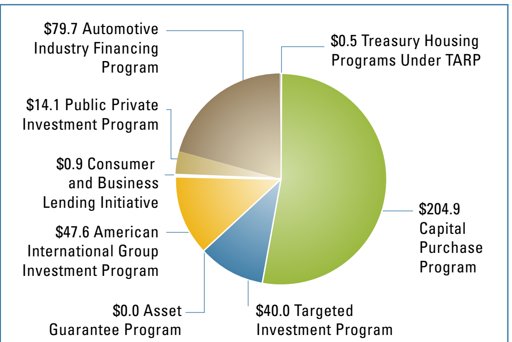
2 / Total disbursements less repayments do not equal the outstanding balance. Other transactions affecting the outstanding balance include Treasury housing program funding of $0.5 billion as repayments are not required (or expected). Also, the outstanding balance is affected by certain non-cash items including capitalized interest of $0.3 billion, write-offs totaling $3.9 billion, and losses on two preferred stock transactions of $0.2 billion.

3 / Treasury received $16.1 billion in proceeds from sales of Citigroup common stock, of which $13.1 billion is included at cost in investment repayments, and $3.0 billion of net proceeds in excess of cost is included in Received from Investments.

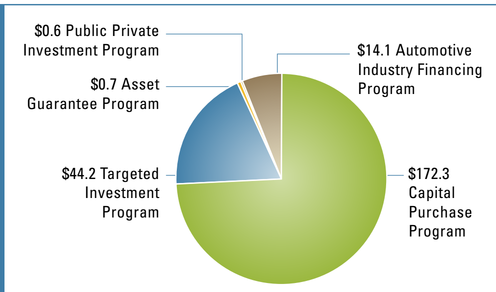
4 / Includes Community Development Capital Initiative exchange from CPP of $363 million.

5 / The disbursed amount is lower than purchase price because of the $29.8 billion facility available to AIG. During the periods ended September 30, 2010 and September 30, 2009, AIG drew $4.3 billion and $3.2 billion respectively from the facility, leaving an undrawn amount of $22.3 billion under this facility.

Total Dollars Disbursed by TARP
(in Billions)



TARP Investment Repayments and Other Amounts Received from Investments
(in Billions)



Additional information on the TARP program is available in the *Two-Year Retrospective Report on the Troubled Asset Relief Program* and OFS *Fiscal Year 2010 Agency Financial Report*, which can be found at *www.FinancialStability.gov*.

Regulation of Banks and Thrifts

OCC and OTS are the primary regulators of national banks and thrifts, respectively. OCC and OTS work to streamline their licensing and supervisory procedures and to keep regulations current, clearly written, and supportive of an effective process that promotes competitive financial services, consistent with safety and soundness. Fiscal year 2010 activity focused on monitoring and responding to adverse conditions in the credit and financial markets, credit risk management, and national banks' and thrifts' loan portfolios. The Dodd-Frank Act calls for many of the duties of OTS to be transferred to OCC in July 2011, and for OTS to be abolished.

As the regulator of national banks, the OCC has established four strategic goals that help support a strong economy for the American public: 1) a safe and sound national banking system; 2) fair access to financial services and fair treatment of bank customers; 3) a flexible legal and regulatory framework that enables the national banking system to provide a full competitive array of financial services; and 4) an expert, highly motivated, and diverse workforce that makes effective use of OCC resources. To achieve the goals and objectives outlined in its strategic plan, the OCC organizes its activities under three programs: Supervise, Regulate, and Charter.

As the supervisor of national banks, the OCC has various ways to influence the national banking system: policy guidance and regulations that set forth standards for sound banking practices; on-site examinations and ongoing off-site monitoring that enable OCC to assess compliance with those standards and to identify emerging risks or trends; and a variety of supervisory and enforcement tools—ranging from matters requiring boards' and managements' attention to informal and formal enforcement actions—that are used to obtain corrective action to remedy weaknesses, deficiencies, or violations.

As of June 30, 2010, OCC supervised 1,497 institutions with national bank charters and 51 federal branches, with assets totaling approximately $8.5 trillion. Ninety-one percent of national banks were classified as well capitalized. OTS supervised 753 private sector thrifts with assets of $931.2 billion. In addition, OTS supervised 441 holding company enterprises with approximately $4.1 trillion in U.S. domiciled consolidated assets. These enterprises owned 402 thrifts with total assets of $714 billion, or 77 percent of total thrift industry assets. A majority of thrifts, 95 percent, were classified as well-capitalized.

OCC's supervision ensures that the national banking system operates in a safe and sound manner while complying with consumer protection laws and regulations. As of September 30, 2010, 70 percent of national banks earned composite ratings of either 1 or 2 under the standard method of evaluating a bank's operations, to include Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk (CAMELS). The OCC's early identification and intervention with problem banks can lead to successful remediation of these banks.

The measure "Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated" gauges the efficiency of OCC operations in meeting the supervisory demands of a growing, more complex national banking system. The measure supports the OCC's strategic goal of efficient use of agency resources. OCC's fiscal year 2010 cost relative to every $100,000 regulated was $9.28, while the target was $9.22. In fiscal year 2010, the OCC conducted a survey of national banks to assess the effectiveness of its supervisory policies. Over 75 percent of those who responded reported receiving the right amount of information for all subject areas. Bankers were also generally pleased with the overall quality of bulletins and handbooks.

OTS gauges efficiency through the measures "Percent of safety and soundness exams started as scheduled" and "Total OTS costs relative to every $100,000 in savings association assets regulated." In fiscal year 2010, targeted costs for regulating $100,000 in assets were $22.00, while actual costs were higher at $24.01. These costs are 21 percent higher than fiscal year 2009, largely due to the failure or merger of a number of larger thrifts. Ninety-seven percent of safety and soundness exams were started as scheduled in fiscal year 2010. This is an improvement over 94 percent in 2009 and surpasses the target of 90 percent.

Promoting Credit Availability to Creditworthy Borrowers

Throughout the economic turmoil, the OCC has encouraged national banks to work constructively with borrowers who may be facing financial difficulty and to extend credit in a responsible and prudent manner. Ensuring that credit is extended in a responsible manner is especially important to the restoration of a healthy financial sector and strong economy.

- *Small Business Lending:* To help promote increased small business lending, the OCC and other federal banking agencies partnered with the Small Business Administration (SBA) and held seminars for bankers on small business lending issues and the SBA's loan programs. In February 2010, the OCC and other banking agencies issued an interagency statement on meeting the credit needs of creditworthy small business borrowers. The statement reiterates the agencies' policy that financial institutions that engage in prudent small business lending after performing a comprehensive review of a borrower's financial condition will not be subject to criticism for loans made on that basis.

  To improve the agencies' ability to monitor the credit available to households and businesses, the OCC and other federal banking agencies made several changes to the information that banks and thrifts must report in their Consolidated Reports of Condition and Income (Call Reports) and Thrift Financial Reports (TFR). Effective with their March 2010 filings, institutions have begun reporting small business loan data on a quarterly rather than annual basis. Institutions with $300 million or more in total assets or unused credit card commitments will also provide separately the amount of unused credit card lines for consumers and for other credit card borrowers. Additional breakdowns of other unused loan commitments will also be gathered.

This information will allow the agencies to better monitor credit flows throughout a business cycle.

- Residential Mortgage Modifications and Commercial Real Estate (CRE) Loan Work-outs: The OCC has also worked closely with Treasury on its various mortgage modification programs and efforts to help homeowners facing financial difficulty. The OCC has provided technical assistance on program design and implementation and has encouraged national banks to participate in those programs. In early 2009, Congress adopted the *Helping Families Save Their Homes Act of 2009*. Section 104 of this Act requires the OCC and OTS to submit the Mortgage Metrics Report to Congress on a quarterly basis and specifically requires the number of mortgage modifications made that resulted in lower payments and the number of modified mortgage that re-defaulted.

  In response to the growing number of residential mortgage modifications and CRE work-outs, in fiscal year 2010 the OCC provided additional supervisory guidance on accounting and classification issues associated with such activities. The OCC supervisory guidance to examiners on residential mortgage modifications stressed that the OCC expects mortgage modifications to be undertaken in a manner that improves the likelihood that borrowers can repay the restructured credit under modified terms and in accordance with a reasonable repayment schedule. In October 2009, the OCC and other banking agencies issued a joint policy statement on prudent CRE workout programs. The statement is intended to promote supervisory consistency, enhance the transparency of CRE workout transactions, and ensure that supervisory policies and actions do not inadvertently curtail the availability of credit to creditworthy borrowers. The statement includes a variety of examples to illustrate how examiners will apply the principles outlined in the guidance. The agencies hosted a seminar for the banking industry on the guidance in December 2009.

Bank Secrecy Act/Anti-Money Laundering (BSA/AML)

Through on-site examination activities, the OCC and OTS examiners evaluate banks' and thrifts' compliance with BSA/AML requirements and, where weaknesses are noted, seek corrective action. The OCC has also developed a Money Laundering Risk System that provides community banks with succinct BSA/AML risk assessment information to enhance the effectiveness of BSA/AML supervision. The OCC, the OTS, and other Federal Financial Institutions Examination Council (FFIEC) member agencies issued a revised FFIEC BSA/AML Examination manual in April 2010 to incorporate regulatory changes and new supervisory guidance. In March 2010, the OCC and the OTS, along with the other federal banking agencies, FinCEN, SEC, and Commodity Futures Trading Commission (CFTC) issued interagency guidance on obtaining and retaining beneficial ownership information. The guidance clarifies and consolidates existing regulatory expectations for financial institutions obtaining beneficial ownership information for certain accounts and customer relationships.

Fair Access to Financial Services and Fair Treatment of Bank Customers

The OCC fulfills its strategic goal of fair access to financial services and fair treatment of bank customers through its ongoing supervisory programs for national banks and their operating subsidiaries. These programs include ongoing supervisory examinations to ensure compliance with fair lending laws, the *Community Reinvestment Act* (CRA), section 5 of the *Federal Trade Commission Act* (prohibiting unfair or deceptive acts and practices), and other consumer laws and regulations. In addition to supervisory activities, the OCC issues guidance and handbooks, and offers training to bankers and bank directors to help them understand and meet their compliance and CRA obligations.

Fair Lending

The OCC's and OTS's fair lending supervisory process is designed to assess and monitor the level of fair lending risk in every national bank and thrift. The OCC and the OTS assess compliance with fair lending laws and regulations; obtain corrective action when significant weaknesses or deficiencies are found in a bank's policies, procedures, and controls relating to fair lending; and ensure enforcement action is taken when warranted.

The OCC and the OTS responded to the mortgage crisis by encouraging national banks and thrifts to work with consumers, supporting private and public sector initiatives and programs that seek to assist these borrowers, and collecting and analyzing extensive mortgage lending and workout data from the largest national banks and thrifts. In January 2010, the OCC updated its Fair Lending examination handbook to more effectively address disparate treatment in loan pricing, broker activity redlining, and steering borrowers to higher cost loans. These updates were coordinated with the other federal banking agencies.

Community Development

The OCC actively supports the efforts of national banks to engage in sound and successful community development activities and processes community development investment notices and proposals under title 12, Code of Federal Regulations Part 24. The OCC, the OTS, and other federal banking agencies, were co-sponsors of the 2010 National Interagency Community Reinvestment Conference. Through the first half of fiscal year 2010, national banks made $2.31 billion in Part 24 investments.

The OCC and the OTS also conduct outreach with a variety of organizations, including advocacy groups, research organizations, community development practitioners, and community development membership organizations whose constituencies include or affect low- and moderate-income consumers, distressed communities, and small and minority-owned businesses. During fiscal year 2010, the OCC identified and publicized strategies for stabilizing communities affected by foreclosure and resulting property vacancies and continued its support of financial literacy programs. The agency issued publications and partnered with the SBA to promote bank involvement in economic stimulus and recovery measures.

While maintaining its consumer help Web site, which was launched in 2007 (*www.helpwithmybank.gov*), the OCC continued to seek ways to work with the other federal financial regulatory agencies to better assist consumers when they have questions or need help in resolving issues with their banks.

Consumer Protection

During fiscal year 2010, the OCC and the OTS continued their work with the other federal banking agencies to improve consumer protection. These efforts included an interagency initiative to design and test a more understandable financial privacy notice that is clear so that consumers can effectively exercise their preferences for information sharing. After conducting both quantitative and qualitative consumer research, the OCC, the OTS, and other federal agencies (including the CFTC, FTC, and SEC) finalized model privacy notice forms. In November 2009, the forms were provided to the industry through amendments to the rules that implement the financial privacy requirements of the Gramm-Leach-Bliley Act. In April 2010, the eight federal regulators released an Online Form Builder that financial institutions can download and use to develop and print customized versions of the model consumer privacy notice.

In December 2009, the OCC, the OTS, and other federal banking agencies issued for public comment proposed supervisory guidance on managing consumer compliance and reputation issues involved with reverse mortgages. The guidance discusses legal questions raised by reverse mortgages and stresses the need to provide adequate information to consumers about these products, provide qualified independent counseling to consumers considering them, and avoid potential conflicts of interests. The guidance also addresses related policies, procedures, internal controls, and third party risk management. Final guidance was issued in 2010. Effective with the December 31, 2010, Call Report and TFR filings, financial institutions will be required to provide information on the volume of reverse mortgages that they hold or have originated and sold during the year and on the volume of referrals they made to other lenders for a fee for such products.

The OCC is leading the interagency effort and OTS is participating along with other federal agencies in implementing the registration requirements of the *Secure and Fair Enforcement for Mortgage Licensing Act of 2008* (S.A.F.E. Act). In June 2009, the agencies issued a proposal that establishes the registration requirements for mortgage loan originators employed by agency-regulated institutions, as well as requirements for these institutions, including the adoption of policies and procedures to ensure compliance with the S.A.F.E. Act and final rule. The law also requires these mortgage loan originators to obtain a unique identifier through the Nationwide Mortgage Licensing System and Registry (Registry) that will remain with that originator, regardless of changes in employment. When the system is fully operational, consumers will be able to use the unique identifiers to access employment and other background information of registered mortgage loan originators. The final rule was issued in July 2010. Substantial progress also has been made in modifying the Registry to accommodate the registration of employees of agency-regulated institutions. The Registry is expected to be fully operational in January 2011.

In April 2010, OTS proposed Supplemental Overdraft Guidance, and in May, 2010, issued examination procedures for reviewing unfair or deceptive acts or practices under the Federal Trade Commission Act. OCC, OTS and the other federal banking regulators issued revised examination procedures for regulations incorporating consumer protections for credit cards, gift cards, and electronic transaction overdrafts in the *Credit Card Accountability, Responsibility and Disclosure Act of 2009.*

In addition to these interagency efforts, in fiscal year 2010 the OCC issued guidance on consumer protection and safety and soundness issues associated with tax refund anticipation loans, guidance to national banks on complying with provisions of the new opt-in requirements relating to overdraft protection programs, and provisions of the Credit CARD Act of 2009.

The OCC also worked with the other federal banking agencies to develop and issue examination procedures related to the Unlawful Internet Gambling Enforcement Act of 2006 and the Protecting Tenants at Foreclosure Act of 2009.

In 2010, the OCC continued the quarterly public service advertisement program, started in 2006, to promote awareness of banking issues and policies that affect consumers. The agency released print articles and 30-second radio spots in English and Spanish for use in local newspapers and radio stations. Topics covered in 2010 included gift cards, tenants in foreclosure, overdraft protection and refund anticipation loans. The spots ran more than 6,500 times in 44 states.

Enforcement

As needed, the OCC uses its enforcement authority to address safety and soundness violations and noncompliance with laws and regulations. Through the first half of fiscal year 2010, the OCC issued 207 enforcement actions against national banks and 82 against institution-affiliated parties. The OCC assessed a $50 million civil money penalty against a national bank for violations of the Bank Secrecy Act (BSA) as part of a coordinated action with the DOJ, Financial Crimes Enforcement Network (FinCEN), and other federal agencies. The bank also agreed to forfeit $110 million to the U.S. under a deferred prosecution agreement with the U.S. Attorney's Office in the Southern District of Florida and the Department of Justice.

The OCC also entered into a Formal Agreement with a national bank to reimburse consumers harmed by the bank's credit card account closing practices; agreed-upon reimbursement totaled $775,000. In another action, a national bank was directed to make $5.1 million in restitution to over 60,000 consumers adversely affected by its relationships with a third party payment processor. The bank also received a $100,000 civil money penalty.

Contributions of the Office of Economic Policy

Economic Policy continued to support the Secretary and other senior policy makers by providing technical analysis, economic forecasts, and policy guidance. The Office routinely provided economic intelligence on current and prospective economic developments in the United States. Throughout the fiscal year, staff monitored and analyzed a number of trends and economic developments, including the ongoing housing market correction, the pace of economic recovery, and developments in labor markets. Economic Policy continued to carry out its traditional role in the preparation of the President's budget and supported the Secretary of the Treasury in his roles as Chairman and Managing Trustee of the Social Security and Medicare Boards of Trustees. Specific examples of contributions are listed below:

- Economic Policy continued to play a key role in the development and operations of the HAMP component of the Making Home Affordable Initiative, which aims to provide relief to struggling homeowners and stabilize the housing market.
- Economic Policy conducted ongoing research on policies enacted to assist in the recovery of the economy. The research culminated in a series of reports to increase understanding of the impact of the policies and provide guidance on future policy development. Topics covered include the COBRA tax credit, the HIRE Act tax exemption, and Build America Bonds.
- Economic Policy has also been involved in the implementation of the Affordable Care Act, specifically in providing analysis and recommendations for the regulations that are being issued.

Conclusion

Treasury supported key legislation, the Dodd-Frank Act and the Small Business Jobs Act, in its efforts to repair and reform the financial system and the economy. Treasury made a substantial contribution towards stabilizing the housing market through HAMP and Treasury Housing Programs; however, this critical sector of the economy remains fragile. Private capital has not yet returned to the market, and the GSEs and the government continue to play an outsized, though necessary, role in ensuring the availability of mortgage credit. Roughly 95 percent of all mortgages are currently financed through either the GSEs, Ginnie Mae, the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), or the Department of Agriculture (USDA).

Treasury seeks to exit investments as soon as practicable to remove Treasury as a shareholder, eliminate or reduce Treasury exposure, return TARP funds to reduce the federal debt, and encourage private capital formation to replace federal government investment. The desire to achieve such objectives must be balanced against a variety of other objectives, including avoiding further financial market or economic disruption and the potentially negative impact to the issuer's health or capital raising plans from Treasury's disposition. Treasury must also consider the limited ability to sell an investment to a third party due to the absence of a trading market or lack of investor demand, and the possibility of achieving potentially higher returns through a later disposition. An issuer typically needs the approval of its primary federal regulator in order to repay Treasury, and therefore regulatory approvals also affect how quickly an institution can repay.

Moving Forward

Treasury's implementation of key financial reforms and efforts to support economic recovery will continue into fiscal year 2011. Implementation of Dodd-Frank Act and Small Business Jobs Act initiatives, continued implementation of Recovery Act programs, management of the wind-down of TARP, implementation of housing programs, and other efforts are essential to supporting the Department's goal of restoring financial strength and long-term stability.

In fiscal year 2011, Treasury will play a key role in facilitating development of a new system for housing finance, while being careful to maintain relative stability in the housing market through this difficult time. A stable, well-functioning market should achieve the following objectives:

- Widely available mortgage credit
- Housing affordability
- Consumer protection, including easy-to-understand mortgage products and honest practices
- Financial stability, meaning that credit and interest rate risk are spread in an efficient and transparent manner that does not generate excess volatility
- Alignment of incentives of issuers, originators, brokers, ratings agencies and insurers for long-term viability rather than short term gains
- Avoidance of privatized gains funded by public losses
- Strong regulation to ensure capital adequacy throughout the mortgage finance chain, enforce strict underwriting standards and protect borrowers from unfair, abusive or deceptive practices
- Standardization of mortgage products
- Support for affordable single and multifamily housing
- Diversified investor base and sources of funding
- Accurate and transparent pricing
- Secondary market liquidity
- Clear goals and objectives for institutions that have government support, charters, or mandates

In addition, in March 2010, the Obama Administration announced enhancements to an existing FHA program that will permit lenders to provide additional refinancing options to homeowners who owe more than their homes are worth because of large declines in home prices in their local markets. This FHA Short Refinance program will provide more opportunities for qualifying mortgage loans to be restructured and refinanced into FHA-insured loans. TARP funds will be made available up to approximately $8 billion in the aggregate to provide additional coverage to lenders for a share of potential losses on these loans and to provide incentives to support the write-downs of second liens and encourage participation by servicers.

Treasury is also planning studies and program evaluations. In order to understand what drives mortgage defaults, Treasury will link data on individual mortgages to administrative data on employment status and individual borrowers from credit bureaus. A more thorough understanding of what drives mortgage performance could expand the options available to the government to manage its exposure to mortgage risk, address the problem of legacy assets in the financial system, and contribute to effective housing policies that strengthen the market.

Treasury will also ensure that OTS authorities, duties, employees, and property are transferred in an orderly fashion to OCC, Federal Reserve, and FDIC. OCC's priorities for fiscal years 2011-2012 will focus on strengthening the resiliency of the national banking system through our supervisory and regulatory programs and activities. Other supervisory priorities include identifying and resolving potential problem banks at the earliest possible stage; encouraging national banks to meet the needs of credit worthy borrowers, including appropriate and effective residential mortgage modification programs; and ensuring that national banks comply with CRA, the BSA/AML, and USA PATRIOT Act requirements; and further enhancing supervisory analytical tools. Many national banks will continue to have substantial volumes of troubled loans. In addition, the OCC expects the level of enforcement actions associated with problem banks and bank failures to continue through the next fiscal year.

Decreased Gap in Global Standard of Living

A decreased gap in the global standard of living, associated with improved economic conditions in emerging markets, improves economic opportunity for Americans. For the two performance measures associated with decreasing the gap in the global standard of living, Treasury exceeded the 2010 performance target for one and the other was baselined. This performance reflects an improvement from 2009, when one target was not met.

Key Performance Measure Table

The following table contains key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Monitor quality and enhance effectiveness of International Monetary Fund (IMF) lending through review of IMF country programs (%)	DO		Baseline	97	100.0%	NA	Met	100	B	B
Percentage of Grant and Loan Proposals Containing Satisfactory Frameworks for Results Measurement (%)	DO	94	90	92.5	102.8%	-1.6%	Exceeded	90	▶	▲

Analysis of Performance Results

Performance for programs seeking to decrease the gap in the global standard of living exceeded one target and met the other. The measure related to IMF program effectiveness was baselined, and the previous measure was discontinued. For "Percentage of grant and loan proposals containing satisfactory frameworks for results measurement," the actual result exceeded the target but decreased from 2009 actuals. Given that actual results have exceeded targets for this measure for the last four years, it may be worth revising the target upward in the future.

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

International Financial Institution Support

The Treasury Department provided critical support for U.S. efforts to foster a strong and sustainable global economic recovery through G-20 actions. Robust foreign growth, particularly robust foreign domestic demand growth, is extremely important to a vibrant U.S. economy and U.S. job creation. This is especially true at a time when Americans are re-building their personal finances and saving more. Recognizing the need for a balanced global economy in which foreign economies are more reliant on domestic sources of growth and U.S. growth is less skewed toward domestic demand, the U.S. proposed a Framework for Strong, Sustainable, and Balanced Growth, which was adopted at the Pittsburgh Summit by G-20 Leaders.

The Framework is essentially a commitment by the world's leading economies to monitor current and prospective economic developments and cooperate on implementing globally consistent policies. Achievements in the first year have focused on establishing five-year baseline forecasts for growth, demand, and the evolution of external balances and on developing baskets of policies that potentially could improve outcomes relative to the baseline. The key U.S. objectives within the G-20 macroeconomic dialogue are to ensure a strong recovery, create jobs, reduce unemployment, and foster durable, long-term growth through a more balanced global economy.

The Treasury Department continued to play a central role in efforts to build a stronger and safer global financial system. Through the G-20 process, the Financial Stability Board, and engagement with international standard setting bodies, Treasury led efforts to ensure that reforms in the international financial system matched domestic regulatory reform initiatives. This will ensure that banks here and in foreign countries comply with high standards and are prevented from a "race to the bottom." In fiscal year 2010, the Treasury Department strongly supported international efforts to strengthen bank capital standards. These standards will require banks to hold enough capital so they can withstand losses similar to those sustained in the depths of the recession without turning to the taxpayer for help. Banks will be required to hold significantly more capital against the types of risky trading-related assets and obligations that caused so much unexpected financial damage during the crisis.

The Treasury Department's leadership in the International Monetary Fund (IMF) helped advance U.S. priorities of modernizing the IMF's governance structures to reflect global economic realities and enhancing the IMF's lending toolkit for more effective crisis prevention and response. With strong support from the U.S., the IMF membership is working to achieve a five percent shift in IMF quota share from overrepresented countries to underrepresented, dynamic emerging market and developing countries. In fiscal year 2010, the Treasury Department supported international efforts to strengthen the global financial safety net through enhancements to the IMF's Flexible Credit Line for the strongest performing members and the creation of a Precautionary Credit Line for emerging market members with sound policies and need for contingent financing to maintain market confidence.

Provided financial and logistic support for Haiti earthquake relief

Immediately following the January 12 earthquake, Treasury officials facilitated the delivery of roughly $2 million in cash to a major Haitian microfinance institution to help survivors access savings and remittances, even while domestic banks remained closed. Treasury deployed a senior advisor within two weeks of the earthquake to assist in reconstructing the tax system database, recovering and protecting two hundred years' worth of land titles and official records of all bank loans, and participated in the post-disaster needs assessment team which supported the Haitian Government's presentation of a credible needs estimate to international donors in March. Furthermore, Treasury personnel led the global initiative to relieve Haiti's debt to the international financial institutions and worked extensively to help secure funding from Congress for a U.S. contribution of up to $120 million in reconstruction aid for the multi-donor Haitian Reconstruction Fund (HRF). At the request of the Government of Haiti, Treasury played an integral role in designing and negotiating a partial credit guarantee fund to assist banks in restructuring loans and extending new credit to small and medium-sized enterprises (SMEs) and credit cooperatives. The credit guarantee fund was subsequently supported by funding from the HRF trust fund, the World Bank, and the Inter-American Development Bank (IDB).

Expanded access to financial services for consumers and small and medium-sized enterprises

Treasury worked with fellow G-20 co-chairs Canada and Korea to create and lead the G-20 Financial Inclusion Experts Group. The group worked in two tracks dedicated to expanding financial services for consumers and SMEs. The first track of experts surveyed best practices among national regulators and international standards-setting bodies to develop a list of policy principles to support expanding innovative approaches to financial service delivery and an action plan for implementing these principles around the world. The second track launched the SME Finance Challenge, in which G-20 leaders called on the private sector to provide innovative ideas for public initiatives to marshal private financing for SMEs, and on international financial institutions (IFIs) to support the winning entries. SMEs are key to economic growth and job creation, and the SME Finance Challenge will award effective and innovative ideas for financing SMEs with the resources to scale up implementation. Connecting poor households and businesses to resources for savings, credit, and insurance enables them to harness the power of entrepreneurship and create more stable, successful livelihoods.

Conclusion

In the wake of the financial crisis, the IFIs provided expanded lending facilities and economic advice to merger countries, which helped foster global recovery. While the work done by these institutions has been instrumental in helping to rebuild the global economy, the two measures associated with this outcome do not adequately capture that work. Going forward, the Department will work to create measures that not only capture workload but also focus on broader outcomes that allow for the effective assessment of U.S. investments in these institutions.

Moving Forward

Restoring normal growth in emerging markets will require increased commitments from global governments to provide funding that is currently unavailable from private markets. Having responded to the needs of borrowers in the wake of the financial crisis, the next step will be to ensure that the IFIs are adequately capitalized to meet the needs of members as their economies recover. Further, the Department will continue to push for reform at these institutions, leveraging U.S. commitments to secure greater performance and results management.

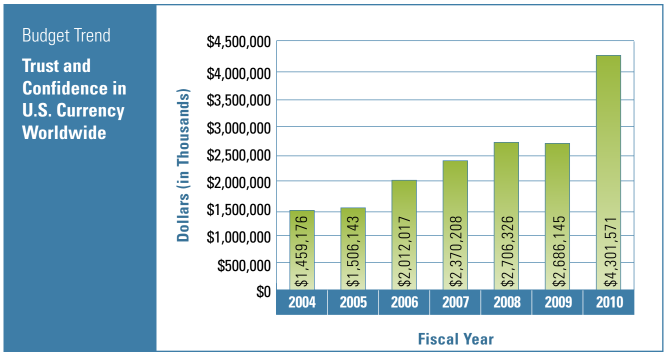
STRATEGIC OBJECTIVE:
Trust and Confidence in U.S. Currency Worldwide

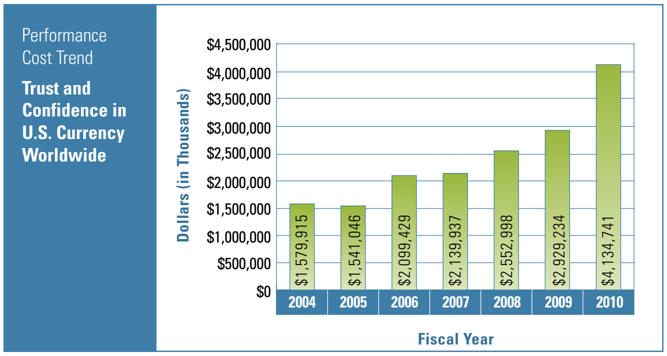
Continued trust and confidence in the integrity of United States currency and its acceptance as a secure medium of exchange in business transactions enables the free flow of domestic and global commerce and contributes to the security and stability of the world's monetary system. Worldwide circulation of U.S. currency notes is estimated to exceed $830 billion in value. As much as two-thirds of that circulates outside the borders of the United States. To instill a high degree of trust and confidence in the integrity of U.S. currency, the Department's currency products are designed to achieve the maximum possible levels of deterrence against counterfeiting, product quality, user acceptance, and cost-effectiveness. To achieve these levels, the Bureau of Engraving and Printing (BEP) and the United States Mint manufacture and deliver high-quality U.S. currency notes and coins to the United States Federal Reserve. The BEP also produces security documents for federal agencies, and the United States Mint also produces and sells investment-grade precious metal bullion coins as well as high-quality numismatic coin products to the public. In addition to producing coins, the United States Mint also secures the nation's precious metal reserves.

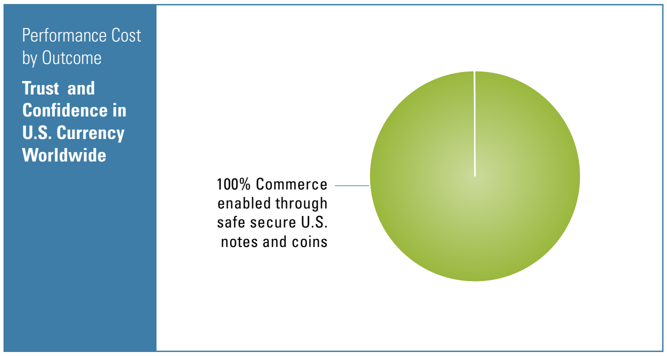
The bureaus and policy offices responsible for the achievement of this objective are:

- The Bureau of Engraving and Printing (BEP)
- The United States Mint
- The Office of the Treasurer of the United States

Performance targets associated with this objective did not change from 2009 to 2010.







Commerce Enabled Through Safe, Secure U.S. Notes and Coins

The performance measure results for this program were significantly impacted by two global economic trends: the slow economic recovery and increase in commodity costs. Large swings in currency note and coin orders increased production costs, metal prices pushed down seigniorage rates, and the slow economic recovery led to a smaller customer base for numismatic coins. Even with these trends, Treasury still managed to come within 10 percent of its targets for the majority of measures for which it did not meet its targets.

Key Performance Measure Table

The following table contains key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Currency shipment discrepancies per million notes (%)	BEP	0.00	0.01	0.00*	100.0%	0.00%	Exceeded	0.01	▶	▼
Manufacturing costs for currency (dollar costs per thousand notes produced) ($)	BEP	$32.77	$37.00	$44.85*	78.8%	36.9%	Unmet	$44.00	▲	▲
Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements (%)	BEP	99.9	99.9	97.5*	97.6%	-2.4%	Unmet	99.9	▶	▼
Circulating on-time delivery (%)	Mint		Baseline	99.8	100.0%	NA	Met	88	B	B
Customer Satisfaction Index - A measure of the satisfaction of customers with numismatic products (%)	Mint	88.3	88	86.1	97.8%	-2.5%	Unmet	88	▼	▼
Numismatic Customer Base	Mint	1.06	0.9	0.798	88.7%	-24.7%	Unmet	1	▼	▼
Safety Incident Recordable Rate	Mint		Baseline	2.29	100.0%	NA	Met	3.34	B	B
Seigniorage per Dollar Issued ($)	Mint	$0.55	$0.53	$0.49	92.5%	-10.9%	Unmet	$0.41	▼	▼

*Estimated

Analysis of Performance Results

In fiscal year 2010, eight measures were reported for this objective, two of which were new measures. Of all eight measures, one measure (13 percent) exceeded the performance target. Five measures (62 percent) did not meet targets. A baseline was being established for two measures (25 percent), which count as having met their target. Eleven measures were discontinued during fiscal year 2010, and two measures were discontinued in fiscal year 2009. The search for new and more informative metrics to drive improved performance is a positive effort. However, a more stable way to measure success is needed.

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Bureau of Engraving and Printing

In fiscal year 2010, BEP delivered 6.4 billion currency notes to the Federal Reserve Board. This is an increase of 200 million units (three percent) over the 6.2 billion notes delivered in 2009. BEP failed to meet the Federal Reserve's quality standard due to a problem with the redesigned $100 note creasing during production. Productivity decreased in from 2009 to 2010 by 8.8 percent largely as a result of high spoilage and slower operating speeds as production of the newly redesigned $100 currency note commenced. BEP did not meet its performance target for "Cost per 1,000 Notes Produced" due to complexities encountered as production began on the new $100. BEP's manufacturing costs increased from $32.77 per thousand units in 2009 to $44.85 in 2010, a 37 percent increase. The jump in cost was largely driven by a marked increase in the cost of counterfeit deterrent features added to the paper BEP uses to produce the new $100 note and problems encountered during production that significantly increased spoilage. Another driver of the increase was a continued trend in the 2010 Federal Reserve's currency order toward a proportionally greater amount of higher denomination notes, which are more costly to manufacture due to their enhanced counterfeit deterrent features. Unlike the U.S. Mint, BEP is fully-funded by the Federal Reserve, and any return made is paid by the Federal Reserve to the Treasury General Fund rather than by BEP.

The redesigned $100 note made its debut on April 21, 2010 during a ceremony at the Treasury. The redesign of the $100 note marked the completion of a multi-year initiative to implement the most ambitious currency redesign in United States history. The innovative security features in the new note are the work of more than a decade of research and development to protect U.S. currency from counterfeiting. The new notes have enhanced overt counterfeit deterrent features including a "3-D Security Ribbon" with shifting images and a "Bell in the Inkwell" that disappears and reappears when the note is tilted. The redesigned notes remain the same size and use the same portraits and historical images, which have been enhanced. The redesign includes an enlarged, high-contrast numeral to help the public, including persons with visual impairments, distinguish the denominations of notes. The unveiling of the new $100 note was the first step in a global public education program implemented by the Department of the Treasury, the Federal Reserve, and the U.S. Secret Service to educate those who use the $100 note about its changes before it begins circulating.

Rapid improvements in reprographic technologies and computer-driven printing pose increasing challenges to counterfeit deterrence. BEP continues to collaborate with other members of the Advanced Counterfeit Deterrent (ACD) Steering Committee (which includes representatives from BEP, the Department of the Treasury, the U.S. Secret Service, and the Federal Reserve) to determine the effectiveness of counterfeit deterrent features and to evaluate possible future currency designs. The ACD Committee also monitors the reliability of the BEP manufacturing process, the incorporation of new design features, and the effectiveness of those features during the course of daily cash transactions.

BEP efforts related to quality continued as measures of shipment accuracy met its targets and achieved less than 0.01 percent discrepancies in the currency shipment. In 2010, BEP reported 97.5 percent of the currency notes delivered to the Federal Reserve met the product quality requirements. As it has for the past eight years, in fiscal year 2010 BEP maintained ISO 9001 certification in its quality management system for currency production, indicating ongoing commitment to continuous process and quality improvement. In 2010, BEP also continued efforts to maintain ISO 14001 certification in its commitment to high-quality environmental stewardship and management.

Following court decisions in 2007 and 2008, the Department was ordered to provide meaningful access to United States currency for blind and other visually impaired persons. This may require changes to U.S. currency (excluding the one-dollar note.) The Court ordered such changes to be completed in connection with each denomination of currency, not later than the date when a redesign is next approved by the Secretary of the Treasury. The cost of implementing these changes will be incorporated into future currency redesign costs, and cannot be estimated at this time.

United States Mint

The economic environment during fiscal year 2010 significantly impacted the United States Mint's financial results. Economic uncertainty intensified demand for bullion products while reducing demand for circulating coinage and numismatic products. Total revenue reached $3.89 billion in fiscal year 2010, up 33 percent from total revenue of $2.91 billion in fiscal year 2009. Record sales of bullion coins drove this revenue growth as both circulating and numismatic revenue declined from the prior fiscal year. Since the United States Mint manages the bullion program to a nominal net margin, revenue growth did not generate higher earnings in fiscal year 2010. The United States Mint returned $388 million to the Treasury General Fund in fiscal year 2010, down from $475 million (18 percent) from fiscal year 2009.

Weak economic conditions that reduced shipments and revenue in fiscal year 2009 continued through the first half of fiscal year 2010. This reversed midway through the fiscal year as retail activity recovered and Federal Reserve coin inventory fell. Overall, total circulating coins shipped to the Federal Reserve increased 4 percent to 5.4 billion pieces in fiscal year 2010 from 5.207 billion pieces in fiscal year 2009. While the total volume of circulating coins shipped to the Federal Reserve grew slightly, the composition of shipments ordered by the Federal Reserve shifted toward lower denomination coins, reducing the total dollar value of circulating shipments to the Federal Reserve by 20 percent to $618.2 million from $777.6 million last year. At the start of fiscal year 2010, the prospect of continued low coin demand prompted the United States Mint to extend cost-saving measures begun in 2009. The bureau opted not to renew appointments for temporary personnel and instituted an organization-wide hiring freeze. The United States Mint also suspended all non-essential capital investments in circulating operations to cut cash outflow during a time of reduced cash inflow. Even with these measures, the costs of coin production continued to increase because of escalating metal market prices.

Base metal expenses and the mix of circulating coin denominations ordered by the Federal Reserve negatively affected total seigniorage and seigniorage per dollar issued. Market prices of copper, nickel, and zinc recovered from fiscal year 2009 lows and climbed back to pre-2009 levels. Rising metal prices increased total and per-unit expenses for fabricated blanks and strip. As a result, seigniorage generated from circulating coinage operations declined 30 percent to $300.9 million in fiscal year 2010 from $427.8 million in fiscal year 2009. Seigniorage per dollar issued declined to $0.49 in fiscal year 2010 from $0.55 (11 percent) in 2009. The per-unit cost for both one-cent and five-cent denominations remained above face value for the fifth consecutive fiscal year.

Demand appeared to ease along with precious metal market prices in the second quarter, but as the year went on, rising global fears over European sovereign debt caused demand to rebound as spot prices for gold and silver soared during the third and fourth quarters. The United States Mint sold 35.8 million ounces of bullion coins in fiscal year 2010, up 8.2 million ounces (29.7 percent) from the previous total sales record of 27.6 million in fiscal year 2009. The United States Mint sold this record volume to authorized purchasers at higher prices, reflecting the increased market value for gold and silver. The average spot price of gold and silver increased 29.2 percent and 40.1 percent, respectively, in fiscal year 2010 from fiscal year 2009. Accordingly, total bullion revenue reached a record high of nearly $2.9 billion in fiscal year 2010, up by around 70 percent from $1.7 billion in fiscal year 2009. Net income from bullion sales increased 69 percent to $55.2 million in fiscal year 2010 from $32.7 million in fiscal year 2009. The United States Mint expects demand for bullion coins to remain strong for a sustained period until economic conditions stabilize and investors are drawn toward alternative investments.

Fiscal year 2010 was a challenging year for the United States Mint's numismatic product line. The United States Mint was unable to offer some key products because blanks were diverted to the bullion program in accordance with statutory mandates to fulfill bullion demand. This negatively affected numismatic sales and customer acquisition and retention. Additionally, poor economic conditions may have suppressed some consumer spending on collectibles. Despite weakened demand, the composition of numismatic sales shifted toward high price and high margin products. While numismatic sales revenue fell six percent to $413.1 million from $440.1 million in 2009, numismatic net income increased nearly 21 percent to $49.8 million in fiscal year 2010 from $41.2 million last year.

The United States Mint is responsible for protecting over $320 billion in United States assets stored in its facilities. The Mint's Office of Protection (United States Mint Police) safeguards both Mint assets and non-Mint assets in its custody, including gold and silver bullion reserves, as well as the Mint's products, employees, facilities, and equipment.

Conclusion

The BEP faced challenges related to the release of the new $100 note and related spoilage problems. The Mint faced challenges related to the price of base metals and the high demand for bullion products. The current suite of measures only partially gauges the success of the outcome and objective associated with coins and currency. Improved measures are needed to determine if commerce is effectively enabled for the nation. Proper demand management will minimize costs across the entire supply chain, including the costs of obsolescence and disposal.

BEP has engaged in an extensive effort to rapidly introduce counterfeit-deterrent currency note redesigns, a necessary step to address the increasing frequency of serious counterfeiting threats, and to bolster global trust and confidence in the integrity of U.S. currency as a medium of transactional exchange. The only indicator of success in this arena is the estimated counterfeiting rate. Because it is an indicator, setting a target for this would be similar to setting a target for the unemployment rate – it is an important outcome, but it is extremely difficult to draw a direct correlation between it and the actions of the Treasury Department. However, other measures could be considered such as the average cycle time and marginal costs to introduce note redesign. BEP will introduce a new suite of performance metrics in fiscal year 2011 that will measure the bureau's performance across a broader spectrum of operations.

The U.S. Mint faced challenges related to the price of base metals and the high demand for bullion products. The U.S. Mint is working to explore options that might help reduce the cost of materials used in producing the nation's coinage. The U.S. Mint baselined two new measures, discontinued four measures, and did not meet three measures.

Moving Forward

Bureau of Engraving and Printing

To improve efficiency, BEP is currently engaged in a multi-year project to retool its manufacturing processes to improve BEP's capabilities, increase its flexibility, and improve its response to product configuration changes. The project will include installation of new state-of-the-art equipment capable of producing 50-note currency sheets, achieving significantly greater production efficiency than the existing equipment, which produces 32-note sheets. The new equipment will include intaglio presses, electronic inspection systems, and finishing equipment. BEP continues to invest in new technologies such as its BEP Enterprise (BEN) manufacturing support system program (MSS), which will integrate, consolidate, and enable improved analysis of data from various disparate information technology systems, equipment, and software applications used at BEP. When completed, this effort will optimize the reliability, integration, and timely collection of online real-time performance data. Having this data on hand will enable program managers to proactively manage manufacturing overhead costs, production efficiency, and resource productivity.

In keeping with the commitment by BEP's management to maintain high-quality environmental management, BEP is investing in capital improvements that will enhance productivity and lessen the environmental impact of BEP operations on air emissions, wastewater discharge, and solid waste. The most significant project will enable waste water recycling to reduce water usage by several million gallons per year. The project will also reduce the required quantity of chemicals the BEP must use to make currency note wiping solution, which becomes wastewater. This project will both improve resource sustainability and reduce the cost and efficiency of currency note production. Other projects either already underway or currently in the planning stages include improvements in energy efficiency through replacement or upgrade of older assets with more energy efficient and environmentally responsible assets; decreased energy usage and cost savings from increased data center efficiency and consolidation from increased server virtualization and from decreased energy usage and IT operation costs; and savings from reduced material spoilage during the currency note production process, which should enable reductions in the quantity of currency paper and other materials purchased for use in manufacturing currency notes.

Other capital assets provide ongoing challenges for the Bureau, however. The age of BEP's Washington, D.C. facility poses some infrastructure challenges. Based on an earlier condition assessment, it was estimated that an investment of $250-$500 million would be needed to upgrade the main and annex buildings over the next 10 years. BEP had been delaying infrastructure improvements pending the outcome of a feasibility study that was completed at the end of July 2010. At the end of fiscal year 2010, the study was still under executive review but is expected to enable the BEP and the Department of the Treasury to strategically address facility issues going forward.

United States Mint

Although the United States Mint has taken steps to reduce its manufacturing costs, base metal expenses continue to make up the greatest portion of the cost of circulating coin production. Changing the composition of circulating coinage to less expensive alternative materials could generate significant cost savings and mitigate further reductions in seigniorage if market prices for copper, nickel, and zinc increase. Base metal prices have trended upward during fiscal year 2010. The average daily spot price increased 57 percent for copper, 56 percent for nickel, and 52 percent for zinc between fiscal year 2009 and fiscal year 2010.

In fiscal year 2011, the United States Mint will remain focused on meeting demand for products as economic uncertainty continues. The United States Mint expects circulating volumes to increase from 2010. However, any volume increase will likely consist of lower denomination coins as Federal Reserve inventories of higher denominations remain sufficient to fulfill the majority of demand in upcoming years. Bullion demand looks to remain strong until economic conditions stabilize and investors are drawn toward alternative investments. For numismatic products, the Mint will focus on improving customers' experience by releasing core products earlier in the year and increasing the availability of precious metal products.

STRATEGIC GOAL:

PREVENTED TERRORISM AND PROMOTED THE NATION'S SECURITY THROUGH STRENGTHENED INTERNATIONAL FINANCIAL SYSTEMS

STRATEGIC OBJECTIVE:

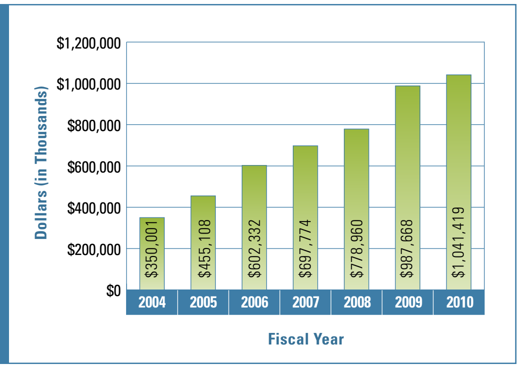
Pre-empted and Neutralized Threats to the International Financial System and Enhanced U.S. National Security

The Office of Terrorism and Financial Intelligence (TFI) marshals the department's intelligence and enforcement functions with the twin aims of safeguarding the financial system against illicit use and combating rogue nations, terrorist facilitators, weapons of mass destruction (WMD) proliferators, money launderers, drug kingpins, and other national security threats. The Office works to keep U.S. and world financial systems accessible to legitimate users and to avoid exploitation of these systems by unlawful users. Its unique capabilities leverage intelligence, law enforcement, sanctions, regulatory, and diplomatic tools to achieve Treasury's strategic objective. This is accomplished through four TFI offices, a division within the IRS, and a bureau:

- The Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions
- The Office of Terrorist Financing and Financial Crimes (TFFC) is the policy and outreach arm of TFI and provides expert analysis on terrorist financing, money laundering, financial crime, and sanctions issues
- The Office of Intelligence and Analysis (OIA) provides all-source intelligence analysis, leads the Department's integration into the larger intelligence community, and provides support to Department leadership on a full range of economic, political, and security issues

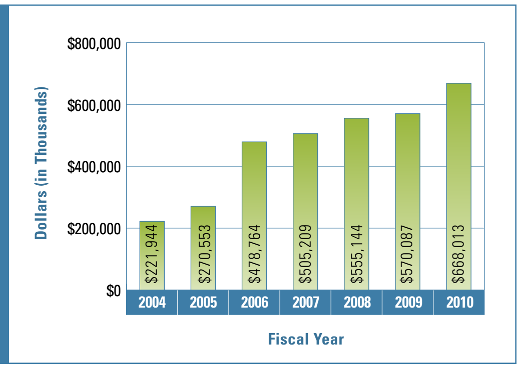
Budget Trend

Pre-empted and Neutralized Threats to the International Financial System and Enhanced U.S. National Security



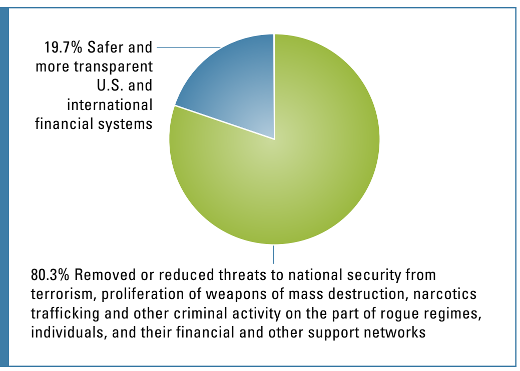
Performance Cost Trend

Pre-empted and Neutralized Threats to the International Financial System and Enhanced U.S. National Security



Performance Cost by Outcome

Pre-empted and Neutralized Threats to the International Financial System and Enhanced U.S. National Security



Performance measures associated with this objective had 35 percent more aggressive targets compared to 2009.

- The Treasury Executive Office of Asset Forfeiture (TEOAF) administers the Treasury Forfeiture Fund, which is the receipt account for the deposit of non-tax forfeitures
- The IRS Criminal Investigations division (IRS-CI) investigates potential criminal violations of the Internal Revenue Code and related financial crimes
- The Financial Crimes Enforcement Network (FinCEN) administers the Bank Secrecy Act (BSA), supports law enforcement investigations and prosecutions, shares BSA information domestically and with foreign financial intelligence units, and enhances anti-money laundering and counter-terrorist financing efforts domestically and internationally

The outcomes associated with this objective are:

- Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks
- Safer and more transparent U.S. and international financial systems

Removed or Reduced Threats to National Security from Terrorism, Proliferation of Weapons of Mass Destruction, Drug Trafficking and Other Criminal Activity on the Part of Rogue Regimes, Individuals, and Their Support Networks

This outcome is linked to Treasury's impact in policy making, outreach, and diplomacy; the impact of economic sanctions; and the impact of intelligence information and analysis. Treasury exceeded its targets in these focus areas.

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Impact of TFI programs and activities	DO	7.81	7.40	8.1	109.5%	3.7%	Exceeded	7.6	▶	▲
Percent of forfeited cash proceeds resulting from high-impact cases (%)	Treasury Forfeiture Fund	87.65	75	93.11	124.1%	6.2%	Exceeded	80	▶	▲

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

TFI uses a qualitative self-assessment of its four major areas of operations—policy, sanctions, intelligence, and money-laundering—to measure its performance. The "Impact of TFI programs and activites" measure is a composite score, which is the average rating of four performance goals. Each performance goal is linked to components within TFI and the Department's strategic goals. In fiscal year 2010, this metric achieved a 8.1 rating out of 10 possible points, exceeding the target and improving by 3.7 percent over the previous year.

Two TFI offices, OFAC and TFFC, share a combined performance goal, focusing on the impact of policy making, outreach and diplomacy and the impact of economic sanctions:

- "TFI U.S. Government effectively employed tools and authorities to further policy objectives and mitigate national security threats."

OIA has two separate performance goals that focus upon the impact of information, intelligence, and analysis on senior leadership and the intelligence community.

- "Support the formulation of Treasury policy and the execution of departmental authorities through all-source analysis of the global financial network"
- "Provide Treasury Department decision makers with timely, accurate, and relevant intelligence support on the full range of economic, political, and security issues"

User data surveys are conducted with financial intelligence users to gauge the impact and influence OIA has upon those which use its information.

The final performance goal relates to FinCEN.

- "Anti-money laundering and combating financing of terrorism regulations are administered effectively and efficiently."

This performance measure performed at 8.1, high impact, in fiscal year 2010 and was baselined in fiscal year 2009 with a value of 7.8, or medium impact. The fiscal year 2010 target was 7.4 and will be 7.6 in fiscal year 2011. The Treasury Forfeiture Fund achieved 93.11 percent of forfeiture cash proceeds resulting from high-impact cases, performing above both the fiscal year 2010 target and 2009 actual.

The following sections describe efforts undertaken by TFI in 2010. These results are the basis for assessing TFI's impact and are reflected in their performance results.

Combated Iran's Efforts to Acquire Proliferation-Related Materials

In June 2010, the United Nations (UN) adopted United Nations Security Council Resolution (UNSCR) 1929, broadening the existing UN sanctions framework. Shortly thereafter, Treasury announced new designations under EO 13382 targeting individuals and entities that facilitate Iranian proliferation activity. Most prominently, Treasury designated Post Bank, an Iranian state-owned bank for providing support to and acting on behalf of UN designee Bank Sepah. When Bank Sepah, one of Iran's largest state-owned banks, was sanctioned for financing proliferation, Iran began to use Post Bank to facilitate international trade. Treasury also designated five Islamic Republic of Iran Shipping Lines (IRISL) front companies and blocked 27 vessels due to their connection to IRISL. In August, Treasury announced a set of designations targeting the Government of Iran's support for terrorism and terrorist organizations, including Hizballah, Hamas, Palestinian Islamic Jihad, the Popular Front for the Liberation of Palestine-General Command, and the Taliban. From June to August, Treasury identified 43 entities in the banking, investment, mining, engineering, insurance, energy, petroleum, and petrochemical industries determined to be owned or controlled by the Government of Iran pursuant to the Iranian Transactions Regulations (ITR). Finally, Treasury issued an advisory to financial institutions about the financial provisions in UNSCR 1929.

The *Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010*, signed by President Obama in July, dramatically expands the tools available to the Treasury Department to combat Iran's efforts to acquire proliferation-related materials. In August, Treasury published the Iranian Financial Sanctions Regulations (IFSR) as a framework for implementing subsections 104(c) and 104(d) of the Act. Under the IFSR, the Secretary of the Treasury may prohibit or impose strict conditions on opening or maintaining accounts with foreign financial institutions that he finds knowingly engage in certain activities related to Iran. The IFSR also prohibits any person owned or controlled by a U.S. financial institution from knowingly engaging in transactions with or benefiting Iran's Revolutionary Guard Corps or any of its agents or affiliates whose property is blocked under the International Emergency Economic Powers Act.

Treasury officials have been actively engaging with our partners throughout the world to describe the U.S. Government's Iran sanctions programs and to encourage our partners to implement similar restrictions on Iran. As a result of this engagement, additional states have demonstrated to Iran the consequences of its failure to meet its international obligations. The European Union (EU), Australia, Canada, Norway, Japan, and South Korea have implemented sanctions. These actions strengthen international resolve to prevent proliferation and Iran's development of nuclear weapons and to press Iran to return to serious negotiations.

The financial measures the U.S. and others are implementing are imposing serious costs and constraints on Iran. Iran is effectively unable to access financial services from reputable banks and is increasingly unable to conduct major transactions in dollars or euros. Over the last several months alone, dozens of companies have announced publicly that they have curtailed or

Treasury Outcomes	Performance Goals	Focus Areas
Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks	TFI effectively employed tools and authorities to further U.S. Government policy objectives and mitigate national security threats	Impact of policy making, outreach, and diplomacy
		Impact of economic sanctions
	Support the formulation of Treasury policy and the execution of departmental authorities through all-source analysis of the global financial network	Impact of information and analysis
	Provide Treasury Department decision makers with timely, accurate, and relevant intelligence support on the full range of economic, political, and security issues	
Safer and more transparent U.S. and international financial systems	Anti-money laundering and combating financing of terrorism regulations are administered effectively and efficiently	Impact of activities to create safer and more transparent financial systems

eliminated their business ties to Iran. Iran is increasingly unable to secure needed foreign investment, financing, and technology to modernize its aging energy infrastructure, threatening its oil and gas production and export capacity.

Reports indicate that the regime is worried about the impact of these measures, especially on its banking system and on its prospects for economic growth. For instance, in September, former Iranian President Rafsanjani publicly warned leaders in Iran to take the sanctions seriously. He said that, "We have never had such intensified sanctions and they are getting more intensified every day. Whenever we find a loophole, they [the Western powers] block it." The strategy is creating leverage to enhance U.S. Government diplomatic options.

On September 29, 2010, President Obama signed an Executive Order that imposes sanctions on Iranian officials determined to be responsible for or complicit in serious human rights violations. President Obama identified eight individuals who share responsibility for the sustained and severe violation of human rights in Iran since the June 2009 disputed presidential election. As a result of this action, U.S. persons are prohibited from engaging in transactions with these individuals, and these individuals cannot access any property in the U.S. or in the possession or control of U.S. persons.

Finalized Terrorist Finance Tracking Program Agreement

Treasury, in conjunction with the Departments of Justice and State, successfully led negotiations for a new Terrorist Finance Tracking Program Agreement (TFTP) with the EU. The Agreement was ratified by the European Parliament in July 2010. The new accord entered into force on August 1 and allows the Treasury Department to subpoena financial payment messaging data stored in the EU for use in U.S. counterterrorism investigations. With the resumption of the full functioning of the TFTP, the U.S. and the EU restored this highly valuable counterterrorism tool that has aided in the prevention of terrorist attacks and investigations.

After the terrorist attacks on September 11, 2001, the Department of the Treasury initiated the TFTP to identify, track, and pursue terrorists and their networks. The Treasury Department is uniquely positioned to track terrorist money flows and assist in U.S. Government efforts to uncover terrorist cells and map terrorist networks. Since the start of the program, the TFTP has provided thousands of valuable leads to U.S. Government agencies and other governments.

Privacy protections in the program specify that the data in the TFTP may only be searched in connection with a specific counterterrorism investigation and not for any other purpose. The TFTP data can be searched only if an independent basis exists to believe that the subject of a search is connected to terrorism or its financing. This independent evidentiary predicate must be recorded before any search in the TFTP data is conducted. To verify the TFTP's robust safeguards, an independent auditor reviews the program's physical security, ensures proper procedures are implemented, and confirms that no data mining occurs.

Targeted Threats to the International Financial System Through Financial Sanctions

Treasury seeks to ensure that the financial networks of terrorists, WMD proliferators, and other criminals are degraded in order to undermine their illegitimate activities. OFAC continues to send the message that violations of U.S. economic sanctions will not be handled lightly. Since January 2010, Treasury has imposed penalties or entered into settlement agreements totaling over $200 million for alleged violations of the United States' economic sanctions targeting Iran, Sudan, Cuba, Burma, and designated narcotics traffickers. These penalties and settlements are from cases involving, among other things, the export of aircraft to Iran, the provision of shipping services to Iran and Sudan, and the use of vessels owned or managed by the IRISL. The figure also includes OFAC's most recent settlement with a major international bank, reached in conjunction with relevant state, federal, and international authorities, involving the manipulation of payment data which allowed sanctions targets to surreptitiously access the U.S. financial system for over two decades. The latest bank settlement brings the total amount in settlements for similar conduct to nearly $930 million.

Treasury designates foreign adversaries and networks of companies, other entities, and associated individuals pursuant to an EO or statute, and U.S. persons are prohibited from conducting transactions, providing services, and other associated dealings with those designated. The designations made this year varied across a range of sanctions programs and areas across the globe, including narcotics, WMD proliferation, terrorism, and the

Democratic Republic of the Congo. Key activities in fiscal year 2010 are described below.

- Treasury sustained a campaign of sanctions against Iran, its agents, and its front companies in response to Iran's continued defiance of various UNSCR. OFAC designated 23 individuals and entities involved in Iran's efforts to proliferate WMD under EO 13382; identified a subsidiary contributing to Iran's proliferation efforts; identified 27 new vessels and updated entries of 71 vessels; designated nine entities and individuals involved in Iran's support for terrorism under EO 13224; and identified 43 targets as acting for, acting on behalf of, being owned, or being controlled by the Government of Iran.
- Treasury designated 21 individuals and entities pursuant to EO 13224 with respect to terrorism, including the July 16, 2010 designation of Anwar al-Awlaki, a key leader for al-Qa'ida in the Arabian Peninsula; a Yemen-based terrorist group; and the July 22, 2010 designation of three key leaders and financiers for the Taliban and its affiliated group, the Haqqani Network.
- Treasury continued to support Mexican counter narcotics law enforcement. In August, 2010, OFAC Director Adam Szubin met with private and public sector officials in Mexico City to strengthen coordination and cooperation between Treasury and Mexican actions against cartels. During the year, Treasury has designated 49 individuals and 25 entities associated with Mexican drug cartels, enhanced information exchange with the Mexican financial intelligence unit (FIU), and improved coordination on a variety of counter narcotics initiatives targeting the Arellano Felix Organization, Beltran Leyva Organization, and the Sinaloa Cartel.
- Treasury designated 37 individuals and 37 entities pursuant to the Foreign Narcotics Kingpin Designation Act, and 42 individuals and 37 entities pursuant to EO 12978 targeting drug traffickers and their networks centered in Colombia.
- In April and June of 2010, Treasury designated six militia leaders involved in atrocities in the Democratic Republic of the Congo.
- In April 2010, the President issued an EO to address the conflict in Somalia. Shortly following the announcement, Treasury implemented a new sanctions program based on that EO and designated 12 persons identified by the President as contributing to the Somali conflict.

Charitable Outreach

Outreach to the charitable sector represents a fundamental objective for Treasury in its broader campaign to combat terrorist financing. Treasury's ongoing engagement with the charitable community strives to protect charities from terrorist abuse and empower the sector to adopt and implement effective safeguards against terrorist exploitation. Treasury Department officials have continued their active engagement with donor communities and other components of the U.S. Government to help promote safe and transparent charitable giving, while protecting against terrorist financing.

This summer, the Treasury Department published a factsheet entitled "Protecting Charitable Giving: Frequently Asked Questions." This document provides substantial information about the Treasury Department's approach to combating terrorist abuse of charities and answers important questions raised by the charitable sector and the donor communities concerning charitable giving. The factsheet reflects significant dialogue with the charitable sector and also serves as a prime example of outreach to Muslim communities in the United States.

Strengthened Intelligence to Counter Violent Extremism and Nuclear Proliferation

This year, Treasury strengthened its ability to shape intelligence analysis and drive collection on the global financial network. Treasury has provided analysis of terrorist groups including al-Qa'ida and its affiliates, the Taliban, Hamas, and Hizballah; WMD proliferation networks; violent extremism and corruption in Afghanistan and Pakistan; Iraqi insurgency support networks; and nation-states that challenge U.S. interests, such as Iran and North Korea.

Countered Insurgency in Afghanistan

Treasury served a leading role in the establishment of the Afghanistan Threat Finance Cell (ATFC) this year. The ATFC is a Kabul-based task force charged to enhance the collection, exploitation, analysis, and dissemination of intelligence to combat funding and support for the Taliban and other terrorist and insurgent networks in Afghanistan. The ATFC provides threat finance expertise to U.S. civilian and military leaders and assists Afghan authorities in their investigations into insurgent finance, narcotics trafficking, and government corruption. Through this assistance, the ATFC has helped to build the capacity of Afghan authorities to operate independently, a key U.S. policy goal in Afghanistan.

Targeted Organized Crime in Mexico

Over the past year and in close collaboration with Mexican counterparts, Treasury increased efforts to combat money laundering and target the financial underpinnings of criminal organizations in Mexico. Treasury ramped up its technical assistance program in Mexico to address key money laundering vulnerabilities through courses on forensic accounting, financial investigations, and financial sector supervision.

Prevented North Korean Proliferation and Other Illicit Activities

The U.S. Government has longstanding concerns regarding North Korea's involvement in a range of illicit activities conducted through government agencies and associated front companies. In August 2010, President Obama issued an EO freezing the assets of certain persons with respect to the Democratic People's Republic of Korea (North Korea). This new EO expands the scope of the national emergency declared in EO 13466 of June 26, 2008 and targets North Korean arms trafficking, luxury goods procurement, and illicit economic activities. The EO directs the Secretary of the Treasury, in consultation with the Secretary of State, to target for sanctions individuals and entities facilitating North Korean trafficking in arms and related materiel; procurement of luxury goods; and engagement in illicit economic activities, such as money laundering, the counterfeiting of goods and currency, bulk cash smuggling, and narcotics trafficking.

Major Asset Seizures and Forfeitures

TEOAF's mission is to affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus from the Department of the Treasury and Justice to disrupt and dismantle criminal enterprises. The Treasury Forfeiture Fund had a uniquely robust year with over $1 billion in forfeitures and recoveries, including $134 million in the Credit Suisse case. IRS-CI and the Federal Bureau of Investigations jointly investigated the ABN-AMRO bank case. In May 2010, the former ABN-AMRO Bank N.V., now named Royal Bank of Scotland N.V., agreed to forfeit $500 million to the United States in connection with a conspiracy to defraud the United States, to violate the International Emergency Economic Powers Act (IEEPA), to violate the Trading with the Enemy Act (TWEA), and to violate the BSA. Of this amount, $250 million will be equitably shared with the Department of Justice forfeiture fund.

Conclusion

TFI discontinued all of its previously reported performance measures and began applying its composite performance metric "Impact of TFI programs and activities" during fiscal year 2009. TFI met its targets for its two measures. TFI achieved a high impact for its measure "Impact of TFI programs and activities." The external review process for this performance metric still needs to be developed, but the implementation of this measure is a large step in the effort to measure performance for a policy office that also has operational responsibilities. TFI and the Department will continue to refine how the measure is rated and scored. In addition, TEOAF achieved 93 percent of forfeited cash proceeds resulted from high-impact cases, exceeding its target of 75 percent.

Moving Forward

Enforcing the New Iran Legislation

As part of Treasury's overall strategy with respect to Iran, OFAC will investigate foreign financial institutions whose dealings with Iran may subject them to special measures related to legislation passed by Congress on July 1. In addition to financial institutions, the focus on Iran will include cases involving shipping and the export of sensitive goods to Iran. OFAC intends to continue announcing major enforcement actions involving alleged violations of Iranian sanctions over the coming year. By working closely with our colleagues at other agencies, OFAC will increase the number of entities designated and enforcement cases resolved by OFAC and the Department of Justice or the Department of Commerce.

Strengthening Economic Sanctions Against other Targets

The Treasury Department will work to implement a new sanctions program established by President Obama targeting North Korean illicit activity and will continue to implement pre-existing sanctions targeting North Korean proliferation activities. The new sanctions program, announced on August 30, enhances U.S. implementation of United Nations Security Council Resolutions 1718 and 1874 on North Korea, addresses threats to U.S. national security, and protects the international financial system from North Korea's abuse.

Consistent with U.S. foreign policy priorities, OFAC will continue its strengthening of sanctions against targets such as Sudan, Zimbabwe, and Burma.

Supporting the National Intelligence Strategy

Over the coming year, OIA will further develop analysis and collection to support the National Intelligence Strategy on economic issues such as illicit finance and global cyber threats to financial systems. OIA will also increase cooperation across the intelligence community on international financial issues and threats to global financial stability. OIA will provide expert intelligence analysis to support targeted financial measures against the networks that fund terrorist and insurgent groups and support nuclear weapons proliferation, such as al-Qa'ida and its affiliates, the Taliban, Hamas, and Hizballah.

Combating Illicit Finance

Treasury will continue to work with interagency colleagues and international counterparts to promote strong controls and best practices for anti-money laundering and combating the financing of terrorism. This will guard against illicit finance in the formal financial sector.

Supporting Efforts in Afghanistan

Treasury will deploy personnel to the ATFC to enhance the collection, analysis, and dissemination of timely and relevant financial intelligence to combat funding and support for terrorist and insurgent networks in Afghanistan. Treasury will continue to investigate bulk cash movements and illicit financial flows in and out of Afghanistan. Treasury will deploy personnel to the Attaché Office within the U.S. Embassy in Kabul to augment Treasury's efforts to bolster the regulatory and investigative capacity of the Afghan government to combat illicit finance.

Supporting Southwest Border Efforts

In fiscal year 2011, TEOAF will focus its resources to enhance support of law enforcement's Southwest Border Strategy, National Money Laundering Strategy, and anti-terrorism financing efforts. TEOAF will provide support to enhance criminal investigations related to criminal activities on the Southwest Border to deprive criminal enterprises of their profits and enabling assets. TEOAF will also use its resources to strengthen outbound infrastructure at Ports of Entry in order to effectively target bulk currency that is smuggled across the border to fuel drug and human smuggling enterprises.

Safer and More Transparent U.S. and International Financial Systems

Five performance measures are associated with this outcome. Treasury exceed or met targets set for four of the five measures, and narrowly missed one. Overall 81 percent of the measures exceeded their targets, and some targets were exceeded by large margins.

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Average time to process enforcement matters (in years)	FinCEN	1	1	0.8	120.0%	-20.0%	Exceeded	1	▶	▼
Percent of federal and state regulatory agencies with memoranda of understanding/information sharing agreements (%)	FinCEN	43	46	46	100.0%	7.0%	Met	50	▲	▲
Percent of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system (%)	FinCEN	82	68	86	126.5%	4.9%	Exceeded	86	▲	▲
Percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule (%)	FinCEN	2.1	5.2	1.6	169.2%	-23.8%	Exceeded	5.2	▶	▼
Percentage of customers satisfied with the BSA E-Filing (%)	FinCEN	94	90	96	106.7%	2.1%	Exceeded	92	▶	▲
Percentage of customers satisfied with direct access to BSA (%)	FinCEN	74	74	74	100.0%	0.0%	Met	74	▼	▼
Percentage of FinCEN's Regulatory Resource Center Customers rating the guidance received as understandable (%)	FinCEN	94	90	92	102.2%	-2.1%	Exceeded	90	▶	▶
Share of BSA filings submitted electronically (%)	FinCEN	82	71	83	116.9%	1.2%	Exceeded	73	▲	▲
The percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable (%)	FinCEN	81	81	80	98.8%	-1.2%	Unmet	80	▲	▼

Analysis of Performance Results

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

FinCEN has 16 measures for fiscal year 2010, and 94 percent of its targets were achieved. Five measures are used to score the focus area, "impact of activities to create safer and more transparent financial systems" for the overall TFI measure. Those measures are:

- Average time to process enforcement matters
- Percentage of FinCEN's Regulatory Resource Center customers rating the guidance received as understandable
- Percentage of domestic law enforcement and foreign intelligence units finding FinCEN's analytic reports highly valuable
- Percentage of customers satisfied with the BSA E-filing
- Percentage of customers satisfied with direct access to BSA

FinCEN achieved a score of 7.8 out of 10 possible points.

In the regulatory area, FinCEN continues to increase activities to monitor financial institutions examined for BSA compliance by state and federal regulators through the establishment of MOUs to exchange compliance information. In 2010, FinCEN executed four additional MOUs and met its fiscal year 2010 target of 46 percent of federal/state regulatory agencies with MOUs. These MOUs help ensure effective application of the BSA regulations across all regulated financial service industries by providing vital compliance data. FinCEN will continue collaborating with state insurance commissioners and other regulatory agencies to sign additional agreements to meet future targets.

FinCEN surveys its compliance MOU holders to determine the impact of the information exchange to improve the BSA consistency and compliance of the financial system. In fiscal year 2010, 86 percent of them rated the information exchange as valuable, and FinCEN exceeded its target. FinCEN will continue to facilitate valuable relationships with MOU holders to meet future targets.

FinCEN's goal to provide financial institutions with understandable guidance through the BSA Resource Center is critical to institutions establishing anti-money laundering programs that comply with the BSA. FinCEN met its target in fiscal year 2010 with 92 percent. To meet future targets, FinCEN will continue to strive for consistently high customer satisfaction levels.

FinCEN also works closely with its regulatory partners to take enforcement action against financial institutions that systemically and egregiously violate the provisions of the BSA, including through imposition of civil money penalties when appropriate. Enforcement action is essential to deter non-compliance with the BSA. In fiscal year 2010, FinCEN's target was to process enforcement matters in 1.0 year, and FinCEN exceeded the target at 0.8 years. FinCEN will continue to actively manage casework to meet future targets.

In the analytical area, FinCEN supports domestic law enforcement and international FIU partners by providing analyses of BSA and other financial information, and measures the percentage of customers finding FinCEN's analytic reports highly valuable. The measure closely ties to how BSA information is used by law enforcement and international FIUs to identify, investigate, and prevent abuse of the financial system. In fiscal year 2010, FinCEN achieved 80 percent, narrrowly missing its target of 81 percent. FinCEN will continue its efforts to solicit input from customers on types of products they would like and possible ways to improve the structure of its reports to meet future targets.

In the efficient management, safeguarding, and use of BSA information, FinCEN conducts a survey of the users of the BSA E-Filing system to determine overall satisfaction and to identify where improvements are needed. FinCEN achieved 96 percent satisfaction level. FinCEN will continue outreach to E-filers and ensure the technology supports the demand.

The following sections describe efforts undertaken by FinCEN in 2010. These results are the basis for assessing FinCEN's impact and are reflected in their performance results.

Leveraged Partnerships with U.S. Law Enforcement and Mexican Foreign Intelligence Unit

FinCEN continued to leverage partnerships with U.S. law enforcement and the Mexican FIU to support the detection, interdiction, and investigation of the flow of illicit proceeds from narcotics and human smuggling into U.S. and Mexican financial institutions. In support of these efforts, FinCEN completed a joint study with the Mexican FIU of U.S. dollar currency flows between the U.S and Mexico. The study provides a more accurate baseline of U.S. dollar currency activity in Mexico from which both countries can more effectively measure the scope of bulk cash smuggling into Mexico and the effectiveness of future AML and cash interdiction efforts. FinCEN dedicated a staff member to work with the Mexican FIU and undertook the following in support of U.S. and Mexican law enforcement efforts:

- Produced a joint intelligence advisory with the National Drug Intelligence Center (NDIC) on trends in Trade Based Money Laundering and Black Market Peso Exchange
- Initiated support to a newly-created Southwest Border Anti-Money Laundering Alliance through the analysis of wire remittance data
- Issued an advisory on a new Mexican regulation that may precipitate a significant change in recent cash smuggling trends and conducted studies on the impact of the new regulation on money from the region
- Developed suspected Mexican cartel money laundering targets and referred them to U.S. and Mexican law enforcement

FinCEN continues to coordinate investigative follow-up of these targets with U.S. law enforcement and to develop plans and processes for future targeting efforts.

Collaborated with and Support to Foreign Intelligence Units

FinCEN completed its sponsorship of the Afghan FIU, known as FinTRACA, into the Egmont Group, the global organization of FIUs. FinTRACA became a member of the Egmont Group in June 2010, allowing it to engage with the other 119 FIUs that form the global network for sharing financial intelligence. FIUs in the Egmont Group share information relating to thousands of investigations per year. The multi-year sponsorship process culminated with FinCEN's on-site assessment of FinTRACA to ensure that the unit complied with Egmont Group standards. FinTRACA's membership in the Egmont Group will benefit law enforcement agencies in the United States and throughout the world by facilitating the exchange of information through FIU channels. FinCEN also placed a staff member to work with FinTRACA to foster tactical information sharing between the FIU and U.S. law enforcement.

FinCEN continued outreach and liaison activities to improve the quality and quantity of financial intelligence exchanged between FinCEN and foreign FIUs. FinCEN continued its leadership role in the Egmont Group to promote effective information sharing. FinCEN played a key role on Egmont Group projects on enterprise-wide suspicious transaction report (STR) sharing in the private sector and FIU issues relating to Financial Action Task Force (FATF) mutual evaluations. On behalf of the Egmont Group, FinCEN developed and managed the most comprehensive database on FIU information in the world. FinCEN created and disseminated tactical financial intelligence reports to Egmont Group FIUs and managed case exchange with FIUs on behalf of U.S. law enforcement and regulatory agencies. These intelligence products are integral to domestic and foreign investigations of money laundering, financial fraud, and terrorist financing around the world.

President Obama established the Financial Fraud Enforcement Task Force (FFETF) in November 2009. With more than 20 federal agencies, 94 U.S. Attorneys' Offices, and state and local partners, FFETF is the broadest coalition of law enforcement, investigative, and regulatory agencies ever assembled to combat financial fraud. FinCEN also undertook efforts to expand information sharing across the U.S. Government in a coordinated manner, worked to increase understanding of the value and utilization of BSA data for investigative purposes, and supported FFETF's events with analytical packages and demonstrations. FinCEN also participated in committees and other working groups of the FFETF, including acting, along with the Executive Office for the U.S. Attorneys, as co-chair of the Task Force's Training and Information Sharing Committee.

Enhanced Mechanisms to Combat Mortgage and Loan Modification Fraud

FinCEN continued to combat mortgage fraud, foreclosure rescue scams, and loan modification fraud. FinCEN published an advanced notice of proposed rulemaking on the possible application of AML and suspicious activity reporting requirements to non-bank residential mortgage lenders and originators. The application of such rules would close a regulatory gap by requiring non-bank residential mortgage lenders and originators to guard against and report on illicit actors engaging in financial transactions.

In addition, FinCEN published its latest mortgage fraud-related analytic report in July 2010, the eighth in a series of products describing filing trends, evolving patterns, emerging typologies, as well as analysis of depository institution suspicious activity reports (SARs) that report mortgage fraud. The report contained information that may be beneficial to law enforcement, regulators, and the financial industries. In June 2010, FinCEN released a report specifically describing trends found in SARs reporting loan modification and foreclosure rescue scams. The relevant SARs increased from 28 reports filed by depository institutions and money services businesses in 2004, to over 3,000 SARs filed in 2009. The SARs in the sample dataset revealed that in the eight months between the issuance of an April 2009 FinCEN Advisory, filers increased reporting by over 100 percent during the entire five-year period. The April 2009 FinCEN Advisory provided indicators of loan modification and foreclosure rescue fraud and requested filers to report such activity in SARs.

FinCEN also continued to support U.S. Government efforts to combat mortgage fraud and to bring relief to America's housing market and homeowners by increasing its analytical support to investigations and prosecutions. FinCEN published an updated advisory to financial institutions on loan modification fraud in June 2010 and an advisory to financial institutions on fraud related to home equity conversion mortgages (HECMs) in April 2010. Through its involvement in the FFETF, FinCEN leveraged the relationships and techniques it developed in the mortgage fraud context to initiate similar efforts in the areas of health care fraud and securities fraud.

FinCEN was recognized by the DOJ for playing an important role in Operation Stolen Dreams, an effort over 3.5 months to take down mortgage fraud schemes across the country. The operation involved 1,215 criminal defendants nationwide who were allegedly responsible for more than $2.3 billion in losses.

Collaborated to Detect Healthcare Fraud

FinCEN proposed to work closely with the Departments of Health and Human Services and Justice, and other federal and state law enforcement agencies to identify increasingly complex health care fraud schemes. FinCEN developed an initiative to use the BSA analytical assessments to identify the most egregious individual perpetrators and organized groups in health care fraud schemes. FinCEN is working with the Health Care Fraud Prevention and Enforcement Action Team (HEAT). HEAT brings investigators and prosecutors together in targeted geographical areas to target individuals and organizations who are defrauding the health care system. Through this analytical process, FinCEN will be able to provide the investigators with an overall assessment of the targeted jurisdictions, as well as the organizations and individuals that are suspected of being engaged in health care fraud schemes. FinCEN already provided assistance to the largest federal health care fraud takedown in U.S. history: 94 people in four cities were charged for allegedly participating in schemes to submit more than $251 million in false Medicare claims.

Outreach to Increase the Use of BSA E-filing

FinCEN initiated an important outreach campaign to increase the use of its BSA E-Filing Program and thereby reduce the volume of paper BSA forms being processed. As a part of that effort, FinCEN published an article on BSA E-Filing in the October 2009 SAR Activity Review that outlined recent enhancements to the system and explained the benefits of filing electronically. FinCEN also developed and published an informational brochure highlighting the benefits of the BSA E-Filing Program. Using that brochure and in coordination with its Federal Government examination partners, FinCEN contacted the largest filers of paper Currency Transaction Reports (CTRs) to explain the benefits of filing electronically. As a result of these efforts, a growing number of contacted institutions have adopted the BSA E-Filing Program and the percentage of BSA filings filed electronically has increased from 71 percent in fiscal year 2008 to 83 percent in fiscal year 2010. FinCEN expects to continue and expand this promotional campaign into fiscal year 2011.

Modernize BSA IT system

In May 2010, FinCEN launched the design phase of the BSA IT Modernization program. The modernization effort will enrich and standardize BSA data, evaluate and deploy analytical tools, establish more effective security technologies to enhance data confidentiality and integrity, and improve customer satisfaction with BSA systems. During the design phase FinCEN will begin defining the technology to support the business requirements for the new BSA system of record, basic and advanced analytic capabilities, enhanced E-Filing functionality, as well as improved customer relations capabilities. FinCEN has already completed the necessary planning efforts and established the foundation to guide all future activities.

Regulatory Efforts

In the regulatory area, FinCEN's policy efforts focus on efficient and effective BSA administration. This includes ensuring the consistent application of BSA regulations to regulated financial institutions, providing guidance on regulatory expectations, and initiating enforcement actions when appropriate.

To enhance BSA compliance, FinCEN developed analysis criteria to more effectively leverage BSA data to identify potential non-compliant institutions. This strategy should enable FinCEN to enhance collaboration with law enforcement to identify sources of lead information and become even more proactive in identifying and taking action against non-compliant institutions, including targeted examination referrals and enforcement measures as warranted.

FinCEN issued a final rule enhancing domestic and international information sharing to thwart money laundering and terrorist finance. This rule conforms FinCEN's successful 314(a) program with the treaty agreements between the U.S. and the EU. The rule greatly benefits the U.S. by granting federal law enforcement agencies reciprocal rights to obtain information about suspect accounts in EU member states. The final rule also gives U.S. state and local law enforcement agencies access to the program and further clarifies that FinCEN and certain units of the Treasury Department can access the program to increase the quality of analytical support provided to law enforcement.

FinCEN published guidance on obtaining and retaining beneficial ownership information. Information on beneficial ownership in account relationships provides another tool for financial institutions to better understand and address money laundering and terrorist financing risks, protect themselves from criminal activity, and assist law enforcement with investigations and prosecutions. FinCEN worked closely with its regulatory partners to develop the guidance, which was issued jointly with the Federal Banking Agencies and the Securities and Exchange Commission.

FinCEN is close to finalizing rules strengthening the confidentiality of SARs and released guidance that permits certain affiliates of depository institutions, broker-dealers in securities, mutual funds, futures commission merchants, and introducing brokers in commodities to share SARs within a corporate organizational structure for purposes consistent with Title II of the BSA. The revised rules will help financial institutions better facilitate compliance with the applicable requirements of the BSA and more effectively implement enterprise-wide risk management, resulting in better risk assessment and better reporting quality.

FinCEN published an assessment of insurance SAR reporting, an assessment of the impact of streamlined CTR exemption rules, and a simplified, revised regulatory structure in the Federal Register to reorganize BSA regulations under Chapter X of the Code of Federal Regulations. The assessments provide valuable information to the industry, and the reorganization would ensure that financial institutions are able to identify BSA obligations in a more understandable manner when the structure becomes effective in fiscal year 2011.

In March 2010, FinCEN announced the assessment of a civil money penalty, $110 million, against Wachovia Bank. The action represents the largest penalty action to date against a financial institutions by FinCEN for violations of the BSA.

Conclusion

FinCEN missed only one target this year compared to two last year. The one target not achieved, "The percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable," narrowly missed the target by one percentage point. Overall 81 percent of the measures exceeded their targets, and some targets were exceeded by large margins. Actual results for 37.5 percent of measures showed decreases from last year, while 50 percent saw increases and 12.5 percent saw no change. Fiscal year 2010 performance exceeded targets for 10 measures.

Moving Forward

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

- Finalize regulations for non-bank residential mortgage lenders and originators that apply AML program and SAR requirements. This initiative will support efforts to prevent criminal actors from abusing the housing markets and help bring other participants in the loan and finance industry under the BSA;
- Finalize proposed amendments to clarify the scope of the money services business (MSB) definitions to the extent consistent with appropriately managing money laundering risks in this industry;
- Finalize proposed regulations to bring providers and certain sellers of prepaid access cards into more comprehensive BSA requirements, including the AML program, suspicious activity reporting, registration, and customer identification requirements;
- Continue to conduct analysis in support of regulatory initiatives (such as identity theft) and efforts to combat mortgage loan fraud. The analysis will identify emerging trends (such as commercial real estate fraud); and
- Continue to enhance proactive compliance and enforcement efforts, including targeted steps to increase money transmitter registration. FinCEN will also continue to strengthen oversight of recently-covered industries under the BSA by signing additional information sharing agreements with state insurance regulators and working cooperatively with the IRS and state regulators on consistent, risk-based examination procedures.

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

- Continue to work with law enforcement and financial and international partners to combat Mexican cartel-related drug, gun, and human smuggling operations in Mexico and along the Southwest border by improving the sharing and analysis of related financial information;
- Continue to work with the Southwest Border Anti-Money Laundering Alliance and other federal or state efforts to interdict and investigate illicit money laundering on the Southwest Border through the detection of trends, patterns, and significant criminal activity in wire remittance data. Under a state agreement, FinCEN will receive an estimated 100 million records associated with wire transfers to and from the Mexican border area from 2005 to 2013;
- Support federal law enforcement efforts to combat health care fraud by initiating a process to identify potential health care fraud perpetrators and by providing analytical support to investigations and prosecutions;
- Expand the range of analytical products and identify more efficiencies in case management of foreign FIU requests. FinCEN intends to dramatically increase the number of proactive intelligence reports sent to foreign counterpart FIUs. Proactive intelligence reports will enable foreign law enforcement agencies to develop new cases or enhance existing ones;
- Increase joint analytical projects with foreign FIU counterparts through intensified operational engagements with key strategic partner FIUs. For example, FinCEN plans to replicate with other foreign FIUs a current analytical initiative involving FinCEN, the Mexican FIU, and IRS-CI; and
- Enhance international information sharing through expanded collaboration with international bodies, including the Egmont Group, FATF, regional bodies, the World Bank, and the IMF.

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

- Continue to modernize BSA information management and analysis
- Deploy the new advanced analytical tool on the current technical environment
- Establish disaster recovery infrastructure
- Deploy the Registered User Portal, which will provide a common user interface and authentication process for accessing BSA data
- Begin the development efforts to build the BSA new system of record and basic query capabilities
- Implement the ability to electronically enter select forms that are currently accepted only via paper filing

STRATEGIC GOAL:
MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

STRATEGIC OBJECTIVE: Enabled and Effective Treasury Department

The Department of the Treasury strives to maintain public trust and confidence through exemplary leadership and creating a culture of excellence, integrity, and teamwork. The Department is dedicated to serving the public interest and focused on delivering results that align with its strategic objectives. Management enables this through a strong institution that is citizen-centered, focused on achieving results, and is accountable and transparent to the American people.

Strategies to achieve this objective are improved acquisition practices, investing in people and technology, implementing quarterly performance and budget reviews, and aligning and managing resources. The Treasury Department is committed to planning and assessing performance, reviewing results, and working towards continuous improvement.

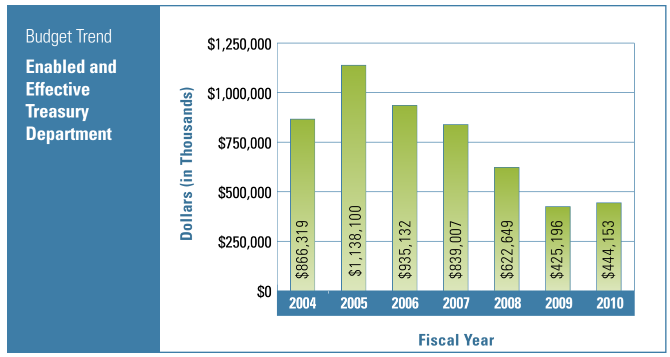
The bureaus and offices responsible for achievement of this objective are:

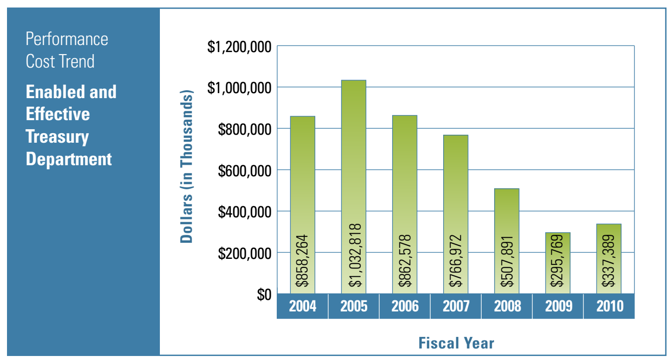
- Office of the Treasury Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) which includes the Deputy Chief Financial Officer (DCFO), Budget, Planning, Human Capital, Information Technology, Procurement, Privacy, and Operations
- Office of the Treasury Inspector General (OIG)
- The Treasury Inspector General for Tax Administration (TIGTA)
- Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)

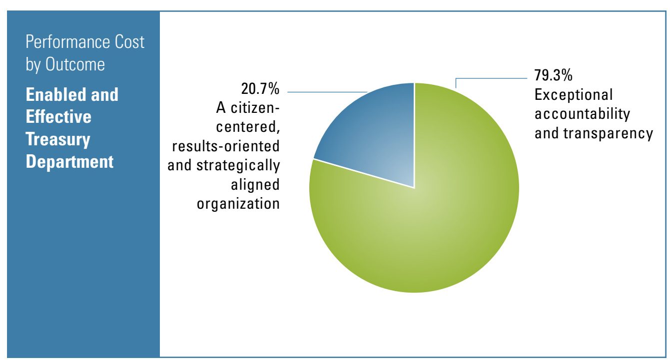
The outcomes associated with this objective are:

- A citizen-centered, results oriented and strategically aligned organization
- Exceptional accountability and transparency

Fifty percent of measures associated with this objective had targets that were more aggressive compared to 2009.







A Citizen-Centered, Results Oriented, and Strategically Aligned Organization

Based on performance results, Treasury succeeded in achieving this outcome for fiscal year 2010.

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Complete Investigations of EEO Complaints Within 180 Days (%)	DO	65	65	86	132.3%	32.3%	Exceeded	65	▲	▲
Percent of complainants informally contacting EEO (for the purpose of seeking counseling or filing a complaint) who participate in the ADR Process (%)	DO	35	35	51	145.7%	45.7%	Exceeded	40	▲	▲
Customer Satisfaction Index - Financial Mgmt Admin Support Services (%)	Treasury Franchise Fund	89	80	81	101.3%	-9.0%	Exceeded	80	▲	▲
Operating expenses as a percentage of revenue--Financial Management Administrative Support (%)	Treasury Franchise Fund	4.72	12	6	150.0%	27.1%	Exceeded	DISC	▶	▼

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

In 2010, Treasury exceeded all of its performance goals for this strategic outcome. Furthermore, all measures are now trending in a desirable direction. Treasury's Equal Employment Opportunity (EEO) results are particularly positive suggesting strengthening of the program. The data also suggests that while the Department successfully achieved goals for priorities related to this outcome, targets for these measures may not be sufficiently aggressive.

Procurement

The Office of the Procurement Executive (OPE) is responsible for providing department-wide acquisition management, improving guidance for procurement programs and systems, bureau-level procurement operation evaluation, and facilitating strategic procurement. No performance goals for agency-wide procurement were included in Treasury's 2010 performance budget.

The Department executed its fiscal year 2010 plan to meet the OMB acquisition improvement mandate to deliver 3.5 percent in procurement savings in fiscal year 2010 (and fiscal year 2011) and to achieve a ten percent reduction in high risk contracting in fiscal year 2010. As of September, Treasury had exceeded both goals, documenting in excess of $241.9 million in savings vs. the goal of $158.4 million, and $129.4 million in high risk contracting reduction versus the goal of $48.8 million. The Department has already taken steps to ensure achievement of the required savings of 3.5 percent in fiscal year 2011 ($158 million) and additional reduction in use of high risk contracting authorities. While OMB has not mandated a fiscal year 2011 high risk reduction goal, Treasury elected to continue actively transitioning to lower risk contracting strategies. Treasury will achieve its targets through active management of acquisition operations and increased examination of high dollar/risk contracts.

The Department plan includes specific strategic sourcing activities that were initiated in both fiscal year 2009 and fiscal year 2010. Treasury mandated agency-wide use of the General Services Administration (GSA) Federal Strategic Sourcing Initiative (FSSI) for Office Supplies 2 (OS2) and Domestic Delivery Services 2 (DDS2). The Department also has initiated several Treasury-wide strategic sourcing initiatives, which include consolidation of software (Adobe/Symantec) and subscription services.

To promote collaboration and make the Department more efficient, Treasury held the first ever Joint Bureau Chief Procurement Officer (BCPO)/ Chief Financial Officer (CFO) / Chief Information Officer (CIO) Council meeting focused on Acquisition reform. Later, Chief Human Capital Officers (CHCOs) were included in the governance model. This "Quad Council" identified teams to develop and lead Treasury-wide acquisition improvement initiatives supporting use of strategic sourcing concepts, demand management, commodity councils, common technology for visibility and access of data, and improved governance. Analysis of research is ongoing with future actions to be determined based on findings and corporate potential.

As required by the *National Defense Authorization Act* for fiscal year 2009 and the Office of Federal Procurement Policy (OFPP), Treasury developed an Acquisition Human Capital Plan to be used to guide the growth in capacity and capability of its acquisition workforce over the next five years. The Plan was submitted to OFPP in March 2010 and will be updated annually. The Plan will serve as a component of the agency's budget preparation beginning with the fiscal year 2012 budget cycle.

Information Technology (IT)

The Office of the Chief Information Officer is responsible for all areas of information and technology management. With an annual IT budget of over $3 billion dollars, the Department is focused on enabling innovation in support of the Department's expanding financial and economic missions while also increasing the operational efficiency and effectiveness of IT assets. No performance goals for agency-wide IT were included as part of Treasury's fiscal year 2010 performance budget. In light of the dynamic environment within which Treasury operates, Treasury's IT program is focused on the following areas.

Using taxpayer funding wisely by leveraging IT investments

Treasury is actively using the Federal IT Dashboard to monitor and assess its key IT investments.

While the results for cost and schedule variance in fiscal year 2009 showed marked improvement from 2008, they were not indicative of Treasury's performance due to the way in which data was being captured. Going forward OCIO is reviewing options on what statistics act as best indicators of performance. These metrics are annual snapshots and don't reflect performance throughout the year. Ideally, future measures and benchmarks will be consistent with data used by the IT Dashboard. The project manager qualification measure will be reviewed by OCIO for follow-up action. The measure requires a longer term personnel development and training solution.

Measure	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Change
Percent of IT investments reported as "red" for cost variance (greater than 10% variance from target)	40.33%	1.7%	26%	24.3%
Percent of IT investments reported as "red" for schedule variance (greater than 10% variance from target)	19.4%	0%	9%	9%
Percent investments reported that the Project Manager was validated, according to 1) Federal Acquisition Certification for Program and Project Managers or 2) Defense Acquisition Workforce Improvement Act criteria, as qualified	77.42%	83.05	69%	-14.05%

Additionally, Treasury is actively engaged in data center consolidation efforts in support of Green IT and Real Property Management. In August 2010, the Department submitted its strategy for reducing the number of Treasury data centers to OMB. In support of this strategy, the Treasury CIO Council approved proposals of specific initiatives to consolidate and optimize the Department's data centers. It is anticipated that the Department can increase the efficiency of its data centers in support of energy reduction and release of real property.

One specific initiative is the Fiscal IT consolidation. FMS and BPD initiated a project to consolidate the data centers across the two bureaus to help achieve the Secretary's objective of increasing the utilization and efficiency of combined IT assets, while reducing technology costs. The Fiscal IT effort includes consolidation of five data centers into two shared by both bureaus, creation of a single corporate governing body, in-sourcing of select contracted functions, and consolidation of application development methodologies and associated infrastructure, all leading to a more "green" approach to delivery of IT services. Both FMS and BPD anticipate savings due to reductions in energy consumption, equipment, software, and staff.

Enabling an information centric organization

Treasury investments such as Enterprise Content Management, the Internal Revenue Service's Customer Account Data Engine II, and FinCEN's IT Modernization are demonstrably focused on improving mission performance. Effective use of IT will also enable Treasury to rapidly begin operations as assigned by the Dodd–Frank Act. In addition to business capabilities, Treasury IT will enable greater public access to data by increasing the amount of public data that are readily accessible and in machine readable formats.

To provide timely reporting and monitoring of select cyber security metrics, Treasury developed and deployed a Web-based dashboard that provides real time analysis and an indexed cyber security posture. This dashboard can be easily updated to reflect changes in metrics reported to OMB and to meet evolving cyber security status monitoring and trend analysis requirements.

Controlling and protecting Treasury information assets

Within an enterprise as interconnected as Treasury, security is not only essential for protecting information assets, but is more importantly a key enabler for many elements of Treasury's business mission. Two of Treasury's strategic security objectives include the Department-wide use of Homeland Security Presidential Directive-12 (HSPD-12) based credentials for logical access to business applications, and the enterprise-wide use of data loss prevention tools to monitor for and prevent the accidental leakage of information.

To further protect the Department's sensitive business information, Treasury is deploying the capability to monitor the use of illegal and unauthorized software in its networks and systems. This capability will help prevent software piracy and the introduction of hostile software which would put Treasury's IT-based business processes and information at risk of theft, compromise, and disruption.

Providing reliable and robust computing, information and communication services

Treasury operates one of the largest civilian wide-area networks in the United States. With a significant percentage of its workforce being mobile, Treasury demands a ubiquitous, full-featured, and cost effective communications service. Treasury will continue to provide high performing, elastic services by building on fiscal year 2010 successes in migrating to a common, more cost effective wide-area network.

The Department is currently modernizing several web sites including Treas.gov to increase transparency, accessibility, navigability, and usability. To date, Treasury has completed an assessment of the current Treas.gov website and is in the process of developing the new design. Treasury is moving from an office-based design approach to one which responds to user interests. The Treas.gov website will be the first federal website rated at the *Federal Information Security Management Act* (FISMA) moderate level to be hosted on the Amazon cloud computing platform. Additionally, Treasury deployed *MyMoney.gov* to provide financial education to the general public one month ahead of schedule in fiscal year 2010. Finally, Treasury also deployed web applications that will transform the way the Department attracts and retains job candidates by providing the information and functionality needed to decide on a career with Treasury.

Management and Budget

The Office of the Deputy Assistant Secretary for Management and Budget (DASMB) is responsible for strategic planning and performance management, budget formulation and execution, program evaluation, and special projects, such as Recovery Act coordination for the Department. No performance goals related to DASMB are included in Treasury's 2010 performance budget.

In fiscal year 2010, the Department's fiscal year 2012 budget submission was meticulously reviewed and prepared to establish funding based on key priorities. Treasury also worked to realize savings during this fiscal year by only funding top priority needs and reallocated savings towards programs aligned with Treasury's and the President's priorities.

During the fiscal year, the Deputy Secretary held quarterly performance and budget reviews with bureaus and policy offices. These reviews are structured after the "STAT" model developed by police departments to generate data-driven decisions. During these sessions, bureau mission statements and performance measures are re-evaluated, and then performance results are reviewed. Budget discussions were also included in the reviews.

Operations

The Office of the Deputy Assistant Secretary for Departmental Offices Operations provides management and administrative support for the offices and employees in Treasury's departmental, or headquarters, offices. No performance goals related to Departmental Operations are included in Treasury's 2010 performance budget.

Key Departmental Operations accomplishments for fiscal year 2010 are:

- Coordination with GSA for the location planning for the stand-up of the Consumer Financial Protection Bureau
- Establishing and maintaining "all green" on the Environment and Energy Scorecard for two reporting periods covering six months each
- Complete HSPD-12 Physical Access Control implementation for all Departmental Office owned and leased locations

Human Capital

The Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer is responsible for all areas of human capital management.

Effectively managing and utilizing human resources

In fiscal year 2010, Treasury implemented several changes to the Senior Executive Service (SES) performance management process to clarify performance expectations and support more meaningful distinctions in ratings and rewards, and assessment of those changes will continue in fiscal year 2011. Because SES ratings reform has been identified as a major priority of the President's Management Council, Treasury plans to pursue additional initiatives in fiscal year 2011 related to performance, hiring, and executive development.

Treasury worked to address administration guidance on improving labor management relationships and managing a multi-sector workforce. It established new labor management forums in cooperation with the National Treasury Employees Union and benchmarked contractor and federal employee performance within a key Treasury data-center against 80 similar facilities.

The Department also began implementation of human capital efforts related to the Dodd-Frank Act, such as new classifications and pay systems for new offices and bureaus.

Developing and retaining Treasury's workforce

During fiscal year 2010, Treasury implemented action plans that focused on areas for improvement as identified in the 2008 Federal Human Capital Survey. These efforts paid off with improved scores on the 2010 Employee Viewpoint Survey (now renamed the FedView Survey). The Department increased positive responses in each area, or index, of the survey by at least two percent. Treasury efforts to improve scores on the survey and across various indices based on the survey results will continue into the future. Additional detail on the survey methodology is available at the Office of Personnel Management (OPM) website: *http://www.opm.gov/surveys/results/Employee/2010Employee SurveyResults.asp*

Broadening and diversifying Treasury's talent pool

Treasury continued to create effective recruitment strategies and utilize available flexibilities to attract a diverse pool of highly qualified candidates, both external and internal, sufficient to ensure that the Department fulfills its mission requirements. Fiscal year 2010 marked the second successful year of the Hamilton fellows program. A total of 42 new fellows were hired Treasury-wide compared to 16 in fiscal year 2009. The Department developed a new hiring strategy for mid-career professionals during the fiscal year. Finally, Treasury also continued to recruit finalists from the OPM sponsored Presidential Management Fellowship program.

The Department's fiscal year 2010 progress was consistent with government-wide human capital initiatives including hiring reform, veterans hiring, hiring persons with disabilities, and expanding of benefits to same sex domestic partners. Treasury made significant progress in addressing the presidential memorandum on improving the federal hiring process by strengthening communication with applicants, streamlining and standardizing vacancy announcements, providing more information to managers, and process mapping departmental hiring efforts. Treasury retained its multi-year record as the cabinet level agency with the highest employment of individuals with targeted disabilities. Further, Treasury created a steering committee which has substantially improved the process for hiring veterans.

High Priority Performance Goal: Significantly Increase the Number of Paperless Transactions with the Public

In addition to greatly reducing costs, enhancing customer service and minimizing Treasury's environmental impact, the move from paper to electronic transactions will increase reliability, safety, and security for benefit recipients and taxpayers. The initiative is expected to save more than $400 million and 12 million pounds of paper in the first five years alone while delivering safe and secure payments in an efficient and reliable manner.

In 2010 Treasury began implementing paperless initiatives. First, Treasury expects individuals receiving Social Security, Supplemental Security Income, Veterans, Railroad Retirement, and OPM benefits to receive payments electronically. Individuals will be able to receive benefits either through direct deposit into a bank account or Treasury's Direct Express debit card. Today, one million Americans are receiving their benefit payments through Direct Express and they have found the card safe, convenient, and easy to use. The requirement will apply to new enrollees beginning on March 1, 2011 and to existing check recipients beginning on March 1, 2013. Currently, 85 percent of federal benefit recipients receive their payments electronically. Moving all recipients of these benefits to electronic payments is expected to save upwards of $300 million in the first five years.

Second, businesses currently permitted to use paper Federal Tax Deposit coupons will have to make those deposits electronically beginning in 2011 with a few exceptions, primarily businesses with $2,500 or less in quarterly tax liabilities that pay when filing their returns. Currently, nearly 98 percent of all business tax dollars are paid electronically through Treasury's free EFTPS. IRS research has shown that businesses using EFTPS are 31 times less likely to make an error. This change will save an estimated $65 million in the first five years.

Finally, Treasury eliminated the option to purchase paper savings bonds through payroll deductions for federal employees on September 30, 2010 and will eliminate it for the private sector by January 1, 2011. This policy covers only paper savings bonds purchased through payroll sales; individuals will still be able to purchase paper savings bonds at financial institutions for themselves and as gifts. Payroll savers will be encouraged to continue their purchases through TreasuryDirect, a web-based system that allows investors to buy and hold electronic Treasury securities. Transitioning employees to electronic payroll purchases saves employers administrative costs and allows employees to manage their own bond accounts. This is estimated to save nearly $50 million in the first five years.

Treasury has made substantial progress consistent with this effort. FMS exceeded its target for percentage collected electronically of Total Dollar Amount of Federal Government Receipts, reaching 85 percent. BPD has been conducting a public awareness campaign to inform its customers about the elimination of paper payroll savings bonds and the alternative of purchasing electronic securities in TreasuryDirect. The data demonstrates that BPD has been successful in moving its customers to electronic securities. In the fourth quarter of fiscal year 2010, new TreasuryDirect accounts increased 268 percent to 47,508 compared to 12,902 new accounts in the fourth quarter of fiscal year 2009. Also, in the fourth quarter of fiscal year 2010 dollar sales of electronic savings bonds rose 54 percent to $23,150,292 compared to $15,031,333 in the fourth quarter 2009. During the same period, sales of paper savings bonds decreased from $386,179,000 in the fourth quarter of 2009 to $383,115,000 in the fourth quarter of 2010. Additionally, the Office of the Fiscal Assistant Secretary (OFAS) has led an interagency work group to publish proposed regulations to solve the growing problem of garnishment of exempt federal benefits which will in turn facilitate additional electronic benefits payments rather than payment by check.

Conclusion

The Department exceeded its targets for its strategic outcome: "A Citizen Centered, Results Oriented, and Strategically Aligned Organization" for fiscal year 2010. The Department's initiatives are moving towards improved management across programs.

Moving Forward

- During fiscal year 2011, Treasury will institutionalize its quarterly performance and budget reviews. Treasury will continue to work to formalize performance metrics in all management functions.
- Data for Treasury's greenhouse gas emissions are not available annually, however Treasury is still committed to reducing greenhouse gas emissions by 33 percent by 2020. The Department will continue to work towards reducing emissions and reporting when possible.
- The Department will continue to implement hiring reform, including decreasing the time to hire, improving the pipeline of candidates, and supporting veterans and those with disabilities.
- The 2011 goals of the Paperless initiative include increasing electronic payment, collections, tax filing, and savings bonds transactions by 33 percent by the end of fiscal year 2011 and increasing the individual E-file rate to 74.7 percent.

Exceptional Accountability and Transparency

Achieving and maintaining exemplary accountability and transparency is critical for the Treasury Department as the primary financial agency for the U.S. Government. The Department follows proper internal controls that serve to deter and eliminate fraud, waste, and abuse, while increasing efficiency and effectiveness.

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

Key Performance Measure	Bureau	2009 Actual	2010 Target	2010 Actual	Percent of Target Achieved	Percent Change in Actual	Performance Rating	2011 Target	4-year Target Trend	4-year Actual Trend
Percentage of timely completed Planned Corrective Actions (PCAs) (%)	DO	85.6	87.5	88.4	101.0%	3.3%	Exceeded	90	▲	▲
Number of completed audit products	SIGTARP	3	12	9	75.0%	200.0%	Unmet	12	▲	▲
Percent of recommendations implemented (%)	SIGTARP	100	70	43	61.4%	-57.0%	Unmet	70	▼	▼
Congressional requests for testimony completed	SIGTARP	9	4	7	175.0%	-22.2%	Exceeded	4	▼	▼
Percentage of investigations accepted by prosecutors (%)	SIGTARP	95	50	100	200.0%	5.3%	Exceeded	55	▼	▲
Percentage of preliminary investigations that are converted into full investigations (%)	SIGTARP	50	35	80	228.6%	60.0%	Exceeded	40	▼	▲
Percentage of all cases that are joint agency/task force investigations (%)	SIGTARP	60	30	50	166.7%	-16.7%	Exceeded	35	▼	▼
Percentage of hotline complaints referred for investigation or to OFS within 14 days of receipt (%)	SIGTARP	77	60	74	123.3%	-3.9%	Exceeded	65	▼	▼
Number of completed audit products	OIG	68	62	68	109.7%	0.0%	Exceeded	62	▲	▲
Percent of statutory audits completed by the required date (%)	OIG	100	100	50	50.0%	-50.0%	Unmet	100	▶	▼
Percentage of all cases closed during fiscal year that were referred for criminal/civil prosecution or Treasury Administrative action (%)	OIG	100	70	93	132.9%	-7.0%	Exceeded	70	▼	▼
Percentage of all cases that were accepted by prosecutors, referred for agency action, or closed during fiscal year and were completed within 18 months of case initiation (%)	OIG	92	70	66	94.3%	-28.3%	Unmet	70	▼	▼
Percentage of audit products delivered when promised to stakeholders (%)	TIGTA	81	65	76	116.9%	-6.2%	Exceeded	70	▼	▲
Percentage of recommendations made that have been implemented (%)	TIGTA	91	83	95	114.5%	4.4%	Exceeded	85	▼	▲
Percentage of results from investigative activities (%)	TIGTA	83	79	87	110.1%	4.8%	Exceeded	80	▲	▲

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

The Department exceeded targets for 73 percent of performance measures in this section. Of the four measures (27 percent) that did not meet the target, the average percent of target achieved was 70 percent. Treasury discontinued two measures: one in fiscal year 2010 and one in fiscal year 2009. Results suggest that Treasury has room for improvement in this area and that challenging targets have been set. OIG's audit completion metrics were substantially affected by material loss review work for failed banks. OIG's ability to meet this metric in fiscal year 2011 will depend largely on the number and sizes of future bank failures compared to available OIG audit resources. TIGTA exceeded targets for all of its measures by at least 11 percent. TIGTA should consider setting more aggressive targets for measures related to audit products delivered and recommendations implemented as both also had undesirable target trends. SIGTARP's completed audit product measure target may have been overly aggressive. Although SIGTARP did not reach its goal of producing 12 audit products in fiscal year 2010, it did exhibit a 200 percent increase in completed audits (from three to nine). SIGTARP did not meet its implementation rate measure; it anticipated a higher implementation rate by OFS, but it was not fully met. OFS is working on implementing the recommendations, and planned corrective action dates extend into fiscal 2011. SIGTARP will continue to monitor the implementation of these recommendations.

Privacy, Transparency and Records

The Office of the Deputy Assistant Secretary for Privacy, Transparency, and Records (DASPTR) exists to strengthen privacy and disclosure. Civil liberties functions have been included to take advantage of existing privacy processes, and the records, library, and orders and directives programs are included because they are significantly interrelated with the privacy and disclosure programs. DASPTR sets the standard for the protection, access, and appropriate disclosure of Treasury's information, and provides support for these activities so that program offices may concentrate on their core functions.

In April 2010, the Department of the Treasury published its first Open Government Plan, which represents the beginning of the Department's formal implementation of the Open Government Directive. OMB validated that the plan met every directive requirement. An Open Government Steering Committee has been convened with representatives from each of Treasury's bureaus to develop guidance and provide leadership on these activities across the Department. The Department released 84 data sets to date, completed a number of stakeholder outreach efforts, and began a more focused approach to tracking reduction in the Freedom of Information Act (FOIA) request backlog. In addition, DASPTR identified cost savings from Open Government initiatives, developing a cost-benefit matrix and tracking the impact of proactive information disclosure on *FinancialStability.gov* on the number of FOIA requests for OFS.

The Department of the Treasury received a Leading Practices Award for Participation and Collaboration for achievement above and beyond the requirements of the Directive. This award recognized Treasury as an agency that outlined the best and most innovative strategies for promoting open government over the next two years. Treasury was only one of eight agencies to receive an award.

The Office of Disclosure Services submitted the final version of the Chief FOIA Officer's Report in March 2010 to meet the requirement of submission to the Attorney General by March 15, 2010. The requirement supports the principles of transparency and openness in government. Agencies report on the steps taken to apply the presumption of disclosure, including proactive disclosure activities, to greater utilization of technology, and steps taken to reduce backlogs and improve timeliness in responding to FOIA requests.

In January 2010, DASPTR launched a Lean Six Sigma study for FOIA requests processing. The objective was to analyze FOIA processes within Departmental Offices. The plan was to enable the Department of the Treasury to promptly respond to FOIA requests within statutory requirements, increase proactive disclosure of information, eliminate the FOIA requests backlog, and ensure sensitive or complex FOIA requests are processed properly. This will result in disclosure of information more efficiently, accurately, and rapidly to the American public to promote public trust and government accountability through increased openness and transparency.

The DASPTR was designated as lead for Treasury's Department-wide the Enterprise Content Management (ECM) initiative during fiscal year 2010. ECM will enable the Department of Treasury to create structure for managing information and complying with FOIA requests. In the long term, Treasury expects that the project will improve productivity, increase cost savings, provide user satisfaction, and improve response time to FOIA requests.

The Department of the Treasury has embraced digitization in another effort to make information more readily available to the public through the internet. Treasury's library maintains several unique specialized collections. The Department has began digitizing those collections with a goal to digitize 20 percent of the collection in fiscal year 2010 and 20 percent within the following four years. Converting these materials to high quality digital format will provide historical preservation of the materials. The materials to be digitized include legislative histories of laws relevant to the Treasury Department compiled by the Library staff over the last 50 years, Treasury press releases from the 1930s forward, the Treasury Annual reports from 1789, and studies conducted by the Treasury Department.

In accordance with Sec. 522 of the *Consolidated Appropriations Act*, the Department is required to have a full accounting of its Personally Identifiable Information (PII) holdings. The Office of Privacy and Civil Liberties (OPCL) met this requirement by completing a survey of PII holdings in Departmental Offices and the bureaus and submitting a report on the results on time. This survey captured all systems, paper and electronic, that contain PII.

Office of the Deputy Chief Financial Officer

DCFO tracks the closure of PCAs addressing recommendations in OIG, GAO, TIGTA, and SIGTARP audit reports. The timeliness of PCA completion goal for fiscal year 2010 was 87.5 percent. Treasury exceeded the goal for fiscal year 2010 and closed out the year with a rate of 88.4 percent. The prior two fiscal year's timeliness of PCA completions were 83 percent in fiscal year 2008 and 85.6 percent in fiscal year 2009.

Office of the Inspector General

The OIG performs audits and investigations of non-IRS and non-TARP Treasury programs and operations. OIG audits result in recommendations to improve the effectiveness, efficiency, and integrity of Treasury programs and operations. OIG investigators conduct a variety of investigations covering financial, corruption, and other crimes, as well as serious employee misconduct.

The OIG dedicated nearly all audit resources to mandated work primarily related to material loss reviews of failed banks during the fiscal year. With the unprecedented number of Treasury-regulated bank failures requiring a review, the OIG was unable to meet the performance goal of completing 100 percent of those audits by the statutory deadline. During fiscal year 2010, 53 Treasury-regulated banks failed of which 30 were supervised by OCC and 23 by OTS. By comparison, 27 Treasury-regulated banks failed during fiscal year 2009. For fiscal year 2010, OIG had 18 required material loss reviews in progress at the start of the year, initiated 20 new material loss reviews during the year; and completed ten material loss reviews. Through most of the fiscal year, material loss reviews were required when the bank failure caused a loss to the Deposit Insurance Fund of $25 million or more. This threshold was recently increased to $200 million. As a new requirement, however, the OIG must perform a review of failures with losses under the threshold that is limited to determining (1) the grounds identified by OCC or OTS for appointing the FDIC as receiver and (2) whether any unusual circumstances exist that might warrant an in-depth review of the loss. For fiscal year 2010, the OIG initiated 33 such reviews and completed six of them. For three of the six completed reviews, the OIG determined that there were unusual circumstances warranting in-depth reviews; those reviews were in progress at fiscal year end. For the other three reviews, the OIG determined that there were no unusual circumstances and therefore an in-depth review will not be performed. In addition, the Office of Investigations initiated four criminal investigations of failed Treasury banks as a result the Office of Audit's findings.

The OIG reported on a number of trends from its failed bank reviews. With respect to the causes of the failures, the OIG found overly aggressive growth strategies fueled by volatile and costly wholesale funding (e.g., brokered deposits, Federal Home Loan Bank loans, etc.); risky lending products such as option adjustable rate mortgages; unsound underwriting; high asset concentrations including high concentrations in CRE loans; and inadequate bank risk management systems. The economic recession and the decline in the real estate market was also found to be a major factor in most failures. With respect to Treasury's supervision of the failed banks, the OIG found that regular and timely examinations were conducted and operational problems identified, but the regulators were slow to take timely and aggressive enforcement action. The OIG made numerous recommendations to both OCC and OTS to strengthen their bank supervision and examination programs. Both OCC and OTS took timely and responsive actions to address the recommendations.

Although limited due to the OIG's mandated workload, the OIG continued to provide oversight of Treasury's more than $20 billion of non-IRS programs under the Recovery Act. These Recovery Act programs provide: (1) cash payments to businesses for partial reimbursement of energy projects; (2) funding to states for the development of low income housing; and (3) grants and tax credits for economic development activities administered through the CDFI Fund. During fiscal year 2010, the OIG completed two reviews that were part of the Recovery Accountability and Transparency Board coordinated government-wide reviews. In the first review, the OIG identified potential weaknesses in the data prepared by the Department on staffing levels, qualifications, and training. In the second review, the OIG identified potential weaknesses in Treasury's processes for reviewing recipient data. For both reviews, the Department took responsive action to the OIG recommendations for improvement.

In fiscal year 2010, the Office of Investigations opened 100 new investigations and closed 74 investigations. OI also referred 100 percent of investigations that substantiated administrative violations against a Treasury employee to the appropriate regulated bureau for appropriate action. In addition, the Office of Investigations referred 19 investigations for criminal prosecution to the Department of Justice.

Treasury Inspector General for Tax Administration

During fiscal year 2010, TIGTA exceeded all of its performance measure targets. TIGTA was responsible for successful investigations of entities and individuals who threatened the nation's tax system and issued many high-profile audit reports that received considerable coverage by the media and others. Cumulatively, these efforts resulted in $11.46 billion in potential financial benefits from audit recommendations and $230 million in potential savings from investigative recoveries in embezzlements, thefts, court order fines, penalties, and restitution.

TIGTA strives to protect the integrity of America's tax system. TIGTA's audits focus on the economy, efficiency, and effectiveness of tax administration. Overall, TIGTA's Office of Audit (OA) issued 129 reports (including 16 Defense Contract Audit Agency reports), identifying over $11.46 billion in total potential financial benefits. These benefits included $2.8 billion in cost savings recommendations, $8.6 billion in potential increased revenue/revenue protected recommendations, $198 thousand in taxpayer rights and entitlements recommendations, and $36 million in recommendations related to inefficient use of resources. These reports also included recommendations impacting over two million taxpayer accounts.

TIGTA Office of Investigations (OI) investigates threats to America's tax system, which could impede collection of tax revenue and reduce public confidence. Overall, TIGTA OI processed 9,513 complaints, resulting in 3,857 opened investigations. Vigilant work against extortion, bribery, contractor fraud and misconduct, theft, taxpayer abuses, false statements and financial fraud, and other criminal activity resulted in potential savings of over $230 million. Eighty-seven percent of the 3,675 final closed investigations generated 1,625 cases of employee misconduct referred for action and 235 cases accepted for criminal prosecution. Furthermore, since the April 1, 2009, inception of the Armed Escort Program, TIGTA has conducted 62 armed escorts.

Recovery Act Audits

The Recovery Act provided TIGTA with $7 million for oversight and audits of IRS activities. TIGTA has performed audits to ensure that IRS's systems and programs are operating effectively, efficiently, and economically in their activities related to this legislation. TIGTA's fiscal year 2010 Recovery Act Oversight Plan and final Recovery Act reports are posted to the TIGTA area of the *Recovery.Gov* website.

Security Clearance Modernization and Reporting Act of 2009

TIGTA reviewed the *Security Clearance Modernization and Reporting Act of 2009*, which would make changes to security clearance and suitability determination reporting and create a Security Clearance and Suitability Performance Accountability Council. The bill specifies that membership of the Council shall include a senior officer from the Office of the Director of National Intelligence, the Department of Defense, and OPM, in addition to other members. TIGTA provided comments on the bill, suggesting that the draft bill include a member of the IG community on the Council. TIGTA will continue to monitor this bill for changes that may have an impact on its mission.

Audit Related Accomplishments

The mission of TIGTA OA is to promote the sound administration of the nation's tax laws by conducting comprehensive audits that advise Congress, the Secretary of the Treasury, and IRS management of high-risk issues, problems, and deficiencies related to the administration of IRS programs and operations. Fiscal year 2010 audit work resulted in significant recommendations to improve areas such as systems modernization, security maintenance, tax compliance, and operations, resulting in potential financial benefits.

Inspections and Evaluations–Related Accomplishments

During fiscal year 2010, TIGTA's Office of Inspections and Evaluations (I&E) provided responsive, timely, and cost-effective inspections and evaluations of IRS challenge areas including Recovery Act implementation, pandemic influenza preparedness, and implementation of the *Restructuring and Reform Act*. The I&E staff also provided TIGTA with additional flexibility and capability to provide value-added products and services for improving tax administration.

Special Inspector General for the Troubled Asset Relief Program

SIGTARP advances economic stability by promoting efficiency and effectiveness in Treasury's management of TARP through transparency, coordinated oversight, and robust enforcement against those who waste, steal, or abuse TARP funds.

The American taxpayers have been asked to provide hundreds of billions of dollars to stabilize the financial system and promote economic recovery. In this context, they have a right to know how their money is being spent. Moreover, this same transparency is a powerful tool to ensure that all those managing TARP funds act appropriately, consistent with the law, and in the best interests of the country. SIGTARP's primary tools for informing taxpayers about TARP are audit and quarterly reports, which are available for inspection at *www.sigtarp.gov*.

Additionally, SIGTARP ensures that members of Congress are kept adequately and promptly informed of developments in TARP initiatives and of SIGTARP's oversight activities. In that regard, the Special Inspector General (SIG) and his staff regularly meet with and brief members of Congress and their staff. SIGTARP also advises TARP managers concerning internal controls and the effectiveness of TARP activities, and makes recommendations for improvements in TARP management.

SIGTARP closely coordinates its oversight activities with other TARP oversight bodies to ensure maximum coverage while avoiding redundancy and undue burden. In coordination with other oversight agencies, SIGTARP's Audit Division (AD) conducts and supervises performance audits and evaluations with respect to Treasury's operation of TARP; recipients' compliance with their obligations under relevant law and contracts; and TARP policies and procedures. Since its inception, SIGTARP has commenced 22 distinct audits and has issued 11 audit reports covering such topics as the use of TARP funds, external influence of programmatic decision-making, oversight of AIG's compensation of executives, and Treasury's role in the decision to reduce the number of GM and Chrysler dealerships. Furthermore, among the policies and procedures that AD has reviewed and commented upon are TARP agreements and warrants, the Public-Private Investment Program, the Capital Assistance Program, and the Home Affordable Modification Program.

SIGTARP's Investigation Division (ID) supervises and conducts criminal and civil investigations into those persons and entities, inside or outside of government, who waste, steal, or abuse TARP funds. ID is comprised of experienced financial and corporate fraud investigators, special agents, forensic analysts and attorney advisors. This structure provides SIGTARP with a broad array of expertise and perspectives in developing sophisticated investigations. ID leverages its resources by coordinating closely with other law enforcement agencies and forming law enforcement partnerships and task force relationships across the Federal government. ID has over 104 ongoing major criminal and civil investigations, and to date has prevented over $553 million of TARP funds from being disbursed on the basis of fraudulent representations, and caused indictments of individuals for, among other offenses, bribery, embezzlement, bank fraud, mail fraud, wire fraud, and money laundering. ID also manages the SIGTARP Hotline, which abides by all applicable whistle-blower protections in processing complaints via telephone, e-mail, website, and in-person. ID has received and processed more than 14,000 Hotline contacts since February 2009.

Conclusion

While over half of the measures for this goal were exceeded, 27 percent of measures for this strategic goal were not met. Treasury has opportunities for improving accountability and transparency across the organization and will continue to set aggressive targets for measures.

Moving Forward

Treasury's three inspectors general will continue to provide oversight of the Department's programs and operations.

In fiscal year 2011, even with the increase to the threshold triggering a mandated review, OIG anticipates that it will be necessary to devote substantial resources to its statutory obligations related to the failures of Treasury-regulated banks. OIG will also undertake work on new mandates such as those in the Dodd-Frank Act, such as overseeing the transfer OTS's functions to other banking regulators, as well as work required by the *Improper Payments Elimination and Recovery Act of 2010*. Other high-priority areas where the OIG plans to focus its resources are on Treasury's non-IRS Recovery Act programs, the TFTP, and significant capital investments like BSA modernization. OIG will also investigate (1) criminal matters involving Recovery Act funds, (2) matters where there was a subversion of the bank examination process by an OTS or OCC regulated bank, and (3) claims made against the FMS, Check Forgery Insurance Fund.

TIGTA's audits, investigations, inspections and evaluations priorities include:

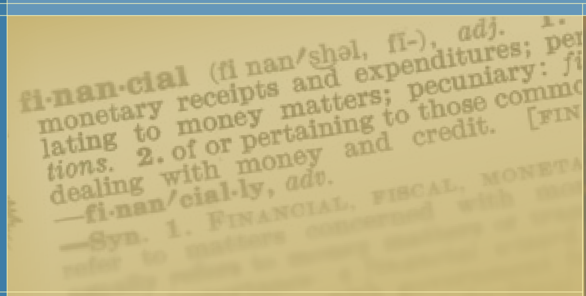
- Overseeing the IRS's efforts to administer tax provisions of the Recovery Act
- Developing a multi-year oversight plan covering the IRS's efforts to implement the various tax-related and health coverage tax credit-related provisions of the ACA
- Conducting comprehensive audits, inspections, and evaluations that include recommendations for monetary benefits and enhancing the IRS's service to taxpayers
- Adapting to the IRS's continually evolving operations and mitigating intensified risks associated with modernization, security, addressing the tax gap, and human capital challenges facing the IRS in domestic and international operations
- Responding to domestic and international threats and attacks against IRS employees, property, and sensitive information
- Improving the integrity of IRS operations by detecting and deterring fraud, waste, abuse, and misconduct by IRS employees
- Informing the public, Congress, and the Secretary of the Treasury of problems and progress made to resolve identified issues

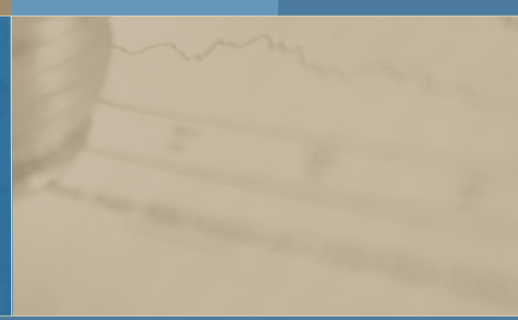
SIGTARP intends to focus on increasing staff for field operations and to address increased workload in audits and investigations. The bureau will continue to promote transparency and prevent abuse in the TARP program.

DASPTR will use leverage Treasury's ECM efforts towards its long term goal of improving productivity, increasing cost savings, providing user satisfaction, and improving response time to FOIA requests.

PART 3:

ANNUAL FINANCIAL REPORT





MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER

November 15, 2010

In fiscal year 2010, the Department of the Treasury built on the framework established during the preceding year to restore confidence in America's financial system, ease the housing crisis, and provide the foundation for sustained economic recovery as Treasury's Troubled Asset Relief Program and Recovery Act programs matured.

Challenges lie ahead as Treasury works to implement myriad changes contained in major legislation enacted in 2010, including the broad health care reform provisions of the *Patient Protection and Affordable Care Act*; the sweeping financial reforms of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*; and the new loan programs and tax law changes in the *Small Business Jobs and Credit Act*. These programs, once implemented, will have a significant, positive impact in the lives of millions of Americans.

In fiscal year 2010, the Department of the Treasury demonstrated fiscal prudence and strong management reforms as we:

- Launched a new performance management process, led by the Treasury Deputy Secretary, to review bureau and Departmental office missions, goals, performance measures, and budget proposals
- Realized $23.1 billion in net income from Troubled Asset Relief Program (TARP) operations, resulting in reducing the cumulative net cost of the program from $41.6 billion at the end of fiscal year 2009 to $18.5 billion at the end of fiscal year 2010
- Identified $315 million in efficiency savings, rescissions, and new user fees in the fiscal year 2011 budget submission, to reduce the cost of Treasury operations
- Supported our veterans by achieving the Department's goal of spending at least 3 percent of its prime contracting dollars to support service-disabled, veteran-owned small businesses, while generating over $200 million in procurement savings
- Improved the effectiveness and efficiency of Treasury's execution of processes and procedures through the ongoing application of continuous improvement techniques
- Implemented the President's Open Government Directive, releasing approximately 80 data sets to the public
- Reformed Treasury's Senior Executive Service performance management system to strengthen the Department's performance culture

The Department received an unqualified audit opinion on both our Office of Financial Stability/TARP and Treasury-wide fiscal year 2010 financial statements. Treasury closed the material weakness on financial management practices at the Departmental level during fiscal year 2010, and made progress toward resolving the four material weaknesses remaining open as of September 30, 2010 [IRS - Modernization Management (due to close by 2011), Computer Security (due to close by 2012), and Unpaid Tax Assessments (due to close by 2015) and FMS - Preparation of the Government-wide Financial Statements (due to close by 2014)].

The complexity of systems enhancements is the major impediment to closing these weaknesses. Treasury made significant progress in managing programs included in the Government Accountability Office's High-Risk List and in addressing management and performance challenges identified by the Department's Inspectors General.

We will continue to devote special attention to these programs and challenges as we work to further improve the U.S. economy, help create jobs, and restore confidence in our financial system.

Dan Tangherlini
Assistant Secretary for Management
and Chief Financial Officer

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 15, 2010

INFORMATION MEMORANDUM FOR SECRETARY GEITHNER

FROM: Eric M. Thorson
Inspector General

SUBJECT: Audit of the Department of the Treasury's Financial Statements for Fiscal Years 2010 and 2009

INTRODUCTION

I am pleased to transmit KPMG LLP's report on the Department of the Treasury's (the Department) financial statements as of and for the fiscal years (FY) ending September 30, 2010 and 2009.

The Chief Financial Officer's Act of 1990, as amended, requires the Department of the Treasury Office of Inspector General or an independent auditor, as determined by the Inspector General, to audit the Department's financial statements. Under a contract monitored by my office, KPMG LLP, an independent certified public accounting firm, performed an audit of the Department's FY 2010 and 2009 financial statements. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States; Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

RESULTS OF INDEPENDENT AUDIT

In its audit of the Department, KPMG LLP

- reported that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;

- reported that two material weaknesses related to unpaid tax assessments and information systems security and a significant deficiency related to tax refund disbursements identified by the auditor of the Internal Revenue Service collectively represent a material weakness for the Department as a whole;

- reported that weaknesses related to 1) financial management practices at the Departmental level, 2) financial accounting and reporting at the Office of Financial Stability, and 3) information system controls at the Financial Management Service represent significant deficiencies for the Department as a whole;

Page 2

- reported an instance of noncompliance with laws and regulations related to the Internal Revenue Code Section 6325;
- reported that the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 related to Federal financial management system requirements and applicable Federal accounting standards; and
- reported an instance of a potential Anti-deficiency Act violation related to certain transactions and activities of the Treasury Inspector General for Tax Administration.

EVALUATION OF AUDITORS' PERFORMANCE

To ensure the quality of the audit work performed, we reviewed KPMG LLP's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, reviewed and accepted KPMG LLP's audit report, and performed other procedures that we deemed necessary. Additionally, we provide oversight of the audits of financial statements and certain accounts and activities conducted at 13 component entities of the Department. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or on whether the Department's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' report dated November 15, 2010, and the conclusions expressed in that report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

I appreciate the courtesies and cooperation extended to KPMG LLP and my staff during the audit. Should you or your staff have questions, you may contact me at (202) 622-1090 or Marla A. Freedman, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

cc: Daniel Tangherlini
Assistant Secretary for Management
and Chief Financial Officer

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

Inspector General
U.S. Department of the Treasury:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury (Department) as of September 30, 2010 and 2009, and the related consolidated statements of net cost, and changes in net position, combined statements of budgetary resources, and the statements of custodial activity (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. These consolidated financial statements are incorporated in the accompanying *U.S. Department of the Treasury Fiscal Year 2010 Performance and Accountability Report* (PAR).

We did not audit the amounts included in the consolidated financial statements related to the Internal Revenue Service (IRS) and the Office of Financial Stability (OFS), component entities of the Department. The financial statements of IRS and OFS were audited by another auditor whose reports thereon have been provided to us. Our opinion, insofar as it relates to the amounts included for IRS and OFS, is based solely on the reports of the other auditor.

In connection with our fiscal year 2010 audit, we, and the other auditor, also considered the Department's internal control over financial reporting and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements. Our conclusions on internal control over financial reporting and compliance and other matters, insofar as they relate to IRS and OFS, are based solely on the reports of the other auditor.

Summary

As stated in our opinion on the consolidated financial statements, based on our audits and the reports of the other auditor, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2010 and 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 21, the Department implemented Statement of Federal Financial Accounting Standards No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, effective October 1, 2009.

As discussed in Note 29, the Department is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets.

Notes 1A, 1V, 8, 9, and 12 respectively, discuss the following matters:

- The consolidated financial statements do not include the assets, liabilities, or results of operations of commercial entities in which the Department has a significant equity interest as it has determined that none of these entities meet the criteria for inclusion as a federal entity and are therefore not included in the consolidated financial statements.

- The valuation of certain investments, loans, commitments, and asset guarantees is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. In addition, there are significant uncertainties related to the potential effect of proposed transactions, such as the restructuring of American International Group, Inc., on the amounts that the Department will realize from its investments. As such, there will be differences between the net estimated value of these investments, loans, commitments, and asset guarantees at September 30, 2010, and the amounts that will ultimately be realized from these assets or be required to pay to settle these commitments and guarantees. Such differences may be material and will also affect the ultimate cost of these programs.

Our, and the other auditor's, consideration of internal control over financial reporting identified significant deficiencies that we consider to collectively be a material weakness and other deficiencies that we consider to be significant deficiencies, as defined in the Internal Control Over Financial Reporting section of this report, as follows:

Material Weakness

- Financial Systems and Reporting at the Internal Revenue Service (Repeat Condition)

Significant Deficiencies

- Financial Management Practices at the Departmental Level (Repeat Condition)
- Financial Accounting and Reporting at the Office of Financial Stability (Repeat Condition)
- Information System Controls at the Financial Management Service (Repeat Condition)

The results of our tests, and the tests performed by the other auditor, of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed an instance of noncompliance with *Internal Revenue Code* (IRC) Section 6325, that is required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. In addition, the Department's financial management systems did not substantially comply with the *Federal Financial Management Improvement Act of 1996* (FFMIA) requirements related to compliance with Federal financial management system requirements (FFMSR) and applicable Federal accounting standards. Our, and the other auditor's audit disclosed no instances in which the Treasury's financial management systems did not substantially comply with the U.S. Standard General Ledger at the transaction level.

In other matters, the Department informed us of an instance of a potential *Anti-deficiency Act* violation related to certain transactions and activities of the Treasury Inspector General for Tax Administration (TIGTA). This matter is currently under review.

The following sections discuss our opinion on the consolidated financial statements; our, and the other auditor's, consideration of the Department's internal control over financial reporting; our, and the other auditor's tests of compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Department of the Treasury as of September 30, 2010 and 2009, and the related consolidated statements of net cost, changes in net position, the combined statements of budgetary resources, and the statements of custodial activity, for the years then ended.

We did not audit the amounts included in the consolidated financial statements related to the IRS, a component entity of the Department, which reflect total assets of $43.2 billion and $36.8 billion, net costs of operations of $13.4 billion and $12.5 billion, before applicable eliminating entries, budgetary resources of $13.4 billion and $12.8 billion, and custodial revenues of $2.3 trillion each as of and for the years ended September 30, 2010 and 2009, respectively. The financial statements of IRS as of and for the years ended September 30, 2010 and 2009, were audited by another auditor whose report dated November 5, 2010, has been provided to us, and our opinion, insofar as it relates to the amounts included for the IRS, is based solely on the report of the other auditor.

In addition, we did not audit the amounts included in the consolidated financial statements related to the OFS, a component entity of the Department, which reflect total assets of $244.2 billion and $337.4 billion, net (income) and net costs of operations of ($23.1) billion and $41.6 billion, before applicable eliminating entries, and budgetary resources of $195.3 billion and $699.4 billion, as of and for the years ended September 30, 2010 and 2009, respectively. The financial statements of OFS as of and for the years ended September 30, 2010 and 2009, were audited by another auditor whose report dated November 5, 2010, has been provided to us, and our opinion, insofar as it relates to the amounts included for the OFS, is based solely on the report of the other auditor.

In our opinion, based on our audits, and the reports of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury as of September 30, 2010 and 2009, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 21, the Department implemented Statement of Federal Financial Accounting Standards No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, effective October 1, 2009.

U.S. Department of the Treasury
November 15, 2010
Page 4 of 14

As discussed in Note 29, the Department is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets.

Notes 1A, 1V, 8, 9, and 12, respectively, discuss the following matters:

- The consolidated financial statements do not include the assets, liabilities, or results of operations of commercial entities in which the Department has a significant equity interest as it has determined that none of these entities meet the criteria for inclusion as a federal entity and are therefore not included in the consolidated financial statements.

- The valuation of certain investments, loans, commitments, and asset guarantees is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. In addition, there are significant uncertainties related to the potential effect of proposed transactions, such as the restructuring of American International Group, Inc., on the amounts that the Department will realize from its investments. As such, there will be differences between the net estimated value of these investments, loans, commitments, and asset guarantees at September 30, 2010, and the amounts that will ultimately be realized from these assets or be required to pay to settle these commitments and guarantees. Such differences may be material and will also affect the ultimate cost of these programs.

The information in the PAR in Part 1: *Management's Discussion and Analysis (MD&A)*, and the Required Supplemental Information section of Part 3: *Annual Financial Report*, is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits, and the audits of the other auditor, were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the *Message from the Secretary of the Treasury*, Part 2: the *Annual Performance Report*, the *Message from the Assistant Secretary for Management and Chief Financial Officer,* and the *Inspector General's Transmittal Letter* in Part 3, and Part 4: *Other Accompanying Information* is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our, and the other auditor's, consideration of the internal control over financial reporting was for a limited purpose described in the Responsibilities section of this report, and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. This report also includes our consideration of the results of the other auditor's testing of internal control over financial reporting that is reported on separately by the other auditor. The other auditor performed an examination of internal control over financial reporting for the purpose of providing an opinion on the effectiveness of IRS's and OFS's internal controls. This report, insofar as it relates to the results of the other auditor, is based solely on the reports of the other auditor.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

In our fiscal year 2010 audit, we, and the other auditor, identified the significant deficiencies in internal control over financial reporting, discussed below. The significant deficiency related to Financial Systems and Reporting at IRS is considered to be a material weakness. Because of the IRS material weakness in internal control discussed below, the other auditor's opinion on IRS' internal control stated that IRS did not maintain effective internal control over financial reporting as of September 30, 2010, and thus did not provide reasonable assurance that losses and misstatements material in relation to the IRS's financial statements would be prevented or detected and corrected on a timely basis. The other auditor's opinion on OFS's internal control stated that OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010.

MATERIAL WEAKNESS

Financial Systems and Reporting at IRS (Repeat Condition)

IRS continued to make progress in addressing its internal control deficiencies. However, material weaknesses related to unpaid tax assessments, and information security controls continued to exist in fiscal year 2010, in addition to a new significant deficiency related to tax refunds disbursements.

The challenges IRS faces as a result of these deficiencies adversely affect IRS's ability to (1) produce reliable financial statements without significant compensating procedures, and (2) make well-informed decisions. As IRS continues to increase the automation of accounting and reporting processes, the need for effective security over the data these systems process becomes increasingly critical. These weaknesses also significantly increase the risk that sensitive taxpayer information may be compromised.

These deficiencies in internal control over financial reporting identified by the auditors of IRS's financial statements are collectively considered a material weakness for the Department as a whole. These deficiencies are summarized as follows:

- Serious internal control issues continue to affect IRS's management of unpaid tax assessments. Specifically, a lack of adequate procedures and systemic limitations in the programs used resulted in the following issues: (1) IRS's reported balances for taxes receivable and other unpaid assessments were not traceable from its general ledger system for tax administration-related transactions to individual transactions in underlying

KPMG

U.S. Department of the Treasury
November 15, 2010
Page 6 of 14

source records, (2) IRS lacked a subsidiary ledger for unpaid tax assessments that would allow it to produce reliable, useful, and timely information with which to manage and report externally, and (3) IRS experienced errors and delays in recording taxpayer information, payments, and other tax assessment-related activities. (Material Weakness)

- Internal control over IRS's information system's security continued to be ineffective, particularly as it relates to controls over access to mission-critical applications and processing sensitive information. As a result, IRS could not rely on the internal controls contained in its automated financial management system to provide reasonable assurance that (1) its financial statements taken as a whole, were fairly stated, (2) the information IRS relied on to make decisions on a daily basis were accurate, complete, and timely, and (3) proprietary financial and taxpayer information was appropriately safeguarded. (Material Weakness)

- Weaknesses in IRS's controls over manual tax refunds as well as processing of claims for the First-Time Home Buyer Credit that resulted in duplicate or otherwise erroneous tax refund disbursements. (Significant Deficiency)

The other auditor noted that the material weaknesses and significant deficiency in internal control noted above may adversely affect any decision by IRS's management that are based, in whole or in part, on information that is inaccurate because of these deficiencies.

Additional details related to the material weakness identified above have been provided to IRS management by the auditors of IRS's financial statements in their report dated November 5, 2010.

Recommendations

Recommendations to address the material weakness discussed above have been provided to IRS management by the auditors of IRS's financial statements. We recommend that the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) provide effective oversight to ensure that corrective actions are taken by IRS to resolve this material weakness.

SIGNIFICANT DEFICIENCIES

Financial Management Practices at the Departmental Level (Repeat Condition)

We identified the following two deficiencies that we collectively consider to be a significant deficiency at the Departmental level. Both are repeat deficiencies related to Department-wide control environment weaknesses.

Department-wide Entity Level Controls Affecting Financial Reporting

Due to expanded accounting and reporting requirements and related responsibilities, further improvements are needed in the current staffing structure and staff skills at the Departmental level.

U.S. Department of the Treasury
November 15, 2010
Page 7 of 14

The Office of Accounting and Internal Control (AIC), within the Office of the Deputy Chief Financial Officer (ODCFO) is responsible for establishing and maintaining financial policies that guide financial and budgetary reporting throughout the Department, and ensure the overall integrity of financial data reported at the Departmental level. In fiscal year 2010, the Department took several steps to improve its current staffing structure and staff skills, including outlining a human capital needs assessment, hiring new staff, and providing training to existing staff. However, we continue to note weaknesses in the internal control environment, as described below, that negatively impact financial management at the Departmental level.

In fiscal year 2010, AIC supplemented its existing staff and realigned duties and responsibilities within AIC. Although these steps helped with AIC's staffing structure and needs, delays in hiring these additional personnel limited the opportunity to fully train them on the Department's unique accounting and reporting needs. As a result, key accounting functions and duties, as well as accounting decisions continue to be performed by a few key senior staff members, until the new staff members are fully trained on Treasury's unique accounting transactions. With regard to budgetary accounting and issues identified Department-wide, there is limited senior staff within AIC who have the knowledge and experience to adequately respond to and address issues. The lack of accounting staff possessing the knowledge and experience necessary to address accounting and reporting issues and questions at the Departmental level increases the risk that a misstatement in the consolidated financial statements and related note disclosures will not be detected.

Financial Accounting and Reporting

The Department's financial accounting and reporting policies, procedures, the related internal controls, and testing for effectiveness of internal control over financial reporting, need improvement in the following areas.

- Management's review procedures over the consolidated financial statements are not sufficient to ensure the accuracy and validity of reported amounts. We continued to identify incorrect amounts and disclosures in the draft consolidated financial statements that were significant, but not material, and that were not detected by AIC. While improvements were noted in the review and approval process for preparing its consolidated financial statements and related note disclosures, additional supervision and review is needed. Further, the documentation supporting the consolidated financial statements amounts were in certain instances inadequate or incomplete in areas such as the President's Budget Reconciliation. For example, certain key documentation that supported reconciling items was not provided until requested or had to be prepared subsequently.
- While the Department took steps in fiscal year 2010 to develop policies and procedures over 14 accounting and reporting areas, policies and procedures related to certain other significant accounting areas need to be addressed. Written policies and procedures to account for and report various non-routine, complex, and unique transactions, such as accounting and reporting of custodial transactions, U.S. Mint's Seigniorage, transfers to the General Fund, and non-entity transactions have not been documented. Further, AIC did not have written procedures for performing certain key financial statements analyses such as that for proprietary and budgetary relationships, and cumulative results of operations. In addition, while the policies and procedures developed in fiscal year 2010 identify management controls in the workflow diagrams, descriptions of the controls need to be included in the policies and procedures. Proper

U.S. Department of the Treasury
November 15, 2010
Page 8 of 14

documentation depicting processes and controls is a critical component of internal control because it presents management's overall processes to gather, process, and report financial information and ensure their compliance with applicable laws and regulations.

- The Department's actions to ensure that the Secretary's assurance statement on the effectiveness of internal control over financial reporting is supported by verifiable results continue to require further improvement. Specifically, components are not consistently complying with the Department's guidance for conducting management's assessment of the effectiveness of internal control over financial reporting. Several steps were taken in the current year to improve implementation. AIC provided additional guidance to components by publishing fiscal year 2010 OMB Circular No. A-123, *Management's Responsibility for Internal Control* (A-123) Guidance (FY 10 Guidance), which clarified and enhanced previous guidance in various key areas. AIC provided sample documentation to components to follow during their test work. While the FY 2010 Guidance appeared to be clear in terms of instructions, our review revealed several instances where the components did not completely adhere to the requirements of the Guidance. Four of six components that we tested conducted some, but not all, test work as required by the FY 2010 Guidance. These issues may ultimately result in the Secretary's assurance statement on the effectiveness of internal control over financial reporting not being supported.

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (Standards).* The GAO *Standards* require that internal controls be documented in management directives, administrative policies or operating manuals; transactions and other significant events be clearly documented; and information be recorded and communicated timely with those who need it within a timeframe that enables them to carry out their internal control procedures and other responsibilities. The GAO defines "internal control" as an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The GAO *Standards* also identify the control environment as one of the five key elements of control, which emphasizes the importance of conscientiousness in management's operating philosophy and commitment to internal control. These standards cover controls such as human capital practices, supervisory reviews, policies, procedures, monitoring, and segregation of duties.

A-123 states that monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. An effective, continuous monitoring program can level the resources needed to maintain effective internal controls throughout the year.

U.S. Department of the Treasury
November 15, 2010
Page 9 of 14

Recommendations

We recommend that the ASM/CFO:

Department-wide Entity Level Controls Affecting Financial Reporting

1. Provide AIC staff the appropriate training and on-the job experience to ensure that they possess the necessary knowledge and skills needed for their respective positions.

Financial Accounting and Reporting

2. Develop a plan to enhance the quality of supervisory reviews performed on the consolidated financial statements and supporting documentation by responsible officials including those with programmatic oversight, to ensure that errors and inconsistencies are identified and corrected in a timely manner.

3. Require that policies and procedures are developed in sufficient detail to support all of the significant accounting and reporting requirements at the Departmental level, and include non-routine or complex accounting and reporting matters. These policies should be periodically updated (at least annually).

4. Improve the monitoring process of the A-123 work conducted by components to ensure that the Department's Guidance is fully implemented and complied with, and supports the Secretary's assurance statement on the effectiveness of internal control over financial reporting.

Financial Accounting and Reporting at the OFS (Repeat Condition)

During fiscal year 2010, OFS resolved one significant deficiency and made progress in addressing their other significant deficiency. However, the remaining control issues along with other control deficiencies that the other auditor identified collectively represent a continuing significant deficiency in OFS's internal control over its accounting and financial reporting processes. The OFS deficiencies also collectively constitute a significant deficiency for the Department and are summarized as follows:

- While improvements were noted in OFS's review and approval process for preparing its financial statements, notes, and MD&A, the other auditor identified incorrect amounts and inconsistent disclosures in OFS's draft financial statements, notes, and MD&A that were significant, but not material, and were not detected by OFS.
- The other auditor identified instances where OFS's procedures related to its process for accounting for certain program transactions, preparing its financial statements, and its oversight and monitoring of financial-related services provided to OFS by asset managers and certain financial agents were not always followed or effectively implemented.
- OFS's documentation was incomplete for certain areas of its asset valuation process. Specifically, some valuation methodology changes and the basis for certain assumptions derived from informed opinion that were used in valuing assets were not included in its written documentation. After the other auditor notified OFS that the documentation was incomplete, OFS was able to provide adequate additional information about its asset valuation process.

9

U.S. Department of the Treasury
November 15, 2010
Page 10 of 14

- OFS did not have adequate procedures to determine whether the tool and related guidance it used properly calculated valuations for certain assets with projected future disbursements. OFS's use of the tool and related guidance resulted in errors in the valuation of such assets.

OFS had other controls that reduced the risk of misstatements resulting from these deficiencies. For significant errors and issues that were identified, OFS revised the financial statements, notes, and MD&A, as appropriate. Properly designed and implemented controls over the accounting and financial reporting processes are key to providing reasonable assurance regarding the reliability of the balances and disclosures reported in the financial statements and related notes in conformity with generally accepted accounting principles. Misstatements may occur in other financial information reported by OFS and not be prevented or detected because of this significant deficiency.

Additional details related to the significant deficiency identified above have been provided separately to OFS management by the auditors of the OFS's financial statements.

Recommendations

Recommendations to address the significant deficiency discussed above will be provided to OFS management by the auditors of OFS's financial statements. We recommend that the ASM/CFO provide effective oversight to ensure that corrective actions are taken by OFS to resolve this significant deficiency.

Information System Controls at the FMS (Repeat Condition)

FMS made progress in its efforts to address prior year weaknesses in the Information System (IT) controls and security programs it manages. Despite these improvements, current year tests conducted over IT general controls revealed that the necessary policies and procedures to detect and correct control and functionality weaknesses have not been consistently documented, implemented, or enforced. Specifically, issues were identified in the areas of (1) security management; (2) access; (3) change configuration; and (4) segregation of duties. These weaknesses could compromise FMS's ability to ensure security over sensitive financial data and reliability of key systems and collectively serve to weaken the IT general control environment at FMS.

Recommendation

The detailed findings and related recommendations have been provided to FMS management in separate reports. We recommend that the ASM/CFO provide effective oversight and the resources necessary to ensure that information security requirements over financial systems are implemented at FMS.

Compliance

The results of certain of our tests, and the tests performed by the other auditor, of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed the following instance of noncompliance that is required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04.

U.S. Department of the Treasury
November 15, 2010
Page 11 of 14

- ***Noncompliance with IRC Section 6325*** **-** The IRC grants IRS the power to file a lien against the property of any taxpayer who neglects or refuses to pay all assessed Federal taxes. Under IRC Section 6325, IRS is required to release a Federal tax lien within 30 days after the date the tax liability is satisfied, or has become legally unenforceable, or the Secretary of the Treasury has accepted a bond for the assessed tax. Despite actions IRS has taken to date to improve its lien release process, instances continued to be identified where IRS did not timely release the applicable Federal tax lien within 30 days after taxpayers paid or were otherwise relieved of a tax liability (Repeat Condition).

The results of our other tests, and the tests performed by the other auditor, of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no other instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04.

The results of our tests of FFMIA, and the tests performed by the other auditor, disclosed instances where the Department's financial management systems did not substantially comply with FFMIA Section 803(a) requirements (Repeat Condition) related to compliance with (1) federal financial management system requirements (FFMSR), and (2) applicable Federal accounting standards. Our, and the other auditor's audit disclosed no instances in which the Treasury's financial management systems did not substantially comply with the U.S. Standard General Ledger at the transaction level.

Instances of noncompliance with FFMSR are summarized below:

- Persistent deficiencies in IRS's internal control over information security remain uncorrected. As a result of these deficiencies, IRS was (1) unable to rely upon these controls to provide reasonable assurance that its financial statements are fairly stated in the absence of effective compensating procedures, (2) unable to ensure the reliability of other financial management information produced by its systems, and (3) at increased risk of compromising confidential IRS and taxpayer information.

An instance of noncompliance with Federal accounting standards is summarized below:

- IRS's automated systems for tax related transactions did not support the net taxes receivable amount on IRS's balance sheet and other required supplemental information related to uncollected taxes - compliance assessments and tax write-offs - in accordance with Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

The Secretary of the Treasury also stated in his Letter of Assurance, included in Part 1: *Management's Discussion and Analysis*, of the accompanying PAR that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. IRS has established a remediation plan to address the conditions that led to its systems' substantial noncompliance with the requirements of FFMIA. This plan outlines the actions to be taken to resolve these issues, and defines related resources and responsible organizational units. Many of the actions detailed in the plan are long-term in nature and are tied to IRS's systems modernization efforts. The Department's remedial actions and related timeframes are presented in Appendix D: *Material Weaknesses, Audit Follow-up, Financial Systems, and Recovery Act Risk Management*, of the PAR.

Recommendation

We recommend that the ASM/CFO provide effective oversight to ensure that (1) IRS implements appropriate controls so that Federal tax liens are released in accordance with Section 6325 of the IRC; and (2) IRS implements its plan of action to solve financial management problems so as to enable resolving the identified instances of financial management systems' noncompliance with the requirements of FFMIA. Detailed recommendations to address the noncompliance findings discussed above have been provided to IRS management by the auditors of the IRS's financial statements.

Other Matter

The Department informed us of an instance of a potential *Anti-deficiency Act* violation related to certain transactions and activities of the TIGTA. Specifically, budgetary control weaknesses existing within the TIGTA may have allowed a potential violation of the *Anti-deficiency Act*. This matter is currently under review.

Department's Response to Internal Control and Compliance Findings

The Department indicated in a separate letter immediately following this report that it concurs with the findings presented in this section of our report. Further, it has responded that it will take corrective action, as necessary, to ensure the matters presented are addressed by the respective component management within the Department. We did not audit the Department's response and, accordingly, we express no opinion on it.

* * * * *

We noted certain additional matters involving internal control over financial reporting and its operation that we will report to the Department in a separate letter.

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to the Department.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2010 and 2009 consolidated financial statements of the Department based on our audits and the reports of the other auditor. We, and the other auditor, conducted our audits in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits, and the reports of the other auditor related to the amounts included for IRS and OFS, provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2010 audit, we considered the Department's internal control over financial reporting, exclusive of the internal control over financial reporting related to IRS and OFS, by obtaining an understanding of the design effectiveness of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting. Internal control over financial reporting related to IRS and OFS was considered by the other auditor whose reports thereon dated November 5, 2010, have been provided to us. We, and the other auditor, did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting. The objective of the other auditor's audits was to express an opinion on the effectiveness of the IRS's and the OFS's internal control over financial reporting. Because of the IRS material weakness in internal control, the other auditor's opinion on the IRS' internal control stated that IRS did not maintain effective internal control over financial reporting as of September 30, 2010. The other auditor's opinion on OFS's internal control stated that OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2010 consolidated financial statements are free of material misstatement, we, and the other auditor, performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We, and the other auditor, limited our tests of compliance to the provisions described in the preceding sentence, and we, and the other auditor, did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, KPMG

providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audits and, accordingly, we, and the other auditor, do not express such an opinion.

This report is intended solely for the information and use of the Department, the Department's Office of Inspector General, OMB, the GAO, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 15, 2010

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 15, 2010

KPMG LLP
2001 M Street, N.W.
Washington, DC 20036

Ladies and Gentlemen:

On behalf of Secretary Geithner, I am responding to your draft audit report on the Department of the Treasury's fiscal year 2010 consolidated financial statements. Our bureaus and program offices all can be proud of the Department's success in achieving an unqualified opinion on the Department's financial statements for the eleventh consecutive year. We are also proud of the second unqualified opinion from the Government Accountability Office (GAO) on the Office of Financial Stability's financial statements.

These successful results also are due in large part to the high level of professionalism, technical expertise, and partnership demonstrated by KPMG in conducting the audit. Treasury appreciates your efforts during the audit process to provide timely, constructive advice on how to improve our financial reporting. Treasury is equally appreciative of the expertise and commitment demonstrated by the other organizations involved in the audit process – the Office of Inspector General, GAO, and the firms that audited several of our bureaus.

KPMG recognized Treasury's intensive efforts in fiscal year 2010 to resolve the material weakness on financial management practices at the departmental level by downgrading the weakness to a significant deficiency. The Department continued to make significant progress during the year to address previously identified financial and information management deficiencies. As reported by GAO, the Internal Revenue Service made strides in improving its financial management by bringing its financial management systems into compliance with the *United States Standard General Ledger* and correcting several longstanding information security weaknesses.

We acknowledge the Departmental level material weakness, significant deficiencies, and instances of noncompliance with laws and regulations described in your report. We agree with your recommendations, and will focus on necessary corrective actions to address each of the issues quickly and aggressively.

Dan Tangherlini
Assistant Secretary for Management
and Chief Financial Officer

CONSOLIDATED BALANCE SHEETS
As of September 30, 2010 and 2009
(In Millions)

ASSETS	2010	2009
Intra-governmental Assets		
Fund Balance (Note 2)	$ 437,026	$ 504,582
Loans and Interest Receivable (Note 3)	552,853	410,591
Troubled Asset Relief Program Asset Guarantee Program (Note 8)	815	0
Advances to the Unemployment Trust Fund (Note 4)	34,111	7,981
Due from the General Fund (Note 4)	13,655,637	11,992,719
Accounts Receivable and Related Interest (Note 5)	361	298
Other Intra-governmental Assets	3	5
Total Intra-governmental Assets	14,680,806	12,916,176
Cash, Foreign Currency, and Other Monetary Assets (Note 6)	375,282	341,308
Gold and Silver Reserves (Note 7)	11,062	11,062
Troubled Asset Relief Program Direct Loans and Equity Investments, Net and Asset Guarantee Program (Note 8)	144,692	239,657
Investments in Government Sponsored Enterprises (Notes 4 and 9)	109,216	64,679
Investments in International Financial Institutions (Note 10)	5,580	5,575
Other Investments and Related Interest (Note 11)	12,639	13,565
Credit Program Receivables and Direct Loans, Net (Note 12)	186,396	184,460
Loans and Interest Receivable (Notes 4 and13)	124	127
Reserve Position in the International Monetary Fund (Note 14)	12,938	13,469
Tax, Other, and Related Interest Receivables, Net (Note 15)	36,976	30,408
Inventory and Related Property, Net (Note 16)	697	598
Property, Plant, and Equipment, Net (Note 17)	2,031	2,036
Beneficial Interest in Trust (Notes 4 and 29)	20,805	23,472
Other Assets	13	9
Total Assets	$ 15,599,257	$ 13,846,601

Heritage Assets (Note 17)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS

As of September 30, 2010 and 2009

(In Millions)

LIABILITIES	2010	2009
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 and 19)	$ 4,587,802	$ 4,403,080
Other Debt and Interest Payable (Note 20)	10,358	12,060
Due to the General Fund (Notes 4, 6, and 27)	1,414,252	1,263,128
Other Intra-governmental Liabilities (Note 22)	366	425
Total Intra-governmental Liabilities	**6,012,778**	**5,678,693**
Federal Debt and Interest Payable (Notes 4 and 19)	9,035,929	7,559,305
Certificates Issued to the Federal Reserve (Note 6)	5,200	5,200
Allocation of Special Drawing Rights (Note 6)	54,958	55,953
Gold Certificates Issued to the Federal Reserve (Note 7)	11,037	11,037
Refunds Payable (Notes 4 and 26)	4,146	4,040
D.C. Pensions and Judicial Retirement Actuarial Liability (Note 21)	9,743	9,049
Liabilities to Government Sponsored Enterprises (Note 9)	359,900	91,937
Other Liabilities (Note 22)	4,470	3,331
Total Liabilities	**15,498,161**	**13,418,545**
Commitments and Contingencies (Note 31)		
NET POSITION		
Unexpended Appropriations:		
Earmarked Funds (Note 27)	200	200
Other Funds	400,357	454,944
Subtotal	400,557	455,144
Cumulative Results of Operations:		
Earmarked Funds (Note 27)	41,426	41,653
Other Funds	(340,887)	(68,741)
Subtotal	(299,461)	(27,088)
Total Net Position (Note 23)	**101,096**	**428,056**
Total Liabilities and Net Position	**$ 15,599,257**	**$ 13,846,601**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2010 and 2009

(In Millions)

COST OF TREASURY OPERATIONS: (Note 24)	2010	2009
Financial Program:		
Gross Cost	$ 15,854	$ 15,313
Less Earned Revenue	(2,611)	(2,258)
Net Program Cost	**13,243**	**13,055**
Economic Program:		
Gross Cost	314,138	210,490
Less Earned Revenue	(16,904)	(14,785)
Net Program Cost	**297,234**	**195,705**
Security Program:		
Gross Cost	344	325
Less Earned Revenue	(4)	(3)
Net Program Cost	**340**	**322**
Management Program:		
Gross Cost	582	569
Less Earned Revenue	(56)	(60)
Net Program Cost	**526**	**509**
Total Program Gross Costs	**330,918**	**226,697**
Total Program Gross Earned Revenues	**(19,575)**	**(17,106)**
Total Program Cost before Changes in Actuarial Assumptions	**311,343**	**209,591**
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	**820**	**0**
Total Net Cost of Treasury Operations (Note 24)	**312,163**	**209,591**
Federal Costs:		
Federal Debt Interest	412,855	380,519
Less Interest Revenue from Loans	(22,258)	(17,326)
Net Federal Debt Interest Costs	**390,597**	**363,193**
Other Federal Interest	6	0
Net GSEs Non-Entity Revenue (Note 9)	(56,678)	(61,983)
Other Federal Costs (Note 24)	12,753	12,131
Total Net Federal Costs	**346,678**	**313,341**
Net Cost of Treasury Operations, Federal Debt Interest, Net GSEs Non-Entity Cost, and Other Federal Costs	**$ 658,841**	**$ 522,932**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2010
(In Millions)

CUMULATIVE RESULTS OF OPERATIONS	Combined Earmarked Funds	Combined All Other Funds	Elimination	Consolidated Total
Beginning Balances	$ 41,653	$ ($68,741)	$ 0	$ (27,088)
Budgetary Financing Sources:				
Appropriations Used	527	501,912	0	502,439
Non-exchange Revenue	56	229	(4)	281
Donations and Forfeitures of Cash/Equivalent	324	0	0	324
Transfers In/Out Without Reimbursement	(27)	13	0	(14)
Other	0	12	0	12
Other Financing Sources (non-exchange):				
Donation/Forfeiture of Property	319	0	0	319
Accrued Interest and Discount on Debt	0	11,086	0	11,086
Transfers In/Out Without Reimbursement	(79)	37	0	(42)
Imputed Financing Sources	74	1,486	(552)	1,008
Transfers to the General Fund and Other (Note 23)	(65)	(128,880)	0	(128,945)
Total Financing Sources	**1,129**	**385,895**	**(556)**	**386,468**
Net Cost of Operations	(1,356)	(658,041)	556	(658,841)
Net Change	(227)	(272,146)	0	(272,373)
Cumulative Results of Operations	**$ 41,426**	**$ (340,887)**	**$ 0**	**$ (299,461)**
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 200	$ 454,944	$ 0	$ 455,144
Budgetary Financing Sources:				
Appropriations Received (Note 23)	527	456,443	0	456,970
Appropriations Transferred In/Out	0	92	0	92
Other Adjustments	0	(9,210)	0	(9,210)
Appropriations Used	(527)	(501,912)		(502,439)
Total Budgetary Financing Sources	**0**	**(54,587)**	**0**	**(54,587)**
Total Unexpended Appropriations	**200**	**400,357**	**0**	**400,557**
Net Position	**$ 41,626**	**$ 59,470**	**$ 0**	**$ 101,096**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2009
(In Millions)

CUMULATIVE RESULTS OF OPERATIONS	Combined Earmarked Funds	Combined All Other Funds	Elimination	Consolidated Total
Beginning Balances	$ 37,586	$ 157	$ 0	$ 37,743
Budgetary Financing Sources:				
Appropriations Used	408	667,745	0	668,153
Non-exchange Revenue	263	234	(4)	493
Donations and Forfeitures of Cash/Equivalent	257	0	0	257
Transfers In/Out Without Reimbursement	(16)	(7)	2	(21)
Other	10	2	0	12
Other Financing Sources (non-exchange):				
Donation/Forfeiture of Property	127	0	0	127
Accrued Interest and Discount on Debt	0	6,027	0	6,027
Transfers In/Out Without Reimbursement	(63)	29	(2)	(36)
Imputed Financing Sources	61	1,206	(474)	793
Transfers to the General Fund and Other (Note 23)	(31)	(217,673)	0	(217,704)
Total Financing Sources	**1,016**	**457,563**	**(478)**	**458,101**
Net Cost of Operations	3,051	(526,461)	478	(522,932)
Net Change	4,067	(68,898)	0	(64,831)
Cumulative Results of Operations	**$ 41,653**	**$ (68,741)**	**$ 0**	**$ (27,088)**
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 200	$ 271,768	$ 0	$ 271,968
Budgetary Financing Sources:				
Appropriations Received (Note 23)	408	855,354	0	855,762
Appropriations Transferred In/Out	0	11	0	11
Other Adjustments	0	(4,444)	0	(4,444)
Appropriations Used	(408)	(667,745)	0	(668,153)
Total Budgetary Financing Sources	**0**	**183,176**	**0**	**183,176**
Total Unexpended Appropriations	**200**	**454,944**	**0**	**455,144**
Net Position	**$ 41,853**	**$ 386,203**	**$ 0**	**$ 428,056**

The accompanying notes are an integral part of these financial statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2010

(In Millions)

	Budgetary	Non-Budgetary Financing	Total
Budgetary Resources			
Unobligated balance, brought forward, Oct. 1	$ 401,626	$ 41,827	$ 443,453
ESF Adjustment for Change in Accounting Policy (Notes 1 and 25)	14,135	0	14,135
Unobligated balance, brought forward, Oct. 1, as adjusted	415,761	41,827	457,588
Recoveries of prior year unpaid obligations	2,979	39,370	42,349
Budget authority:			
Appropriations (Note 23)	569,010	0	569,010
Borrowing authority (Note 25)	1	151,472	151,473
Spending authority from offsetting collections:			
Earned:			
Collected	9,401	204,946	214,347
Change in receivables from Federal sources	22	0	22
Change in unfilled customer orders:			
Advance received	(56)	0	(56)
Without advance from Federal sources	2	(5,111)	(5,109)
Subtotal	578,380	351,307	929,687
Non-expenditure transfers, net	361	0	361
Temporarily not available pursuant to Public Law	(142)	0	(142)
Permanently not available	(47,341)	(189,421)	(236,762)
Total Budgetary Resources	$ 949,998	$ 243,083	$ 1,193,081
Status of Budgetary Resources			
Obligations incurred (Note 25):			
Direct	$ 581,303	$ 219,264	$ 800,567
ESF Adjustment for Change in Accounting Policy	14,135	0	14,135
Direct, Adjusted	595,438	219,264	814,702
Reimbursable	6,136	0	6,136
Subtotal	601,574	219,264	820,838
Unobligated Balance:			
Apportioned	267,581	20,961	288,542
Exempt from apportionment	13,269	0	13,269
Subtotal	280,850	20,961	301,811
Unobligated balance not available	67,574	2,858	70,432
Total Status of Budgetary Resources	$ 949,998	$ 243,083	$ 1,193,081
Change in Obligated Balance			
Obligated balance, net:			
Unpaid obligations, brought forward, Oct. 1	$ 108,210	$ 79,209	$ 187,419
Uncollected customer payments from Federal sources, brought forward, Oct. 1	(168)	(28,928)	(29,096)
Total unpaid obligated balance, net	108,042	50,281	158,323
Obligations incurred, net	601,574	219,264	820,838
Gross outlays	(524,098)	(209,612)	(733,710)
Recoveries of prior year unpaid obligations, actual	(2,979)	(39,370)	(42,349)
Change in uncollected customer payments from Federal sources	(24)	5,111	5,087
Obligated balance, net, end of period:			
Unpaid obligations	182,707	49,491	232,198
Uncollected customer payments from Federal sources	(192)	(23,817)	(24,009)
Total, unpaid obligated balance, net, end of period (Notes 1 & 25)	182,515	25,674	208,189
Net outlays			
Gross outlays	524,098	209,612	733,710
Offsetting collections	(9,345)	(204,946)	(214,291)
Distributed offsetting receipts	(169,303)	(9,606)	(178,909)
Net Outlays	$ 345,450	$ (4,940)	$ 340,510

The accompanying notes are an integral part of these financial statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2009
(In Millions)

	Budgetary	Non-Budgetary Financing	Total
Budgetary Resources			
Unobligated balance, brought forward	$ 260,173	$ 24,457	$ 284,630
Recoveries of prior year unpaid obligations	8,097	(1)	8,096
Budget authority:			
Appropriations (Note 23)	952,185	0	952,185
Borrowing authority	493	548,242	548,735
Spending Authority from Offsetting Collections			
Earned: Collected	11,681	272,768	284,449
Change in receivables from Federal sources	(44)	0	(44)
Change in unfilled customer orders:			
Advance received	(31)	0	(31)
Without advance from Federal sources	(134)	28,926	28,792
Subtotal	964,150	849,936	1,814,086
Non-expenditure transfers, net	(43)	0	(43)
Temporarily not available pursuant to Public Law	2	0	2
Permanently not available	(92,001)	(179,736)	(271,737)
Total Budgetary Resources	**$ 1,140,378**	**$ 694,656**	**$ 1,835,034**
Status of Budgetary Resources			
Obligations incurred (Note 25): Direct	$ 729,697	$ 652,829	$ 1,382,526
Reimbursable	4,669	0	4,669
Subtotal	734,366	652,829	1,387,195
Unobligated Balance: Apportioned	349,889	19,612	369,501
Exempt from apportionment	44,497	0	44,497
Subtotal	394,386	19,612	413,998
Unobligated balance not available	11,626	22,215	33,841
Total Status of Budgetary Resources	**$ 1,140,378**	**$ 694,656**	**$ 1,835,034**
Change in Obligated Balance			
Obligated balance, net:			
Unpaid obligations, brought forward, Oct. 1	$ 57,314	$ 10	$ 57,324
Uncollected customer payments from Federal sources, brought forward, Oct. 1	(346)	(1)	(347)
Total unpaid obligated balance, net	56,968	9	56,977
Obligations incurred, net	734,366	652,829	1,387,195
Gross outlays	(675,286)	(573,630)	(1,248,916)
Recoveries of prior year unpaid obligations, actual	(8,097)	1	(8,096)
Change In uncollected customer payments from Federal source	178	(28,926)	(28,748)
Obligated balance, net, end of period:			
Unpaid obligations	108,297	79,209	187,506
Uncollected customer payments from Federal sources	(168)	(28,926)	(29,094)
Total unpaid obligated balance, net, end of period	108,129	50,283	158,412
Net Outlays			
Gross outlays	675,286	573,630	1,248,916
Offsetting collections	(9,369)	(272,768)	(282,137)
Distributed offsetting receipts	(40,114)	(4,500)	(44,614)
Net Outlays	**$ 625,803**	**$ 296,362**	**$ 922,165**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CUSTODIAL ACTIVITY

For the Years Ended September 30, 2010 and 2009

(In Millions)

	2010	2009
Sources of Custodial Revenue (Note 26):		
Revenue Received		
Individual Income and FICA Taxes	$ 1,988,760	$ 2,036,557
Corporate Income Taxes	277,937	225,482
Estate and Gift Taxes	19,751	24,677
Excise Taxes	70,946	67,248
Railroad Retirement Taxes	4,648	4,711
Unemployment Taxes	6,543	6,765
Deposit of Earnings, Federal Reserve System	75,845	34,318
Fines, Penalties, Interest and Other Revenue	1,880	1,929
Total Cash Revenue Received	**2,446,310**	**2,401,687**
Less Refunds	(469,937)	(437,972)
Net Cash Revenue Received	**1,976,373**	**1,963,715**
Non-Cash Custodial Transactions		
Beneficial Interest in Trust – Market Adjustment (Note 29)	(2,666)	23,472
Accrual Adjustment	6,539	(1,097)
Total Custodial Revenue	**1,980,246**	**1,986,090**
Disposition of Custodial Revenue:		
Amounts Provided to Fund Non-Federal Entities	387	487
Amounts Provided to Fund the Federal Government (Notes 26)	1,975,986	1,963,228
Total Disposition of Cash Revenue	**1,976,373**	**1,963,715**
Non-cash Revenue – Beneficial Interest in Trust – Market Adjustment	(2,666)	23,472
Accrual Adjustment	6,539	(1,097)
Total Disposition of Custodial Revenue	**1,980,246**	**1,986,090**
Net Custodial Revenue	**$ 0**	**$ 0**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Table of Contents

1. Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements include the operations of the U.S. Department of the Treasury (Department), one of 24 CFO Act agencies of the Executive Branch of the United States Government, and certain custodial activities managed on behalf of the entire U.S. Government. The following paragraphs describe the activities of the reporting entity.

The Department was created by Act (1 Stat.65) on September 2, 1789. Many subsequent acts affected the development of the Department, delegating new duties to its charge and establishing the numerous bureaus and divisions that now comprise the Department. As a major policy advisor to the President, the Secretary has primary responsibility for formulating and managing the domestic and international tax and financial policies of the U.S. Government.

Further, the Secretary is responsible for recommending and implementing United States domestic and international economic and fiscal policy; governing the fiscal operations of the government; maintaining foreign assets control; managing the federal debt; collecting income and excise taxes; representing the United States on international monetary, trade, and investment issues; overseeing Departmental overseas operations; and directing the manufacturing of coins, currency, and other products for customer agencies and the public.

The Department includes the Departmental Offices (DO) and nine operating bureaus. For financial reporting purposes, DO is composed of: International Assistance Programs (IAP), Office of Inspector General (OIG), the Special Office of Inspector General for the Troubled Asset Relief Program (SIGTARP), Treasury Forfeiture Fund (TFF), Exchange Stabilization Fund (ESF), Community Development Financial Institutions Fund (CDFI), Office of D.C. Pensions (DCP), Treasury Inspector General for Tax Administration (TIGTA), Federal Financing Bank (FFB), Office of Financial Stability (OFS), Government Sponsored Enterprise Program (GSEs) and the DO policy offices.

The nine operating bureaus are: Bureau of Engraving and Printing (BEP); Bureau of the Public Debt (BPD); Financial Crimes Enforcement Network (FinCEN); Financial Management Service (FMS); Internal Revenue Service (IRS); United States Mint (Mint); Office of the Comptroller of the Currency (OCC); Office of Thrift Supervision[1] (OTS); and the Alcohol and Tobacco Tax and Trade Bureau (TTB).

The Department's financial statements reflect the reporting of its own entity activities, which include appropriations it receives to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performs on behalf of the U.S. Government and others. Non-entity activities include collecting federal revenue, servicing the federal debt, disbursing certain federal funds, and maintaining certain assets and liabilities for the U.S. Government, as well as for other federal entities. The Department's reporting entity does not include the "General Fund" of the U.S. Government, which maintains receipt, disbursement, and appropriation accounts for all federal agencies.

Transactions and balances among the Department's entities have been eliminated from the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position.

Following Generally Accepted Accounting Principles (GAAP) for federal entities, the Department has not consolidated into its financial statements the assets, liabilities, or results of operations of any financial organization or commercial entity in which it holds either a direct, indirect or beneficial majority equity investment. Even though some of the equity investments are significant, these entities meet the criteria of "bailed out" entities under paragraph 50 of the Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, which directs that such "bailout" investments should not be consolidated into the financial reports of the Federal Government, either in part or as a whole.

1 On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which includes the Enhancing Financial Institution Safety and Soundness Act of 2010 (the "Act"). Under the Act, OTS will be abolished and some of its functions will be transferred to the OCC on July 21, 2011 (the "transfer date").

In addition, the Department has made loans and investments in certain Special Purpose Vehicles[2] (SPV). SFFAC No. 2, paragraphs 43 and 44, reference indicative criteria such as ownership and control over an SPV to carry out government powers and missions, as criteria in the determination about whether the SPV should be classified as a federal entity. The Department has concluded that the lack of control over the SPVs is the primary basis for determining that none of the SPVs meet the criteria to be classified as a federal entity. As a result, the assets, liabilities and results of operations of the SPVs are not included in the Department financial statements. The Department has recorded the loans and investments in private entities and investments in SPVs in accordance with Credit Reform Accounting, as discussed below. Additional disclosures regarding these SPV investments are included in Note 8, see Automotive Industry Financing Program, Term Asset-Backed Loan Facility and the Public-Private Investment Program.

B. Basis of Accounting and Presentation

The financial statements have been prepared from the accounting records of the Department in conformity with accounting principles generally accepted in the United States for federal entities, and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the U.S. Government.

These financial statements are provided to meet the requirements of the *Government Management Reform Act of 1994*. They consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, the Consolidated Statements of Changes in Net Position, the Combined Statements of Budgetary Resources, and the Statements of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both fiscal year 2010 and fiscal year 2009 information.

While these financial statements have been prepared from the books and records of the Department in accordance with the formats prescribed by OMB, these 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.

Intra-governmental assets and liabilities are those due from or to other federal entities. Intra-governmental earned revenues are collections or accruals of revenue from other federal entities, and intra-governmental costs are payments or accruals of expenditures to other federal entities.

The financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Since the Department is a component of the U.S. Government, a sovereign entity, the Department's liabilities cannot be liquidated without legislation that provides resources or an appropriation. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts, and there is no certainty that the appropriations will be enacted. The U.S. Government, acting in its sovereign capacity, can abrogate liabilities of the Department arising from non-contractual activities.

C. Investments

Investments in Troubled Asset Relief Program (TARP)

Troubled Asset Relief Program (TARP) equity investments, including investments in preferred and common stock and warrants of public companies, are accounted for pursuant to the provisions of the Federal Credit Reform Act (FCRA) and the associated FASAB accounting

2 The Department invested in SPV's under the Consumer and Business Lending Initiative, the Automotive Industry Financing Program and the Public-Private Investment Program.

standard SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, as amended. As additional consideration for investments made, the Department received common stock warrants, additional preferred shares (referred to as warrant preferred shares) or additional notes. The Department considered market risk in its calculation and determination of the estimated net present value of its direct loans, equity investments and asset guarantee program for budgetary purposes. Similarly, market risk is considered in the valuations for financial reporting purposes (see Note 8 for further discussion). The Department concluded that GAAP accounting for such investments using the concepts embedded in SFFAS No. 2 was appropriate analogous accounting guidance based on the similarity between the equity investments made by the Department and direct loans. Consequently, TARP equity investments, including investments in preferred and common stock and warrants of public companies, are accounted for by the Department using credit reform accounting in accordance with SFFAS No. 2, and reported in accordance with FCRA in these financial statements. In addition, the inclusion of market risk required by the Emergency Economic Stabilization Act (EESA) in the valuation calculation results in accounting for these investments at estimated fair value, which is consistent with the accounting for other equity investments held by the Department (i.e. investments in GSEs).

The Department recognizes dividend revenue associated with equity investments when declared by the entity in which the Department has invested and when received in relation to any repurchases and restructuring. The Department reflects changes in the fair value of direct loans, equity investments, and asset guarantees in the subsidy cost on the Statement of Net Cost annually, as required by FCRA. The estimated values associated with these additional instruments are disclosed in Note 8.

Investments in Government Sponsored Enterprises (GSEs)

The senior preferred stock liquidity preference (preferred stock) and associated common stock warrant (warrant(s)) in GSEs are presented at their fair value as permitted by OMB Circular No. A-136. This Circular includes language that generally requires agencies to value non-federal investments at acquisition cost, but permits the use of other measurement basis, such as fair value, in certain situations.

Increases in the non-entity preferred stock liquidity preference occur when quarterly payments to the GSEs are made pursuant to the preferred stock purchase agreements (i.e., when a GSE’s liabilities exceed its assets at the end of any quarter). As funds for these payments are appropriated directly to the Department, these payments are treated as entity expenses and reflected as such on the Statement of Net Cost (SNC) and Cumulative Results of Operations. These payments also result in an increase to the non-entity investment in GSEs preferred stock, with a corresponding increase in Due to the General Fund, as the Department holds the investment on behalf of the U.S. Government General Fund.

Investments in International Financial Institutions

The Department invests in Multilateral Development Banks (MDB) to support poverty reduction, private sector development, and transition to market economies and sustainable economic growth and development, thereby advancing the United States’ economic, political, and commercial interests abroad. These investments are non-marketable equity investments valued at cost.

Other Investments and Related Interest

The ESF holds most of the Department’s other investments. “Other Foreign Currency Denominated Assets” and “Investment Securities” are considered “available for sale” securities and recorded at fair value as permitted by OMB Circular No. A-136 beginning in fiscal year 2009. These holdings are normally invested in interest bearing securities issued or held through foreign governments or monetary authorities.

D. Tax and Other Non-Entity Receivables

Federal taxes receivable, net, and the corresponding liability, due to the Department are not accrued until related tax returns are filed or assessments are made by the IRS and agreed to by either the taxpayer or the court. Additionally, the prepayments are netted against liabilities. Accruals are made to reflect penalties and interest on taxes receivable through the balance sheet date.

Taxes receivable consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of the IRS. The allowance reflects an estimate of the portion of total taxes receivable deemed to be uncollectible.

Compliance assessments are unpaid assessments which neither the taxpayer nor a court has affirmed the taxpayer owes to the Federal Government. Examples include assessments resulting from an IRS audit or examination in which the taxpayer does not agree with the results. Write-offs consist of unpaid assessments for which the IRS does not expect further collections due to factors such as taxpayers' bankruptcy, insolvency, or death. Compliance assessments and write-offs are not reported on the balance sheet. Statutory provisions require the accounts to be maintained until the statute for collection expires.

E. Inventory and Related Property

Inventory and related property include inventory, operating materials and supplies, and forfeited property. The Treasury values inventories at either standard cost, or lower of cost or latest acquisition cost, except for finished goods inventories, which are valued at weighted-average unit cost. These inventories were categorized based on the Department's major activities and the services the Department provides to the Federal Government and the public. All operating materials and supplies are recorded as an expense when consumed in operations.

Forfeited property is recorded at estimated fair market value as deferred revenue, and may be adjusted to reflect the current fair market value at the end of the fiscal year. Property forfeited in satisfaction of a taxpayer's assessed liability is recorded when title to the property passes to the U.S. Government and a corresponding credit is made to the related taxes receivable. Direct and indirect holding costs are not capitalized for individual forfeited assets.

Mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold. Revenue from the forfeiture of property is deferred until the property is sold or transferred to a state, local, or federal agency. Revenue is not recognized if the forfeited property is ultimately destroyed or cannot be legally sold.

F. Loans and Interest Receivable, Intra-governmental—Entity and Non-Entity

Intra-governmental entity Loans and Interest Receivable from other federal agencies represent loans and interest receivable held by the Department. No credit reform subsidy costs were recorded for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers, because of outstanding balances guaranteed (interest and principal) by those agencies.

Intra-governmental non-entity Loans and Interest Receivable from other federal agencies represent loans issued by the Department to federal agencies on behalf of the U.S. Government. The Department acts as an intermediary issuing these loans, because the agencies receiving these loans will lend these funds to others to carry out various programs of the Federal Government. Because of the Department's intermediary role in issuing these loans, the Department does not record an allowance related to these intra-governmental loans. Instead, loan loss allowances and subsidy costs are recognized by the ultimate lender, the federal agency that issued the loans to the public.

G. Advances to the Unemployment Trust Fund

Advances have been issued to the Department of Labor's Unemployment Trust Fund from the General Fund of the U.S. Government to states for unemployment benefits. The Bureau of the Public Debt accounts for the advances on behalf of the General Fund. As outlined in 42 USC §1323, these repayable advances bear an interest rate that is computed as the average interest rate, as of the end of the calendar month preceding the issuance date of the advance, for all interest bearing obligations of the United States then forming the public debt, to the nearest lower one-eighth of one percent. Interest on the repayable advances is due on September 30th of each year. Advances will be repaid by transfers from the Unemployment Trust Fund to the General Fund when the Secretary of the Treasury, in consultation with the Secretary of Labor, has determined that the balance in the Unemployment Trust Fund is adequate to allow repayment.

H. Receivable on Deposit of Earnings, Federal Reserve System

Reserve Banks are required by the Board of Governors of the Federal Reserve System to transfer to the U.S. Treasury excess earnings, after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid in. In the event of losses, or a substantial increase in capital, a Reserve Bank will suspend its payments to the U.S. Treasury until such losses or increases in capital are recovered through subsequent earnings. Weekly payments to the U.S. Treasury may vary significantly. The Receivable on Deposit of Earnings, Federal Reserve System, represents the earnings due to the U.S. Treasury as of September 30, but not collected by the U.S. Treasury until after the end of the month.

I. Property, Plant, and Equipment

General

Property, plant, and equipment (PP&E) is composed of capital assets used in providing goods or services. It also includes assets acquired through capital leases, which are initially recorded at the amount recognized as a liability for the capital lease at its inception. PP&E is stated at full cost, including costs related to acquisition, delivery, and installation, less accumulated depreciation. Major alterations and renovations including leasehold and land improvements are capitalized, while maintenance and repair costs are charged to expenses as incurred.

Internal use software encompasses software design, development, and testing of projects adding significant new functionality and long-term benefits. Costs for developing internal use software are accumulated in work in development until a project is placed into service, and testing and final acceptance are successfully completed. Once completed, the costs are transferred to depreciable property.

Costs for construction projects are recorded as construction-in-progress until completed, and are valued at actual (direct) cost, plus applied overhead and other indirect costs.

The Department leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. GSA charges a standard level users fee which approximates commercial rental rates for similar properties. Therefore, GSA-owned properties are not included in the Department's PP&E.

The Department's bureaus are diverse both in size and in operating environment. Accordingly, the Department's capitalization policy provides minimum capitalization thresholds which range from $25,000 to $50,000. The Department also uses a capitalization threshold range for bulk purchases: $250,000 to $500,000 for non manufacturing bureaus and $25,000 to $50,000 for manufacturing bureaus. Bureaus determine the individual items that comprise bulk purchases based on Departmental guidance. In addition, the Department's bureaus may expense bulk purchases if they conclude that total period costs would not be materially distorted and the cost of capitalization is not economically feasible.

Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements and capital leases. Leasehold improvements are depreciated over the term of the lease or the useful life of the improvement, whichever is shorter. Capital leases are depreciated over the estimated life of the asset or term of the lease, depending on the conditions met for capitalization. Service life ranges (2-50 years) are high due to the Department's diversity of PP&E. Construction in progress and internal use software in development are not depreciated.

Heritage Assets

The Department owns the Treasury Complex (Main Treasury and Treasury Annex)— a multi-use heritage asset. The buildings housing the United States Mint facilities in Denver, San Francisco, and West Point, are also considered multi-use heritage assets. Multi-use heritage assets are assets of historical significance for which the predominant use is general government operations. All acquisition, reconstruction, and betterment costs for the Treasury buildings are capitalized as general PP&E and depreciated over their service life.

J. Non-Entity Government-Wide Cash

Non-entity government-wide cash is held in depositary institutions and Federal Reserve accounts. Agencies can deposit funds that are submitted to them directly into either a Federal Reserve Treasury General Account (TGA) or a local TGA depositary. The balances in these TGA accounts are transferred to the Federal Reserve Bank of New York (FRBNY)'s TGA at the end of each day.

Operating Cash of the U.S. Government represents balances from tax collections, customs duties, other revenue, federal debt receipts, and other various receipts net of cash outflows for budget outlays and other payments held in the Federal Reserve Banks, foreign and domestic financial institutions, and in U.S. Treasury Tax and loan accounts. Outstanding checks are netted against operating cash until they are cleared by the Federal Reserve System.

The TGA is maintained at the FRBNY and functions as the government's checking account for deposits and disbursements of public funds. The Treasury Tax and Loan (TT&L) program includes about 9,000 depositories that accept tax payments and remit them the day after receipt to FRBNY's TGA. Certain TT&L depositories also hold Non-entity Government-wide Cash in interest bearing accounts. Cash in the TGA and the TT&L program is restricted for Government-wide operations.

U.S. Treasury Tax and Loan Accounts include funds invested through the Term Investment Option program and the Repo program. Under the Term Investment Option program Treasury auctions funds for a set term, usually in the range of one day to three weeks. Under the Repo program, the Department invests funds through overnight reverse repurchase agreements. However, under both programs, the Department reserves the right to call the funds prior to maturity under special circumstances. These investments programs where suspended in fiscal year 2010.

The Supplementary Financing Program (SFP) Account is maintained at FRBNY. SFP is a temporary program announced by the Department and the Federal Reserve on September 17, 2008, to provide emergency cash for Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. The program consists of a series of Treasury bills, apart from the Department's current borrowing program.

K. Federal Debt

Debt and associated interest are reported on the accrual basis of accounting. Interest costs are recorded as expenses when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long- term securities and the straight-line method for short-term securities. The Department also issues Treasury Inflation-Protected Securities (TIPS). The principal for TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers.

L. Loan Commitments

The FFB recognizes loan commitments when the FFB and the other parties fully execute the promissory notes and reduces loan commitments when the FFB issues loans or when the commitments expire. Most obligations of the FFB give a borrower the contractual right to a loan or loans immediately or at some point in the future. The FFB limits the time available for a loan under an obligation, where applicable.

M. Pension Costs, Other Retirement Benefits, and Other Post-Employment Benefits

The Department recognizes the full costs of its employees' pension benefits. However, the liabilities associated with these costs are recognized by the Office of Personnel Management (OPM) rather than the Treasury.

Most employees of the Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributes a fixed percentage of pay.

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, the Department also contributes the employer's matching share for Social Security. For the FERS basic benefit, the Department contributes 11.2 percent for regular FERS employees.

Similar to federal retirement plans, OPM, rather than the Treasury, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. The Department reports the full cost of providing other retirement benefits (ORB). The Department also recognizes an expense and liability for other post-employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Additionally, the Department's bureaus, OCC and OTS, separately sponsor certain benefit plans for their employees. OCC sponsors a defined life insurance benefit plan for current and retired employees. Additionally, OTS provides the Financial Institution Retirement Fund (FIRF) private defined retirement benefit plan to certain employees as well as certain health and life insurance benefits for all retired employees that meet eligibility requirements. Effective January 1, 1993, OTS adopted SFAS No. 106 to account for its share of the cost of life insurance.

N. Special Drawing Rights (SDRs)

The ESF was established for use by the Secretary of the Treasury to account for the purchase or sale of foreign currencies, to hold Special Drawing Rights (SDRs) holdings, and to provide financing to foreign governments. SDRs transactions of the ESF require the explicit authorization of the Secretary of the Treasury.

The International Monetary Fund (IMF) has authority to cancel, in part or in whole, SDRs created under previous allocations. Decisions of the IMF to cancel SDRs are adopted by the IMF's Board of Governors on a basis of proposal by the IMF Managing Director, with concurrence by the IMF Executive Board. The same majority requirements as those for allocations apply to the Executive Board's concurrence and to the Board of Governor's decision on an SDRs cancellation proposal.

Allocations and Holdings

Allocations of SDRs are recorded as assets and liabilities. The liabilities represent the amount that is payable in the event of liquidation of, or U.S. withdrawal from, the SDRs department of the IMF, or cancellation of the SDRs.

SDRs holdings represent transactions resulting from ESF SDRs activities. These activities are primarily the result of IMF allocations. Other transactions reported in this account are recorded as incurred. They include SDRs acquisitions and sales, interest received on SDRs holdings, interest charges on SDRs allocations, and valuation adjustments. The U.S. Government receives remuneration in SDRs from the IMF. This is based on claims on the IMF, represented by the U.S. Reserve Position. The allocations and holdings are revalued monthly based on the SDRs valuation rate calculated by the IMF.

Certificates

The *SDRs Act of 1968* authorized the Secretary of the Treasury to issue certificates, not to exceed the value of SDRs holdings, to the Federal Reserve Banks in return for interest-free dollar amounts equal to the face value of certificates issued. The certificates may be issued to finance the acquisition of SDRs from other countries or to provide resources for financing other ESF operations. Certificates issued are to be redeemed by the Treasury at such times and in such amounts as the Secretary may determine. Certificates issued to Federal Reserve Banks are reported at their face value. It is not practical to estimate the fair value of certificates issued to Federal Reserve Banks, since these certificates contain no specific terms of repayment.

O. Federal Employee Benefits Payable—FECA Actuarial Liability

The *Federal Employees' Compensation Act* (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursements from the Treasury for these paid claims. Generally, the Department reimburses DOL within two to three years once funds are appropriated. These future workers' compensation estimates are generated by applying actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

P. Annual, Sick, and Other Leave

Annual and compensatory leave earned by the Department's employees, but not yet used, is reported as an accrued liability. The accrued balance is adjusted annually to current pay rates. Any portion of the accrued leave, for which funding is not available, is recorded as an unfunded liability. Sick and other leave are expensed as taken.

Q. Revenue and Financing Sources

The Department's activities are financed either through exchange revenue it receives from others or through non-exchange revenue and financing sources (such as appropriations provided by the Congress and penalties, fines, and certain user fees collected). User fees primarily include IRS reimbursable costs to process installment agreements and accompanying photocopy and reproduction charges. Exchange revenues are recognized when earned; i.e., goods have been delivered or services have been rendered. Non-exchange revenues are recognized when received by the respective Treasury collecting bureau. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the services are provided. The Department also incurs certain costs that are paid in total or in part by other federal entities, such as pension costs. These subsidized costs are recognized on the Consolidated Statement of Net Cost, and the imputed financing for these costs is recognized on the Consolidated Statement of Changes in Net Position. As a result, there is no effect on net position. Other non-exchange financing sources such as donations and transfers of assets without reimbursements also are recognized for the period in which they occurred on the Consolidated Statement of Changes in Net Position.

The Department recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statement of Changes in Net Position. The costs related to the Forfeiture Fund program are reported on the Consolidated Statement of Net Cost.

In accordance with SFFAS No. 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, the material imputed inter-departmental financing sources currently recognized by the Department include the actual cost of future benefits for the federal pension plans that are paid by other federal entities, the Federal Employees Health Benefits Program (FEHBP), and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the Department.

R. Custodial Revenues and Collections

Non-entity revenue reported on the Department's Statement of Custodial Activity includes cash collected by the Department, primarily from taxes. It does not include revenue collected by other federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the U.S. Government or are earmarked for certain trust funds. The Statement of Custodial Activity is presented on the "modified accrual basis." Revenues are recognized as cash is collected. The "accrual adjustment" is the net increase or decrease, during the reporting period, in net revenue related-assets and liabilities, mainly taxes receivable. The Balance Sheets include an estimated amount for taxes receivable and payable to the General Fund of the U.S. Government at September 30, 2010 and September 30, 2009.

S. Tax Assessments, Abatements, and Refunds Payable

Under Internal Revenue Code Section 6201, the Department is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. The Department also has authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

Refunds payable arise in the normal course of tax administration when it is determined that taxpayers have paid more than the actual taxes that they owe. Amounts that the Department has concluded to be valid refunds owed to taxpayers are recorded as a liability (Refunds Payable on the Balance Sheet), with a corresponding receivable from the General Fund. This receivable is included on the Balance Sheet in the line entitled "Due from the General Fund."

T. Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax refunds, income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used. Permanent indefinite authority for refund activity is not stated as a specific amount and is available for an indefinite period of time. Although funded through appropriations, refund activity, in most instances, is reported as a custodial activity of the Department, since refunds are, in substance, a custodial revenue-related activity resulting from taxpayer overpayments of their tax liabilities.

The Department also receives two permanent and indefinite appropriations related to debt activity. One is used to pay interest on the public debt securities; the other is used to redeem securities that have matured, been called, or are eligible for early redemption. These accounts are not annual appropriations and do not have refunds. Debt activity appropriations are related to the Department's liability and are reported on the Department's Balance Sheet. Permanent indefinite authority for debt activity is available for an indefinite period of time.

The Department receives permanent indefinite appropriations annually to fund increases in the projected subsidy costs of credit programs as determined by the reestimation process required by the FCRA.

Additionally, the Department receives other permanent and indefinite appropriations to make certain payments on behalf of the U.S. Government. These appropriations are provided to make payments to the Federal Reserve Banks for fiscal services provided and to the financial institutions for services provided as Financial Agents of the U.S. Government. They also include appropriations provided to make other disbursements on behalf of the U.S. Government, including payments made to various parties as the result of certain claims and judgments rendered against the United States.

U. Income Taxes

As an agency of the Federal Government, the Department is exempt from all income taxes imposed by any governing body, whether it is a federal, state, commonwealth, local, or foreign government.

V. Use Of Estimates

The Department has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. Actual results could differ from these estimates. Significant transactions subject to estimates include loan receivables; investments in non-federal securities and related impairment;

tax receivables; loan guarantees; depreciation; liability for liquidity commitment to GSEs; imputed costs; actuarial liabilities; cost and earned revenue allocations; contingent legal liabilities; and credit reform subsidy costs.

The loan receivables mentioned above include mortgage-backed securities (MBS) issued by the GSEs and GSE obligations obtained under the programs of the Housing Finance Agency (HFA) Initiative, which include securities issued under the New Issue Bond Program (NIBP), and participation interests in liquidity facilities obtained under the Temporary Credit and Liquidity Program (TCLP). Other loan receivables exist as part of TARP. Investments in non-federal securities have been made in the GSEs and other domestic public entities.

The Department recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and uses regular review of model factors, statistical modeling, and annual re-estimates to reflect the most accurate cost of the credit programs to the U.S. Government. The Department currently accounts for the GSE MBS purchase program and the two programs of the HFA Initiative (the NIBP and TCLP) under the provisions of credit reform and the use of estimates is dictated by the Federal Credit Reform Act (Note 12). Additionally, all TARP credit activity, including investments in common and preferred stock and warrants of public companies, loans, and loan guarantees or guaranty-like insurance activities, are also subject to credit reform subsidy cost estimates. (Notes 8 and 12)

The forecasted cash flows used to determine these amounts as of September 30, 2010, are sensitive to slight changes in model assumptions, such as general economic conditions, specific stock price volatility of the entities in which the Department has an equity interest, estimates of expected default, and prepayment rates. Forecasts of financial results have inherent uncertainty. The TARP Direct Loans and Equity Investments, Net, and Asset Guarantee Program line items as of September 30, 2010, are reflective of relatively illiquid, troubled assets whose values are particularly sensitive to future economic conditions and other assumptions. Additional discussion related to sensitivity analysis can be found in the Management's Discussion and Analysis section of this Performance and Accountability Report.

The GSE Preferred Stock Purchase Agreements (PSPAs) provide that the Department will increase its investment in the GSEs' senior preferred stock if at the end of any quarter the Federal Housing Finance Agency (FHFA), acting as the conservator, determines that the liabilities of either GSE, individually, exceed its respective assets. Based on U.S. GAAP, these contingent liquidity commitments, predicated on the future occurrence of any shareholders' deficits of the GSEs at the end of any reporting quarter, are potential liabilities of the Department. The Department performs annual valuations, as of September 30th, of the preferred stock and warrants to attempt to provide a "sufficiently reliable" estimate of the outstanding commitments in order for the Department to record the remaining liability in accordance with SFFAS 5.

The valuations incorporated various forecasts, projections and cash flow analyses to develop an estimate of potential liability. Any changes in valuation, including impairment, are recorded and disclosed in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*. Since the valuation is an annual process, the change in valuation of the preferred stock and warrants are deemed usual and recurring. Accordingly, since the costs of preferred stock and warrants are exchange transactions, any changes in valuation are recorded as a non-entity exchange transaction that is either an expense or revenue. Dividends are also recorded as non-entity exchange transactions and are accrued when declared; therefore, no accrual is made for future dividends. The GSEs contingent liability is assessed annually and recorded at the gross estimated amount, without considering the increase in preferred stock liquidity preference, future dividend payments, or future commitment fees, due to the uncertainties involved. Note 9 discusses the results of the valuation and the liability recorded as of September 30, 2010.

Estimation of such complex and long duration contingencies is subject to uncertainty, and it is possible that new developments adversely impact ultimate amounts required to be funded by Treasury under the Senior Preferred Stock Purchase Agreements. Specifically, the occurrence of future shareholder deficits, which ultimately determines our GSE Contingent Liability, are most sensitive to future changes in the housing price index.

It is possible that the results of operations, cash flows or financial position of Treasury, could be materially affected in future periods by adverse changes in the outlook for the key assumptions underlying management's estimates.

W. Credit Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or counterparty to perform in accordance with underlying contractual obligations. The Department takes on possible credit risk when it makes direct loans or credits to foreign entities or becomes exposed to institutions which engage in financial transactions with foreign countries (Note 11). Given the history of the Department with respect to such exposure and the financial policies in place in the U.S. Government and other institutions in which the United States participates, the Department expectation of credit losses is nominal.

The Department also takes on credit risk related to committed but undisbursed direct loans, its liquidity commitment to the GSEs, its MBS portfolio; its GSE obligations obtained under the HFA Initiative (the NIBP and TCLP); investments, loans, and asset guarantees of the TARP, and its Terrorism Risk Insurance Program. Except for the Terrorism Risk Insurance Program, these activities focus on the underlying problems in the credit markets, and the ongoing instability in those markets exposes the Department to potential costs and losses. The extent of the risk assumed by the Department is described in more detail in the notes to the financial statements, and, where applicable, is factored into credit reform models and reflected in fair value measurements (Notes 8, 9 & 12).

In addition, for EESA programs, the statute requires that the budgetary costs of the troubled assets and guarantees of troubled assets be calculated by adjusting the discount rate for market risks. Within the TARP programs, the Department has invested in many assets that would traditionally be held by private investors and their valuation would inherently include market risk. Thus, for all TARP direct loan, asset guarantee, and equity purchase programs, the Department calculates a Market Risk Adjusted Discount Rate (MRADR). Therefore, the Department's cost estimates for the TARP programs are adjusted for unexpected loss and the estimated risk of expected cash flows. Under SFFAS No. 2, including market risk in the cash flow estimates is consistent with the type of assets being valued. The inclusion of the MRADR is the mechanism for providing the fair value of the assets.

X. Earmarked Funds

The Department has accounted for revenues and other financing sources for earmarked funds separately from other funds. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities or purposes. SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, defines the following three criteria for determining an earmarked fund: (1) A statute committing the Federal Government to use specifically identified revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; (2) Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and (3) A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguished the earmarked fund from the Federal Government's general revenues.

Y. Allocation Transfers

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent. Beginning in fiscal year 2007, parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency.

The Department allocates funds, as the parent, to the Department of Energy. OMB allows certain exceptions to allocation reporting for certain funds. Accordingly, the Department has reported certain funds for which the Department is the child in the allocation transfer, but in compliance with OMB guidance (A-136, III.4.2, section 5, for three exceptions), will report all activities relative to these allocation transfers in the Department's financial statements. Also, the Department receives allocation transfers, as the child, from the Agency for International Development, General Services Administration, and Department of Transportation. The Department had no significant allocation transfers to report in fiscal years 2010 and 2009.

Z. Credit Reform Accounting

The authoritative guidance for the credit reform portion of these statements is contained primarily in SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, as amended by SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, and SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*. This guidance was promulgated as a result of the *Federal Credit Reform Act of 1990* (FCRA).

The FCRA requires that the ultimate costs of a credit program be calculated, and the budgetary resources obtained, before the direct loan obligations are incurred. The cost of loan guarantee programs is the net present value of the estimated future cash flows from payments (for claims and interest rate subsidies). The primary purpose of the FCRA, which became effective on October 1, 1991, is to more accurately measure the cost of federal credit programs and to place the cost of such credit programs on a basis equivalent with other federal spending.

SFFAS No. 2, which generally mirrors the requirements of the FCRA, established guidance for estimating the cost of direct and guaranteed loan programs, asset guarantees, as well as for recording direct loans and liabilities for loan guarantees for financial reporting purposes. SFFAS No. 2 states that the actual and expected costs of federal credit programs should be fully recognized in both budgetary and financial reporting. To accomplish this, agencies first predict or estimate the future performance of direct and guaranteed loans when preparing their annual budgets. The data used for these budgetary estimates are reestimated after the fiscal year-end to reflect changes in actual loan performance and actual interest rates in effect when the loans were issued. The data used for these estimates were reestimated at the fiscal year-end to reflect adjustments for market risks, asset performance and other key variables and economic factors. The reestimated data are then used to report the cost of the loans disbursed under the direct or guaranteed loan program as a "Program Cost" in the agencies' Statement of Net Cost.

The FCRA establishes budgetary and financing control for each credit program through the use of the program, financing and subsidy receipt accounts for direct loans obligated after September 30, 1991. These accounts are classified as either budgetary or non-budgetary in the Combined Statements of Budgetary Resources. The budgetary accounts include the program accounts and receipt accounts. The non-budgetary accounts consist of the credit reform financing accounts.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all of the cash flows resulting from Credit Reform direct loans, loan guarantees, or asset guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from BPD, earns or pays interest, and receives the subsidy cost payment from the program account.

The General Fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there is a negative subsidy or negative modification from the original estimate or a downward reestimate. They are available for appropriations only in the sense that all General Fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by Intra-governmental liabilities. At the end of the fiscal year, the fund balance transferred to the U.S. Treasury through the General Fund receipt account is no longer included in the Department's fund balance reporting.

The Department accounts for the following programs in accordance with FCRA and the provisions under the FASAB accounting standard SFFAS No. 2, as amended:

TARP Direct Loans, Equity Investments and Asset Guarantee Program

The FCRA provided for the use of program, financing, and general fund receipt accounts to separately account for activity related to loans and guarantees. These accounts are classified as either budgetary or non-budgetary in the Statement of Budgetary Resources. The budgetary accounts include the program and general fund receipt accounts, and the non-budgetary accounts consist of the credit reform financing accounts.

As discussed previously, the Department accounts for the cost of purchases of troubled assets and guarantees of troubled assets, and any cash flows associated with authorized activities in accordance with Section 123(a) of the EESA and the FCRA for budgetary accounting and SFFAS No. 2 for financial reporting, except for the Treasury Housing Programs Under TARP (see Note 8).

The authoritative guidance for financial reporting is primarily contained in the SFFAS No. 2, as amended by the SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, and the SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*.

In accordance with SFFAS No. 2, the Department maintains program accounts which receive appropriations and obligate funds to cover the subsidy cost of direct loans, equity investments and asset guarantees, and disburses the subsidy cost to the Department financing accounts. The financing accounts are non-budgetary accounts that are used to record all of the cash flows resulting from the Department direct loans, equity investments and asset guarantees.[3] Cash flows include disbursements, repayments, repurchases, fees, recoveries, interest, dividends, proceeds from the sale of stock and warrants, borrowings from Treasury, negative subsidy and the subsidy cost received from the program accounts.

The financing arrangements specifically for the TARP activities are provided for in the EESA as follows: (1) Borrowing for program funds under Section 118 that constitute appropriations when obligated or spent, which are reported as "appropriations" in these financial statements; (2) borrowing by financing accounts for non-subsidy cost under the FCRA and Section 123; and (3) the Troubled Assets Insurance Financing Fund (TAIFF) under Section 102(d).

The Department uses general fund receipt accounts to record the receipt of amounts paid from the financing accounts when there is a negative subsidy or negative modification (a reduction in subsidy cost due to changes in program policy or terms that change estimated future cash flows) from the original estimate or a downward reestimate. Amounts in the general fund receipt accounts are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in these accounts are non-entity assets and are offset by intra-governmental liabilities. At the end of the fiscal year, the fund balance transferred to the U.S. Treasury through the general fund receipt account is closed and therefore no longer included in the Department's fund balance reporting.

The SFFAS No. 2 requires that the actual and expected costs of federal credit programs be fully recognized in financial reporting. The Department calculated and recorded an initial estimate of the future performance of direct loans, equity investments, and asset guarantees. The data used for these estimates were reestimated at the fiscal year-end to reflect adjustments for market risk, asset performance, and other key variables and economic factors. The reestimate data was then used to estimate and report the "Subsidy Cost" in the Statement of Net Cost. A detailed discussion of the Department subsidy calculation and reestimate assumptions, process and results is provided in Note 8.

GSE MBS Purchase Program

The Department purchases mortgage-backed pass-through securities through the Government Sponsored Enterprise Mortgage-Backed Securities (GSE MBS) Purchase Program. The purchase authority under this Program expired December 31, 2009. Consistent with the FCRA, these securities are treated as direct loans, and the value of the Department's position and the associated credit

3 For the Asset Guarantee Program, the Department has established the Troubled Assets Insurance Financing Fund, which is the program's financing account under the FCRA, as required by Section 102(d) of the EESA.

subsidy requirements are determined based on the net present value of the securities' forecasted future cash flows. The Department estimates nominal future cash flows using a financial model that incorporates each security's payment characteristics together with assumptions about the future prepayment, default, and loss severity performance of underlying loan collateral and the GSEs' ability to uphold their guarantee. Nominal cash flow forecasts are discounted at interest rates of Treasury securities with comparable maturities using the Office of Management and Budget's Credit Subsidy Calculator. Cash flows are estimated under the assumption that all securities will be held to maturity.

Security-level data used as the basis for cash flow model forecasts are obtained directly from Treasury's program custodian. Assumptions about security and program performance are drawn from widely available market sources as well as information published by the GSEs. Key inputs to the cash flow forecast include:

- Security characteristics such as unpaid principal balance, pass-through coupon rate, weighted-average loan age, and weighted-average maturity
- Forecast prepayment rates and default rates

State and Local Housing Finance Agency Initiative

Under the Housing and Economic Recovery Act of 2008 (HERA), the Department, together with the Federal Housing Finance Agency (FHFA), Fannie Mae, Freddie Mac, and the Department of Housing and Urban Development announced in October 2009 an initiative to provide support to state and local housing finance agencies (HFAs). HFAs have historically played a central role in providing a safe, sustainable path to homeownership for working families in all 50 states and many localities across the country. This initiative is designed to support low mortgage rates and expand resources for low and middle income borrowers to purchase or rent homes, making them more affordable over the long term. In December 2009, several transactions closed as part of the HFA Initiative's two separate HFA programs: (1) the New Issue Bond Program (NIBP) and (2) the Temporary Credit and Liquidity Program (TCLP).

Security-level data used as the basis for the NIBP cash flow model forecasts are obtained directly from the Department's program custodian. Assumptions about security and program performance are drawn from information published in the fiscal year 2009 FHA Actuarial Review of the Mutual Mortgage Insurance Fund and default and recovery reports published by Moody's and S&P. Key inputs to the NIBP cash flow forecast include:

- Security characteristics such as issued bond balance, coupon rate, credit rating, maturity date, and principal and interest payment schedules
- Forecast prepayment, and loss rates
- Expected escrow conversion & return rates

No TCLP disbursements have occurred as of September 30, 2010. In accordance with OMB Circular A-11, the Department did not perform a fiscal year 2010 subsidy reestimate for TCLP since there was no disbursement as of September 30, 2010.

AA. Fiduciary Activities

In accordance with SFFAS No. 31, *Accounting for Fiduciary Activities*, fiduciary type activities and related transactions will no longer be reported by the Department in its proprietary financial statements. Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary cash and other assets are not assets of the Federal Government. While these activities are no longer reported in the proprietary financial statements, they are required to be reported on schedules in the notes to financial statements (Note 30).

AB. Related Parties

The primary "related parties" with whom the Department conducts business are other federal agencies, mainly through the normal lending activities of the BPD and the Federal Financing Bank. These activities are disclosed in these financial statements. The Department utilizes the services of the Federal Reserve to execute a variety of transactions on behalf of the BPD and the Exchange Stabilization Fund. The Federal Reserve is serving as the Department's fiscal agent in executing these transactions and receives fees for its services. The Department also consults with the Federal Reserve on matters affecting the economy, such as the structuring of bailout financing for American International Group and other companies affected by the current economic situation. However, these actions do not involve transactions between the Department and the Federal Reserve.

Finally, the Secretary of the Treasury serves on the FHFA Oversight Board, and consults with the Director of FHFA in matters involving Fannie Mae and Freddie Mac. This provides the Department a voice in the FHFA's actions as the conservator for Fannie Mae and Freddie Mac, and thus some influence over major decisions involving Fannie Mae and Freddie Mac. The Department has no transactions with FHFA; transactions and balances arising from transactions with Fannie Mae and Freddie Mac are accounted for and disclosed in these financial statements.

AC. Reclassifications

Certain fiscal year 2009 balances on the Balance Sheet and notes to the financial statements have been reclassified to conform to fiscal year 2010 presentations. In fiscal year 2010, certain Balance Sheet amounts were aggregated and reclassified, whereas in fiscal year 2009 they were reported disaggregated. Amounts related to the TARP program were disaggregated in fiscal year 2009. The changes to aggregate and reclassify amounts were made to conform to how TARP is presented on the OFS stand-alone and Financial Report of the U.S. Government levels. In fiscal year 2010, the CDFI direct loans began to be disclosed in the credit reform footnote. The change impacted the reclassification of the Balance Sheet, and disclosures in Notes 12 and 13.

AD. Accounting Policy Change

Effective fiscal year 2010, as a result of a new United States Standard General Ledger (USSGL), the Department changed its budgetary accounting and reporting policy related to ESF foreign currency investments. The change in accounting policy permits the Department to present the revaluations of ESF investments as well as other ESF assets not readily convertible to cash as a budgetary resource that is permanently not available without affecting outlays. ESF investments includes cash and cash equivalents, Foreign Currency Denominated Assets (FCDA) (representing long-term investments in interest bearing securities issued by or held through foreign governments) and Special Drawing Rights (SDR) Allocations (international reserve assets) and Monetization (SDR Certificates) (collectively "ESF Investments" henceforth). The new USSGL 4295, *Revaluation of Foreign Currency in the Exchange Stabilization Fund* permits the Department to report those assets that are not readily convertible to cash (such as FCDAs, SDR revaluations (gains/losses) and other SDR additions including SDR Allocations and SDR Monetizations) as part of Budgetary Resources in the Statement of Budgetary Resources (SBR) *Permanently Not Available* and report these as a component of Status of Budgetary Resources in the SBR *Unobligated Balance Not Available line*, respectively.

In order to facilitate this change, the Department's current year SBR Unobligated balance, brought forward, as well as Unpaid Obligations, brought forward, beginning balances, have been adjusted for changes in ESF investments balances accumulated through September 30, 2009, to allow fiscal year 2010 to reflect only current year activity. Using guidance provided in SFFAS No. 21 – *Reporting Corrections of Errors and Changes in Accounting Principles*, the Department considers this to represent a change from one generally accepted accounting principle to another more preferable. Note 25 - Additional Information Related to the Combined Statements of Budgetary Resources, explains the effect of the policy change on the SBR beginning balances. This change in accounting policy and resulting budgetary beginning balance adjustments does not impact the Department's proprietary accounts.

2. Fund Balance

Fund Balance with Treasury is the aggregate amount of the Department's accounts with the U.S. Government's central accounts from which the Department is authorized to make expenditures and pay liabilities. It is an asset because it represents the Department's claim to the U.S. Government's resources. Fund balance with Treasury is not equivalent to unexpended appropriations, because it also includes non-appropriated revolving and enterprise funds, suspense accounts, and custodial funds such as deposit funds, special funds, and trust funds.

Appropriated funds consist of amounts appropriated annually by Congress to fund the operations of the Department. Appropriated funds include clearing funds, which represent reconciling differences with the Department balances.

Revolving funds are used for continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. A public enterprise revolving fund is an account that is authorized by law to be credited with offsetting collections from the public and those monies are used to finance operations. The Working Capital Fund is a fee-for-service fund established to support operations of Department Components. Also included are the financing funds for credit reform.

Deposit funds represent amounts received as an advance that are not accompanied by an order and include non-entity collections that do not belong to the Federal Government.

Trust funds include both receipt accounts and expenditure accounts that are designated by law as a trust fund. Trust fund receipts are used for specific purposes.

Special funds include funds designated for specific purposes including the disbursement of non-entity monies received in connection with the Presidential Election Campaign.

Fund Balance With Treasury

As of September 30, 2010 and September 30, 2009, fund balances consisted of the following (in millions):

	2010	2009
Appropriated Funds	$ 402,036	$ 455,983
Revolving Funds	34,096	47,897
Clearing Funds	21	93
Deposit Funds	132	146
Trust Funds	84	5
Special Funds	656	455
Other Funds (Receipt Fund and Suspense Funds)	1	3
Total Fund Balances	**$ 437,026**	**$ 504,582**

Status Of Fund Balance With Treasury

Portions of the Unobligated Balance Unavailable include amounts appropriated in prior fiscal years that are not available to fund new obligations. However, it can be used for upward and downward adjustments for existing obligations in future years. The Obligated Balance Not Yet Disbursed represents amounts designated for payment of goods and services ordered but not received or goods and services received but for which payment has not yet been made.

Since the following line items do not post to budgetary status accounts, the following adjustments are required to reconcile the budgetary status to non-budgetary Fund Balance with Treasury as reported in the accompanying Balance Sheets:

- Adjustments for Non-Budgetary Funds are receipt, clearing, and deposit funds that represent amounts on deposit with Treasury that have no budget status

- Adjustments for Borrowing Authority – Borrowing authority is in budgetary status but not in Fund Balance with Treasury
- Adjustments for Intra-Treasury Investments – Budgetary resources have investments included; however, the money has been moved from the Fund Balance with Treasury asset account to Investments
- Adjustments for Imprest Funds – Imprest funds represent monies moved from Fund Balance with Treasury to Cash and Other Monetary Assets with no change in the budgetary status
- Adjustments for IMF – Monies moved from Fund Balance with Treasury to Other Monetary Assets related to IMF accounts that have no budgetary resources and are with the Federal Reserve Bank of New York. They also include the IMF Reserve Position based on SDRs
- Adjustments for ESF – ESF investments and related balances that meet criteria for reporting as part of budgetary resources are reported on the SBR, however, they are not a component of Fund Balance with Treasury as they represent invested funds and thus have to be excluded from Total Status of Fund Balance reported in this note. Prior to fiscal year 2010, the ESF budgetary resources balances were adjusted in Note 2 to show resources net of the ESF investments and related balances that are not components of Fund Balance. The change in presentation for fiscal year 2010 was facilitated by the change in accounting policy discussed further in Note 1AD, and Note 25
- Adjustment for Unavailable for Obligations reduced the budgetary resources; however, did not impact the Fund Balance with Treasury

As of September 30, 2010 and September 30, 2009, the status of fund balances consisted of the following (in millions):

	2010	2009
Unobligated Balance – Available	$ 301,811	$ 382,047
Unobligated Balance – Unavailable	70,432	33,841
Obligated Balance not yet Disbursed	208,189	158,324
Subtotal	**$ 580,432**	**$ 574,212**
Adjustment for Non-Budgetary Funds	161	241
Adjustment for Borrowing Authority	(23,477)	(51,510)
Adjustment for Intra-Treasury Investments	(7,026)	(8,554)
Adjustment for Imprest Funds	(4)	(4)
Adjustment for IMF	(13,081)	(13,513)
Adjustment for ESF	(103,788)	0
Adjustments for Temporary Reduction	90	30
Authority Unavailable for Obligation	3,727	3,680
Adjustment for Indian Trust Funds	(8)	0
Total Status of Fund Balances	**$ 437,026**	**$ 504,582**

For fiscal year 2009, the above balances only include unobligated balances related to the ESF insurance program that began in fiscal year 2008, and expired on September 18, 2009. Otherwise, ESF does not have Fund Balance with Treasury. Accordingly, while other ESF balances are included on the Statement of Budgetary Resources (SBR), they are not a component of Fund Balance with Treasury. The ESF balances displayed on the SBR include components of cash, foreign currency, and other monetary assets.

As of September 30, 2010 and September 30, 2009, the Department did not have any budgetary authority in Fund Balance with Treasury that was specifically withheld from apportionment by OMB. The balances in non-entity funds, such as certain deposit funds (e.g. seized cash), are being held by the Department for the public or for another federal entity, such as the General Fund of the U.S. Government. Such funds have an offsetting liability equal to fund balance. See Note 14 regarding restrictions related to the line of credit held on the U.S. Quota in the International Monetary Fund.

Unused funds in expired appropriations returned to the U.S. Treasury were $166 million and $126 million for the fiscal years ending September 30, 2010 and September 30, 2009, respectively.

3. Loans And Interest Receivable – Intra-Governmental

Entity Intra-Governmental

The FFB issues the below loans to federal agencies for their own use or to private sector borrowers, whose loans are guaranteed by the federal agencies. When a federal agency has to honor its guarantee because a private sector borrower defaults, the federal agency that guaranteed the loan must obtain an appropriation or use other resources to repay the FFB. Loan principal and interest are backed by the full faith and credit of the U.S. Government, except for loans to the U.S. Postal Service. The FFB has not incurred and does not expect to incur any credit-related losses on its loans and accordingly, has not recorded an allowance for uncollectible intra-governmental loans.

As of September 30, 2010 and September 30, 2009, intra-governmental loans (issued by the FFB) and interest receivable consisted of the following (in millions):

	Loans Receivable	Interest Receivable	2010 Total	Loans Receivable	Interest Receivable	2009 Total
Department of Agriculture	$ 31,264	$ 53	$ 31,317	$ 28,438	$ 52	$ 28,490
National Credit Union Administration	10,101	15	10,116	18,384	22	18,406
United States Postal Service	12,000	41	12,041	10,200	37	10,237
General Services Administration	1,973	35	2,008	2,037	36	2,073
Department of Energy	2,931	4	2,935	908	0	908
Department of Housing and Urban Development	0	0	0	587	71	658
Department of Defense	417	4	421	546	6	552
Department of Education	614	4	618	453	2	455
Other Agencies	8	0	8	12	0	12
Subtotal-Entity	**$ 59,308**	**$ 156**	**$ 59,464**	**$ 61,565**	**$ 226**	**$ 61,791**

Non-Entity Intra-Governmental

BPD accounts for and reports on the principal borrowings from and repayments to the General Fund of the U.S. Government for approximately 87 funds managed by other federal agencies, as well as the related interest due to the General Fund. These agencies are statutorily authorized to borrow from the General Fund, through BPD, to make loans for a broad range of purposes, such as education, housing, farming, and small business support.

	Loans Receivable	Interest Receivable	2010 Total	Loans Receivable	Interest Receivable	2009 Total
Department of Education	$ 373,717	$ 0	$ 373,717	$ 234,918	$ 12	$ 234,930
Department of Agriculture	56,598	0	56,598	55,627	2	55,629
Department of Homeland Security	18,504	0	18,504	19,004	0	19,004
Small Business Administration	11,752	0	11,752	10,873	0	10,873
Department of Labor	6,290	0	6,290	6,371	0	6,371
Department of Housing and Urban Development	4,775	0	4,775	4,425	0	4,425
Export Import Bank of the U.S.	7,254	0	7,254	3,805	0	3,805
Railroad Retirement Board	3,481	54	3,535	3,359	58	3,417
Department of Energy	2,601	21	2,622	2,131	18	2,149
Department of Veterans Affairs	1,650	0	1,650	1,545	0	1,545
Department of Transportation	3,076	0	3,076	2,477	0	2,477
Overseas Private Investment Corporation	1,403	0	1,403	1,006	0	1,006
Department of Defense	518	0	518	391	0	391
Agency for International Development	478	0	478	477	0	477
Department of the Interior	308	183	491	316	328	644
Federal Communications Commission	88	0	88	46	0	46
Other Agencies	638	0	638	1,610	1	1,611
Subtotal Non-Entity	**$ 493,131**	**$ 258**	**$ 493,389**	**$ 348,381**	**$ 419**	**$ 348,800**
Total Intra-governmental Loans and Interest Receivable Entity and Non-Entity			**$ 552,853**			**$ 410,591**

4. Due from the General Fund and Due to the General Fund

The Department is responsible for managing various assets and liabilities on behalf of the U.S. Government as a whole. Due from the General Fund represents amounts required to fund liabilities managed by the Department on behalf of the U.S. Government. Liabilities managed by the Department are comprised primarily of the federal debt. Due to the General Fund represents assets held for the General Fund of the U.S. Government.

As of September 30, 2010 and September 30, 2009, Due from and Due to the General Fund, included the following non-entity assets and liabilities (in millions):

Liabilities Requiring Funding from the General Fund	2010	2009
Federal Debt and Interest Payable (Note 19)	$ 9,035,929	$ 7,559,305
Federal Debt and Interest Payable - Intra-governmental (Note 19)	4,587,802	4,403,080
Refunds Payable (Note 26)	4,146	4,040
Adjustment for Eliminated Liabilities	27,760	26,294
Total Due from the General Fund	**$ 13,655,637**	**$ 11,992,719**

Assets to be Distributed to the General Fund	2010	2009
Fund Balance	$ 249	$ 202
Advances to the Unemployment Trust Fund	34,111	7,981
Cash Held by the Treasury Department (Note 6)	303,797	269,311
Foreign Currency	3	26
Custodial Gold without certificates and Silver held by the U.S. Mint	25	25
Loans and Interest Receivable - Intra-governmental (Note 3)	493,389	348,800
Loans and Interest Receivable (Note 13)	124	127
Investments in Government Sponsored Enterprises (Note 9)	109,216	64,679
Credit Reform Downward Subsidy Reestimate	25,579	118,139
Accounts Receivable - Intra-governmental	350	285
Tax and Other Non-Entity Receivables	36,927	30,353
Beneficial Interest in Trust (Note 29)	20,805	23,472
Miscellaneous Assets	5	3
Adjustment for Eliminated Assets	389,672	399,725
Total Due to the General Fund	**$ 1,414,252**	**$ 1,263,128**

The Adjustment for Eliminated Liabilities mainly represents investments in U.S. Government securities held by the Department's reporting entities that were eliminated against Federal Debt and Interest Payable Intra-governmental. The Adjustment for Eliminated Assets mainly represents loans and interest payable owed by reporting entities that are consolidated with the Department, which were eliminated against Loans and Interest Receivable Intra-governmental held by the BPD.

Advances have been issued to the Department of Labor's Unemployment Trust Fund from the General Fund of the U.S. Government to states for unemployment benefits.

The non-entity Credit Reform Downward Subsidy Reestimates represents amounts for the downward subsidy reestimates for the Department's credit programs including TARP Equity Investments and Direct Loan.

Downward subsidy reestimates indicates that too much subsidy will be or has been paid to the credit reform financing account. The downward reestimates are not available to the Department and they are returned to the U.S. Government General Fund Receipt Account (GFRA) in the fiscal year following the accrual of the reestimates. Generally, during the year, these GFRAs contain prior year reestimates. At year-end, the prior year funds are "swept" by the general fund. Also at year-end, the Department accrues the current year's reestimates, including downward reestimates, as applicable. For the downward reestimates, in the loan financing funds, the Department records an intra-governmental accrual adjustment that records a transfer out to the non-entity fund, a reduction of subsidy allowance or loan guarantee liability, and an account payable to the GFRA non-entity fund. In the loan program funds, the Department records a reduction of loan subsidy expense and the associated impact on the net cost. The non-entity GFRAs contain a corresponding intra-governmental account receivable in anticipation of the receipt of the downward reestimates in the following year and a Downward Reestimate Liability for Non-Entity Asset due to the General Fund. For consolidated financial statement presentation, the Department is required to eliminate the financing fund's intra-governmental payable due to the GFRA and the GFRA's intra-governmental receivable due from the financing funds; since both are included in the Department's reporting entity. The Downward Reestimate Liability for Non-Entity asset Due to the General Fund is reflected on the Balance Sheet's intra-governmental liability Due to the General Fund line (See Notes 8 and 12 for disclosure of credit program's reestimates).

On the Balance Sheet, the Department reported $437,026 million in Fund Balance as of September 30, 2010 ($504,582 million as of September 30, 2009). However, only $249 million is reported as Due to the General Fund of the U.S. Government ($202 million as of September 30, 2009). The balance represents non-entity funds held by the Department on behalf of the general fund of the U.S. Government, and are administered for programs such as the Presidential Election Campaign and Payments for Legal Service Corporation. The fund balance is not available for general use of the Department.

On the Balance Sheet, the Department reported $36,976 million in Tax, Other, and Related Interest Receivables as of September 30, 2010 ($30,408 million as of September 30, 2009). However, only $36,927 million is reported as Due to the General Fund of the U.S. Government ($30,353 million as of September 30, 2009). The difference is attributable to the exclusion of amounts which will be paid to others outside the U.S. Government, and miscellaneous entity receivables (See Notes 5 and 15).

5. Accounts Receivable and Related Interest—Intra-Governmental

Intra-governmental accounts receivable and interest mainly represents non-entity payments made by the Department under the *Contract Disputes Act* ($350 million of the $361 million and $285 million of the $298 million displayed on the balance sheet for 2010 and 2009, respectively). Other federal agencies are required to reimburse the Department for payments made on their behalf, related to the *Contract Disputes Act* and the *No Fear Act*. These amounts are a receivable on the Department's balance sheet, specifically the Financial Management Service, and a payable on the other federal agencies' balance sheet until reimbursement is made. The remaining amount displayed as intra-governmental accounts receivable and interest is related to miscellaneous intra-governmental transactions.

6. Cash, Foreign Currency, and Other Monetary Assets

Cash, foreign currency, and other monetary assets held as of September 30, 2010 and September 30, 2009 were as follows (in millions):

Entity:	2010	2009
Cash	$ 16	$ 23
Foreign Currency and Foreign Currency Denominated Assets	13,439	13,701
Other Monetary Assets:		
Special Drawing Right Holdings	57,439	57,961
Other	144	44
Subtotal – Entity	**71,038**	**71,729**
Non-Entity:		
Operating Cash of the U.S. Government	303,576	269,052
Foreign Currency	3	26
Miscellaneous Cash held by all Treasury sub-components	665	501
Subtotal - Non-Entity	**304,244**	**269,579**
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 375,282**	**$ 341,308**

Non-entity Operating Cash and Other Cash of the U.S. Government held by the Department disclosed above consisted of the following (in millions):

	2010	2009
Operating Cash of the U.S. Government	$ 2,032	$ 2,063
Operating Cash - Federal Reserve Bank Account	307,850	273,269
Subtotal	**309,882**	**275,332**
Outstanding Checks	(6,306)	(6,280)
Total Operating Cash of the U.S. Government	**303,576**	**269,052**
Other Cash	297	366
Subtotal	**303,873**	**269,418**
Amounts Due to the Public	(76)	(107)
Total Cash Due to the General Fund (See Note 4)	**$ 303,797**	**$ 269,311**

Entity

Cash, Foreign Currency, and Other Monetary Assets

Entity cash, foreign currency, and other monetary assets primarily include Foreign Currency Denominated Assets (FCDA), Special Drawing Rights (SDRs), Securities Purchased Under Agreement to Resell, and forfeited cash. SDRs and FCDA are valued as of September 30, 2010 and September 30, 2009, using current exchange rates plus accrued interest. "Other" includes U.S. dollars restricted for use by the International Monetary Fund (IMF), which are maintained in two accounts at the Federal Reserve Bank of New York (FRBNY).

The foreign currency holdings are normally invested in interest bearing securities issued by or held through foreign governments or monetary authorities. FCDA with original maturities of three months or less, classified as cash equivalents, were valued at $10,588 million as of September 30, 2010 ($11,311 million as of September 30, 2009). Other FCDAs having terms of less than or equal to a year but greater than three months are classified as available for sale. As of September 30, 2010, FCDA with maturities greater than three months were valued at $2,849 million ($2,379 million as of September 30, 2009).

Special Drawing Rights

The SDR is an international reserve asset created by the IMF to supplement existing reserve assets. The IMF has allocated new SDRs on several occasions to members participating in the IMF's SDR Department. The SDR derives its value as a reserve asset, essentially, from the commitments of participants to hold and accept SDRs and to honor various obligations connected with their proper functioning as a reserve asset.

The Special Drawing Rights Act of 1968 authorizes the Secretary of the Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Banks in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued for the purpose of financing the acquisition of SDRs from other countries or for financing exchange stabilization activities. Certificates issued are to be redeemed by the Department at such times and in such amounts as the Secretary of the Treasury may determine. As of September 30, 2010, the value of the certificates issued to the Federal Reserve amounted to $5,200 million ($5,200 million as of September 30, 2009).

On a daily basis, the IMF calculates the value of the SDR using the market value, in terms of the U.S. dollar, from the amounts of each of four freely usable weighted currencies, as defined by the IMF. These currencies are the U.S. dollar, the European euro, the Japanese yen, and the British pound sterling. The Department's SDR holdings (assets resulting from various SDR related activities including remuneration received on interest earned on the U.S. reserve position – See Note 14) and allocations from the IMF (liabilities of the U.S. coming due only in the event of a liquidation of, or U.S. withdrawal from the SDR Department of the IMF, or cancellation of SDRs) are revalued monthly based on the SDR valuation rate calculated by the IMF.

Pursuant to the IMF Articles of Agreement, SDRs allocated to or otherwise acquired by the United States are permanent resources unless:

a. cancelled by the Board of Governors based on an 85 percent majority decision of the total voting power of the Executive Board of the IMF,

b. the SDR Department of the IMF is liquidated,

c. the IMF is liquidated, or

d. the United States chooses to withdraw from the IMF or terminate its participation in the SDR Department.

Except for the payment of interest and charges on SDR allocations to the United States, the payment of the Department's commitment related to SDR allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDRs were made 1970, 1971, 1972, 1979, 1980, 1981, and 2009.

At the G-20 Leaders' Summit in London in April 2009, President Obama and his G-20 counterparts called for a general SDR allocation equivalent to $250,000 million to provide supplemental liquidity to address the consequences of the global economic and financial crisis and to support global recovery. IMF members endorsed this proposal and the allocation was made on August 28, 2009 to all IMF members in proportion to their IMF quotas. In August 2009, IMF members also adopted the Fourth Amendment to the IMF Articles of Agreement providing for a one-time SDR allocation that was made on September 9, 2009 in proportionally greater amounts to members that joined the Fund after 1981 and never received an SDR allocation. As a result of the general and special SDR allocations, the United States received SDR 30,416 million, which was the equivalent of $47,283 million as of September 30, 2009.

As of September 30, 2010, the total amount of SDR holdings of the United States was the equivalent of $57,410 million, and the amount of cumulative SDR allocations to the United States was the equivalent of $54,958 million. As of September 30, 2009, the total amount of SDR holdings of the United States was the equivalent of $57,945 million and the amount of cumulative SDR allocations to the United States was the equivalent of $55,953 million.

During fiscal year 2010, the United States received remuneration on its reserve position in the IMF, at the prevailing rates, in the amount of $23 million equivalent of SDRs ($40 million equivalent of SDRs during fiscal year 2009). The SDR amount was credited to the Exchange Stabilization Fund, which transferred to the Treasury General Account a counterpart amount of dollars plus $0.0029 million ($0.0038 million in fiscal year 2009) in interest.

Securities Purchased Under Agreement to Resell

The FRBNY enters into transactions to purchase foreign-currency-denominated government-debt securities under agreements to resell for which the accepted collateral is the debt instruments, denominated in Euro, and issued or guaranteed in full by Belgium, France, Germany, Italy, the Netherlands, and Spain. Maturities of the Securities will not exceed 10.5 years. The duration of individual repo transactions will not exceed 90 days. ESF's investment in reverse repurchase agreements involves a pledge of securities account with Euroclear, the custodian/tri-party agent for such operations, to facilitate intra-day clearance of transactions. These agreements are subject to daily margining requirements.

Non-Entity

Cash, Foreign Currency, and Other Monetary Assets

Non-entity cash, foreign currency, and other monetary assets include the Operating Cash of the U.S. Government, managed by the Department. Also included is foreign currency maintained by various U.S. disbursing offices. It also includes seized monetary instruments, undistributed cash, and offers in compromises which are maintained as the result of the Department's tax collecting responsibilities.

The Operating Cash of the U.S. Government represents balances from tax collections, other revenues, federal debt receipts, and other various receipts net of checks outstanding, which are held in the Federal Reserve Banks, foreign and domestic financial institutions, and in U.S. Treasury tax and loan accounts at commercial banks.

Operating Cash of the U.S. Government is either insured (for balances up to $0.25 million), as of September 30, 2010, by the FDIC or collateralized by securities pledged by the depository institutions and held by the Federal Reserve Banks, or through securities held under reverse repurchase agreements.

Supplementary Financing Program

The Supplementary Financing Program (SFP) is a temporary program announced on September 17, 2008, by the Department and the Federal Reserve, to provide emergency cash for Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. As of September 30, 2010, there were a total of 8 outstanding cash management bills earmarked for SFP that totaled $199,962 million (a total of 5 outstanding cash management bills earmarked for SFP that totaled $164,945 million as of September 30, 2009).

7. Gold and Silver Reserves, and Gold Certificates Issued to the Federal Reserve Banks

The Department is responsible for safeguarding most of the U.S. Government's gold and silver reserves in accordance with 31 USC §5117. The gold and silver reserves are in the custody of the U.S. Mint and FRBNY.

The majority of gold reserves being held by the Department are offset by a liability for gold certificates issued by the Secretary of the Treasury to the Federal Reserve Banks as provided in 31 USC §5117. Since 1934, Gold Certificates have been issued in non-definitive or book-entry form to the Federal Reserve Banks. The Department's liability incurred by issuing the Gold Certificates, as reported on the Balance Sheet, is limited to the gold being held by the Department at the legal standard value established by law. Upon issuance of Gold Certificates to the Federal Reserve Banks, the proceeds from the certificates are deposited into the operating cash of the U.S. Government. All of the Department's certificates issued are payable to the Federal Reserve Banks. The U.S. Mint also holds 100,000 FTO ($4 million) of gold reserves without certificates.

The gold and silver bullion reserve (deep storage and working stock) are reported at the values stated in 31 U S C §§ 5116 - 5117 (statutory rates) which are $42.2222 per fine troy ounce (FTO) of gold and no less than $1.292929292 per FTO of silver. Accordingly, the silver is valued at $1.292929292 per FTO. As of September 30, 2010 and September 30, 2009, the gold and silver reserves consisted of the following (in millions):

	FTOs	Statutory Rate	9/30/10 Statutory Value	Market Rate	9/30/10 Market Value
Gold	248,046,116	$ 42.2222	$ 10,473	$ 1,307.00	$ 324,196
Gold Held by Federal Reserve Banks	13,452,784	$ 42.2222	568	$ 1,307.00	17,583
Subtotal - Gold	**261,498,900**		**11,041**		**341,779**
Silver	16,000,000	$ 1.292929292	21	$ 22.07	353
Total Gold and Silver Reserves			**$ 11,062**		**$ 342,132**

	FTOs	Statutory Rate	9/30/09 Statutory Value	Market Rate	9/30/09 Market Value
Gold	248,046,116	$ 42.2222	$ 10,473	$ 995.75	$ 246,992
Gold Held by Federal Reserve Banks	13,452,784	$ 42.2222	568	$ 995.75	13,396
Subtotal - Gold	**261,498,900**		**11,041**		**260,388**
Silver	16,000,000	$ 1.292929292	21	$ 16.45	263
Total Gold and Silver Reserves			**$ 11,062**		**$ 260,651**

8. Troubled Asset Relief Program (TARP) Direct Loans and Equity Investments, Net and Asset Guarantee Program

Direct Loan, Equity Investments and Asset Guarantee Program

The Department administers a number of programs designed to help stabilize the financial system and restore the flow of credit to consumers and businesses. The Department has made direct loans, equity investments, and entered into asset guarantees. The table below recaps TARP programs by title and type:

Program	Program Type
Capital Purchase Program	Equity Investment/Subordinated Debentures
American International Group, Inc. Investment Program	Equity Investment
Targeted Investment Program	Equity Investment
Automotive Industry Financing Program	Equity Investment and Direct Loan
Consumer and Business Lending Initiative:	
• Term Asset-Backed Securities Loan Facility	Subordinated Debentures
• SBA 7(a) Security Purchase Program	Direct Loan
• Community Development Capital Initiative	Equity Investment
Public-Private Investment Program	Equity Investment and Direct Loan
Asset Guarantee Program	Asset Guarantee

The Department applies the provisions of SFFAS No. 2 to account for direct loans, equity investments, and the asset guarantee program. This standard requires measurement of the asset or liability at the net present value of the estimated future cash flows. The cash-flow estimates for each transaction reflect the actual structure of the instruments. For each of these instruments, analytical cash flow models generate estimated cash flows to and from the Department over the estimated term of the instrument. Further, each cash-flow model reflects the specific terms and conditions of the program, technical assumptions regarding the underlying assets, risk of default or other losses, and other factors as appropriate. The models also incorporate an adjustment for market risk to reflect the additional return required by the market to compensate for variability around the expected losses reflected in the cash flows (the "unexpected loss").

The adjustment for market risk requires the Department to determine the return that would be required by market participants to enter into similar transactions or to purchase the assets held by the Department. Accordingly, the measurement of the assets attempts to represent the proceeds expected to be received if the assets were sold to a market participant. The methodology employed for determining market risk for equity investments generally involves a calibration to market prices of similar securities that results in measuring equity investments at fair value. The adjustment for market risk for loans is intended to capture the risk of unexpected losses, but not intended to represent fair value , i.e. the proceeds that would be expected to be received if the loans were sold to a market participant. The Department uses market observable inputs, when available, in developing cash flows and incorporating the adjustment required for market risk. For purposes of this disclosure, the Department has classified the various investments as follows, based on the observability of inputs that are significant to the measurement of the asset:

Quoted Prices for Identical Assets: The measurement of assets in this classification is based on direct market quotes for the specific asset, e.g. quoted prices of common stock.

Significant Observable Inputs: The measurement of assets in this classification is primarily derived from market observable data, other than a direct market quote, for the asset. This data could be market quotes for similar assets for the same entity.

Significant Unobservable Inputs: The measurement of assets in this classification is primarily derived from inputs which generally represent management's best estimate of how a market participant would assess the risk inherent in the asset. These unobservable inputs are used because there is little to no direct market activity.

The table below displays the assets held by the observability of inputs significant to the measurement of each value (in millions):

	As of September 30, 2010			
Investment	Quoted Prices for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs	2010 Total
Capital Purchase Program	$ 14,899	$ 0	$ 33,334	$ 48,233
American International Group Investment Program*	0	0	26,138	26,138
Targeted Investment Program	0	0	1	1
Automotive Industry Financing Program	0	0	52,709	52,709
Consumer and Business Lending Initiative, which includes TALF, SBA 7(a) securities and CDCI	0	0	966	966
Public-Private Investment Program	0	0	14,405	14,405
Asset Guarantee Program	2,240	815	0	3,055
Total TARP Program	**$ 17,139**	**$ 815**	**$ 127,553**	**$ 145,507**

	As of September 30, 2009			
Investment	Quoted Prices for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs	2009 Total
Capital Purchase Program	$ 37,231	$ 0	$ 104,440	141,671
American International Group Investment Program	0	0	13,152	13,152
Targeted Investment Program	0	40,341	0	40,341
Automotive Industry Financing Program	0	0	42,284	42,284
Consumer and Business Lending Initiative, which includes TALF	0	0	444	444
Asset Guarantee Program	0	0	1,765	1,765
Total TARP Program	**$ 37,231**	**$ 40,341**	**$ 162,085**	**239,657**

* Does not give effect to the proposed restructuring as discussed under American International Group, Inc. Investment Program in this note.

Note: Reported on the balance sheet as of September 30, 2010, $815 million is intra-governmental and $144,692 million is with the public for a combined total of $145,507 million.

The following provides a description of the methodology used to develop the cash flows and incorporate the market risk into the measurement of the Department assets.

Financial Institution Equity Investments[4]

The estimated values of preferred equity investments are the net present values of the expected dividend payments and repurchases. The model assumes that the key decisions affecting whether or not institutions pay their preferred dividends are made by each institution based on the strength of their balance sheet. The model assumes a probabilistic evolution of each institution's asset-to-liability ratio (the asset-to-liability ratio is based on the estimated fair value of the institution's assets against its liabilities). Each institution's assets are subject to uncertain returns and institutions are assumed to manage their asset to liability ratio in such a way that it reverts over time to a target level. Historical volatility is used to scale the likely evolution of each institution's assets-to-liabilities ratio.

In the model, when equity decreases, i.e. the asset-to-liability ratio falls, institutions are increasingly likely to default, either because they enter bankruptcy or are closed by regulators. The probability of default is estimated based on the performance of a large sample of U.S. banks over the period 1990-2009. At the other end of the spectrum, institutions call their preferred shares when the present value of expected future dividends exceeds the call price; this occurs when equity is high and interest rates are low. Inputs to the model include institution specific accounting data obtained from regulatory filings, an institution's stock price volatility, historical bank failure information, as well as market prices of comparable securities trading in the market. The market risk adjustment is obtained through a calibration process to the market value of certain trading securities of financial institutions within the TARP programs. The Department estimates the values and projects the cash flows of warrants using an option-pricing approach based on the current stock price and its volatility. Investments in common stock which are exchange traded are valued at the quoted market price.

4 This consists of equity investments made under CPP, CDCI, and TIP.

AIG Investment

The method used to measure AIG preferred shares is broadly analogous to the approach used to measure financial institution preferred shares. However, greater uncertainty exists for the valuation of preferred shares for AIG. First, the size of the Departments' holding of preferred shares relative to AIG's total balance sheet makes the valuation extremely sensitive to assumptions about the recovery ratio for preferred shares should AIG enter default. Second, no comparable traded preferred shares exist. Therefore, the Department based the AIG valuation on the observed market values of publicly traded junior subordinated debt, adjusted for the Departments' position in the capital structure. Further, based on certain publicly available third party sources, assumptions about payouts in different outcomes and the probability of some outcomes were made. Finally, an external asset manager provided estimated fair value amounts, premised on public information, which also assisted the Department in its measurement. These different factors were all used in determining the best estimate for the AIG assets. The adjustment for market risk is incorporated in the data points the Department uses to determine the measurement for AIG as all points rely on market data.

Asset Guarantees Program

For fiscal year 2009, the value of the asset guarantee program reflects the net present value of estimated default-claim payments by the Department, net of income from recoveries on defaults, fees (including equity received), or other income. Default-claim payments were based on estimated losses on the guaranteed assets. Key inputs into these estimates are forecasted gross domestic product, unemployment rates, and home price depreciation, in a base scenario and a stress scenario. During fiscal year 2010, an agreement was entered into to terminate the guarantee of the Department to pay for any defaults. After the termination, the Department still holds some of the trust preferred securities (initially received as the guarantee fee) issued by Citigroup and the potential to receive $800 million (liquidation preference) of additional Citigroup trust preferred securities from the FDIC, see further discussion below under the heading of Asset Guarantee Program. As such, as of September 30, 2010, the value of the instruments within the AGP is the value of the trust preferred securities held and the estimated cash flows associated with the contingent right to receive additional trust preferred securities. On September 30, 2010, the Department entered into an agreement to sell[5] the trust preferred securities held within AGP, and the value of the trust preferred securities is approximately the sales price and the contingent right is valued in a similar manner as the financial institutions preferred equity investments noted above.

Investments in Special Purpose Vehicles

The Department has made certain investments in financial instruments issued by special purpose vehicles (SPVs). Generally, the Department estimates the cash flows of the SPV and then applies those cash flows to the waterfall governing the priority of payments out of the SPV.

For the loan associated with the Term Asset-Backed Securities Loan Facility (TALF), the Department model derives the cash flows to the SPV, and ultimately the Department, by simulating the performance of underlying collateral. Loss probabilities on the underlying collateral are calculated based on analysis of historical loan loss and charge off experience by credit sector and subsector. Historical mean loss rates and volatilities are significantly stressed to reflect recent and projected performance. Simulated losses are run through cash flow models to project impairment to the TALF-eligible securities. Impaired securities are projected to be purchased by the SPV, requiring additional funding by the Department. Simulation outcomes consisting of a range of loss scenarios are probability-weighted to generate the expected net present value of future cash flows.

For the Public-Private Investment Program (PPIP) investments and loans made in the Public Private Investment Funds (PPIF), the Department model derives cash flows to the SPV by simulating the performance of the collateral supporting the residential mortgage-backed securities (RMBS) and commercial mortgage backed securities (CMBS) held by the PPIF (i.e. performance of the residential and commercial mortgages). The simulated cash flows are then run through the waterfall of the RMBS/CMBS to determine the cash flows to the SPV. Once determined, the cash flows are run through the waterfall of the PPIF to determine the expected cash flows to

5 See further discussion of sale under Asset Guarantee Program below.

the Department through both the equity investments and loans. Inputs used to simulate the cash flows are unemployment forecast, home price appreciation/depreciation forecast, the current term structure of interest rates, historical pool performance as well as estimates of net income and value of commercial real estate supporting the CMBS.

SBA 7(a) Securities

The valuation of SBA 7(a) securities is based the discounted estimated cash-flows of the securities.

Auto Industry Financing Program (AIFP) Investments and Loans

The valuation of equity investments was performed in a manner that is broadly analogous to the methodology used for financial institution equity investments, with reliance on publicly traded securities to benchmark the assumptions of the valuation exercise. AIFP loans with potential value is valued using rating agency default probabilities.

As part of the General Motors (GM) bankruptcy proceedings, the Department received a 60.8 percent stake in the common equity of General Motors Company (New GM). Because the unsecured bond holders in General Motors Corporation (Old GM) received 10 percent of the common equity ownership and warrants in New GM, the expected recovery rate implied by the current trading prices of the Old GM bonds provides the implied value of the New GM equity. The Department used this implied equity value to account for its equity stake in New GM. The adjustment for market risk is incorporated in the data points the Department uses to determine the measurement for GM as all points rely on market data.

For GMAC, Inc. (GMAC – currently known as Ally Financial) trust preferred equity instruments, the Department estimates the value based on comparable publicly traded securities adjusted for factors specific to GMAC, such as credit rating. For investments in GMAC's common equity and mandatorily convertible preferred stock, which is valued on an "if-converted" basis, the Department uses certain valuation multiples such as price-to-earnings and price-to-tangible book value to estimate the value of the shares. The multiples are based on those of comparable publicly-traded entities. The adjustment for market risk is incorporated in the data points the Department uses to determine the measurement for GMAC as all points rely on market data.

The Department values direct loans using an analytical model that estimates the net present value of the expected principal, interest, and other scheduled payments taking into account potential defaults. In the event of an institution's default, these models include estimates of recoveries, incorporating the effects of any collateral provided by the contract. The probability of default and losses given default are estimated by using historical data when available, or publicly available proxy data, including credit rating agencies historical performance data. The models also incorporate an adjustment for market risk to reflect the additional return on capital that would be required by a market participant.

Subsidy Cost

The recorded subsidy cost of a direct loan, equity investment, or asset guarantee is based on the estimated future cash flows calculated as discussed above. The Department actions, as well as changes in legislation, that change these estimated future cash flows change subsidy costs and are recorded as modifications. The cost of a modification is recognized as a modification expense, included in subsidy cost, when the direct loan, equity investment, or asset guarantee is modified. During fiscal year 2010, modifications occurred within the Capital Purchase Program, the Asset Guarantee Program, and the Automotive Industry Financing Program. During the fiscal year ended September 30, 2009, modifications occurred within the Capital Purchase Program; Consumer and Business Lending Initiative; the American International Group, Inc. Investment Program; and the Automotive Industry Financing Program. See detailed discussion related to each program and related modifications below. Total net modification cost for the fiscal year ended September 30, 2010 was $47.9 million. For the fiscal year ended September 30, 2009, net modification costs were $412.1 million.

The following table recaps gross loan or equity investment, subsidy allowance, and net loan or equity investment by TARP program. Detailed tables providing the net composition, subsidy cost, modifications and reestimates, along with a reconciliation of subsidy cost allowances as of and for the fiscal year ended September 30, 2010 and September 30,2009, are provided at the end of this Note for Direct Loans and Equity Investments, detailed by program, and for the Asset Guarantee Program separately.

Descriptions and chronology of significant events by program are after the summary table.

(in millions)	As of September 30, 2010		
TARP Program	Gross Direct Loans or Equity Investment	Subsidy Allowance	Net Direct Loans or Equity Investment
Capital Purchase Program (CPP)	$ 49,779	$ (1,546)	$ 48,233
American International Group, Inc. Investment Program (AIG)*	47,543	(21,405)	26,138
Targeted Investment Program (TIP)	0	1	1
Automotive Industry Financing Program (AIFP)	67,238	(14,529)	52,709
Consumer and Business Lending Initiative (CBLI), which includes TALF, SBA 7(a) securities and CDCI	908	58	966
Public-Private Investment Program (PPIP)	13,729	676	14,405
Total TARP Program	**$ 179,197**	**$ (36,745)**	**$ 142,452**

(in millions)	As of September 30, 2009		
TARP Program	Gross Direct Loans or Equity Investment	Subsidy Allowance	Net Direct Loans or Equity Investment
Capital Purchase Program (CPP)	$ 133,901	$ 7,770	$ 141,671
American International Group, Inc. Investment Program (AIG)	43,206	(30,054)	13,152
Targeted Investment Program (TIP)	40,000	341	40,341
Automotive Industry Financing Program (AIFP)	73,762	(31,478)	42,284
Consumer and Business Lending Initiative (CBLI), which includes TALF	100	344	444
Public-Private Investment Program (PPIP)	0	0	0
Total TARP Program	**$ 290,969**	**$ (53,077)**	**$ 237,892**

* Does not give effect to the proposed restructuring as discussed under American International Group, Inc. Investment Program in this note.

Capital Purchase Program

In October 2008, the Department began implementation of the TARP with the Capital Purchase Program (CPP), designed to help stabilize the financial system by assisting in building the capital base of certain viable U.S. financial institutions to increase the capacity of those institutions to lend to businesses and consumers and support the economy. Under this program, the Department purchased senior perpetual preferred stock from qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies (Qualified Financial Institution or QFI). The senior preferred stock has a stated dividend rate of 5.0 percent through year five, increasing to 9.0 percent in subsequent years. The dividends are cumulative for bank holding companies and subsidiaries of bank holding companies and non-cumulative for others and payable when and if declared by the institution's board of directors. Under the original terms of the senior preferred stock the QFI may not redeem the shares within the first three years of the date of the investment, unless it had received the proceeds of one or more Qualified Equity Offerings (QEO)[6] which results in aggregate gross proceeds to the QFI of not less than 25.0 percent of the issue price of the senior preferred stock. QFIs that are Sub-chapter S corporations issued subordinated debentures in order to maintain compliance with the Internal Revenue Code. The maturity of the subordinated debentures is 30 years and interest rates are 7.7 percent for the first five years and 13.8 percent for the remaining years.

6 A Qualified Equity Offering is defined as the sale by the QFI after the date of the senior preferred stock investment of Tier 1 perpetual preferred stock or common stock for cash.

In February 2009 and May 2009, the United States Congress passed the American Recovery and Reinvestment Act of 2009 and the Helping Families Save Their Homes Act of 2009, respectively. These acts contained amendments to the EESA (EESA Amendments) which require the Secretary to allow QFIs to repay at any time, subject to regulatory approval, regardless of whether the 25.0 percent or greater QEO was accomplished. The ability of a QFI to repay the Department investment prior to year three or a 25.0 percent QEO was not considered in the original subsidy cost estimate. Therefore, a modification cost of $77.7 million was recorded for the fiscal year ended September 30, 2009 as a result of these amendments.

In addition to the senior preferred stock, the Department received warrants, as required by section 113(d) of EESA, from public QFIs to purchase a number of shares of common stock. The warrants have an aggregate exercise price equal to 15.0 percent of the total senior preferred stock investment. The exercise price per share used to determine the number of shares of common stock subject to the warrant was calculated based on the average closing prices of the common stock on the 20 trading days ending on the last day prior to the date the QFIs application was preliminarily approved for participation in the program. The warrants include customary anti-dilution provisions. Prior to December 31, 2009, in the event a public QFI completed one or more QEOs with aggregate gross proceeds of not less than 100.0 percent (100.0 percent QEO) of the senior perpetual preferred stock investment, the number of shares subject to the warrants was reduced by 50.0 percent. As of December 31, 2009, a total of 38 QFIs reduced the number of shares available under the warrants as a result of this provision. As of September 30, 2009, 19 QFIs had reduced shares pursuant to the provision. The warrants have a 10 year term. Subsequent to December 31, 2009, the Department may exercise any warrants held in whole or in part at any time.

The Department received warrants from non-public QFIs for the purchase of additional senior preferred stock (or subordinated debentures if appropriate) with a stated dividend rate of 9.0 percent (13.8 percent interest rate for subordinate debentures) and a liquidation preference equal to 5.0 percent of the total senior preferred stock (additional subordinate debenture) investment. These warrants were immediately exercised and resulted in the Department holding additional senior preferred stock (subordinated debentures) (collectively referred to as "warrant preferred stock") of non-public QFIs. The Department did not receive warrants from financial institutions considered Community Development Financial Institutions (CDFIs). A total of 35 and 20 institutions considered CDFIs were in the CPP portfolio as of September 30, 2010 and 2009, respectively.

The EESA Amendments previously discussed also allow the Secretary to liquidate warrants associated with repurchased senior preferred stock at the market price. In addition, a QFI, upon the repurchase of its senior preferred stock, also has the contractual right to repurchase the common stock warrants at the market price.

The following table provides key data points related to the CPP. In addition, 106 and 38 QFIs have not declared and paid one or more dividends to the Department under CPP as of September 30, 2010 and 2009, respectively (dollars in millions):

	2010	2009
Number of Institutions Participating	707	685
Outstanding Beginning Balance, Investment in CPP Institutions	$ 133,901	$ 0
Purchase Price, current year Investments	278	204,619
Repayments and Sales of Investments	(81,462)	(70,718)
Write-offs and Losses	(2,575)	0
Transfers to CDCI	(363)	0
Outstanding Ending Balance, Investment in CPP Institutions	**$ 49,779**	**$ 133,901**
Interest and Dividend Collections	$ 3,100	$ 6,800
Net Proceeds from Sales and Repurchases of Assets in Excess of Cost	$ 6,700	$ 2,900

The task of managing the investments in CPP banks may require that the Department enter into certain agreements to exchange and/or convert existing investments in order to achieve the best possible return for taxpayers. In the fiscal year ended September 30, 2009, the Department entered into an exchange agreement with Citigroup under which the Department exchanged $25,000 million, at $3.25 per share, of its investment in senior preferred stock for 7,700 million common shares of Citigroup. This exchange transaction was not considered in the original subsidy cost estimate for CPP. As a result, the Department recorded a modification cost of $1,800 million for the fiscal year ended September 30, 2009. In April 2010, the Department began a process of selling the Citigroup common stock. As of September 30, 2010, the Department had sold approximately 4,000 million shares for total proceeds of $16,100 million resulting in proceeds from sales in excess of cost of approximately $3,000 million. As of September 30, 2010, the Department continues to hold approximately 3,700 million shares of Citigroup common stock with an estimated fair value of $14,300 million, based on the September 30, 2010 closing price of $3.91 per share. Included in shares held as of September 30, 2010, is approximately 77.2 million shares which were sold prior to or on September 30, 2010, but did not settle until October 2010. Proceeds from these sales were $302.7 million resulting in proceeds from sales in excess of cost of $51.9 million.

In addition to the above transaction the Department has entered into other transactions with various financial institutions including, exchanging existing preferred shares for a like amount of non tax-deductible Trust Preferred Securities, shares of mandatorily convertible preferred securities and selling preferred shares to acquiring financial institutions. Generally the transactions are entered into with financial institutions in poor financial condition with a high likelihood of failure. As such, in accordance with SFFAS No. 2, these transactions are considered workouts and not modifications. The changes in cost associated with these transactions are captured in the year-end reestimates.

During fiscal year 2010, certain financial institutions participating in CPP which are in good standing became eligible to exchange their Department-held stock investments to preferred stock under the Community Development Capital Initiative (CDCI) of the Consumer and Business Lending Initiative Program (CBLI). The exchange of stock is treated as a repayment of CPP investments from the participating financial institution and a distribution for the CDCI. See further discussion of the CBLI and CDCI below. This was not considered in the formulation estimate for the CPP program. As a result, the Department recorded a modification cost savings of $31.9 million in the CPP program for this option during fiscal year 2010.

Failed institutions

In November 2009, a CPP participant, CIT Group, filed for Chapter 11 Bankruptcy. The Department had invested $2,300 million in senior preferred stock of CIT Group and received a warrant for the purchase of common stock. In fiscal year 2010, as a result of the bankruptcy proceedings, the Department wrote off the $2,300 million investment in CIT Group and will not recover any amounts associated with it. In addition, during fiscal year 2010, four other financial institutions within the CPP portfolio either filed for bankruptcy or were closed by their regulators. The Department had invested approximately $396.3 million into these institutions. The Department does not anticipate recovery on these investments and therefore the value of these shares are reflected at zero as of September 30, 2010. The ultimate amount received, if any, from the investments in institutions that filed for bankruptcy and institutions closed by regulators will depend primarily on the outcome of the bankruptcy proceedings and of the receivership.

American International Group, Inc. Investment Program (AIG)

The Department provides assistance to certain systemically significant financial institutions on a case-by-case basis in order to provide stability to institutions that are critical to a functioning financial system and are at substantial risk of failure as well as to prevent broader disruption to financial markets.

In November 2008, the Department invested $40,000 million in AIG's cumulative Series D perpetual cumulative preferred stock with a dividend rate of 10.0 percent compounded quarterly. The Department also received a warrant for the purchase of approximately 53.8 million shares (adjusted to 2.7 million shares after a 20:1 reverse stock split) of AIG common stock. On April 17, 2009, AIG and the Department restructured their November 2008 agreement. Under the restructuring, the Department exchanged

$40,000 million of cumulative Series D preferred stock for $41,600 million of non-cumulative 10.0 percent Series E preferred stock. The amount of Series E preferred stock is equal to the original $40,000 million, plus approximately $733.0 million in undeclared dividends as of the February 1, 2009, scheduled quarterly dividend payment date, $15.0 million in dividends compounded on the undeclared dividends, and an additional $855.0 million in dividends from February 1, 2009, but not paid as of April 17, 2009. AIG's restructured agreement kept the quarterly dividend payment dates of May 1, August 1, November 1, and February 1, as established by the original November 2008 agreement. The original subsidy cost estimate did not consider this restructuring which resulted in a modification cost of $127.2 million being recorded. The Department requested and received an appropriation for this additional cost in the fiscal year ended September 30, 2009.

In addition to the exchange, the Department agreed to make available an additional $29,800 million capital facility to allow AIG to draw additional funds if needed to assist in AIG's restructuring. The Department investment related to the capital facility consists of Series F non-cumulative perpetual preferred stock with no initial liquidation preference, and a warrant for the purchase of 3,000 shares (adjusted to 150 shares after a 20:1 reverse stock split of AIG common stock). This liquidation preference increases with any draw down by AIG on the facility. The dividend rate applicable to these shares is 10.0 percent and is payable quarterly, if declared, on the outstanding liquidation preference. For the fiscal year ended September 30, 2010 and September 30, 2009, $4,300 million and $3,200 million, respectively, has been funded by the Department to AIG under this additional capital facility. Consistent with SFFAS No.2, the unused portion of the AIG capital facility is not recognized as an asset as of September 30, 2010 and 2009.

According to the terms of the preferred stock, if AIG misses four dividend payments, the Department may appoint to the AIG board of directors, the greater of two members or 20.0 percent of the total number of directors of the Company. The ability to appoint such directors shall remain in place until dividends payable on all outstanding shares of the Series E Preferred Stock have been declared and paid in full for four consecutive quarterly dividend periods, subject to revesting for each and every subsequent missed dividend payment. On April 1, 2010, the Department appointed two directors to the Company's board as a result of non-payments of dividends. The additional two directors increased the total number of AIG directors to twelve.

On September 30, 2010, the Department, Federal Reserve Bank of New York and AIG announced plans for a restructuring of the Federal Government's investments in AIG. The restructuring plan provides for, among other items, the conversion of currently outstanding Series E & F preferred stock to 1,092 million shares of AIG common stock. Under the plan the current undrawn portion of Series F will be available to AIG for the repayment of certain amounts owed to the Federal Reserve Bank of New York and for general corporate liquidity. The plan is still subject to a number of conditions which must be met in order to close. The Department's management believes that implementation of this plan would not result in additional losses on the AIG investment. See additional discussion regarding the proposed restructuring plan within the Management's Discussion and Analysis section of the Performance and Accountability Report.

Targeted Investment Program

The Targeted Investment Program (TIP) was designed to prevent a loss of confidence in financial institutions that could result in significant market disruptions, threatening the financial strength of similarly situated financial institutions, impairing broader financial markets, and undermining the overall economy. The Department considered institutions as candidates for the TIP on a case-by-case basis, based on a number of factors including the threats posed by destabilization of the institution, the risks caused by a loss of confidence in the institution, and the institution's importance to the nation's economy.

In fiscal year 2009, the Department invested $20,000 million in each of Bank of America and Citigroup under TIP. Under each agreement, the Department purchased $20,000 million of perpetual preferred stock with an annual cumulative dividend rate of 8 percent and received a warrant for the purchase of common stock. In December 2009, Bank of America and Citigroup repaid the amounts invested by the Department along with dividends through the date of repayment. The amounts remaining within the TIP subsidy cost allowance represent the estimated value of the Citigroup warrant still held by the program.

During fiscal year 2010, the Department received $1,100 million in dividends under the TIP and proceeds of $1,200 million from the auction of the Bank of America warrants. In fiscal year 2009, the Department received $1,900 million in dividends under this program.

Automotive Industry Financing Program

The Automotive Industry Financing Program (AIFP) was designed to prevent a significant disruption of the American automotive industry, which could have had a negative effect on the economy of the United States.

General Motors (GM)

In fiscal year 2009, the Department provided $49,500 million to GM through various loan agreements including the initial loan for general and working capital purposes and the final loan for debtor in possession (DIP) financing while GM was in bankruptcy. The Department assigned its rights in these loans (with the exception of $986.0 million which remained in GM for wind down purposes and $7,100 million that would be assumed) and previously received common stock warrants to a newly created entity (General Motors Company). General Motors Company used the assigned loans and warrants to credit bid for substantially all of the assets of GM in a sale pursuant to Section 363 of the Bankruptcy Code. Upon closing of the Section 363 sale, the credit bid loans and warrants were extinguished and the Department received $2,100 million in 9.0 percent cumulative perpetual preferred stock and 60.8 percent of the common equity interest in General Motors Company. In addition, General Motors Company assumed $7,100 million of the DIP loan, simultaneously paying $400 million (return of warranty program funds), resulting in a balance of $6,700 million. The assets received by the Department as a result of the assignment and Section 363 sale are considered recoveries of the original loans for subsidy cost estimation purposes. Recovery of the $986.0 million remaining in GM is subject to the final outcome of the bankruptcy proceedings. During fiscal year 2010, the Department had received the remaining $6,700 million as full repayment of the DIP loan assumed. In addition as of September 30, 2010 the Department had received $188.8 million in dividends and $343.1 million in interest on General Motors Company preferred stock and the loan prior to repayment, respectively. The Department received $34.1 million in dividends on the preferred stock and no interest on the loan during the fiscal year ended September 30, 2009. On October 27, 2010, the Department signed a Letter Agreement with GM agreeing to sell the preferred stock to GM. GM will repurchase the preferred stock for 102 percent of the liquidation amount.

The Department has not yet determined whether to sell any of its shares of General Motors Company common stock in connection with the company's proposed initial public offering. Due to the uncertainty as to the market price that would result from the initial public offering, the potential effect on the value of the Department's investment in General Motors Company is unknown and could be significantly different from the September 30, 2010 financial statement value.

GMAC LLC Rights Offering

In December 2008, the Department agreed, in principal, to lend up to $1,000 million to GM for participation in a rights offering by GMAC (now known as Ally Financial, Inc.) in support of GMAC's reorganization as a bank holding company. The loan was secured by the GMAC common interest acquired in the rights offering. The loan agreement specified that at any time, at the option of the lender (the Department), the unpaid principal and accrued interest was exchangeable for the membership interest purchased by GM during the rights offering. The loan was funded for $884.0 million. In May 2009, the Department exercised its exchange option under the loan and received 190,921 membership interests, representing approximately 35.36 percent of the voting interest at the time, in GMAC in full satisfaction of the loan. In addition, during the fiscal year ended September 30, 2009, the Department received $9.1 million in interest while the loan was outstanding. The conversion to GMAC shares was not considered in the original subsidy cost. As a result, a modification was recorded reducing the estimated subsidy cost by approximately $1,600 million for the fiscal year ended September 30, 2009. As of September 30, 2010 the Department continues to hold the GMAC shares obtained in this transaction (see further discussion of Department's GMAC holdings under GMAC, Inc. in this note).

Chrysler Holding LLC (Chrysler)

In fiscal year 2009, the Department invested approximately $5,900 million in Chrysler. Specifically, $4,000 million was for general and working capital purposes (General Purpose Loan) and $1,900 million was for DIP financing while Chrysler was in bankruptcy (DIP Loan). Upon entering bankruptcy, a portion of Chrysler was sold to a newly created entity (New Chrysler). Under the terms of the bankruptcy agreement, $500.0 million of the general purpose loan was assumed by the New Chrysler (see discussion under Chrysler Exit for discussion of note terms). In fiscal year 2010, the Department received approximately $1,900 million and subsequently wrote-off the remaining $1,600 million of the General Purpose Loan. Recovery of the DIP Loan is subject to the bankruptcy process associated with the Chrysler assets remaining after the sale to New Chrysler. During fiscal year 2010 the Department received $40.2 million in recoveries on the DIP loan. The Department did not receive any interest on these loans during the fiscal year 2010. During fiscal year 2009, the Department had received $52.1 million in interest payments from these loans.

Chrysler Exit

In May 2009, the Department committed to make a loan to New CarCo Acquisition LLC (Chrysler Group LLC), the company that purchased certain assets of Chrysler. The final terms of the credit agreement resulted in a loan to New Chrysler for approximately $7,100 million. This amount consists of a commitment to fund up to $6,600 million of new funding and $500 million of assumed debt[7] from the Department January 2, 2009 General Purpose Loan with Chrysler, described above. The loan was secured by a first priority lien on the assets of Chrysler Group LLC. Funding of the loan was available in two installments or tranches (B and C), each with varying availability and terms. The following describes the terms of Tranches B and C.

The maximum funding under Tranche B was $2,000 million and was funded on the closing date of the agreement. Interest on Tranche B is generally[8] 3-Month Eurodollar plus 5.0 percent margin. Tranche B is due and payable on December 10, 2011, provided that the Chrysler Group LLC may elect to extend the maturity of up to $400.0 million of Tranche B to the Tranche C maturity date. If so elected, the applicable margin will increase from 5.0 percent to 6.5 percent.

The maximum funding under Tranche C is approximately $4,640 million, of which approximately $2,580 million was funded on the closing date. Interest on Tranche C is 3-Month Eurodollar plus 7.91 percent margin. On June 10, 2016, the Tranche C loan is due to be prepaid to the extent the funded amount is greater than 50.0 percent of the closing date commitment amount, taking into consideration amounts previously prepaid as a voluntary prepayment. The remaining balance of the Tranche C loan is due and payable on June 10, 2017.

Interest on both the Tranche B and Tranche C was payable in-kind through December 2009 and added to the principal balance of the respective Tranche. Subsequently, interest is paid quarterly beginning on March 31, 2010. In addition, additional in-kind interest is being accrued in the amount of $17.0 million per quarter. Such amount will be added to the Tranche C loan balance subject to interest at the appropriate rate.

The Department also obtained other consideration, including a 9.85 percent equity interest in Chrysler Group LLC and additional notes[9] with principal balances of $288.0 million and $100.0 million.[10] As of September 30, 2009, the Department had funded approximately $4,600 million under this facility, which was outstanding as of September 30, 2010 and 2009. During fiscal year 2010, the Department received $381.8 million in interest payments. No interest was due for payment in the fiscal year ended September 30, 2009. For the fiscal year ended September 30, 2010, the Department has recognized $344.4 million of in-kind interest that has been capitalized. No in-kind interest was recognized in the fiscal year ended September 30, 2009.

7 The assumed debt contains the same terms as the Tranche C loan with respect to mandatory prepayment, interest and maturity.

8 For both Tranche B and C, an Alternative Base Rate (defined in agreement) is available at the option of the Department in certain situations defined in the agreement.

9 The additional notes bear the same interest rate and maturity as the Tranche C loan.

10 Interest begins to accrue on this note after certain events, defined in the credit agreement, have taken place.

Chrysler Financial

In January, 2009, the Department loaned $1,500 million to Chrysler LB Receivables Trust (Chrysler Trust), a special purpose entity created by Chrysler Financial, to finance the extension of new consumer auto loans. On July 14, 2009, the loan and additional note of $15.0 million were paid in full. In fiscal year 2009, the Department received $7.4 million in interest payments while this loan was outstanding.

Auto Supplier Support Program

In April 2009, under the Auto Supplier Support Program, the Department committed $5,000 million in financing for the Auto Supplier Program as follows: $3,500 million for GM suppliers and $1,500 million for Chrysler suppliers. These commitments were subsequently reduced to $2,500 million for GM suppliers and $1,000 million for Chrysler suppliers per the loan agreement. Under the program, suppliers were able to sell their receivable to a SPV, created by the respective automaker, at a discount. The Department provided approximately $413.1 million of funding to this program during fiscal year 2009. The bankruptcy of Chrysler and GM did not impact this program, as both companies were allowed to continue paying suppliers while in bankruptcy. The Department received $5.9 million in interest during fiscal year 2009.The $413.1 million was repaid in fiscal year 2010 along with approximately $9.0 million in interest and $101.1 million in fees and other income.

Auto Warranty Program

In April 2009 and May 2009, the Department loaned approximately $280.0 million to Chrysler and $360.6 million to GM, respectively, to capitalize SPVs created by Chrysler and GM to finance participation in the Warranty Commitment Program (warranty program). The Department also received additional notes as consideration for its loans in an amount equal to 6.67 percent of the funded amounts. The warranty program covered all warranties on new vehicles purchased from Chrysler and GM during the period in which Chrysler and GM were restructuring. In fiscal year 2009, the Department received all principal amounts due on the Auto Warranty Program loans from both GM and Chrysler and terminated the warranty program. Interest in the amount of $3.1 million was received by the Department from Chrysler during the fiscal year ended September 30, 2009. No interest was received in connection with the GM repayment. The GM additional note was assigned to the General Motors Company as part of the bankruptcy proceedings and extinguished as part of the credit bid for the assets of old GM. In fiscal year 2010, the Chrysler additional note was written off with the remaining portion of the Chrysler General Purpose Loan.

GMAC Inc. (GMAC-currently known as Ally Financial)

In December 2008, the Department purchased preferred membership interests for $5,000 million that were converted to senior preferred stock with an 8.0 percent annual distribution right (dividends) from GMAC. Under the agreement, GMAC issued warrants to the Department to purchase, for a nominal price, additional preferred equity in an amount equal to 5.0 percent of the preferred equity purchased. These warrants were exercised at closing of the investment transaction. The additional preferred stock provided for a 9.0 percent annual distribution right. During fiscal year 2009, the Department received $265.2 million in dividends associated with these preferred and warrant preferred shares. On December 30, 2009, this preferred stock (including the warrant preferred shares) was exchanged for 105.0 million shares of GMAC's Series F-2 Fixed Rate Cumulative Mandatorily Convertible Preferred Stock (Series F-2) shares (described below). This exchange was not considered in the original subsidy estimate for GMAC; therefore the Department recorded a modification cost of $1,500 million in fiscal year 2010.

In May 2009, the Department published a non-binding term sheet to invest $13,100 million to support GMAC, subject to definitive documentation and GMAC's capital needs. In fiscal year 2009, the Department invested $7,500 million (150.0 million shares) in 9.0 percent Mandatorily Convertible Preferred Stock in GMAC to support its ability to originate new loans to Chrysler dealers and consumers, and help address GMAC's capital needs. The preferred stock have a liquidation preference of $50 per share and are convertible in whole or in part, at any time, at the option of GMAC, subject to the approval of the Federal Reserve. In addition, the Department received warrants to purchase an additional 7.5 million shares of Mandatorily Convertible Preferred Stock, which were exercised upon closing of the transaction. In December 2009, 97.5 million shares (which include the warrant preferred shares) were exchanged for GMAC's Series F-2 shares (discussed below) and the remaining 60 million were converted to 259,200 shares of GMAC common stock.

In addition to the exchanges and conversions discussed above, on December 30, 2009, the Department entered into the following transactions with GMAC to assist it in complying with the requirements of the Federal Reserve Board's Supervisory Capital Assessment Program:

1. Purchased $2,540 million (2.54 million shares with a face value of $1,000) of 8.0 percent Trust Preferred Securities and received a warrant for an additional $127 million of the Trust Preferred Securities, which was immediately exercised. GMAC issued $2,747 million of subordinate debentures to a trust, established by GMAC, which in turn issued the trust preferred securities. The trust preferred securities pay cumulative cash distributions of 8 percent. GMAC may defer payments on the debentures (and the trust may defer distributions on the trust preferred securities) for a period of up to 20 consecutive quarters, but such distributions will continue to accrue through any such deferral period. GMAC has not elected to defer payments. The Trust Preferred Securities have no stated maturity date, but must be redeemed upon the redemption or maturity of the debentures (February 15, 2040).
2. Purchased $1,250 million (25 million shares) of GMAC's Series F-2, $50 liquidation preference per share. The Series F-2 is convertible into GMAC common stock at the option of GMAC subject to the approval of the Federal Reserve and consent by the Department or pursuant to an order by the Federal Reserve compelling such conversion. The Series F-2 is also convertible at the option of the Department upon certain specified corporate events. Absent an optional conversion, the Series F-2 will automatically convert to common stock after seven years from the issuance date. The initial conversion rate is .00432 and is subject to a "reset" such that the conversion price will be adjusted in 2011, if beneficial to the Department, based on the market price of private capital transactions occurring in 2010 and certain anti-dilution provisions. The Series F-2 have a stated dividend rate of 9 percent, payable when and if declared by the board of directors. The Series F-2 may be redeemed by GMAC, subject to certain limitations and restrictions. The Department also received a warrant to purchase $62.5 million (1.25 million shares) of additional Series F-2, which was immediately exercised.

As a result after the December 30, 2009 transaction, the Department has the following investments in GMAC, as of September 30, 2010:

	Number of Shares	Investment Amount / Percent Ownership (dollars in millions)
8% Trust Preferred Securities		
Purchased	2,540,000	$ 2,540
Received from warrant exercise	127,000	127
Total Trust Preferred Securities	**2,667,000**	**$ 2,667**
Series F-2 Mandatorily Convertible Securities		
Purchased/exchanged for	227,500,000	$ 11,375
Received from warrant exercise	1,250,000	63
Total Series F-2[1]	**228,750,000**	**$ 11,438**
Common Stock[2]	450,121	56.3%

1 / These shares are convertible into 988,200 shares of GMAC common stock, which if combined with common stock currently held by the Department would represent approximately 80.5% ownership of GMAC.

2 / Includes shares received upon conversion of GMAC Rights Loan discussed above.

The Department received $1,200 million and $430.6 million in dividends from GMAC in fiscal year 2010 and 2009, respectively.

Consumer and Business Lending Initiative (CBLI)

The Consumer and Business Lending Initiative is intended to help unlock the flow of credit to consumers and small businesses. Three programs were established to help accomplish this. The Term Asset-Backed Securities Loan Facility was created to help jump start the market for securitized consumer and small business loans. The SBA 7(a) Securities Purchase Program was created to provide additional liquidity to the SBA 7(a) market so that banks are able to make more small business loans. The Community Development Capital Initiative was created to provide additional low cost capital to small banks to encourage more lending to small businesses. Each program is discussed in more detail below.

Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) was created by the Federal Reserve Board to provide low cost funding to investors in certain classes of Asset Backed Securities (ABS). The Department agreed to participate in the program by providing liquidity and credit protection to the Federal Reserve Board.

Under the TALF, the Federal Reserve Bank of New York (FRBNY), as implementer of the TALF program, originated loans on a non-recourse basis to purchasers of certain AAA rated ABS secured by consumer and commercial loans and commercial mortgage backed securities. Generally ABS issued after January 1, 2009 are eligible collateral under the TALF program. In addition, SBA securities issued after January 1, 2008 and CMBS issued prior to January 2009 and originally AAA rated are eligible collateral. TALF loans have a term of three or five years and are secured solely by eligible collateral. Haircuts (a percentage reduction used for collateral valuation) are determined based on the riskiness of each type of eligible collateral and the maturity of the eligible collateral pledged to the FRBNY. The "haircuts" provide additional protection to the Department by exposing the TALF borrowers to some risk of loss. Interest rates charged on the TALF loans depend on the weighted average maturity of the pledged collateral, the collateral type and whether the collateral pays fixed or variable interest. The program ceased issuing new loans on June 30, 2010. As of September 30, 2010, approximately $29,700 million of loans due to the FRBNY remained outstanding.

As part of the program, the FRBNY has entered into a put agreement with the TALF, LLC, a special purpose vehicle created by the FRBNY. In the event of a TALF borrower default, the FRBNY will seize the collateral and sell it to the TALF, LLC under this agreement. The TALF, LLC receives a monthly fee equal to the difference between the TALF loan rate and the FRBNY's fee (spread) as compensation for entering into the put agreement. The accumulation of this fee will be used to fund purchases. In the event there are insufficient funds to purchase the collateral, the Department originally committed to invest up to $20,000 million in non-recourse subordinated notes issued by the TALF, LLC. On July 19, 2010, the Department's commitment was reduced to $4,300 million. The subordinated notes bear interest at 1-Month LIBOR plus 3.0 percent and mature 10 years from the closing date, subject to extension. The Department disbursed $100.0 million upon creation of the TALF, LLC and the remainder can be drawn to purchase collateral in the event the spread is not sufficient to cover purchases. Any amounts needed in excess of the Department commitment and the fee would be provided through a loan from the FRBNY. Upon wind-down of the TALF, LLC (collateral defaults, reaches final maturity or is sold), the cash balance will be disbursed according to the following payment priority:

1. FRBNY principal balance
2. The Department principal balance
3. FRBNY interest
4. The Department interest
5. Remaining cash balance – 90.0 percent to the Department, 10.0 percent to the FRBNY

During fiscal year 2009, subsequent to the initial cost estimates prepared for the TALF, certain changes were made to the terms of the program, including increasing the term to five years and the addition of different types of acceptable collateral. These program changes resulted in a modification, for fiscal year 2009, increasing the original cost estimate by $8.0 million.

The TALF, LLC is owned, controlled, and consolidated by the FRBNY. The credit agreement between the Department and the TALF, LLC provides the Department with certain rights consistent with a creditor but would not constitute control. As such, TALF, LLC is not a federal entity and the assets, liabilities, revenue and cost of TALF, LLC are not included in the Department's financial statements.

As of September 30, 2010 and 2009, no TALF loans were in default and consequently no collateral was purchased by the TALF, LLC.

SBA 7(a) Security Purchase Program

In March 2010, the Department began the purchase of securities backed by Small Business Administration 7(a) loans (7(a) Securities) as part of the Unlocking Credit for Small Business Initiative. Under this program the Department purchases 7(a) Securities collateralized with 7(a) loans (these loans are guaranteed by the full faith and credit of the United States Government) packaged on or after July 1, 2008. Generally, the Department entered into a trade to purchase 7(a) Securities with actual settlement and delivery to occur one to three months in the future. As of September 30, 2010, the Department has entered into trades to purchase $356.3 million (excluding purchased accrued interest) of these securities. Of this amount, $240.7 million has settled with the remaining trades to be settled by December 30, 2010. During fiscal year 2010, the Department received $3.5 million in interest and principal payments on these securities.

Community Development Capital Initiative

In February 2010, the Department announced the Community Development Capital Initiative (CDCI) to invest lower cost capital in Community Development Financial Institutions (CDFIs). Under the terms of the program, the Department purchases senior preferred stock (or subordinated debt) from eligible CDFI financial institutions. The senior preferred stock has an initial dividend rate of 2 percent. CDFIs may apply to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years.

For CDFI credit unions, the Department purchased subordinated debt at rates equivalent to those offered to CDFI financial institutions and with similar terms. These institutions may apply for up to 3.5 percent of total assets—an amount approximately equivalent to the 5 percent of risk-weighted assets available to banks and thrifts.

CDFIs participating in the CPP, subject to certain criteria, were eligible to exchange, through September 30, 2010, their current CPP preferred shares (subordinated debt) for CDCI preferred shares (subordinated debt). These exchanges were treated as a disbursement from CDCI and a repayment to CPP.

As of September 30, 2010, the Department has invested $570.1 million ($363.3 million was a result of exchanges from CPP) in 84 institutions under the CDCI.

Public-Private Investment Program

The PPIP is part of the Department's efforts to help restart the market and provide liquidity for legacy assets. Under this program, the Department made equity investment in and loans to investment vehicles (referred to as Public Private Investment Funds or "PPIFs") established by private investment managers. The equity investment was used to match private capital and equaled approximately 50.0 percent of the total equity invested. The loan is, at the option of the investment manager, equal to 50.0 percent or 100.0 percent of the total equity (including private equity). As of September 30, 2010, all PPIFs have elected to receive loans up to 100 percent of total equity. The loans bear interest at 1-Month Libor, plus 1.0 percent, which accrues monthly and is payable on the 10th business day of the month following the accrual period. The maturity date of the loan is the earlier of 10 years or the termination of the PPIF. The loan can be prepaid, subject to compliance with the priority of payments discussed below, without penalty. The PPIF will terminate in eight years from the commencement of the fund. The governing documents of the funds allow for two one-year extensions, subject to approval of the Department. The loan agreements also require purchased security cash flows from securities received by the PPIFs to be distributed in accordance with a priority of payments schedule (waterfall) designed to help ensure secured parties are paid before equity holders. Specifically, security cash flows collected are disbursed as follows (steps 7 through 10 are at the discretion of the PPIF),

1. To pay administrative expenses, excluding certain tax expenses of the Partnership;
2. To pay interest or margin due on permitted interest rate hedges;
3. To pay current period interest due to the Lender;[11]
4. To pay amounts due to an interest reserve account if the total deposit in the interest reserve account is less than the required interest reserve account;
5. To pay principal on the Loan required when the minimum Asset Coverage Ratio Test is not satisfied as of the prior month end;
6. To pay other amounts due on permitted interest rate hedges not paid in accordance with step 2 above;
7. For investment in Temporary Investments, prepayments of the Loan and/or investment in eligible Assets during the investment period, which is three years from the Initial Closing Date (the "Investment Period");
8. For distribution to partners after step 1 through 7 not to exceed the lesser of: (a) cumulative consolidated net interest income for the preceding twelve months or (b) 8 percent on the funded capital commitments, so long as no event of default is then continuing and the appropriate Asset Coverage Ratio Requirement is satisfied;
9. To pay the Loan not to exceed the lesser of (a) prepayment on the Loan as scheduled or (b) an amount which reduces the Loan to zero, provided that dollar for dollar credit is given for any optional prepayments of the Loan made during the related collection period on any date prior to the applicable determination date; and
10. Remaining amounts to be used or distributed in accordance with the limited partnership agreement after repayment of the Loan.

The loan is subject to certain affirmative and negative covenants as well as a financial covenant, the Asset Coverage Test. The Asset Coverage Test generally requires that the Asset Coverage Ratio be equal to or greater than 150 percent. The Asset Coverage Ratio is a percentage obtained by dividing total assets of the PPIF by the principal amount of the loan and accrued and unpaid interest on the loan. Failure to comply with the test could require accelerated repayment of loan principal (see step 7 above) and prohibit the PPIF from borrowing additional funds under the loan agreement.

As a condition of its investment, the Department also received a warrant from the PPIFs entitling the Department to 2.5 percent of investment proceeds (excluding those from temporary investments) otherwise allocable to the non-Department partners. The warrant payment will be distributed by the PPIF to the Department following the return of 100 percent of the non-Department partner's capital contributions to the PPIF.

The PPIFs pay a management fee to the fund manager from the Department's share of investment proceeds. During the Investment Period, the management fee is equal to 0.20 percent per annum of the Department's capital commitment as of the last day of the applicable quarter. Thereafter, the management fee will be equal to 0.20 percent per annum of the lesser of (a) the Department's capital commitment as of the last day of the applicable quarter and (b) the Department Interest Value as of the last day of the quarter.

The PPIFs are allowed to purchase commercial mortgage-backed securities (CMBS) and non-agency residential mortgage-backed securities (RMBS) issued prior to January 1, 2009 that were originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without external credit enhancement and that are secured directly by the actual mortgage loans, leases or other assets (eligible assets) and not other securities. The PPIFs may invest in the aforementioned securities for a period of three years using proceeds from capital contribution, loans, and amounts generated by previously purchased investments (subject to the requirements of the waterfall). The PPIFs are also permitted to invest in certain temporary securities, including bank deposits, U.S. Treasury securities, and certain money market mutual funds. At least 90 percent of the assets underlying any eligible asset must be situated in the United States.

11 The Lender is the Department

As of September 30, 2010 the total market value of the eligible assets held by all PPIFs was approximately $19,300 million. The approximate split between RMBS and CMBS was 82 percent RMBS and 18 percent CMBS.

On January 4, 2010, the Department entered into a Winding-up and Liquidation Agreement with one of the PPIFs. Prior to the signing of the agreement, the Department had invested $356.3 million ($156.3 million equity investment and $200.0 million loan) in the fund. Upon final liquidation, the Department received $377.4 million representing return of the original investment, interest on the loan and return on the equity investment and warrant.

As of September 30, 2010, the Department had signed definitive limited partnership and loan agreements with eight investment managers, committing to disburse up to $22,100 million. During fiscal year 2010, the Department disbursed $4,900 million as equity investment and $9,200 million as loans to PPIFs. As of September 30, 2009, no investment managers had made any investments under PPIP and the Department had not disbursed any funds. During fiscal year 2010, the Department received (excluding amounts repaid in liquidation discussed above) $56.0 million in interest on loans and $151.8 million (net of management fees of $7.2 million) of income on the equity investments. In addition, the Department received $72.0 million in loan principal repayments.

Asset Guarantee Program

The Asset Guarantee Program (AGP) provided guarantees for assets held by systemically significant financial institutions that faced a risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets. The AGP was applied with extreme discretion in order to improve market confidence in the systemically significant institution and in financial markets broadly.

Section 102 of the EESA required the Secretary to establish the AGP to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities, and established the Troubled Assets Insurance Financing Fund (TAIFF). In accordance with Section 102(c) and (d) of the EESA, premiums from financial institutions are collected and all fees are recorded by the Department in the TAIFF. In addition, Section 102(c) (3) of the EESA requires that the original premiums assessed are “set” at a minimum level necessary to create reserves sufficient to meet anticipated claims.

The Department completed its first transaction under the AGP in January 2009, when it finalized the terms of a guarantee agreement with Citigroup. Under the agreement, the Department, the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Bank of New York (FRBNY) (collectively the USG Parties) provided protection against the possibility of large losses on an asset pool of approximately $301,000 million of loans and securities backed by residential and commercial real estate and other such assets, which remained on Citigroup’s balance sheet. The Department’s guarantee was limited to $5,000 million.

As a premium for the guarantee, Citigroup issued $7,000 million of cumulative perpetual preferred stock (subsequently converted to Trust Preferred Securities with similar terms) with an 8.0 percent stated dividend rate and a warrant for the purchase of common stock; $4,000 million and the warrant were issued to the Department, and $3,000 million was issued to the FDIC. The Department received $265.2 million and $174.8 million during the fiscal years ending September 30, 2010 and September 30, 2009, respectively, in dividends on the preferred stock received as compensation for this arrangement. These dividends have been deposited into the TAIFF. The Department had also invested in Citigroup through CPP and the TIP.

As of September 30, 2009, the net present value of the estimated cash inflows from the preferred stock and warrant received by the Department from Citigroup as a premium was greater than the estimated net present value of future claims payments, resulting in an asset of $1,765 million, after reestimates.

In December 2009, the USG Parties and Citigroup agreed to terminate the guarantee agreement. Under the terms of the termination agreement the Department cancelled $1,800 million of the preferred stock previously issued to the Department. In addition, the FDIC agreed to transfer to the Department $800 million of their trust preferred stock holding plus dividends thereon contingent on

Citigroup repaying its previously issued FDIC guaranteed debt. The contingent receipt of additional preferred shares from the FDIC is included in the subsidy calculation for AGP, based on the expected value. Termination of the agreement was not considered in the formulation estimates of the guarantee and therefore the termination resulted in a negative modification cost (reduction of cost) of $1,400 million recorded in fiscal year 2010. On September 29, 2010, the Department exchanged its existing Trust Preferred Securities for securities containing market terms to facilitate a sale. On September 30, 2010, the Department agreed to sell its Trust Preferred Securities it held for $2,246 million. The Trust Preferred Securities are valued at approximately the sales price in the financial statements. The sale settled on October 5, 2010.

In January 2009, the USG Parties and Bank of America signed a Summary of Terms (Term Sheet) pursuant to which the USG Parties agreed to guarantee or lend against a pool of up to $118,000 million of financial instruments consisting of securities backed by residential and commercial real estate loans and corporate debt and related derivatives. In May 2009, prior to completing definitive documentation, Bank of America notified the USG Parties of its desire to terminate negotiations with respect to the guarantee contemplated in the Term Sheet. All parties agreed that Bank of America received value for entering into the Term Sheet with the USG Parties and that the USG Parties should be compensated for out-of-pocket expenses and a fee equal to the amount Bank of America would have paid for the guarantee from the date of the signing of the Term Sheet through the termination date. Under the terms of the settlement, the U.S. Treasury received $276.0 million for its role in the guarantee agreement. All the Department funds received for the settlement were deposited in the TAIFF and subsequently paid to the Treasury General Fund. The $276 million received by the Department pursuant to the settlement is reflected in the Department Statement of Net Cost as a reduction of the AGP subsidy cost in the fiscal year ended September 30, 2009.

Subsidy Reestimates

The purpose of reestimates is to update original program subsidy cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on actual program performance to date, additional information about the portfolio, additional publicly available relevant historical market data on securities performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates for all programs were performed using actual financial transaction data through September 30, 2010 and 2009. Market and security specific data publicly available as of September 30, 2010, was used for the CPP, AGP, TIP, AIG, CDCI, AIFP, and SBA programs in the reestimate calculations for fiscal year 2010. Security specific data through June 30, 2010, with market prices through September 30, 2010, was used for the PPIP and TALF programs in the reestimate calculations for fiscal year 2010. Market and security specific data publicly available as of September 30, 2009, was used for the CPP, AGP, TIP, and AIFP direct loans and data through August 31, 2009, was used for the equity portion of AIFP, AIG, and TALF programs in the reestimate calculations for the fiscal year ending September 30, 2009.

The Department using security specific data available as of September 30, 2010 and, in its determination, there were no significant changes to the portfolio characteristics or performance of the PPIP and TALF programs that would require a revision to the reestimates for fiscal year 2010. For fiscal year 2009, the Department assessed the key inputs of the reestimates using data publicly available as of September 30, 2009, and in its determination, there were no significant changes to the key inputs for the three programs for which August 31, 2009, data was used that required a revision to the reestimates.

Net downward reestimates for the fiscal years ended September 30, 2010 and September 30, 2009 totaled $30,318 million and $109,748 million, respectively. Descriptions of the reestimates with approximate amounts, by the Department Program, are as follows:

CPP

The net upward reestimate for the CPP of $3,900 million for the fiscal year ending September 30, 2010 is the net result of a decrease in the price of Citigroup common stock that was partially offset by an increase in the estimated value of the other investments within the CPP, due to improved market conditions during the year.

The $70,700 million in repurchases during the fiscal year ending September 30, 2009 accounted for $9,700 million of the $72,400 million in downward reestimates in the CPP for the fiscal year ending September 30, 2009. Projected repurchases of $30,000 million for fiscal year 2010 accounted for approximately $5,400 million, with the $57,300 million balance in downward reestimates in the CPP for the fiscal year ending September 30, 2009 primarily due to improved market conditions from when the original estimate was made in December 2008.

AIG

The $12,000 million in downward reestimates for the AIG Investment Program for the fiscal year ending September 30, 2010 are due to an increase in the estimated value of AIG assets and subordinated debt and improvements in market conditions over the fiscal year.

The $1,100 million in downward reestimates for the AIG Investment Program in the fiscal year ending September 30, 2009 was primarily due to improvements in market conditions from when the equities were purchased resulting in a reduction in the projected costs of the programs.

TIP

The $1,900 million in net downward reestimates in the TIP in fiscal year 2010 included $2,200 million in downward reestimates due to the repurchase of the program's investments by the two institutions participating in the program. That downward reestimate amount was partially offset by a $300 million upward reestimate from a slight reduction in the estimated value of outstanding warrants.

The $21,500 million in downward reestimates in the TIP in the fiscal year ending September 30, 2009 was primarily due to improved market conditions from when the original estimates were made in December 2008 and January 2009. Approximately $2,300 million was due to a $20,000 million repurchase forecast for fiscal year 2010.

AIFP

The $19,300 million in downward reestimates for the AIFP direct loan and equity investments for the fiscal year ending September 30, 2010 was due to $1,800 million in payments exceeding projections, a reduction in estimated defaults due to improvements in the domestic automotive industry, and an increase in the bond prices and valuations used to estimate the cost of the remaining AIFP investments.

The approximately $10,600 million in downward reestimates for the direct loans-AIFP in the fiscal year ending September 30, 2009 was primarily the result of the post bankruptcy improved financial position of one of the major companies participating in the program. The $2,700 million in downward reestimates for the AIFP equity programs in the fiscal year ending September 30, 2009 were primarily due to improvements in market conditions from when the equities were purchased resulting in a reduction in the projected costs of the programs.

CBLI

The TALF and SBA programs within the CBLI had a total upward reestimate of less than $100 million for the fiscal year ending September 30, 2010. The TALF program had a $24 million upward reestimate mostly due to a projected reduction in the size of the portfolio and higher than projected repayments. The SBA program had a downward reestimate of less than $1 million due to an increase in projected interest rates and a reduction in market risks. The CDCI program had $7.3 million in upward reestimates for the fiscal year.

The $200 million in downward reestimates for the TALF in the fiscal year ending September 30, 2009 was due to projected improved performance of the securities within the program versus the original estimate.

PPIP

The $1,000 million in downward reestimates for the PPIP debt and equity programs for the fiscal year ending September 30, 2010 was the net of a $1,200 million upward reestimate in the PPIP debt program and $2,200 million in downward reestimates for the PPIP equity programs mostly due to the use of actual portfolio data for reestimates rather than the proxy data used in developing the baseline estimates and changes in market risks.

AGP

The AGP had a net $100 million downward reestimate for the fiscal year ended September 30, 2010. The reestimate amounts exclude an estimated cost savings of $1,400 million that resulted from the cancellation of the $5,000 million guarantee because this transaction was reflected in the subsidy modifications during fiscal year 2010.

The $1,200 million in downward reestimates for the AGP in the fiscal year ending September 30, 2009 was primarily due to improvements in market conditions from when the guarantee was committed in January 2009. The improved market conditions resulted in an increase in the projected AGP asset due to the net present value of the estimated cash inflows from the preferred stock and warrants received by the Department from Citigroup as a premium being greater than the estimated value of future claim payments associated with the $5,000 million asset guarantee.

The following detailed tables provide the net composition, subsidy cost, modifications and reestimates, a reconciliation of subsidy cost allowances, budget subsidy rates, and subsidy by component for each TARP direct loan, equity investment or the asset guarantee program for the fiscal years ended September 30, 2010 and 2009:

TROUBLED ASSET RELIEF PROGRAM DIRECT LOANS AND EQUITY INVESTMENTS (dollars in millions):

As of September 30, 2010	2010 TOTAL	CPP	AIG	TIP	AIFP	CBLI	PPIP
Direct Loans and Equity Investment Programs:							
Direct Loans and Equity Investments Outstanding, Gross	$ 179,197	$ 49,779	$ 47,543	$ 0	$ 67,238	$ 908	$ 13,729
Subsidy Cost Allowance	(36,745)	(1,546)	(21,405)	1	(14,529)	58	676
Direct Loans and Equity Investments Outstanding, Net	**$ 142,452**	**$ 48,233**	**$ 26,138**	**$ 1**	**$ 52,709**	**$ 966**	**$ 14,405**
New Loans or Investments Disbursed	23,373	277	4,338	0	3,790	811	14,157
Obligations for Loans and Investments not yet Disbursed	36,947	0	22,292	0	2,066	4,339	8,250
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning of Period	$ 53,077	$ (7,770)	$ 30,054	$ (341)	$ 31,478	$ (344)	$ 0
Subsidy Cost for Disbursements and Modifications	7,533	(16)	4,293	0	2,644	275	337
Interest and Dividend Revenue	6,977	3,131	0	1,143	2,475	0	228
Net Proceeds from Sales and Repurchases of Assets in Excess of Cost	8,013	6,676	0	1,237	99	0	1
Net Interest Expense on Borrowings	(4,690)	(2,018)	(981)	(161)	(1,309)	(20)	(201)
Write-offs	(3,934)	(2,334)	0	0	(1,600)	0	0
Balance, End of Period, Before Reestimates	66,976	(2,331)	33,366	1,878	33,787	(89)	365
Subsidy Reestimates	(30,231)	3,877	(11,961)	(1,879)	(19,258)	31	(1,041)
Balance, End of Period	**$ 36,745**	**$ 1,546**	**$ 21,405**	**$ (1)**	**$ 14,529**	**$ (58)**	**$ (676)**
Reconciliation of Subsidy Cost:							
Subsidy Cost for Disbursements	$ 6,067	$ 16	$ 4,293	$ 0	$ 1,146	$ 275	$ 337
Subsidy Cost for Modifications	1,466	(32)	0	0	1,498	0	0
Subsidy Reestimates	(30,231)	3,877	(11,961)	(1,879)	(19,258)	31	(1,041)
Total Direct Loans and Equity Investment Programs Subsidy Cost (Income)	**$ (22,698)**	**$ 3,861**	**$ (7,668)**	**$ (1,879)**	**$ (16,614)**	**$ 306**	**$ (704)**

TROUBLED ASSET RELIEF PROGRAM LOANS, EQUITY INVESTMENTS AND ASSET GUARANTEE PROGRAM BUDGET SUBSIDY RATES:

As of September 30, 2010	AGP	CPP	AIG	TIP	AIFP	CBLI	PPIP
Budget Subsidy Rates, Excluding Modifications and Reestimates (See Note below):							
Interest Differential		(25.62%)			37.70%	30.39%	11.72%
Defaults		16.36%			13.78%	3.93%	0.00%
Fees and Other Collections		(3.00%)			(0.38%)	0.00%	(0.41%)
Other		18.03%			(20.85%)	(0.41%)	(10.34%)
Total Budget Subsidy Rate	**N/A**	**5.77%**	**N/A**	**N/A**	**30.25%**	**33.91%**	**0.97%**
Subsidy Cost (Income) by Component (in millions):							
Interest Differential		$ (71)	$ 1,415		$ 1,429	$ 246	$ 1,880
Defaults		45	2.907		522	32	0
Fees and Other Collections		(8)	0		(15)	0	(55)
Other		50	(29)		(790)	(3)	(1,488)
Total Subsidy Cost, Excluding Modifications and Reestimates	**N/A**	**$ 16**	**$ 4,293**	**N/A**	**$ 1,146**	**$ 275**	**$ 337**

Note: The rates reflected in the "Budget Subsidy Rate" table above are fiscal year 2010 budget execution rates by program. The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy cost (income). The subsidy cost (income) for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year cohorts. The subsidy cost (income) reported in the current year also includes modifications and re-estimates. Therefore, the *Total Subsidy Cost, Excluding Modifications and Reestimates* will not equal the *New Loans or Investments Disbursed* multiplied by the *Budget Subsidy Rate.*

TROUBLED ASSET RELIEF PROGRAM LOANS AND EQUITY INVESTMENTS (dollars in millions):

As of September 30, 2009	2009 TOTAL	CPP	AIG	TIP	AIFP	CBLI	PPIP
Direct Loans and Equity Investment Programs:							
Direct Loans and Equity Investments Outstanding, Gross	$ 290,969	$ 133,901	$ 43,206	$ 40,000	$ 73,762	$ 100	$ 0
Subsidy Cost Allowance	(53,077)	7,770	(30,054)	341	(31,478)	344	0
Direct Loans and Equity Investments Outstanding, Net	**$ 237,892**	**$ 141,671**	**$ 13,152**	**$ 40,341**	**$ 42,284**	**$ 444**	**$ 0**
New Loans or Investments Disbursed	$ 363,826	$ 204,618	$ 43,206	$ 40,000	$ 75,902	$ 100	$ 0
Obligations for Loans and Investments not yet Disbursed	$ 51,681	$ 0	$ 26,629	$ 0	$ 5,152	$ 19,900	$ 0
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning of Period	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Subsidy Cost for Disbursements and Modifications	152,179	57,386	31,552	19,540	43,797	(96)	0
Interest and Dividend Collections	9,329	6,790	0	1,862	677	0	0
Net Proceeds from Sales and Repurchases of Assets in Excess of Cost	2,916	2,901	0	0	15	0	0
Net Interest Income (Expense) on Borrowings	(2,773)	(2,428)	(373)	(276)	309	(5)	0
Balance, End of Period, Before Reestimates	161,651	64,649	31,179	21,126	44,798	(101)	0
Subsidy Reestimates	(108,574)	(72,419)	(1,125)	(21,467)	(13,320)	(243)	0
Balance, End of Period	**$ 53,077**	**$ (7,770)**	**$ 30,054**	**$ (341)**	**$ 31,478**	**$ (344)**	**$ 0**
Reconciliation of Subsidy Cost:							
Subsidy Cost (Income) for Disbursements	$ 151,767	$ 55,520	$ 31,425	$ 19,540	$ 45,386	$ (104)	$ 0
Subsidy Cost (Income) for Modifications	412	1,866	127	0	(1,589)	8	0
Subsidy Reestimates	(108,574)	(72,419)	(1,125)	(21,467)	(13,320)	(243)	0
Total Direct Loans and Equity Investment Programs Subsidy Cost (Income)	**$ 43,605**	**$ (15,033)**	**$ 30,427**	**$ (1,927)**	**$ 30,477**	**$ (339)**	**$ 0**

TROUBLED ASSET RELIEF PROGRAM LOANS, EQUITY INVESTMENTS AND ASSET GUARANTEE PROGRAM BUDGET SUBSIDY RATES:

As of September 30, 2009	AGP	CPP	AIG	TIP	AIFP	CBLI	PPIP
Budget Subsidy Rates, Excluding Modifications and Reestimates (See Note below):							
Interest Differential	0.00%	5.97%	(45.52%)	9.31%	6.97%	5.87%	
Defaults	43.62%	25.60%	123.56%	48.38%	54.21%	0.00%	
Fees and Other Collections	(53.23%)	0.00%	0.00%	0.00%	0.00%	0.00%	
Other	(5.37%)	(4.58%)	4.74%	(8.84%)	(3.13%)	(110.10%)	
Total Budget Subsidy Rate	**(14.98%)**	**26.99%**	**82.78%**	**48.85%**	**58.05%**	**(104.23%)**	N/A
Subsidy Cost (Income) by Component (in millions):							
Interest Differential	$ 0	$ 12,279	$ (17,280)	$ 3,724	$ 5,446	$ 6	
Defaults	2,181	52,655	46,906	19,352	42,384	0	
Fees and Other Collections	(2,662)	0	0	0	0	0	
Other	(270)	(9,414)	1,799	(3,536)	(2,444)	(110)	
Total Subsidy Cost (Income), Excluding Modifications and Reestimates	**$ (751)**	**$ 55,520**	**$ 31,425**	**$ 19,540**	**$ 45,386**	**$ (104)**	N/A

Note: The rates reflected in the "Budget Subsidy Rate" table above are weighted rates for the program. To compensate for the weighting of the various risk category subsidy rates, the "by component" dollar amounts reflected were computed as a ratio of the component rate to the total weighted subsidy rate multiplied by the subsidy cost (income) for the program. Therefore, the *Total Subsidy Cost (Income), Excluding Modifications and Reestimates* will not equal the *New Loans or Investments Disbursed* multiplied by the *Budget Subsidy Rate.*

TROUBLED ASSET RELIEF PROGRAM ASSET GUARANTEE PROGRAM (in millions):

As of September 30,	2010	2009
Asset Guarantees Outstanding:		
Outstanding Principal Amount of Guaranteed Loans, Face Value	$ 0	$ 301,000
Amount of Outstanding Principal Guaranteed	$ 0	$ 5,000
Asset Guarantee Program:		
Intra-governmental Portion (See Note below)	$ 815	$ 0
Portion held by the Department, net	2,240	1,765
Total Asset Guarantee Program	$ 3,055	$ 1,765
Reconciliation of Asset Guarantee Program		
Balance, Beginning of Period	$ (1,765)	$ 0
Subsidy Income for Disbursements and Modifications	(1,418)	(751)
Dividend Revenue	265	175
Net Interest Income on Borrowings	(50)	(15)
Balance, End of Period, Before Reestimates	(2,968)	(591)
Subsidy Reestimates	(87)	(1,174)
Balance, End of Period	$ (3,055)	$ (1,765)
Reconciliation of Subsidy Cost (Income):		
Subsidy Income for Disbursements	$ 0	$ (751)
Subsidy Income for modifications	(1,418)	0
Subsidy Reestimates	(87)	(1,174)
Cancellation Fees Collected	0	(276)
Total Asset Guarantee Program Subsidy Income	$ (1,505)	$ (2,201)

Note: The net present value of the future cash flows for the Asset Guarantee Program consists of (i) $800 million of Citigroup trust preferred securities, plus dividends thereon, that the FDIC agreed to transfer to the Department contingent on Citigroup repaying previously issued FDIC guaranteed debt and (ii) additional Citigroup trust preferred securities valued at $2,240, for a total of $3,055.

The Department Housing Programs Under TARP

Fiscal year 2010 has seen an expansion of programs designed to provide stability for both the housing market and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes while they get back on their feet or relocate to a more sustainable living situation. These programs fall into three initiatives:

1) Making Home Affordable Program (MHA);
2) Housing Finance Agency (HFA) Hardest-Hit Fund, and
3) Federal Housing Administration (FHA)-Refinance Program.

Under MHA, the initial programs rolled out in the fiscal year 2009 were the Home Affordable Modification Program (HAMP) including the Home Price Decline Protection Program (HPDP).

MHA includes HAMP, FHA-HAMP, Second Lien Program (2MP), Department/FHA Second Lien Program (FHA 2LP) (extinguishment of 2nd lien portion of the program), and Rural Development (RD-HAMP). The HAMP includes first lien modifications, the HPDP, the Principal Reduction Alternative Waterfall Program (PRA), the Unemployment Program (UP), and the Home Affordable Foreclosure Alternatives Program (HAFA). The HAMP first lien modification program provides for one-time, monthly and annual incentives to servicers, borrowers, and investors who participate in the program, whereby the investor and the Department share the costs of modifying qualified first liens. The HPDP provides incentives to investors to partially offset losses from home price declines. In fiscal year 2010, additional programs have been introduced under HAMP to complement the first lien modification program and HPDP. The Principal Reduction Alternative Waterfall Program (PRA) offers mortgage relief to eligible homeowners whose homes are worth significantly less than the remaining amounts outstanding under their first-lien mortgage. The Unemployment Program (UP) offers assistance to unemployed homeowners through temporary forbearance of a portion of their mortgage payments. The UP will not have a financial impact on the Department because no incentives are paid by the Department. Finally, the Home Affordable Foreclosure Alternatives Program (HAFA) is designed to assist eligible borrowers unable to retain their homes through a HAMP modification by simplifying and streamlining the short sale and deed in lieu of foreclosure processes and providing incentives to borrowers, servicers and investors to pursue short sales and deeds in lieu.

Fiscal year 2010 has also seen the introduction of additional programs under MHA. These programs include the FHA-HAMP which provides the same incentives as HAMP for Federal Housing Administration (FHA) guaranteed loans. The 2MP provides additional incentives to servicers to extinguish second liens on first lien loans modified under HAMP. The FHA 2LP provides for incentives to servicers for extinguishment of second liens for borrowers who refinance their FHA-insured first lien mortgages under the FHA-Refinance Program. The RD-HAMP Program provides HAMP incentives for USDA guaranteed mortgages.

All MHA disbursements are made to servicers either for themselves or for the benefit of borrowers and investors. Furthermore, all payments are contingent on borrowers remaining current on their mortgage payments. Servicers have until December 31, 2012 to enter into mortgage modifications with borrowers.

Included in the Department Housing Program cost are fees paid to Fannie Mae and Freddie Mac. Fannie Mae provides direct programmatic support as a third party agent on behalf of the Department. Freddie Mac provides compliance oversight as a third party agent on behalf of the Department, and the servicers work directly with the borrowers to modify and service the borrowers' loans.

The Housing Finance Agency (HFA) Hardest-Hit Fund was implemented in 2010 and provides targeted aid to families in the states hit hardest by the housing market downturn and unemployment. States that meet the criteria for this program consist of Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, and Washington D.C. Approved states develop and roll out their own programs with timing and types of programs offered targeted to address the specific needs and economic conditions of their state. States have until December 31, 2017 to enter into agreements with borrowers.

The FHA-Refinance Program is a joint initiative with the Department of Housing and Urban Development (HUD) which is intended to encourage refinancing of existing underwater (i.e. the borrower owes more than the home is worth) mortgage loans not currently insured by FHA into FHA-insured mortgages. HUD will pay a portion of the amount refinanced to the investor and the Department will pay incentives to encourage the extinguishment of second liens associated with the refinanced mortgages. The Department established a Letter of Credit to fund the Department portion of any claims associated with the FHA-insured mortgages. Homeowners can refinance into FHA-guaranteed mortgages through December 31, 2012 and the Department will honor its share of claims against the Letter of Credit through 2020. As of September 30, 2010, no loans had been refinanced under this program as the joint initiative was entered into late in the fiscal year. However, in fiscal year 2010, the Department paid $3 million to establish the Letter of Credit.

The table below recaps payments and accruals (included in other liabilities) as of September 30, 2010 and September 30, 2009. As noted above, the UP is structured so that there is no financial impact on the Department. Although in operation on September 30, 2010 the PRA, FHA-HAMP, 2LP and RD-HAMP had not been in operation for a period long enough to have fiscal year 2010 financial activity.

	Commitments	Payments		Accruals	
(in millions)	9/30/2010	9/30/2010	9/30/2009	9/30/2010	9/30/2009
MHA	$ 29,900	$ 0	$ 0	$ 0	$ 0
HAMP (1st Lien)	0	473.592	0.946	175.415	1.361
HPDP	0	8.755	0	107.914	0
PRA*	0	0	0	0	0
UP**	0	N/A	N/A	N/A	N/A
HAFA***	0	1.627	0	N/A	0
FHA HAMP	0	0	0	0.024	0
2MP	0	0.011	0	0.005	0
2LP*	0	0	0	0	0
RD-HAMP*	0	0	0	0	0
HFA Hardest Hit Fund	7,600	56.120	0	0	0
FHA - Refinance	8,100	3.015	0	0	0
Totals	**$ 45,600**	**$ 543.120**	**$ 0. 946**	**$ 283.358**	**$ 1.361**

* No fiscal year 2010 activity with financial impact

** No fiscal financial impact

*** HAFA payments are made in the month earned and not accrued

For fiscal year 2010 and 2009, cost for the Department Housing Programs Under TARP totaled $825 million and $2 million, respectively.

9. Investments in Government Sponsored Enterprises (GSEs)

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are stockholder-owned GSEs. Congress established these GSEs to support the supply of mortgage loans. A key function is to package purchased mortgages into securities. These securities are subsequently sold to investors.

Increasingly difficult conditions in the housing market challenged the soundness and profitability of GSEs, thereby undermining the entire housing market. This led Congress to pass the Housing and Economic Recovery Act of 2008 on July 30, 2008 (HERA). This Act created the new Federal Housing Finance Agency (FHFA), with enhanced regulatory authority over the GSEs, and provided the Secretary of the Treasury with certain authorities intended to ensure the financial stability of the GSEs, if necessary. On September 7, 2008, FHFA placed the GSEs under conservatorship and the Department entered into a Senior Preferred Stock Purchase Agreement (SPSPA) with each GSE. These actions were taken to preserve the GSEs' assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to current market instability.

The actions taken by the Department thus far are temporary, as defined by section 1117 of HERA, and are intended to provide financial stability until Fannie Mae and Freddie Mac can return to normal operations or until the Administration and Congress address how they should be structured going forward. As of September 30, 2010, there are no plans to bring these organizations into the government; rather, the purpose of these financial arrangements is to maintain the solvency of the GSEs so they can continue to fulfill their vital roles in the home mortgage market while the Administration and Congress deliberate what, if any, structural changes should be made. The FHFA director may terminate the conservatorship if safe and solvent conditions can be established. Per SFFAS No. 2, *Entity and Display*, these entities meet the criteria of "bailed out" entities under paragraph 50. Accordingly, the Department has not consolidated them into the financial statements, but includes "disclosure of the relationship(s) with the bailed out entities and any actual or potential material costs or liabilities" in the consolidated financial statements. Draws under the SPSPAs are designed to ensure that the GSEs maintain positive net worth as a result of any net losses from operations and also meet taxpayer dividend requirements under the SPSPAs. While this construction is somewhat circular in the event that dividends exceed net income and draws are made to fund dividends, the SPSPAs were structured to ensure any investments made on behalf of the taxpayers were fully and fairly accounted for.

Under the SPSPAs, the Department initially received from each GSE: (1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share and (2) a non-transferrable warrant for the purchase, at a nominal cost, of 79.9 percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. The senior preferred stock accrues dividends at 10 percent per year, payable quarterly. This rate will increase to 12 percent if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid. Dividends of $12,142 million and $4,336 million were received for the fiscal years ended September 30, 2010 and September 30, 2009. In addition, beginning on March 31, 2011, the GSEs are scheduled to begin paying the Department a periodic commitment fee on a quarterly basis unless the payment is waived. This fee is to be initially set by December 31, 2010, based on mutual agreement between the Department and each GSE, in consultation with the Chairman of the Federal Reserve Board. The fee is to be established for five-year periods, and may be waived by the Department for one year at a time, if warranted by adverse mortgage market conditions. It may be paid in cash or may be added to the liquidation preference.

The initial agreements, which had no expiration date, provided that the Department would disburse funds to the GSEs, if at the end of any quarter the FHFA determines that the liabilities of either GSE exceed its assets. The maximum amount available to each GSE under this agreement was originally $100,000 million and in May 2009 was raised to $200,000 million. In December 2009, the Department amended the SPSPAs to replace the $200,000 million per GSE funding commitment cap with a formulaic cap that will allow continued draws for three years at amounts that will automatically adjust upwards quarterly by the cumulative amount of any losses realized by either GSE and downward by the cumulative amount of any gains, but not below $200,000 million, and will become fixed at the end of the three years. At the conclusion of the three year period, the remaining commitment will then be fully available to be drawn per the terms of the agreements (referred to hereafter as the "Adjusted Caps"). Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead, the liquidation preference of the initial 1,000,000 shares is increased by the amount of the draw.

Actual payments to the GSEs for fiscal years ended September 30, 2010 and September 30, 2009 were $52,600 million and $95,600 million, respectively. Additionally, $359,900 million has been accrued as a contingent liability as of September 30, 2010 ($91,937 million as of September 30, 2009). The amount accrued is the total estimated contingent liability under the SPSPAs. This accrued contingent liability is based on the projected draws under the SPSPAs. It is undiscounted and does not take into account any of the offsetting dividends which may be received as a result of those draws.

Accounting Treatment

Entity Transactions – The estimated contingent liability to the GSEs accrued pursuant to the SPSPAs will be funded through the Department's direct appropriations. Therefore, they are reflected at their gross amount as "entity" costs on the Department's Statements of Net Cost and Cumulative Results of Operations, without considering the increase in Senior Preferred Stock liquidity preference/fair value adjustments, future dividend receipts from the GSEs, or any future commitment fees.

Non-Entity Transactions – As actual payments are made to the GSEs, they result in increases to the U.S. Government's liquidation preference in the GSEs' preferred stock, and thus represent General Fund exchange revenue reported on the Department's Statement of Net Cost as "GSE Non-Entity Revenue." The associated valuation losses and dividends are likewise General Fund costs and revenues.

Over time, the Department's entity expense for the accrued contingent liability under the SPSPAs will be offset in part by the General Fund's exchange revenues recognized when actual draw payments are made to the GSEs.

Investments in GSEs

As of September 30, 2010 and September 30, 2009, the Department's investments in the GSEs consisted of the following (in millions):

GSEs Investment	Gross Investment as of 9/30/10	Cumulative Valuation Gain/(Loss)	9/30/10 Fair Value
Fannie Mae Senior Preferred Stock	$ 85,941	$ (29,450)	$ 56,491
Freddie Mac Senior Preferred Stock	63,924	(12,759)	51,165
Fannie Mae Warrants Common Stock	3,104	(2,097)	1,007
Freddie Mac Warrants Common Stock	2,264	(1,711)	553
Total GSEs Investment	**$ 155,233**	**$ (46,017)**	**$ 109,216**

GSEs Investment	Gross Investment as of 9/30/09	Cumulative Valuation Gain/(Loss)	9/30/09 Fair Value
Fannie Mae Senior Preferred Stock	$ 45,740	$ (20,658)	$ 25,082
Freddie Mac Senior Preferred Stock	51,524	(23,273)	28,251
Fannie Mae Warrants Common Stock	3,104	3,603	6,707
Freddie Mac Warrants Common Stock	2,264	2,375	4,639
Total GSEs Investment	**$ 102,632**	**$ (37,953)**	**$ 64,679**

Senior Preferred Stock and Warrants for Common Stock

In performing the calculations for the valuations of the senior preferred stock and warrants for common stock, the Department relied on the GSEs' public filings and press releases concerning its financial statements, monthly summaries, quarterly credit supplements, independent research regarding high yield bond and preferred stock trading, independent research regarding the GSEs' common stock trading, and other information pertinent to the valuations.

A complicating issue for the valuation of the senior preferred stock is the interaction between liquidity payments and the ongoing liquidation preference of the stock and the amount of dividends associated with that liquidation preference. The projections assume that a hypothetical buyer would acquire the dividend stream related to the existing balance of the liquidation preference on the transaction date, as well as the commitment fee payment that if agreed upon by the Department and FHFA could begin on March 31, 2011. This stream of dividend payments was then discounted to address certain issues unique to the senior preferred stock.

The valuation of the warrants are impacted by the nominal exercise price and the large number of potential exercise shares, the market trading of the common stock that underlies the warrants, the principal market, and the market participants. Other discounting factors are the holding period risk related directly to the amount of time that it will take to sell the exercise shares without depressing the market and the other activity under the SPSPA.

Contingent Liability

As part of the valuation exercise, the Department prepared a series of long-range projections through 2031 to determine what the implied amount of the contingent liability to the GSEs under the SPSPAs would be and as a result has estimated the contingent liability to be $359,900 million as of September 30, 2010 as a result of their projected equity deficits stemming from near term losses and contractual dividend requirements. The valuation analysis resulted in total SPSPA estimates ranging from a "baseline" scenario of $508,100 million to an "extreme case" scenario of $610,000 million, as of September 30, 2010 ($91,937 million to $206,700 as of September 30, 2009 of which $76,937 million was recorded as contingent). As future payments under the SPSPA are deemed to be probable, the baseline scenario was used to record the contingent liability as of September 30, 2010. SFFAS 5 provides that when a probable contingent liability is a range of amounts and no amount within the range is a better estimate than any other amount, the estimated contingent liability should be based on the minimum value in the range, as was done for FY 2009. The recorded contingent liability is the total estimated payments for the life of the agreements under the Adjusted Caps, minus actual payments made through the end of the fiscal year. Such accruals are adjusted as new information develops or circumstances change.

In performing the calculations for the valuation and contingent liability estimates, the Department relied on the GSEs' public filings and press releases concerning its audited and unaudited financial statements, monthly summaries, quarterly credit supplements, September 2010 Forecast for the years 2010 through 2013 (as released by FHFA on October 21, 2010), and interviews with the GSEs' management. The GSE managers were not able to provide the Department with a forecast of needed draws under the SPSPAs after December 31, 2013; however, they did provide the Department with general guidance as to the key assumptions that were used for subsequent periods. The forecasts after 2013 generally assume similar operating assumptions on the guarantee business and assume a gradual wind-down of the retained portfolios (and corresponding net interest income) through 2022, as directed under the provisions of the SPSPAs for the GSEs to reduce the investment portfolios by 10 percent per annum.

As of September 30, 2010 the summarized aggregated financial condition of the GSEs was as follows:

		(in millions) Combined
As of September 30, 2010		
Combined total assets	$	5,518,352
of which are:		
- investment securities		474,437
- mortgage loans		4,782,405
Combined total liabilities	$	5,520,857
of which is:		
- long term debt		5,248,221
Combined net deficit	$	(2,505)
For the nine months ended September 30, 2010		
Combined net interest income	$	24,312
Combined provision for loan losses		(35,082)
Net interest income (loss) after provision for loan losses	$	(10,770)
Financial Guarantees not consolidated on GSE balance sheets September 30, 2010	$	116,091
Regulatory Capital - minimum capital surplus (deficit) as of September 30, 2010	$	(198,999)

The above information was taken directly from the quarterly reports filed with the Securities and Exchange Commission (SEC), which are publicly available on the SEC's website (www.SEC.gov) and also the GSE investor relations websites.

The Department also relied upon economic and demographic data from The 2010 Annual Report of the Board of Trustees of the Federal Old-age and Survivors Insurance and Federal Disability Insurance Trust Funds, the Standard and Poor's (S&P)/Case-Shiller June 2010 Housing Price Index, and the Federal Housing Finance Agency's House Price Index. The following paragraph summarizes information obtained from these sources.

In the near term, the price of U.S single-family homes is the predominant variable affecting the value of the SPSPAs in determining delinquencies, default rates, and severity rates. The prices of U.S. homes depend on numerous factors, including tax incentives, interest rates, vacant homes, new construction, and unemployment rates. Although housing prices have risen recently, they are still significantly down from the peak experienced in prior years.

Both GSEs reported very low early delinquencies on additions to their credit books in 2009 and the first half of 2010. This favorable early delinquency experience is an improvement compared with the loans originated in 2005 through 2008. However, both GSEs expect to make additional draws under the SPSPA in future periods despite improving levels of net income as the required dividend payments required under the SPSPAs exceed the net income of the GSEs and incremental draws under the SPSPAs are needed to meet dividend payment requirements. The GSEs expect their net worth will also be impacted negatively by dividend payments on the SPSPAs.

Under the existing SPSPAs, as amended, the Department's projections show that each GSE will fully utilize the amount of funding available under the Adjusted Cap. This is in addition to any draws during calendar years 2010 through 2012, as this period is not subject to the cap. Adverse changes in home prices would have a material and adverse impact on the SPSPAs.

GSEs Non-Entity Revenue

As of September 30, 2010 and September 30, 2009, GSEs Non-Entity Revenue consisted of the following (in millions):

Summary of GSEs Non-Entity Revenue	2010	2009
General Fund Revenue from Increase in Liquidity Preference of GSEs Preferred Stock	$ (52,600)	$ (95,600)
Current Valuation Loss on GSEs Warrants/Preferred Stock	8,064	37,953
GSEs Preferred Stock Dividends	(12,142)	(4,336)
Total GSEs Non-Entity Revenue	**$ (56,678)**	**$ (61,983)**

Changing Regulatory Environment

On July 9, 2010, FHFA published, in the Federal Register, a proposed rule to clarify certain terms of conservatorship and receivership operations for the GSEs. The key issues addressed in the proposed rule are the status and priority of claims and the relationships among various classes of creditors and equity-holders under conservatorships or receiverships.

On July 21, 2010, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, into law. The Dodd-Frank Act will significantly change the regulation of the financial services industry, including the creation of new standards related to regulatory oversight of financial institutions deemed systemically important; an orderly liquidation mechanism for these institutions; and oversight of derivatives, capital requirements, asset-backed securitization, mortgage underwriting, and consumer financial protection. The Dodd-Frank Act may result in the GSEs being subjected to new and additional regulatory oversight and standards, which would lead to increased restrictions on their day-to-day business and operations. Also, it contains a provision requiring the Secretary of the Treasury to conduct a study and develop recommendations regarding the options for ending the conservatorship. The Secretary's report and recommendations are required to be submitted to Congress by January 31, 2011.

10. Investments in International Financial Institutions

The Multilateral Development Banks (MDB) consist of the World Bank Group (International Bank for Reconstruction and Development, International Finance Corporation, and Multilateral Investment Guarantee Agency), and five regional development banks (the African, Asian, European, Inter-American, and North American institutions), as enumerated in the table below.

As of September 30, 2010 and September 30, 2009, investments in international financial institutions consisted of the following (in millions):

	2010	2009
African Development Bank	$ 175	$ 175
Asian Development Bank	458	458
European Bank for Reconstruction and Development	636	636
Inter-American Development Bank	1,487	1,482
International Bank for Reconstruction and Development	1,985	1,985
International Finance Corporation	569	569
Multilateral Investment Guarantee Agency	45	45
North American Development Bank	225	225
Total	**$ 5,580**	**$ 5,575**

Refer to Note 31 for a description of the additional commitments related to these institutions.

11. Other Investments and Related Interest

Investments in U.S. Government securities held by the Department's entities have been eliminated against the federal debt liability for financial reporting purposes (See Note 4). Foreign investment holdings are normally invested in interest bearing securities issued or held through foreign governments or monetary authorities (See Note 6). The $1,100 million of Other Investments in GSEs Securities held by the ESF at September 30, 2009 matured in November 2009.

As of September 30, 2010 and September 30, 2009, entity investments in foreign investment holdings and other investments consisted of the following (in millions):

Type of Investment	Cost/Acquisition Value	Unamortized (Premium)/ Discount	Interest Receivable	Net Investment at 9/30/10	Gain/(Loss)	9/30/10 Fair Value
Foreign Investments:						
Euro Bonds & Notes	$ 4,478	$ 76	$ 102	$ 4,656	$ 178	$ 4,834
Japanese Government Bonds	7,729	10	9	7,748	35	7,783
Other Investments	32	(2)	0	30	(8)	22
Total Non-Federal	**$ 12,239**	**$ 84**	**$ 111**	**$ 12,434**	**$ 205**	**$ 12,639**

Type of Investment	Cost/Acquisition Value	Unamortized (Premium)/ Discount	Interest Receivable	9/30/09 Investment Balance	Unrealized Gain/ (Loss)	9/30/09 Fair Value
Foreign Investments:						
Euro Bonds & Notes	$ 4,827	$ 52	$ 116	$ 4,995	$ 184	$ 5,179
Japanese Government Bonds	7,192	9	12	7,213	43	7,256
Other Investments	1,137	(7)	0	1,130	0	1,130
Total Non-Federal	**$ 13,156**	**$ 54**	**$ 128**	**$ 13,338**	**$ 227**	**$ 13,565**

12. Credit Program Receivables and Direct Loans, Net

As of September 30, 2010 and September 30, 2009, Credit Program Receivables and Direct Loans consisted of the following (in millions):

	2010	2009
GSEs MBS Purchase Program Receivables	$ 172,234	$ 184,419
CDFI Direct Loans	41	41
State and Local Housing Finance Agency Initiative Program Receivables	14,121	0
Total	$ 186,396	$ 184,460

Government Sponsored Enterprise (GSE) Mortgage-Backed Securities (MBS) Purchase Program:

The *Housing and Economic Recovery Act* (HERA) (Public Law No. 110-289), authorized the Department to enter into the GSE MBS Purchase Program. Under this program, the Department, using private sector asset managers, purchased on the open market a portfolio of mortgage-backed securities issued by the GSEs. By purchasing these credit-guaranteed securities, the Department sought to broaden access to mortgage funding for current and prospective homeowners and to promote stability in the mortgage market. The asset managers were also authorized to enter into other trade/sell transactions such as pair offs, turns, assignments, and dollar rolls to further support the market under the HERA provisions/mandate. The authority granted by Congress to purchase MBS expired on December 31, 2009 at which point the purchase of new securities ended, though the Department still retains its portfolio of previously purchased securities.

The Department's GSE MBS Purchase Program portfolio consists of mortgage pass-through securities issued by Freddie Mac and Fannie Mae. As of September 30, 2010, the Department held $164,340 million ($173,326 million as of September 30, 2009) in outstanding MBS principal and estimated the net present value of future cash flows on these holdings to be $172,234 million ($184,419 million as of September 30, 2009). The difference between the Department's cost of purchasing the MBS Portfolio and the expected value of repayments to the Department is the negative subsidy allowance.

Community Development Financial Institution (CDFI) Direct Loans:

The Community Development Financial Institutions Fund (the Fund) was created as a bipartisan initiative in the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law No. 103-325). The Fund was placed in the Department and began operations in July 1995. The Fund operates various programs aimed at expanding the availability of credit, investment capital, and financial and other services in distressed urban, rural, and Native American communities. The Fund is intended to help create a national network of financial institutions dedicated to community development that leverages private resources (financial and human) to address community development needs. The CDFI Program provides financial and technical assistance awards to certified community development financial institutions (CDFIs) which in turn provide services to create community development impact in underserved markets. Some of the financial assistance awards take the form of direct loans.

State and Local Housing Finance Agency (HFA) Initiative (Accounted for Under the FCRA):

Under HERA, the Department, together with the Federal Housing Finance Agency, Fannie Mae, Freddie Mac, and the Department of Housing and Urban Development announced in October 2009 an initiative to provide support to state and local housing finance agencies (HFAs). HFAs have historically played a central role in providing a safe, sustainable path to homeownership for working families in all 50 states and many localities across the country. This initiative is designed to support low mortgage rates and expand resources for low and middle income borrowers to purchase or rent homes, making them more affordable over the long term. In December 2009, several transactions closed as part of the HFA Initiative's two separate programs: (1) the Temporary Credit and Liquidity Program (TCLP) and (2) the New Issue Bond Program (NIBP). As part of the TCLP, the Department has entered into participation interests with Fannie Mae and Freddie Mac, supporting credit and liquidity facilities that the GSEs are providing to 11 states as part of the program. As of September 30, 2010, the liquidity facilities cover $7,572 million of single-family and multi-family variable-rate demand obligations. As of September 30, 2010, none of these bonds have been tendered to the GSEs, and the Department accordingly has not disbursed any funds. As part of the NIBP, as of September 30, 2010, the Department held $15,307 million of gross GSEs obligations backed by a combination of mortgage revenue bonds and escrowed funds from over 92 HFAs in 49 states plus the District of Columbia.

2010				
(in millions)	GSE MBS	CDFI	HFA	TOTAL
Net Credit Program Receivables:				
Credit Program Receivables, Gross	$ 164,340	$ 56	$ 15,307	$ 179,703
Subsidy Cost Allowance	7,894	(15)	(1,186)	6,693
Net Credit Program Receivables	**$ 172,234**	**$ 41**	**$ 14,121**	**$ 186,396**
New Credit Program and Loan Disbursed	**$ 29,878**	**$ 0**	**$ 15,308**	**$ 45,186**
Budget Subsidy Rate, excluding Modifications and Reestimates:				
Interest Differential	-3.73%	0.00%	-0.52%	
Defaults	0.00%	0.00%	0.00%	
Other	0.00%	0.00%	0.00%	
Total Budget Subsidy Rate	**-3.73%**	**0.00%**	**-0.52%**	
Subsidy Cost by Component:				
Interest Differential	$ (1,115)	$ 0	$ (79)	$ (1,194)
Total Subsidy Cost, Excluding Modifications and Reestimates	**$ (1,115)**	**$ 0**	**$ (79)**	**$ (1,194)**
Reconciliation of Subsidy Cost Allowance:				
Balance, 10/1/2009	$ (11,093)	$ 20	$ 0	$ (11,073)
Subsidy Cost for Disbursements	(1,115)	0	(79)	(1,194)
Subsidy Cost for Modifications	0	0	(20)	(20)
Subsidy Allowance Amortized	3,831	(1)	(537)	3,293
Balance, 9/30/2010, Before Reestimates	(8,377)	19	(636)	(8,994)
Subsidy Reestimates	483	(4)	1,822	2,301
Balance, 9/30/2010	**$ (7,894)**	**$ 15**	**$ 1,186**	**$ (6,693)**
Reestimates:				
Interest Rate Reestimate	$ (157)	$ 0	$ 847	$ 690
Technical/Default Reestimate	640	(4)	975	1611
Total Reestimates – (Decrease) in Subsidy Cost	**$ 483**	**$ (4)**	**$ 1,822**	**$ 2,301**

	GSE MBS	CDFI	HFA	TOTAL
Reconciliation of Subsidy Costs:				
Subsidy Cost for Disbursements	$ (1,115)	$ 0	$ (79)	$ (1,194)
Subsidy Cost for Modifications	0	0	(20)	(20)
Subsidy Reestimates	483	(4)	1,822	2,301
Total Credit Program Receivables Subsidy Costs	**$ (632)**	**$ (4)**	**$ 1,723**	**$ 1,087**
Administrative Expense	**$ 6**	**$ 0**	**$ 0**	**$ 6**

2009

(in millions)	GSE MBS	CDFI	HFA	TOTAL
Credit Program Receivables, Gross	$ 173,326	$ 61	$ 0	$ 173,387
Subsidy Cost Allowance	11,093	(20)	0	11,073
Net Credit Program Receivables	**$ 184,419**	**$ 41**	**$ 0**	**$ 184,460**
New Credit Program and Loan Disbursed	**$ 192,263**	**$ 0**	**$ 0**	**$ 192,263**
Budget Subsidy Rate, Excluding Modifications and Reestimates:				
Interest Differential	-2.61%	0.00%	0.00%	
Defaults	0.25%	0.00%	0.00%	
Other	0.00%	0.00%	0.00%	
Total Budget Subsidy Rate	**-2.36%**	**0.00%**	**0.00%**	
Subsidy Cost by Component:				
Interest Differential	$ (4,977)	$ 0	$ 0	$ (4,977)
Defaults	477	0	0	477
Other	0	0	0	0
Total Subsidy Cost, Excluding Modifications and Reestimates	**$ (4,500)**	**$ 0**	**$ 0**	**$ (4,500)**
Reconciliation of Subsidy Cost Allowance:				
Balance, 10/1/2008	$ (74)	$ 20	$ 0	$ (54)
Subsidy Cost for Disbursements	(4,500)	0	0	(4,500)
Subsidy Cost for Modifications	0	0	0	0
Subsidy Allowance Amortization	1,873	0	0	1,873
Balance, 9/30/2009, Before Reestimates	(2,701)	20	0	(2,681)
Subsidy Reestimates	(8,392)	0	0	(8,392)
Balance, 9/30/2009	**$ (11,093)**	**$ 20**	**$ 0**	**$ (11,073)**

	GSE MBS	CDFI	HFA	TOTAL
Reestimates				
Interest Rate Reestimate	$ 0	$ 0	$ 0	$ 0
Technical/Default Reestimate	(8,392)	0	0	(8,392)
Total Reestimates – (Decreased) in Subsidy Cost	**$ (8,392)**	**$ 0**	**$ 0**	**$ (8,392)**
Reconciliation of Subsidy Costs:				
Subsidy Cost for Disbursements	$ (4,500)	$ 0	$ 0	$ (4,500)
Subsidy Cost for Modifications	0	0	0	0
Subsidy Reestimates	(8,392)	0	0	(8,392)
Total Credit Program Receivables Subsidy Costs	**$ (12,892)**	**$ 0**	**$ 0**	**$ (12,892)**
Administrative Expense	**$ 12**	**$ 0**	**$ 0**	**$ 12**

13. Loans and Interest Receivable

Non-Entity Non-Federal

As of September 30, 2010 and September 30, 2009, loans and interest receivable from non-federal entities consisted of the following (in millions):

	2010 Total	2009 Total
Direct Loans	$ 123	$ 125
Interest Receivable	1	2
Total Non-Federal Loans and Related Interest Receivable	**$ 124**	**$ 127**

Loans and Interest Receivable amounts include certain loans and credits issued by the United States to various foreign governments and other entities. The agreements with each debtor government vary as to dates, interest rates, method of payment, and billing procedures. All such loans and credits represent legally valid and outstanding obligations of foreign governments, other entities, and the U.S. Government has not waived or renounced its rights with respect to any of them. The loans are due and payable in U.S. denominations.

14. Reserve Position in the International Monetary Fund

The United States participates in the IMF through a quota subscription. Quota subscriptions are paid partly through the transfer of reserve assets, such as foreign currencies or SDRs, which are international reserve currency assets created by the IMF, and partly by making domestic currency available as needed through a non-interest-bearing letter of credit. This letter of credit, issued by the Department and maintained by the FRBNY, represents the bulk of the IMF's holdings of dollars. In keeping with IMF rules, approximately one quarter of 1 percent of the U.S. quota is held in cash in an IMF account at FRBNY.

While resources for transactions between the IMF and the United States are appropriated, they do not result in net budgetary outlays. This is because U.S./IMF quota transactions constitute an exchange of monetary assets in which the United States receives an equal offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF, which is interest-bearing and can be drawn at any time for balance of payments needs. When the IMF draws dollars from the letter of credit to finance its operations and expenses, the drawing does not represent a net budget outlay on the part of the United States because there is a commensurate increase in the U.S. reserve position. When the IMF repays dollars to the United States, no net budget receipt results because the U.S. reserve position declines concurrently in an equal amount.

As of September 30, 2010, the U.S. quota in the IMF was 37,149 million SDRs, valued at approximately $58,327 million. (The quota as of September 30, 2009, was 37,149 million SDRs, valued at approximately $66,569 million.) The quota consisted of the following (in millions):

	2010	2009
Letter of Credit /1	$ 45,245	$ 53,056
U.S. Dollars Held in Cash by the IMF /1	144	44
Reserve Position /2	12,938	13,469
U.S. Quota in the IMF	**$ 58,327**	**$ 66,569**

1/ This amount is included in entity appropriated funds under Note 2, Fund Balance with Treasury, and unexpended appropriations – Obligations/ Undelivered orders.

2/ This amount is included in the Cumulative Results of Operations.

The U.S. reserve position is denominated in SDR, as is the U.S. quota. Consequently, fluctuations in the value of the dollar with respect to the SDR results in valuation changes in dollar terms for the U.S. reserve position in the IMF as well as the IMF letter of credit. The Department periodically adjusts these balances to maintain the SDR value of the U.S. quota and records the change as a deferred gain or loss in its cumulative results of operations. These adjustments, known as maintenance of value adjustments, are settled annually after the close of the IMF financial year on April 30. Such adjustments do not involve a flow of funds. At April 30, 2010, the annual settlement with the IMF resulting from the appreciation of the dollar against the SDR since April 30, 2009, called for an upward adjustment of the U.S. quota by $349 million and a corresponding decrease to Unexpended Appropriations on the Statement of Changes in Net Position. At April 30, 2009, the appreciation of the dollar against the SDR since April 30, 2008, called for a downward adjustment of the U.S. quota by $4,308 million and a corresponding increase to Unexpended Appropriations. The dollar balances shown above for the U.S. quota includes accrued valuation adjustments. On September 30, 2010, the Department recorded a net deferred valuation loss in the amount of $168 million for deferred maintenance of value adjustments needed at year end ($498 million gain at September 30, 2009).

The United States earns "remuneration" (interest) on its reserve position in the IMF except for the portion of the reserve position originally paid in gold. Remuneration is paid quarterly and is calculated on the basis of the SDR interest rate. The SDR interest rate is a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket. Payment of a portion of this remuneration is deferred as part of a mechanism for creditors and debtors to share the financial consequences of overdue obligations to the IMF, such as unpaid overdue interest, and to similarly share the burden of establishing any contingency accounts deemed necessary to reflect the possibility of non-repayment of relevant principal amounts. As overdue interest is paid, previously deferred remuneration corresponding to the creditors' share of the burden of earlier nonpayment is included in the next payment of remuneration. The deferred remuneration corresponding to the creditors' share of establishing the contingency accounts is usually paid when there are no longer any relevant overdue obligations or when the IMF Executive Board determines to pay the remuneration. There was no deduction in the remuneration paid by the IMF as a result of burden-sharing during fiscal years 2010 or 2009. For fiscal years 2010 and 2009, the Department received $23 million and $40 million as remuneration, respectively. (See Note 6).

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in times of crisis when IMF liquidity is low. The United States currently participates in two such arrangements – the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). There were no U.S. loans outstanding under these arrangements in fiscal year 2010 and fiscal year 2009. The dollar equivalent of SDR $6,712 million has been appropriated to finance U.S. participation in the GAB and NAB; as of September 30, 2010 and September 30, 2009, this amounted to $10,445 million and $10,634 million, respectively, in standing appropriations available for lending through the GAB or NAB, as needed. As is the case for the U.S. quota in the IMF, budgetary treatment of U.S. participation in the GAB and NAB does not result in net budgetary outlays, since transactions under the GAB or NAB result in concurrent adjustments to the U.S. reserve position in the IMF.

Refer to Note 31 for a description of NAB commitment related to IMF for a description of the new portion of quota shares and NAB subject to FCRA.

15. Tax, Other, and Related Interest Receivables, Net

Tax, other, and related interest receivables include receivables from tax assessments, excise taxes, fees, penalties, and interest assessed and accrued that were not paid or abated, reduced by an estimate for uncollectible amounts. In addition to amounts attributed to taxes, interest income due on monies deposited in Federal Reserve Banks is also included in this line item.

As of September 30, 2010 and September 30, 2009, Tax, Other, and Related Interest Receivables, and Net, consisted of the following (in millions):

NON-ENTITY:	2010	2009
IRS Federal Tax Receivable, Gross	$ 138,111	$ 128,115
Less: Allowance on Taxes Receivable	(103,091)	(99,027)
Receivable, Deposit of Earnings, Federal Reserve Banks	1,910	1,254
Other Receivables and Interest	25	33
Less: Allowance on Other and Related Interest Receivable	(24)	(15)
Total Tax, and Other Non-Entity Receivables, Net	**36,931**	**30,360**
ENTITY:		
Miscellaneous Entity Receivables and Related Interest	45	48
Total Tax, Other, and Related Interest Receivables, Net	**$ 36,976**	**$ 30,408**

IRS federal taxes receivable constitute the largest portion of the receivables. IRS federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. An allowance for doubtful accounts is established for the difference between the gross receivables and the portion deemed collectible. The portion of tax receivables estimated to be collectible and the allowance for doubtful accounts are based on projections of collectability from a statistical sample of taxes receivable. The Department does not establish an allowance for the receivable on deposits of Federal Reserve Bank earnings.

16. Inventory and Related Property, Net

The Department's operating materials and supplies are maintained for the production of bureau products. The Department maintains inventory accounts or balances (e.g., paper, metals, etc.) for use in manufacturing currency and coin. The cost of these items is included in inventory costs, and is recorded as cost of goods sold upon delivery to customers. Inventory for check processing activities is also maintained. As of September 30, 2010 and September 30, 2009, inventory and related property consisted of the following (in millions):

	2010	2009
Operating materials and supplies held for use	$ 17	$ 17
Operating materials and supplies held in reserve for future use	25	24
Forfeited property	69	62
Inventory – raw materials	299	239
Inventory – work in process	158	128
Inventory – finished goods	139	142
Allowance for inventories and related property	(10)	(14)
Total Inventories and Related Property, Net	**$ 697**	**$ 598**

17. Property, Plant, and Equipment, Net

As of September 30, 2010 and September 30, 2009, property, plant, and equipment consisted of the following (in millions):

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2010 Net Book Value
Buildings, structures, and facilities	S/L	3 - 50 years	$ 701	$ (336)	$ 365
Furniture, fixtures, and equipment	S/L	2 - 20 years	3,100	(2,295)	805
Construction in progress	N/A	N/A	15	0	15
Land and land improvements	N/A	N/A	13	0	13
Internal use software	S/L	2 -10 years	1,510	(1,003)	507
Internal use software in development	N/A	N/A	102	0	102
Assets under capital lease	S/L	2 - 25 years	4	(2)	2
Leasehold improvements	S/L	2 - 25 years	541	(319)	222
Total			**$ 5,986**	**$ (3,955)**	**$ 2,031**

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2009 Net Book Value
Buildings, structures, and facilities	S/L	3 - 50 years	$ 676	$ (308)	$ 368
Furniture, fixtures, and equipment	S/L	2 - 20 years	3,048	(2,268)	780
Construction in progress	N/A	N/A	38	0	38
Land and land improvements	N/A	N/A	12	0	12
Internal use software	S/L	2-10 years	1,352	(807)	545
Internal use software in development	N/A	N/A	112	0	112
Assets under capital lease	S/L	2 - 25 years	25	(23)	2
Leasehold improvements	S/L	2 - 25 years	482	(303)	179
Total			**$ 5,745**	**$ (3,709)**	**$ 2,036**

The service life ranges vary significantly due to the diverse nature of PP&E held by the Department.

Heritage Assets

The Treasury Complex (Main Treasury Building and Annex) was declared a national historical landmark in 1972. The Treasury Complex is treated as a multi-use heritage asset and is expected to be preserved indefinitely. The buildings housing the United States Mint in Denver, San Francisco, and West Point are also considered multi-use heritage assets. Multi-use heritage assets are recognized and presented with general property, plant and, equipment in the balance sheet.

18. Non-Entity Assets

Non-entity assets are those that are held by the Department but are not available for use by the Department. For example non-entity Fund Balance with Treasury represents unused balances of appropriations received by various Treasury's entities to conduct custodial operations such as the payment of interest on the federal debt and refunds of taxes and fees. Non-entity loans and interest receivable represents loans managed by the Department on behalf of the U.S. Government. These loans are provided to federal agencies, and the Department is responsible for collecting these loans and transferring the proceeds to the General Fund of the U.S. Government. Non-entity cash, foreign currency, and other monetary assets include the operating cash of the U.S. Government, managed by the Department. It also includes foreign currency maintained by various U.S. and military disbursing offices, as well as seized monetary instruments. Non-Entity Investments in GSEs include the GSEs' senior preferred stock and warrants held by the Department on behalf of the General Fund. As the stock and warrants are liquidated all proceeds are returned to the General Fund.

As of September 30, 2010 and September 30, 2009, non-entity assets consisted of the following (in millions):

	2010	2009
Intra-governmental Assets:		
Fund Balance (Note 2)	$ 542	$ 513
Loans and Interest Receivable (Note 3)	493,389	348,800
Accounts Receivable and Related Interest (Note 5)	350	285
Advances to the Unemployment Trust Fund (Note 1)	34,111	7,981
Due from the General Fund (Note 4)	13,655,637	11,992,719
Total Non-Entity Intra-governmental Assets	**14,184,029**	**12,350,298**
Cash, Foreign Currency, and Other Monetary Assets (Note 6)	304,244	269,579
Gold and Silver Reserves (Note 7)	11,062	11,062
Loans and Interest Receivable (Note 13)	124	127
Investments in GSEs (Note 9)	109,216	64,679
Tax, Other, and Related Interest Receivable, Net (Note 15)	36,931	30,360
Beneficial Interest in AIG Trust	20,805	23,472
Miscellaneous Assets	5	3
Total Non-Entity Assets	**14,666,416**	**12,749,580**
Total Entity Assets	**932,841**	**1,097,021**
Total Assets	$ 15,599,257	$ 13,846,601

19. Federal Debt and Interest Payable

The Department is responsible for administering the federal debt on behalf of the U.S. Government. The federal debt includes borrowings from the public as well as borrowings from federal agencies. The federal debt managed by the Department does not include debt issued by other governmental agencies such as the Tennessee Valley Authority or the Department of Housing and Urban Development.

The federal debt as of September 30, 2010 and September 30, 2009 was as follows (in millions):

Intra-governmental	2010	2009
Beginning Balance	$ 4,319,892	$ 4,179,570
New Borrowings/Repayments	181,136	140,322
Subtotal at Par Value	**4,501,028**	**4,319,892**
Premium/(Discount)	38,228	33,779
Interest Payable Covered by Budgetary Resources	48,546	49,409
Total	**$ 4,587,802**	**$ 4,403,080**

Owed to the Public	2010	2009
Beginning Balance	$ 7,551,862	$ 5,808,691
New Borrowings/Repayments	1,470,946	1,743,171
Subtotal at Par Value	**9,022,808**	**7,551,862**
Premium/(Discount)	(33,870)	(33,906)
Interest Payable Covered by Budgetary Resources	46,991	41,349
Total	**$ 9,035,929**	**$ 7,559,305**

Debt held by the public approximates the U.S. Government's competition with other sectors in the credit markets. In contrast, debt held by federal entities, primarily trust funds, represents the cumulative annual surpluses of these funds (i.e., excess of receipts over disbursements plus accrued interest) that have been used to finance general government operations.

Federal Debt held by Other Federal Agencies

Certain federal agencies are allowed to invest excess funds in debt securities issued by the Department on behalf of the U.S. Government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the U.S. Government. The vast majority is non-marketable securities issued at par value, but some are issued at market prices and interest rates that reflect market terms. The average interest rate for debt held by the federal entities, excluding TIPS, for fiscal year 2010 was 4.3 percent (4.6 percent in fiscal year 2009). The average interest rate on TIPS for fiscal year 2010 was 1.9 percent (2.0 percent in fiscal year 2009). The average interest rate represents the original issue weighted effective yield on securities outstanding at year end.

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt, at par value (not including interest receivable), owed to federal agencies as of September 30, 2010 and September 30, 2009 was as follows (in millions):

	2010	2009
Social Security Administration	$ 2,586,333	$ 2,504,248
Office of Personnel Management	866,090	828,952
Department of Defense Agencies	433,203	375,519
Department of Health and Human Services	355,554	376,512
All Other Federal Agencies - Consolidated	259,848	234,661
Total Federal Debt Held by Other Federal Agencies	**$ 4,501,028**	**$ 4,319,892**

The above balances do not include premium/discount and interest payable.

Federal Debt Held by the Public

As of September 30, 2010 and September 30, 2009, Federal Debt held by the Public consisted of the following (in millions):

(at par value)	Term	Average Interest Rates	2010
Marketable:			
Treasury Bills	1 Year or Less	0.2%	$ 1,783,674
Treasury Notes	Over 1 Year – 10 Years	2.6 %	5,252,585
Treasury Bonds	Over 10 Years	6.1%	846,054
Treasury Inflation-Protected Securities (TIPS)	5 Years or More	2.2%	593,615
Total Marketable			**8,475,928**
Non-Marketable	On Demand to Over 10 Years	2.8%	546,880
Total Federal Debt Held by the Public			**$ 9,022,808**

(at par value)	Term	Average Interest Rates	2009
Marketable:			
Treasury Bills	1 Year or Less	0.3%	$ 1,986,174
Treasury Notes	2 - 10 Years	3.0%	3,772,964
Treasury Bonds	Over 10 Years	6.5%	677,491
Treasury Inflation-Protected Securities (TIPS)	5 Years or More	2.1%	551,308
Total Marketable			**6,987,937**
Non-Marketable	On Demand to Over 10 Years	3.7%	563,925
Total Federal Debt Held by the Public			**$ 7,551,862**

The above balances do not include premium/discount and interest payable.

The Department issues marketable bills at a discount or at par and pays the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding at year-end. Treasury bills are issued with a term of one year or less.

The Department issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding at year-end. Treasury notes are issued with a term of 2 to 10 years and Treasury bonds are issued with a term of more than 10 years. The Department also issues Treasury Inflation-Protected Securities (TIPS) that have interest and redemption payments, which are tied to the Consumer Price Index for all Urban Consumers, a widely used measurement of inflation. TIPS are issued with a term of five years or more. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. The average interest rate on TIPS represents the stated interest rate on principal plus inflation, adjusted by any discount or premium on securities outstanding as of September 30, 2010 and September 30, 2009. The TIPS Federal Debt Held by the Public inflation-adjusted principal balance includes inflation of $57,481 million and $57,552 million as of September 30, 2010 and 2009, respectively.

Debt held by the public primarily represents the amount the Federal Government has borrowed to finance cumulative cash deficits. During fiscal year 2010, the Department implemented several important components as a debt management strategy, which affected the mix of outstanding Treasury securities. Treasury bills decreased by $202,000 million; whereas, Treasury notes and bonds increased by $1,480,000 million and $169,000 million, respectively, in fiscal year 2010. As of September 30, 2010 and 2009, gross debt held by the public totaled $9,023,000 million and $7,552,000 million, respectively an increase of $1,471,000 million. This increase was primarily the result of borrowings needed to finance the government's fiscal year 2010 deficit. However, as a result of most of the increase in outstanding gross debt held by the public being in the form of longer term securities, the total dollar amount of activity for both borrowings and repayments of debt held by the public decreased for fiscal year 2010.

Federal Debt Held by the Public includes federal debt held outside of the U. S. Government by individuals, corporations, Federal Reserve Banks (FRB), state and local governments, foreign governments, and central banks. As of September 30, 2010, the FRB had total holdings of $813,550 million, including a net of $1,880 million in Treasury securities held by the FRB as collateral for securities lending activities. As of September 30, 2009, the FRB had total holdings of $769,144 million, excluding a very small net amount in Treasury securities lent by the FRB to dealers. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

20. Other Debt and Interest Payable

Borrowings outstanding and related accrued interest are with the Civil Service Retirement and Disability Fund (CSR&DF), which is administered by the Office of Personnel Management (OPM). At September 30, 2010 and September 30, 2009, FFB had borrowings and related accrued interest of $10,358 millions and $12,060 million, respectively. These borrowings have stated interest rates ranging from 4.63 percent to 5.25 percent, an effective interest rate of 4.13 percent, and with maturity dates range from June 30, 2011 to June 30, 2019.

21. D.C. Pensions and Judicial Retirement Actuarial Liability

Pursuant to Title XI of the Balanced Budget Act of 1997, as amended (the Act), on October 1, 1997, the Department became responsible for certain District of Columbia retirement plans. The Act was intended to relieve the District of Columbia government of the burden of unfunded pension liabilities transferred to the District by the U.S. Government in 1979. To fulfill its responsibility, the Department manages two funds—the D.C. Teachers', Police Officers', and Firefighters' Federal Pension Fund (the D.C. Federal Pension Fund) and the District of Columbia Judicial Retirement and Survivors' Annuity Fund (the Judicial Retirement Fund). The Department is required to make annual amortized payments from the General Fund of the U.S. Government to the D.C. Federal Pension Fund and the Judicial Retirement Fund. The D.C. Federal Pension Fund benefit payments and administrative expenses are related to benefits earned based upon service on or before June 30, 1997. The actuarial cost method used to determine costs for the retirement plans is the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial liability is based upon long term assumptions selected by the Department. The Department is also responsible for other smaller pension plans administered by the Office of Thrift Supervision and Office of the Comptroller of the Currency. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

Effective in fiscal year 2010 FASAB issued SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, which requires disclosure of the components of the expense associated with federal employee pension, ORB, and OPEB liabilities in the notes to the financial statement. SFFAS 33 also provides a standard for selecting the discount rate assumption for present value estimates of federal employee pension, ORB, and OPEB liabilities.

As of September 30, 2010, pension expense actuarial liabilities consisted of the following (in millions):

PENSION EXPENSE ACTUARIAL LIABILITIES - BY FUND

For the Year Ended September 30, 2010

	D.C. Federal Pension Fund	Judicial Retirement Fund	2010 Total
Beginning Liability Balance	$ 8,892	$ 157	$ 9,049
Pension Expense:			
Normal Cost	0	4	4
Interest on Pension Liability During the Year	391	8	399
Actuarial (Gains) Losses During the Year:			
From Experience	(60)	(2)	(62)
From Discount Rate Assumption Change	1,845	34	1,879
From Other Assumption Changes	(991)	(8)	(999)
Prior Service Costs	0	0	0
Total Pension Expense	1,185	36	1,221
Less Amounts Paid	(519)	(8)	(527)
Ending Liability Balance	**$ 9,558**	**$ 185**	**$ 9,743**

ADDITIONAL INFORMATION

	DC Federal Pension Fund	Judicial Retirement Fund	2010 Total
Actuarial Liability	$ 9,558	$ 185	$ 9,743
Unobligated Budgetary Resources	(3,600)	(127)	(3,727)
Unfunded Liability	**$ 5,958**	**$ 58**	**$ 6,016**
Amount Received from the General Fund	$ 519	$ 8	$ 527
Annual Rate of Investment Return assumption	2.79% - 5.13%	2.79% - 5.13%	
Future Annual Rate of Inflation and Cost-of-Living Adjustment	2.56%	2.78%	
Future Annual Rate of Salary Increases:			
Police Officers & Firefighters	4.20%	N/A	
Teachers	4.20%	N/A	
Judicial	N/A	2.11%	

	DC Federal Pension Fund	Judicial Retirement Fund	2009 Total
Actuarial Liability	$ 8,893	$ 156	$ 9,049
Unobligated Budgetary Resources	(3,558)	(122)	(3,680)
Unfunded Liability	**$ 5,335**	**$ 34**	**$ 5,369**
Amount Received from the General Fund	$ 400	$ 7	$ 407
Annual Rate of Investment Return Assumption	4.5% - 6.0%	5.2% - 6.0%	
Future Annual Rate of Inflation and Cost-of-Living Adjustment	3.5%	3.5%	
Future Annual Rate of Salary Increases:			
Police Officers & Firefighters	3.5% - 6.5%	N/A	
Teachers	3.5% - 5.5%	N/A	
Judicial	N/A	3.5%	

22. Liabilities

Liabilities Not Covered by Budgetary and Other Resources

As of September 30, 2010 and September 30, 2009, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	2010	2009
Intra-governmental Liabilities Not Covered by Budgetary and Other Resources:		
Federal Debt Principal, Premium/Discount (Note 19)	$ 4,539,256	$ 4,353,671
Other Intra-governmental Liabilities	123	105
Total Intra-governmental Liabilities Not Covered by Budgetary and Other Resources	**4,539,379**	**4,353,776**
Federal Debt Principal, Premium/Discount (Note 19)	8,988,938	7,517,956
Gold and Silver Reserves held by the U.S. Mint	10,494	10,494
Pensions and Other Actuarial Liability (Note 21)	6,016	5,369
Liabilities to GSEs (Note 9)	359,900	91,937
Other Liabilities	1,990	1,057
Total Liabilities Not Covered by Budgetary and Other Resources	**13,906,717**	**11,980,589**
Total Liabilities Covered by Budgetary and Other Resources	**1,591,444**	**1,437,956**
Total Liabilities	**$ 15,498,161**	**$ 13,418,545**

Other Liabilities

Total "Other Liabilities" displayed on the Balance Sheets consists of both liabilities that are covered and not covered by budgetary resources.

Other liabilities at September 30, 2010 and September 30, 2009 consisted of the following (in millions):

	2010		
	Current	Non-Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	$ 46	$ 57	$ 103
Accounts Payable	59	0	59
Accrued Interest Payable	0	0	0
Other Accrued Liabilities	203	1	204
Total Intra-governmental	**$ 308**	**$ 58**	**$ 366**
With the Public			
Actuarial Federal Workers Compensation Program Liability (FECA)	$ 0	$ 553	$ 553
Liability for Deposit Funds (Held by the Federal Government for Others) and Suspense Accounts	724	0	724
Accrued Funded Payroll and Benefits	533	0	533
Capital Lease Liabilities	0	0	0
Accounts Payable and Other Accrued Liabilities	2,607	53	2,660
Total with the Public	**$ 3,864**	**$ 606**	**$ 4,470**

	2009		
	Current	Non-Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	$ 46	$ 57	$ 103
Accounts Payable	61	0	61
Accrued Interest Payable	(3)	0	(3)
Other Accrued Liabilities	263	1	264
Total Intra-governmental	**367**	**58**	**425**
With the Public			
Actuarial Federal Workers Compensation Program Liability (FECA)	$ 0	$ 533	$ 533
Liability for Deposit Funds (Held by the Federal Government for Others) and Suspense Accounts	71	0	71
Accrued Funded Payroll and Benefits	488	0	488
Capital Lease Liabilities	1	0	1
Accounts Payable and Other Accrued Liabilities	2,194	44	2,238
Total with the Public	**$ 2,754**	**$ 577**	**$ 3,331**

23. Net Position

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired.

Cumulative Results of Operations represents the net results of operations since inception, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others (a) accumulated annual leave earned but not taken, (b) accrued workers compensation, (c) credit reform cost reestimates, and (d) expenses for contingent liabilities.

The amount reported as "appropriations received" are appropriated from the Treasury General Fund of the U.S. Government receipts, such as income taxes, that are not earmarked by law for a specific purpose. This amount will not necessarily agree with the "appropriation received" amount reported on the Statement of Budgetary Resources (SBR) because of differences between proprietary and budgetary accounting concepts and reporting requirements. For example, certain dedicated and earmarked receipts are recorded as "appropriations received" on the SBR, but are recognized as exchange or non-exchange revenue (i.e., typically in special and non-revolving trust funds) and reported on the Statement of Changes in Net Position in accordance with Statement of Federal Financial Accounting Standards (SFFAS No. 7).

Transfers to the General Fund and Other

The amount reported as "Transfers to the General Fund and Other" on the Consolidated Statements of Changes in Net Position under "Other Financing Sources" includes the following as of September 30, 2010 and September 30, 2009 (in millions):

Categories of Transfers to the General Fund and Other:	2010	2009
Downward Reestimates of Credit Reform Subsidies	$ 35,906	$ 125,359
Increase in Liquidity Preference of GSEs Preferred Stock, GSEs PS Dividends and Valuation Changes (Note 9)	56,678	61,983
Interest Revenue/Distribution of Income	35,993	30,124
Other	368	238
TOTAL	**$ 128,945**	**$ 217,704**

The credit reform downward reestimate subsidies are transferred to the General Fund due to a change in forecasts of future cash flows (See Notes 8 and 12). Also included in "Transfers to the General Fund and Other" are the GSEs Senior Preferred Stock investments and related dividends as well as the annual valuation adjustment to those investments (See Note 9). In addition, these transfers also include distribution of interest revenue to the General Fund of the U.S. Government The interest revenue is accrued on inter-agency loans held by the Department on behalf of the U.S. Government. A corresponding balance is reported on the Consolidated Statement of Net Cost under "Federal Costs: Less Interest Revenue from Loans." The amount reported on the Consolidated Statement of Net Cost is reduced by eliminations with Treasury bureaus.

The Department also includes seigniorage in "Transfers to the General Fund and Other." Seigniorage is the face value of newly minted circulating coins less the cost of production. The United States Mint is required to distribute the seigniorage that it recognizes to the General Fund of the U.S. Government. The distribution is also included in "Transfers to the General Fund and Other." In any given year, the amount recognized as seigniorage may differ for the amount distributed to the General Fund by an insignificant amount due to timing differences.

24. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-Organizations

The Department's Consolidated Statement of Net Cost displays information on a consolidated basis. The complexity of the Department's organizational structure and operations requires that supporting schedules for net cost be included in the notes to the financial statements. These supporting schedules provide consolidating information, which fully displays the costs of each sub-organization (Departmental Offices and each operating bureau). In addition, a separate supporting schedule for fiscal year 2010 provides net cost information for the significant programs within the Departmental Offices.

Reporting Entity

The classification of sub-organizations has been determined in accordance with SFFAS No. 4, *"Managerial Cost Accounting Concepts and Standards for the Federal Government"* which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

Each sub-organization is responsible for accumulating costs. The assignment of the costs to Treasury-wide programs is the result of using the following cost assignment methods: (1) direct costs, (2) cause and effect, and (3) cost allocation.

Intra-departmental costs/revenues

Intra-Departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs by providing sub-organizations, and as revenues by receiving sub-organizations. Accordingly, such costs/revenues are eliminated in the consolidation process.

Intra-governmental cost

Intra-governmental cost relates to the source of goods and services purchased by the Department and not to the classification of the related intra-governmental revenue.

In certain cases, other Federal agencies incur costs that are directly identifiable to the Department's operations. In accordance with SFFAS No. 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, the Department recognizes identified cost paid for the Department by other agencies as expense of the Department. The material Imputed Inter-departmental financing sources currently recognized by the Department include the actual cost of future benefits for the federal pension plans that are paid by other federal entities, the Federal Employees Health Benefits Program (FEHB), and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the Department. The funding for these costs is reflected as imputed financing sources on the Statement of Changes in Net Position. Cost paid by other agencies on behalf of the Department were $1,008 million and $793 million for the years ended September 30, 2010 and September 30, 2009, respectively.

Statement of Net Cost

OMB Circular No. A-136, *Financial Reporting Requirements*, as amended, requires that the presentation of the Statements of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, the Department has presented the gross costs and earned revenues by the applicable strategic goals in its fiscal years 2008 - 2013 Strategic Plan. The majority of Treasury bureaus' and reporting entities' net cost information falls within one strategic goal in the Statement of Net Cost. TTB and DO allocate costs to multiple programs using a net cost percentage calculation.

To the extent practical or reasonable to do so, earned revenue is deducted from the gross costs of the programs to determine their net cost. There are no precise guidelines to determine the degree to which earned revenue can reasonably be attributed to programs. The attribution of earned revenues requires the exercise of managerial judgment.

FASAB issued SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, which requires gains and losses from changes in long-term assumptions used to estimate federal employee pensions, ORB and OPEB liabilities to be displayed on the Statement of Net Cost separately from other costs.

The Department's SNC also presents interest expense on the Federal Debt and other federal costs incurred as a result of assets and liabilities managed on behalf of the U.S. Government. These costs are not reflected as program costs related to the Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve transactions with Treasury sub-organizations.

Other federal costs for the years ended September 30, 2010 and September 30, 2009 consisted of the following (in millions):

	2010	2009
Credit Reform Interest on Uninvested Funds (Intra-governmental)	$ 8,192	$ 6,534
Resolution Funding Corporation	2,276	2,120
Judgment Claims and Contract Disputes	1,119	2,305
Corporation for Public Broadcasting	506	461
Legal Services Corporation	418	388
All Other Payments	242	323
Total	**$ 12,753**	**$ 12,131**

24. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-organizations (in millions):

FOR YEAR ENDED SEPTEMBER 30, 2010 Program Costs:	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices*	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM:							
Intra-governmental Gross Costs	$ 0	$ 120	$ 1,712	$ 0	$ 189	$ 4,577	$ 0
Less: Earned Revenue	0	(21)	(2,234)	0	(168)	(68)	0
Intra-governmental Net Costs	0	99	(522)	0	21	4,509	0
Gross Costs with the public	0	221	459	0	1,185	9,323	0
Less: Earned Revenue	0	(6)	(1)	0	0	(386)	0
Net Costs with the public	0	215	458	0	1,185	8,937	0
Net Cost: Financial Program	**0**	**314**	**(64)**	**0**	**1,206**	**13,446**	**0**
ECONOMIC PROGRAM:							
Intra-governmental Gross Costs	90	0	12,727	0	0	0	75
Less: Earned Revenue	(4)	0	(2,260)	0	0	0	(11)
Intra-governmental Net Costs	86	0	10,467	0	0	0	64
Gross Costs with the public	515	0	308,859	0	0	0	3,451
Less: Earned Revenue	(627)	0	(11,698)	0	0	0	(3,566)
Net Costs with the public	(112)	0	297,161	0	0	0	(115)
Net Cost: Economic Program	**(26)**	**0**	**307,628**	**0**	**0**	**0**	**(51)**
SECURITY PROGRAM:							
Intra-governmental Gross Costs	0	0	141	71	0	0	0
Less: Earned Revenue	0	0	(19)	(3)	0	0	0
Intra-governmental Net Costs	0	0	122	68	0	0	0
Gross Costs with the public	0	0	156	57	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	156	57	0	0	0
Net Cost: Security Program	**0**	**0**	**278**	**125**	**0**	**0**	**0**
MANAGEMENT PROGRAM:							
Intra-governmental Gross Costs	0	65	160	0	0	0	0
Less: Earned Revenue	0	(180)	(206)	0	0	0	0
Intra-governmental Net Costs	0	(115)	(46)	0	0	0	0
Gross Costs with the public	0	102	337	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	102	337	0	0	0	0
Net Cost: Management Program	**0**	**(13)**	**291**	**0**	**0**	**0**	**0**
Total Program Cost Before Assumption Changes	**(26)**	**301**	**308,133**	**125**	**1,206**	**13,446**	**(51)**
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	0	0	818	0	0	0	0
Net Cost of Operations	**$ (26)**	**$ 301**	**$ 308,951**	**$ 125**	**$ 1,206**	**$ 13,446**	**$ (51)**

* Additional information by DO components are provided on subsequent page

24. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-organizations (in millions):

FOR YEAR ENDED SEPTEMBER 30, 2010 Program Costs:	Office of the Comptroller of the Currency	Office of the Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations & Adjustments	9/30/2010 Consolidated
FINANCIAL PROGRAM:						
Intra-governmental Gross Costs	$ 0	$ 0	$ 15	$ 6,613	$ (1,985)	$ 4,628
Less: Earned Revenue	0	0	0	(2,491)	276	(2,215)
Intra-governmental Net Costs	0	0	15	4,122	(1,709)	2,413
Gross Costs with the public	0	0	38	11,226	0	11,226
Less: Earned Revenue	0	0	(3)	(396)	0	(396)
Net Costs with the public	0	0	35	10,830	0	10,830
Net Cost: Financial Program	**0**	**0**	**50**	**14,952**	**(1,709)**	**13,243**
ECONOMIC PROGRAM:						
Intra-governmental Gross Costs	111	39	15	13,057	(12,661)	396
Less: Earned Revenue	(21)	(10)	0	(2,306)	2,279	(27)
Intra-governmental Net Costs	90	29	15	10,751	(10,382)	369
Gross Costs with the public	676	202	39	313,742	0	313,742
Less: Earned Revenue	(766)	(220)	0	(16,877)	0	(16,877)
Net Costs with the public	(90)	(18)	39	296,865	0	296,865
Net Cost: Economic Program	**0**	**11**	**54**	**307,616**	**(10,382)**	**297,234**
SECURITY PROGRAM:						
Intra-governmental Gross Costs	0	0	0	212	(81)	131
Less: Earned Revenue	0	0	0	(22)	18	(4)
Intra-governmental Net Costs	0	0	0	190	(63)	127
Gross Costs with the public	0	0	0	213	0	213
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	213	0	213
Net Cost: Security Program	**0**	**0**	**0**	**403**	**(63)**	**340**
MANAGEMENT PROGRAM:						
Intra-governmental Gross Costs	0	0	0	225	(82)	143
Less: Earned Revenue	0	0	0	(386)	330	(56)
Intra-governmental Net Costs	0	0	0	(161)	248	87
Gross Costs with the public	0	0	0	439	0	439
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	439	0	439
Net Cost: Management Program	**0**	**0**	**0**	**278**	**248**	**526**
Total Program Cost Before Assumption Changes	0	11	104	323,249	(11,906)	311,343
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	2	0	0	820	0	820
Net Cost of Operations	$ 2	$ 11	$ 104	$ 324,069	$ (11,906)	$ 312,163

24. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-organizations (in millions):

FOR YEAR ENDED SEPTEMBER 30, 2009 Program Costs:	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM:							
Intra-governmental Gross Costs	$ 0	$ 111	$ 1,440	$ 0	$ 184	$ 4,145	$ 0
Less: Earned Revenue	0	(22)	(1,948)	0	(167)	(55)	0
Intra-governmental Net Costs	0	89	(508)	0	17	4,090	0
Gross Costs with the public	0	221	829	0	1,153	8,725	0
Less: Earned Revenue	0	(8)	(1)	0	0	(313)	0
Net Costs with the public	0	213	828	0	1,153	8,412	0
Net Cost: Financial Program	**0**	**302**	**320**	**0**	**1,170**	**12,502**	**0**
ECONOMIC PROGRAM:							
Intra-governmental Gross Costs	83	0	12,151	0	0	0	73
Less: Earned Revenue	(3)	0	(6,146)	0	0	0	(10)
Intra-governmental Net Costs	80	0	6,005	0	0	0	63
Gross Costs with the public	392	0	206,456	0	0	0	2,380
Less: Earned Revenue	(481)	0	(10,824)	0	0	0	(2,456)
Net Costs with the public	(89)	0	195,632	0	0	0	(76)
Net Cost: Economic Program	**(9)**	**0**	**201,637**	**0**	**0**	**0**	**(13)**
SECURITY PROGRAM:							
Intra-governmental Gross Costs	0	0	121	68	0	0	0
Less: Earned Revenue	0	0	(16)	(1)	0	0	0
Intra-governmental Net Costs	0	0	105	67	0	0	0
Gross Costs with the public	0	0	147	55	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	147	55	0	0	0
Net Cost: Security Program	**0**	**0**	**252**	**122**	**0**	**0**	**0**
MANAGEMENT PROGRAM:							
Intra-governmental Gross Costs	0	56	145	0	0	0	0
Less: Earned Revenue	0	(159)	(222)	0	0	0	0
Intra-governmental Net Costs	0	(103)	(77)	0	0	0	0
Gross Costs with the public	0	104	329	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	104	329	0	0	0	0
Net Cost: Management Program	**0**	**1**	**252**	**0**	**0**	**0**	**0**
Total Program Cost Before Assumption Changes	(9)	303	202,461	122	1,170	12,502	(13)
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	0	0	0	0	0	0	**0**
Net Cost of Operations	**$ (9)**	**$ 303**	**$ 202,461**	**$ 122**	**$ 1,170**	**$ 12,502**	**$ (13)**

24. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-organizations (in millions):

FOR YEAR ENDED SEPTEMBER 30, 2009 Program Costs:	Office of the Comptroller of the Currency	Office of the Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations & Adjustments	9/30/2009 Consolidated
FINANCIAL PROGRAM:						
Intra-governmental Gross Costs	$ 0	$ 0	$ 14	$ 5,894	$ (1,548)	$ 4,346
Less: Earned Revenue	0	0	0	(2,192)	258	(1,934)
Intra-governmental Net Costs	0	0	14	3,702	(1,290)	2,412
Gross Costs with the public	0	0	39	10,967	0	10,967
Less: Earned Revenue	0	0	(2)	(324)	0	(324)
Net Costs with the public	0	0	37	10,643	0	10,643
Net Cost: Financial Program	**0**	**0**	**51**	**14,345**	**(1,290)**	**13,055**
ECONOMIC PROGRAM:						
Intra-governmental Gross Costs	100	37	13	12,457	(12,066)	391
Less: Earned Revenue	(22)	(11)	0	(6,192)	6,166	(26)
Intra-governmental Net Costs	78	26	13	6,265	(5,900)	365
Gross Costs with the public	632	202	37	210,099	0	210,099
Less: Earned Revenue	(752)	(245)	(0)	(14,758)	(1)	(14,759)
Net Costs with the public	(120)	(43)	37	195,341	(1)	195,340
Net Cost: Economic Program	**(42)**	**(17)**	**50**	**201,606**	**(5,901)**	**195,705**
SECURITY PROGRAM:						
Intra-governmental Gross Costs	0	0	0	189	(66)	123
Less: Earned Revenue	0	0	0	(17)	14	(3)
Intra-governmental Net Costs	0	0	0	172	(52)	120
Gross Costs with the public	0	0	0	202	0	202
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	202	0	202
Net Cost: Security Program	**0**	**0**	**0**	**374**	**(52)**	**322**
MANAGEMENT PROGRAM:						
Intra-governmental Gross Costs	0	0	0	201	(65)	136
Less: Earned Revenue	0	0	0	(381)	321	(60)
Intra-governmental Net Costs	0	0	0	(180)	256	76
Gross Costs with the public	0	0	0	433	0	433
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	433	0	433
Net Cost: Management Program	**0**	**0**	**0**	**253**	**256**	**509**
Total Program Cost Before Assumption Changes	(42)	(17)	101	216,578	(6,987)	209,591
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	0	0	0	0	0	0
Net Cost of Operations	$ (42)	$ (17)	$ 101	$ 216,578	$ (6,987)	$ 209,591

24. Consolidated Statement of Net Cost and Net Costs of Departmental Offices Accounts (in millions):

FOR YEAR ENDED SEPTEMBER 30, 2010 Program Costs:	Exchange Stabilization Fund	Government Sponsored Enterprises	Office of International Affairs	Office of Financial Stability	All Others	DO Combined Total
FINANCIAL PROGRAM:						
Intra-governmental Gross Costs	$ -	$ -	$ -	$ -	$ 1,712	$ 1,712
Less: Earned Revenue	0	0			(2,234)	(2,234)
Intra-governmental Net Costs	0	0	0	0	(522)	(522)
Gross Costs with the public	0	0			459	459
Less: Earned Revenue	0	0			(1)	(1)
Net Costs with the public	0	0	0	0	458	458
Net Cost: Financial Program	**0**	**0**	**0**	**0**	**(64)**	**(64)**
ECONOMIC PROGRAM:					0	
Intra-governmental Gross Costs	0	6,666	47	5,957	57	12,727
Less: Earned Revenue	(19)	(1,035)		(1,173)	(33)	(2,260)
Intra-governmental Net Costs	(19)	5,631	47	4,784	24	10,467
Gross Costs with the public	1,476	321,679	2,348	(23,176)	6,532	308,859
Less: Earned Revenue	(1,373)	(5,631)		(4,691)	(3)	(11,698)
Net Costs with the public	103	316,048	2,348	(27,867)	6,529	297,161
Net Cost: Economic Program	**84**	**321,679**	**2,395**	**(23,083)**	**6,553**	**307,628**
SECURITY PROGRAM:						
Intra-governmental Gross Costs	0	0	0	0	141	141
Less: Earned Revenue	0	0	0	0	(19)	(19)
Intra-governmental Net Costs	0	0	0	0	122	122
Gross Costs with the public	0	0	0	0	156	156
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	0	156	156
Net Cost: Security Program	**0**	**0**	**0**	**0**	**278**	**278**
MANAGEMENT PROGRAM:						
Intra-governmental Gross Costs	0	0	0	0	160	160
Less: Earned Revenue	0	0	0	0	(206)	(206)
Intra-governmental Net Costs	0	0	0	0	(46)	(46)
Gross Costs with the public	0	0	0	0	337	337
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	0	337	337
Net Cost: Management Program	**0**	**0**	**0**	**0**	**291**	**291**
Total Program Cost Before Assumption Changes	**84**	**321,679**	**2,395**	**(23,083)**	**7,058**	**308,133**
(Gains)/Losses on Pension, ORB, or OPEB Assumption	**0**	**0**	**0**	**0**	**818**	**818**
Net Cost of Operations	**$ 84**	**$ 321,679**	**$ 2,395**	**$ (23,083)**	**$ 7,876**	**$ 308,951**

25. Additional Information Related to the Combined Statements of Budgetary Resources

Federal agencies are required to disclose additional information related to the Combined Statements of Budgetary Resources (per OMB Circular No. A-136). In accordance with SFFAS No. 7, the Department must report the value of goods and services ordered and obligated which have not been received. This amount includes any orders for which advance payment has been made but for which delivery or performance has not yet occurred. The information for the fiscal years ended September 30, 2010 and September 30, 2009 is as follows (in millions):

Undelivered Orders

	2010	2009
Undelivered orders:		
Paid	$ 126	$ 171
Unpaid	169,305	185,641
Undelivered orders at the end of the year	**$ 169,431**	**$ 185,812**
Contributed Capital	**$ 20**	**$ 40**

Apportionment Categories of Obligations Incurred

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. A-11, Preparation, Submission and Execution of the Budget. Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other time periods; for activities, projects, or objectives; or for any combination thereof (in millions).

Direct vs. Reimbursable Obligations Incurred:	2010	2009
Direct - Category A	$ 2,849	$ 14,715
Direct - Category B	330,068	977,506
Direct - Exempt from Apportionment	481,785	390,305
Total Direct	**814,702**	**1,382,526**
Reimbursable - Category A	11	1
Reimbursable - Category B	4,883	3,386
Reimbursable - Exempt from Apportionment	1,242	1,282
Total Reimbursable	**6,136**	**4,669**
Total Direct and Reimbursable Obligations Incurred	**$ 820,838**	**$ 1,387,195**

Terms of Borrowing Authority Used

Several Department's programs have authority to borrow under the *Federal Credit Reform Act of 1990* (FCRA), as amended. The FFB and IAP also have borrowing authority. The FCRA provides indefinite borrowing authority to financing accounts to fund the unsubsidized portion of direct loans and to satisfy obligations in the event the financing account's resources are insufficient. Repayment requirements are defined by OMB Circular A-11. Interest expense due is calculated based on the beginning balance of borrowings outstanding and the borrowings/repayments activity that occurred during the fiscal year. Undisbursed Treasury borrowings earn interest at the same rate as the financing account pays on its debt owed to BPD. In the event that principal and interest collections exceed the interest expense due, the excess will be repaid to the Department. If principal and interest do not exceed interest expense due, the Department will borrow the difference. The Department makes periodic principal repayments based on the analysis of cash balances and future disbursement needs. All interest on borrowings were due the last day of the fiscal year, on September 30, 2010. Interest rates on FCRA borrowings range from 0.08 percent to 9.38 percent.

Available Borrowing, End of Year:

	2010	2009
Beginning Balance	$ 51,510	$ 29,810
Current Authority	151,473	548,734
Decreases	(19,274)	(107,475)
Borrowing Authority Withdrawn	(37,982)	0
Borrowing Authority Converted to Cash	(122,250)	(419,559)
Ending Balance	**$ 23,477**	**$ 51,510**

Reconciliation of the President's Budget

The *Budget of the United States* (also known as the President's Budget), with actual numbers for fiscal year 2010, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in February 2011, and can be located at the OMB website *http://www.whitehouse.gov/omb*. It will be available from the U.S. Government Printing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the fiscal year 2009 *Agency Financial Report* and the actual fiscal year 2009 balances included in the fiscal year 2011 President's Budget (PB).

RECONCILIATION OF FISCAL YEAR 2009 COMBINED STATEMENT OF BUDGETARY RESOURCES TO THE FISCAL YEAR 2011 PRESIDENT'S BUDGET (IN MILLIONS)

	Budgetary Resources	Outlays (net of offsetting collections)	Offsetting Receipts	Net Outlays	Obligations Incurred
Statement of Budgetary Resources Amounts	$ 1,835,034	$ 966,779	$ (44,614)	$ 922,165	$ 1,387,195
Included in the Treasury Department Chapter of the President's Budget (PB) but not in the Statement of Budgetary Resources (SBR):					
IRS non-entity tax credit payments (1)	82,378	82,378	(5)	82,373	82,378
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico	473	473	0	473	473
Non-Treasury offsetting receipts included in Treasury chapter of PB	0	0	(40)	(40)	0
Treasury offsetting receipts considered to be "General Fund" transactions for reporting purposes (2)	0	0	128	128	0
Continued dumping subsidy – CBP	217	226	0	226	226
SIG for TARP Appropriations not recorded	35	0	0	0	0
Other	21	0	3	3	1
Subtotal	**83,124**	**83,077**	**86**	**83,163**	**83,078**
Included in the SBR but not in the Treasury Department chapter of the PB:					
Treasury resources shown in non-Treasury chapters of the PB, included in SBR (3)	(38,760)	(3,281)	0	(3,281)	(4,423)
Offsetting collections net of collections shown in PB	(8,013)	0	59	59	(1)
Treasury offsetting receipts shown in other chapters of PB, part of which is in SBR	0	0	531	531	0
Unobligated balance carried forward, recoveries of prior year funds and expired accounts	(201,406)	0	0	0	(73)
Exchange Stabilization Fund resources not shown in PB (4)	(34,317)	0	0	0	(64)
Treasury Financing Accounts (CDFI, OFS and GSEs)	(694,656)	(300,862)	0	(300,862)	(652,828)
Enacted reduction, 50% Transfer Accounts, and Capital Transfers to General Fund not included in PB	(17)	0	0	0	0
Other	(5)	0	0	0	0
Subtotal	**(977,174)**	**(304,143)**	**590**	**(303,553)**	**(657,389)**
Trust Fund – Comptroller of the Currency (OCC) (5)	(71)	71	0	71	0
President's Budget Amounts*	**$ 940,913**	**$ 745,784**	**$ (43,938)**	**$ 701,846**	**$ 812,884**

1. These are primarily Earned Income Tax Credit and Child Tax Credit payments that are reported with refunds as custodial activities in the Department's financial statements and thus are not reported as budgetary resources.
2. These are receipt accounts that the Department manages on behalf of other agencies and considers to be "General Fund" receipts rather than receipts of the Department reporting entity.
3. The largest of these resources relate to the Department's International Assistance Programs.
4. Exchange Stabilization Fund (ESF) is a self-sustaining component that finances its operations with the buying and selling of foreign currencies to regulate the fluctuations of the dollar. Because of the nature of the activities of the component, it does not receive appropriations, and therefore is excluded from the PB.
5. The OCC negative outlay also appears in the offsetting receipts section of the Analytical Perspectives, and hence shown as a reconciling item.

* Per the President's Budget for fiscal year 2011 – Budgetary Resources and Outlays are from the Analytical Perspective. Offsetting Receipts and Obligations Incurred are from the Appendix.

Legal Arrangements Affecting Use of Unobligated Balances

The use of unobligated balances is restricted based on annual legislation requirements or enabling authorities. Funds are presumed to be available for only one fiscal year unless otherwise noted in the annual appropriation language. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless some restrictions had been placed on those funds by law. In those situations, the restricted funding will be temporarily unavailable until such time as the reasons for the restriction have been satisfied or legislation has been enacted to remove the restriction.

Amounts in expired fund symbols are not available for new obligations, but may be used to adjust obligations and make disbursements that were recorded before the budgetary authority expired or to meet a bona fide need that arose in the fiscal year for which the appropriation was made.

Change in Accounting Policy Effect on Unobligated and Unpaid Obligations

Beginning in fiscal year 2010, the Department changed its budgetary accounting policy for the accounting and reporting of ESF investment balance changes. The change in accounting policy allows the Department to present the revaluations of ESF investments as well as other ESF assets not readily convertible to cash as a budgetary resource that is permanently not available without affecting outlays (See Note1 AD for Change in Accounting Policy).

In order to facilitate this change in accounting, an adjustment for $14,135 million to the SBR line, *Unobligated balances, brought forward, October 1, 2009* was required. This adjustment primarily included additions of prior year accumulated FCDA investment balances now permitted by Office of Management and Budget to be reported on the SBR through the use of the new USSGL. These budgetary adjustments have no impact on ESF proprietary account balances in fiscal year 2010 or previous years.

In order to maintain appropriate budgetary relationships on the SBR between Budgetary Resources, Status of Budgetary Resources, and Relationship of Obligations to Outlays, an adjustment corresponding to the FCDA investment balance of net $14,135 million was made to *Obligations Incurred, Unpaid Obligations Brought Forward*, and *Obligations Incurred, net*.

26. Collection and Disposition of Custodial Revenue

The Department collects the majority of federal revenue from income and excise taxes. Collection activity, by revenue type and tax year, was as follows for the years ended September 30, 2010 and September 30, 2009 (in millions):

	Tax Year				2010
	2010	2009	2008	Pre-2008	Collections
Individual Income and FICA Taxes	$ 1,315,876	$ 635,920	$ 20,182	$ 16,782	$ 1,988,760
Corporate Income Taxes	55,035	221,235	716	951	277,937
Estate and Gift Taxes	4	7,841	881	11,025	19,751
Excise Taxes	52,112	18,583	98	153	70,946
Railroad Retirement Taxes	3,547	1,099	1	1	4,648
Unemployment Taxes	4,697	1,726	37	83	6,543
Fines, Penalties, Interest & Other Revenue - Tax Related	244	1	0	0	245
Tax Related Cash Revenue Received	**1,431,515**	**886,405**	**21,915**	**28,995**	**2,368,830**
Federal Reserve Earnings	56,582	19,263	0	0	75,845
Fines, Penalties, Interest & Other Revenue - Non-Tax Related	1,613	22	0	0	1,635
Non-Tax Related Cash Revenue Received	**58,195**	**19,285**	**0**	**0**	**77,480**
Total Cash Revenue Received	**1,489,710**	**905,690**	**21,915**	**28,995**	**2,446,310**
Less Amounts Collected for Non-Federal Entities					(387)
Total					**$ 2,445,923**

	Tax Year				2009
	2009	2008	2007	Pre-2007	Collections
Individual Income and FICA Taxes	$ 1,296,427	$ 702,557	$22,250	$15,323	$ 2,036,557
Corporate Income Taxes	138,144	69,016	1,692	16,630	225,482
Estate and Gift Taxes	92	3,979	796	19,810	24,677
Excise Taxes	54,502	12,512	102	132	67,248
Railroad Retirement Taxes	3,559	1,148	3	1	4,711
Unemployment Taxes	4,772	1,859	36	98	6,765
Fines, Penalties, Interest & Other Revenue - Tax Related	516	0	0	0	516
Tax Related Cash Revenue Received	**1,498,012**	**791,071**	**24,879**	**51,994**	**2,365,956**
Federal Reserve Earnings	24,552	9,766	0		34,318
Fines, Penalties, Interest & Other Revenue - Non-Tax Related	1,376	37	0	0	1,413
Non-Tax Related Cash Revenue Received	**25,928**	**9,803**	**0**	**0**	**35,731**
Total Cash Revenue Received	**1,523,940**	**800,874**	**24,879**	**51,994**	**2,401,687**
Less Amounts Collected for Non-Federal Entities					(487)
Total					**$ 2,401,200**

Amounts reported for Corporate Income Taxes collected in fiscal year 2010 include corporate taxes of $13,179 million for tax year 2011 (similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2009 include corporate taxes of $9,000 million for tax year 2010).

Amounts Provided to Fund the Federal Government

For the years ended September 30, 2010 and September 30, 2009, collections of custodial revenue transferred to other entities were as follows (in millions):

	2010	2009
Department of the Interior	$ 361	$ 453
General Fund	1,975,625	1,962,775
Total	$ 1,975,986	$ 1,963,228

Federal Tax Refunds Paid

Refund activity, broken out by revenue type and by tax year, was as follows for the years ended September 30, 2010 and September 30, 2009 (in millions):

	Tax Year				
	2010	2009	2008	Pre-2008	2010 Refunds
Individual Income and FICA Taxes	$ 113,577	$ 179,159	$ 48,846	$ 29,724	$ 371,306
Corporate Income Taxes	2,630	15,913	16,414	61,229	96,186
Estate and Gift Taxes	0	209	439	277	925
Excise Taxes	429	611	171	215	1,426
Railroad Retirement Taxes	0	1	0	0	1
Unemployment Taxes	1	56	13	23	93
Total	$ 116,637	$ 195,949	$ 65,883	$ 91,468	$ 469,937

	Tax Year				
	2009	2008	2007	Pre-2007	2009 Refunds
Individual Income and FICA Taxes	$ 1,075	$ 293,971	$ 30,361	$ 14,222	$ 339,629
Corporate Income Taxes	6,626	32,646	17,370	38,558	95,200
Estate and Gift Taxes	0	324	566	358	1,248
Excise Taxes	535	541	81	626	1,783
Railroad Retirement Taxes	0	2	0	1	3
Unemployment Taxes	1	66	13	29	109
Total	$ 8,237	$ 327,550	$ 48,391	$ 53,794	$ 437,972

Federal Tax Refunds Payable

As of September 30, 2010 and September 30, 2009, refunds payable to taxpayers consisted of the following (in millions):

	2010	2009
Alcohol, Tobacco Tax and Trade Bureau	$ 13	$ 9
Internal Revenue Service	4,133	4,031
Total	$ 4,146	$ 4,040

27. Earmarked Funds

The majority of the Department's earmarked fund activities are attributed to the ESF and the pension and retirement funds managed by the Office of DCP. In addition, several Department bureaus operate with "public enterprise revolving funds" and receive no appropriations from the Congress. These bureaus are BEP, U.S. Mint, OCC, and OTS. Other miscellaneous earmarked funds are managed by BPD, DO, FMS, IRS, and TFF.

The following is a list of earmarked funds and a brief description of the purpose, accounting, and uses of these funds.

Exchange Stabilization Fund (ESF)

ESF	20X4274	ESF Money Market Guaranty Facility
ESF	20X4444	Exchange Stabilization Fund
D.C. Pensions		
DCP	20X1713	Federal payment – D.C. Judicial Retirement
DCP	20X1714	Federal payment – D.C. Federal Pension Fund
DCP	20X5511	D.C. Federal Pension Fund
DCP	20X8212	D.C. Judicial Retirement and Survivor's Annuity Fund

Public Enterprise Revolving Funds

BEP	20X4502	Bureau of Engraving and Printing Fund
MNT	20X4159	Public Enterprise Revolving Fund
OCC	20X8413	Assessment Funds
OTS	20X4108	Public Enterprise Revolving Fund
IRS	20X4413	Federal Tax Lien Revolving Fund

Other Earmarked Funds

BPD	20X5080	Gifts to Reduce Public Debt
DO	20X5407	Sallie Mae Assessments
DO	20X5590	Financial Research Fund
DO	20X5816	Confiscated and Vested Iraqi Property and Assets
DO	20X8790	Gifts and Bequests Trust Fund
FMD	205445	Debt Collection
FMD	20X5081	Presidential Election Campaign
FMD	20X8902	Esther Cattell Schmitt Gift Fund
FMS	204/55445	Debt Collection Special Fund
FMS	205/65445	Debt Collection Special Fund
FMS	206/75445	Debt Collection Special Fund
FMS	207/85445	Debt Collection Special Fund
FMS	208/95445	Debt Collection Special Fund
FMS	209/05445	Debt Collection Special Fund
FMS	200/15445	Debt Collection Special Fund
IRS	20X5510	Private Collection Agency Program
IRR	20X5433	Informant Reimbursement
TFF	20X5697	Treasury Forfeiture Fund

The ESF uses funds to purchase or sell foreign currencies, to hold U.S. foreign exchange and SDR assets, and to provide financing to foreign governments. ESF accounts and reports its holdings to FMS on the SF224, "Statement of Transactions," as well as to the Congress and the Department's policy office. The Gold Reserve Act of 1934, Bretton Woods Agreement Act of 1945, P.L. 95-147 and P.L. 94-564 established and authorized the use of the Fund. SDRs in the IMF, Investments in U.S. Securities (BPD), and

Investments in Foreign Currency Assets are the sources of revenues or other financing sources. ESF's earnings and realized gains on foreign currency assets represent inflows of resources to the government, and the revenues earned are the result of intra-governmental inflows.

D.C. Pension Funds provide annuity payments for retired D.C. teachers, police officers, judges, and firefighters. The sources of revenues are through annual appropriations, employees' contributions, and interest earnings from investments. All proceeds are earmarked. Note 21 provides detailed information on various funds managed by the Office of DCP.

The Department's four non-appropriated bureaus, Mint, BEP, OCC, and OTS, operate "public enterprise funds" that account for the revenue and expenses related to the production and sale of numismatic products and circulating coinage (Mint), the currency printing activities (BEP), and support of oversight functions of banking (OCC) and thrift operations (OTS). 31 USC § 5142 established the revolving fund for BEP to account for revenue and expenses related to the currency printing activities. Public Law 104-52 (31 USC §5136) established the Public Enterprise Fund for the Mint to account for all revenue and expenses related to the production and sale of numismatic products and circulating coinage. Revenues and other financing sources at the Mint are mainly from the sale of numismatic and bullion coins, and the sale of circulating coins to the Federal Reserve Bank system. 12 USC § 481 established the Assessment Funds for OCC, and 12 U.S.C. § 1467 governs the collection and use of assessments and other funds by OTS. Revenue and financing sources are from the bank examination and assessments for the oversight of the national banks, savings associations, and savings and loan holding companies. These non-appropriated funds do not directly contribute to the inflows of resources to the government. There are minimal transactions with other government agencies.

There are other earmarked funds at several Treasury bureaus, such as donations to the Presidential Election Campaign Fund, funds related to the debt collection program, gifts to reduce the public debt, and other enforcement related activities. Public laws, statutory laws, U.S. Code, and the Debt Collection Improvement Act established and authorized the use of these funds. Sources of revenues and other financing sources include contributions, cash and property forfeited in enforcement activities, public donations, and debt collection.

Intra-governmental Investments in Treasury Securities

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The Department's bureaus and other federal agencies invest some of the earmarked funds that they collect from the public. The funds are invested in securities issued by the Department's Bureau of the Public Debt (BPD). The cash collected by BPD is deposited in the General Fund of the U.S. Government, which uses the cash for general government purposes.

The investments provide Department bureaus and other federal agencies with authority to draw upon the General Fund of the U.S. Government to make future benefit payments or other expenditures. When the Department bureaus or other federal agencies require redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

The securities are an asset to the Department bureaus and other federal agencies and a liability of the BPD. The General Fund of the U.S. Government is liable to BPD. Because the Department bureaus and other federal agencies are parts of the U.S. Government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

The balances related to the investments made by the Department bureaus are not displayed on the Department's financial statements because the bureaus are subcomponents of the Department. However, the General Fund of the U.S. Government remains liable to BPD for the invested balances and BPD remains liable to the investing Department bureaus (See Note 4).

Summary Information for Earmarked Funds as of and for the Year ended September 30, 2010 (in millions):

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations	9/30/2010 Total
ASSETS							
Fund Balance	$ 0	$ 7	$ 490	$ 362	$ 859	$ 0	$ 859
Investments and Related Interest - Intra-governmental	20,436	3,980	1,398	1,385	27,199	27,199	0
Cash, Foreign Currency and Other Monetary Assets	70,878	0	0	12	70,890	0	70,890
Investments and Related Interest	12,616	0	0	0	12,616	0	12,616
Other Assets	0	5	1,306	114	1,425	7	1,418
Total Assets	**$ 103,930**	**$ 3,992**	**$ 3,194**	**$ 1,873**	**$ 112,989**	**$ 27,206**	**$ 85,783**
LIABILITIES							
Intra-governmental Liabilities	0	0	38	260	298	55	243
Certificates Issued to Federal Reserve Banks	5,200	0	0	0	5,200	0	5,200
Allocation of Special Drawing Rights	54,958	0	0	0	54,958	0	54,958
Other Liabilities	27	9,797	628	455	10,907	0	10,907
Total Liabilities	**60,185**	**9,797**	**666**	**715**	**71,363**	**55**	**71,308**
Net Position							
Unexpended Appropriations-Earmarked Funds	200	0	0	0	200	0	200
Cumulative Results of Operations-Earmarked Funds	43,545	(5,805)	2,528	1,158	41,426	0	41,426
Total Liabilities and Net Position	**$ 103,930**	**$ 3,992**	**$ 3,194**	**$ 1,873**	**$ 112,989**	**$ 55**	**$ 112,934**
Statement of Net Cost							
Gross Cost	$ 1,476	$ 417	$ 5,159	$ 229	$ 7,281	$ 80	$ 7,201
Less: Earned Revenue	$ (1,392)	$ (128)	$ (5,225)	$ 0	$ (6,745)	$ (177)	$ (6,568)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes	$ 0	$ 818	$ 2	$ 0	$ 820	$ 0	$ 820
Total Net Cost of Operations	**$ 84**	**$ 1,107**	**$ (64)**	**$ 229**	**$ 1,356**	**$ (97)**	**$ 1,453**
Statement of Changes in Net Position							
Cumulative Results of Operations:							
Beginning Balance, as Adjusted	$ 43,647	$ (5,225)	$ 2,465	$ 766	$ 41,653	$ 0	$ 41,653
Budgetary Financing Sources	(18)	527	(13)	384	880	(12)	892
Other Financing Sources	0	0	12	237	249	(38)	287
Total Financing Sources	**(18)**	**527**	**(1)**	**621**	**1,129**	**(50)**	**1,179**
Net Cost of Operations	(84)	(1,107)	64	(229)	(1,356)	97	(1,453)
Change in Net Position	(102)	(580)	63	392	(227)	47	(274)
Ending Balance	**$ 43,545**	**$ (5,805)**	**$ 2,528**	**$ 1,158**	**$ 41,426**	**$ 47**	**$ 41,379**

* The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.

PART 3: ANNUAL FINANCIAL REPORT

Summary Information for Earmarked Funds as of and for the Year ended September 30, 2009 (in millions):

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations*	9/30/2009 Total
ASSETS							
Fund Balance	$ 0	$ 0	$ 573	$ 312	$ 885	$ 0	$ 885
Investments and Related Interest - Intra-governmental	19,816	3,866	1,346	707	25,735	25,735	0
Cash, Foreign Currency and Other Monetary Assets	71,662	0	0	18	71,680	0	71,680
Investments and Related Interest	13,537	0	0	0	13,537	0	13,537
Other Assets	0	13	1,207	104	1,324	10	1,314
Total Assets	**$ 105,015**	**$ 3,879**	**$ 3,126**	**$ 1,141**	**$ 113,161**	**$ 25,745**	**$ 87,416**
LIABILITIES							
Intra-governmental Liabilities	$ 0	$ 0	$ 37	$ 194	$ 231	$ 28	$ 203
Certificates Issued to Federal Reserve Banks	5,200	0	0	0	5,200	0	5,200
Allocation of Special Drawing Rights	55,953	0	0	0	55,953	0	55,953
Other Liabilities	16	9,104	623	181	9,924	0	9,924
Total Liabilities	61,169	9,104	660	375	71,308	28	71,280
Net Position							
Unexpended Appropriations-Earmarked Funds	200	0	0	0	200	0	200
Cumulative Results of Operations-Earmarked Funds	43,646	(5,225)	2,466	766	41,653	0	41,653
Total Liabilities and Net Position	**$ 105,015**	**$ 3,879**	**$ 3,126**	**$ 1,141**	**$ 113,161**	**$ 28**	**$ 113,133**
Statement of Net Cost							
Gross Cost	$ 1,117	$ 785	$ 3,899	$ 214	$ 6,015	$ 60	$ 5,955
Less: Earned Revenue	(4,951)	(134)	(3,981)	0	(9,066)	(187)	(8,879)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Total Net Cost of Operations	**$ (3,834)**	**$ 651**	**$ (82)**	**$ 214**	**$ (3,051)**	**$ (127)**	**$ (2,924)**
Cumulative Results of Operations:							
Beginning Balance, as Adjusted	$ 39,618	$ (4,982)	$ 2,350	$ 575	$ 37,561	$ 0	$ 37,561
Budgetary Financing Sources	194	408	0	345	947	1	946
Other Financing Sources	0	0	34	60	94	(27)	121
Total Financing Sources	194	408	34	405	1,041	(26)	1,067
Net Cost of Operations	3,834	(651)	82	(214)	3,051	127	2,924
Net Changes	4,028	(243)	116	191	4,092	101	3,991
Total Cumulative Results of Operations	**$ 43,646**	**$ (5,225)**	**$ 2,466**	**$ 766**	**$ 41,653**	**$ 101**	**$ 41,552**

* The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.

28. Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. For fiscal years 2010 and 2009, OMB did not prescribe a format for this reconciliation in OMB Circular No. A-136, *Financial Reporting Requirements*, as amended, so that preparers might develop a more robust presentation tailored to their agency. As of September 30, 2010 and September 30, 2009, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in millions):

	2010	2009
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 820,838	$ 1,387,195
Less: Spending Authority from Offsetting Collections and Recoveries	(251,553)	(321,262)
Obligations Net of Offsetting Collections and Recoveries	569,285	1,065,933
Less: Offsetting Receipts	(178,909)	(44,614)
Net Obligations	**390,376**	**1,021,319**
Other Resources:		
Donations and Forfeiture of Property	319	127
Financing Sources for Accrued Interest and Discount on the Debt	11,086	6,027
Transfers In/Out Without Reimbursement	(42)	(36)
Imputed Financing from Cost Absorbed by Others	1,008	793
Transfers to the General Fund and Other (Note 23)	(128,945)	(217,704)
Net Other Resources Used to Finance Activities	(116,574)	(210,793)
Total Resources Used to Finance Activities	**273,802**	**810,526**
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	20,955	49,063
Credit Program Collections that Increase Liabilities for Loans Guarantees or Allowances for Subsidy	(40,146)	(6)
Adjustment to Accrued Interest and Discount on the Debt	12,011	8,687
Other (Primarily offset to offsetting receipts)	(98,559)	320,755
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(105,739)	378,499
Total Resources Used to Finance the Net Cost of Operations	**379,541**	**432,027**
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	307,422	87,673
Total Components of Net Cost of Operations that will not Require or Generate Resources	(28,122)	3,232
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	**279,300**	**90,905**
Net Cost of Operations	**$ 658,841**	**$ 522,932**

29. Financial Stability and Stimulus Activities

Government Sponsored Enterprises (GSEs)

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are stockholder-owned GSEs. Congress established these GSEs to increase the supply of mortgage loans and to reduce the accompanying costs. Starting in early fiscal year 2008, increasingly difficult conditions in the housing market challenged the soundness and profitability of GSEs, thereby undermining the entire housing market. Several actions have been taken by the Department that are intended to provide financial stability to the GSEs (Note 9 and 12 disclosures further describes these actions).

Temporary Guarantee Program Money Market Funds

In September 2008, the Department established a Temporary Guarantee Program for Money Market Funds. Under this Program, the Department guaranteed to investors that they would receive the stable share price (SSP) for shares held in participating money market funds up to the number of shares held as of the close of business on September 19, 2008. To participate in the Program, eligible money market funds had to submit an application and pay a premium of 1 basis point if the fund's net asset value (NAV) is greater than or equal to 99.75 percent of the SSP, or 1.5 basis points of the SSP if the fund's NAV is less than 99.75 percent of the SSP but greater than or equal to 99.50 percent of the SSP.

Under this program, any outlays would have been paid out initially from the ESF, and then under the provisions of Section 131 of the Emergency Economic Stabilization Act of 2008. Such outlays would then be reimbursed from funds available under the Troubled Asset Relief Program. The temporary guarantee program was extended and continued to provide coverage through September 19, 2009 to shareholders up to amounts that they held in participating money market funds as of the close of business on September 19, 2008. As of September 30, 2009, the program had expired. The Department did not receive any claims for payment. As of September 30, 2009, the Department had collected a total of approximately $1,200 million in program participation payments. All participant payments are invested into U.S. Government securities.

Home Ownership Preservation Entity (HOPE Bond)

The Home Ownership Preservation Entity (HOPE) Fund for Homeowners Act of 2008, of the Housing and Recovery Act of 2008, authorizes the Secretary of the Treasury to issue HOPE bonds without any limitations as to the purchaser of the issuance. Due to the cost of issuing special purpose bonds to the public, the Secretary of the Treasury has decided to issue the HOPE bonds to the Federal Financing Bank (FFB). The total outstanding HOPE bonds may not exceed $300,000 million. The FFB's purchase of HOPE bonds issued by the Secretary is consistent with the core mission of the FFB. FFB purchased $0.577 million and $462.5 million in bonds at par value in fiscal year 2010 and 2009, respectively, with a floating interest rate to be reset quarterly. The interest rate is 0.153 percent and 0.183 percent as of September 30, 2010 and September 30, 2009, respectively. The bonds have 30 year maturity dates starting on August 27, 2038 and ending on July 16, 2040. The HOPE bonds are reported as investments held-to-maturity and the related interest receivable is reported as accrued interest receivable in FFB's stand-alone financial statements. The HOPE bond transactions are subsequently eliminated at the Departmental level.

Troubled Asset Relief Program (TARP)

The Emergency Economic Stabilization Act of 2008 (EESA) established the Troubled Asset Relief Program (TARP) on October 3, 2008 to be administered by the Department and established the Office of Financial Stability within the Department's Office of Domestic Finance. The Act gave the Treasury Secretary broad and flexible authority to purchase and insure mortgages and other troubled assets, as well as to inject capital into banks and other commercial companies by taking equity positions in those entities, if needed, to stabilize the financial markets. The actions taken by TARP are intended to promote market stability and protect the U.S. economy and are disclosed further in Note 8.

Small Business Lending Initiatives

On September 27, 2010, the Small Business Jobs and Credit Act of 2010 (Public law 111-240) was enacted to create the Small Business Lending Fund Program to direct the Secretary of the Treasury to make capital investments in eligible institutions in order to increase the availability of credit for small businesses, to amend the Internal Revenue Code of 1986 to provide tax incentives for small business job creation, and for other purposes.

Two small business lending initiatives were created:

Small Business Lending Fund (SBLF)

The primary purposes of the $30,000 million SBLF is to support lending among small and medium sized banks (with assets under $10,000 million). The new lending fund is an initiative to invest in smaller banks under terms that provide strong incentives to increase lending to small businesses. As participating banks increase lending to small firms compared to 2009 levels, the dividend paid to Treasury on that capital investment would be reduced.

As of September 30, 2010, no disbursements were made under the SBLF program.

State Small Business Credit Initiative (SSBCI)

A $1,500 million initiative that allocates funds to participating states to establish or maintain approved state small business programs that include capital access programs. The initiative provides portfolio insurance for business loans and provides for contributions to be made by the state to the reserve fund in amounts at least equal to the sum of the amount of the insurance premium charges paid by the borrower and the financial institution to the reserve fund for any newly enrolled loan.

As of September 30, 2010 no disbursements were made under the SSBCI program.

Establishment of the Consumer Financial Protection Bureau

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which was signed into law on July 21, 2010, established the Consumer Financial Protection Bureau (CFPB) within the Federal Reserve System. The CFPB is charged with protecting consumers against deceptive and unscrupulous practices and ensuring that consumers have the information they need to choose consumer financial products and services that best meet their needs. The CFPB will implement rules for consumer financial products and services, develop supervision programs to regularly examine the most critical bank and nonbank financial services providers, and develop programs to promote greater financial literacy of consumers. Funding for the CFPB is to be provided by the Board of Governors of the Federal Reserve System.

The Department is working to start up the CFPB by defining the organizational structure, establishing program and administrative support offices, and recruiting staff. In 2010, CFPB entered into a reimbursable agreement with the Department to provide services before the designated transfer date of July 21, 2011.

American International Group (AIG)

As described in Note 8, in fiscal year 2009 the Department ultimately invested $41,600 million in Series E perpetual, non-cumulative 10 percent preferred shares of AIG through the AIG Investment Program. The Department also received warrants for the purchase of approximately 2.7 million shares of AIG common stock. And, to further assist the stability and restructuring of AIG, the Department agreed to make an additional $29,800 million available to AIG under the Department's credit facility. In return, the Department received $29,800 million of AIG series F perpetual, non-cumulative 10 percent preferred stock (300,000 shares). The initial liquidation preference of the Series F preferred shares was zero and increases pro rata by the amount of each drawdown by AIG. As of September 30, 2010 and September 30, 2009, AIG had drawn a cumulative $7,544 million and $3,206 million through the credit facility, leaving an outstanding commitment to AIG of $22,256 million and $26,594 million, respectively.

Under the initial terms of the credit facility agreement with AIG and the Federal Reserve Bank of New York (FRBNY), a 77.9 percent equity interest in AIG (in the form of Series C Convertible Participating Serial Preferred Stock convertible into approximately 77.9 percent of the issued and outstanding shares of common stock) was issued to a trust established by the FRBNY. Subsequent to the initial agreement, a reverse stock split of AIG's common stock increased this to 79.8 percent. The U.S. Government is the sole beneficiary of that trust, so that when the stock is ultimately liquidated the proceeds will be deposited into the General Fund of the U.S. Government. The U.S. Government will be the ultimate recipient of any dividends on the stock and any proceeds from the liquidation of the stock. The accounting and reporting for any activities related to the government's beneficial interest in the stock held by the trust is done by the Department. The trustees of the trust are independent of both the Department and the FRBNY, and are not involved in day-to-day management of AIG.

As the U.S. Government is the sole beneficiary of the trust, and as it is anticipated that the U.S. Government will ultimately realize an economic benefit from its beneficial interest in the trust, the Department recorded a non-entity asset of $23,472 million as of September 30, 2009, and corresponding custodial revenue for the same amount. The value recorded was based on the market value of the trust's AIG holdings at September 30, 2009; as the underlying AIG common stock is actively traded on the New York Stock Exchange, this represents the best independent valuation available for the government's beneficial interest. As of September 30, 2010, the underlying market value of the trust's AIG holdings had declined by approximately $2,666 million. The carrying value of the beneficial interest in the trust was reduced by this amount, and a corresponding expense recorded on the Statement of Custodial Activity.

Under the terms of the existing trust agreement, the U.S. Government's proceeds will be received when AIG's credit line with the FRBNY is terminated, AIG has redeemed the preferred stock owned by the Department through TARP, and the trustees sell the stock held by the trust. The Department will re-value its beneficial interest in the trust each year until the trust is liquidated. Like any asset, future events may increase or decrease the value of the U.S. Government's interest in the trust.

The Department's participation in enhancing AIG's capital and liquidity in order to facilitate an orderly restructuring of the company are in addition to the FRBNY activities in this regard.

As noted in Note 8, on September 30, 2010, the Department, the FRBNY, and AIG announced plans for a restructuring of the Federal Government's investments in AIG. The AIG Recapitalization agreement is intended to convert the trust's preferred stock into common stock that will be transferred to the Department, as custodian for the U.S. Government, in the second quarter of fiscal year 2011. Under this agreement, it is anticipated that the Department would sell its shares in the open market over time. This planned conversion of the trust's preferred stock into common stock, in conjunction with the conversion of TARP's AIG preferred stock into AIG common stock, would reduce the trust's common stock ownership percentage from 79.8 percent to approximately 31 percent, with the TARP holding approximately 61 percent of AIG's common stock. Actual execution of the recapitalization agreement is contingent on numerous material conditions being satisfied prior to the closing of the agreement. If the closing does not occur on or prior to March 15, 2011, any of AIG, the FRBNY, or the Department may terminate the agreement.

The American Recovery and Reinvestment Act of 2009 (Recovery Act)

The President of the United States signed the Recovery Act into law on February 17, 2009. The Recovery Act is an extraordinary response to a crisis unlike any since the Great Depression, and includes measures to modernize the nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need. By providing targeted investments and implementing tax provisions to benefit both businesses and individuals, the Department of the Treasury continued to stimulate the U.S. economy, create and sustain jobs, and build the foundation for long-term economic growth.

The Department has various responsibilities related to Recovery Act programs, including the implementation of some 60 tax incentives for households and businesses; local and state government support; and investments in renewable energy, low-income housing, and health care. The Department's work on these programs continued in fiscal year 2010. From the beginning, the Department has taken a risk-based approach and focused on balancing the requirements of speed, quality, and accountability to ensure the timely, accurate, and transparent distribution of Recovery Act funds. To achieve these objectives, Treasury established a Recovery Act implementation team housed within the purview of the Assistance Secretary for Management and Chief Financial Officer responsible for working with the program offices across the Department. The Recovery Act team facilitates all Recovery Act implementation department-wide and interfaces with the broader Recovery Act community. As part of this broad responsibility, the team establishes internal processes; addresses external data requirements; manages risk inherent in Recovery Act implementation, in conjunction with the DCFO's Treasury Recovery Act Risk Management Council; and coordinates the Department's Recovery Act audits.

The Department administers nine Recovery Act programs:

- Community Development Financial Institutions (CDFI) Program
- Native American CDFI Assistance Program
- New Markets Tax Credit Program
- Economic Recovery Act Payments
- Tax Provision Implementation Program
- Cash Assistance in Lieu of Tax Credits to States for Low-Income Housing Projects
- Cash Assistance in Lieu of Tax Credits for Specified Energy Property
- Health Insurance Tax Credit Administration Program
- Tax Provision Oversight Program

The Qualified Therapeutic Discovery Project (QTDP) Program

The Qualified Therapeutic Discovery Project (QTDP) program, created in Section 9023 of the *Affordable Care Act* (ACA), provides tax credits, or grants in lieu of credits, to small firms that demonstrate potential to produce new and cost-saving therapies, support job creation, and increase U.S. competitiveness in the healthcare field. The credit covers up to 50 percent of the cost of qualifying biomedical research, with a maximum of $5 million per firm and $1 billion overall. It is available only to firms with no more than 250 employees and only for investments made in 2009 and 2010. Qualifying firms must have current taxable income. Additionally, firms may opt to receive a grant in lieu of the tax credit.

30. Schedule of Fiduciary Activity

The following funds have been identified by the Department as meeting the criteria for fiduciary activity. Details of the funds, as well as fiduciary relationships, is provided below.

Bureau	Fund Code	Authority	Fund Title
BEP	20X6513.013	31 USC 5119	Mutilated Currency Claims Funds
BPD	20X6008	31 USC 3513	Payment Prin. & Interest Govt. Agencies
FMD	20X6045	31 USC 3328	Proceeds, Payments of Unpaid Checks
FMD	20X6048	31 USC 3329, 3330	Proceeds of Withheld Foreign Check
FMD	2015X6078	50 APP. USC 2012	War Claims FD, FCSC
FMD	20X6092	31 USC 1321	Debt Management Operations
FMD	20X6104	22 USC 1627	Albanian Claims Fund, Treasury
FMD	20X6133	31 USC 1322	Payment of Unclaimed Moneys
FMD	20X6309	22 USC 1627(a)	Libyan Claims Settlement Fund
FMD	20X6310	22 USC 1627(a)	Libyan Claims Settlement Fund
FMD	20X6311	98 Stat. 1876	Kennedy Center Revenue Bond
FMD	20X6312	22 USC 1627	Iranian Claims Settlement Fund
FMD	20X6314	22 USC 1644g	German Democrat Settlement Fund
FMD	20X6315	22 USC 1645h	Vietnam Claims Settlement Fund
FMD	20X6501.018	31 USC 3513	Small Escrow Amounts
FMD	20X6720	31 USC 3513	SM DIF Account for Dep. & Check Adj.
FMD	20X6830	104 Stat. 1061	Net Interest Payments to/from State
FMD	20X6999	31 USC 3513	Accounts Payable, Check Issue UNDDR
IRR	20X6737	90 Stat. 269-270	Internal Revenue Collections for Northern Mariana Island
IRR	20X6738	31 USC 3513	Coverover Withholdings-U.S. Virgin Islands
IRR	20X6740	31 USC 3515	Coverover Withholdings-Guam
IRR	20X6741	31 USC 3513	Coverover Withholdings-American Samoa
OAS	20X6317.001	22 USC 2431	Belize Escrow, Debt Reduction
OAS	20X6501.018	31 USC 3513	Small Escrow Amounts
OTS	20X6501.76	31 USC 3513	Small Escrow Amounts

Unclaimed monies were authorized by 31 U.S.C. 5119, which authorized Financial Management Service, Department of the Treasury, to collect unclaimed monies on behalf of the public. Other fiduciary activities by the Department as listed above are included in All Other Fiduciary Funds.

SCHEDULE OF FIDUCIARY ACTIVITY (in millions)

	2010			2009		
	Unclaimed Monies-FMD	All Other Fiduciary Funds	Total Fiduciary Funds	Unclaimed Monies-FMD	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets, Beginning of the Year	$ 390	$ 208	$ 598	$ 366	$ 43	$ 409
Increases						
Contributions to Fiduciary Net Assets	103	1,004	1,107	28	1,063	1,091
Investment earnings	0	1	1	0	1	1
Total Increases	103	1,005	1,108	28	1,064	1,092
Decreases						
Disbursements to and on behalf of beneficiaries	(73)	(1,057)	(1,130)	(4)	(899)	(903)
Total Decreases	(73)	(1,057)	(1,130)	(4)	(899)	(903)
Net Increase (Decrease) in fiduciary assets	30	(52)	(22)	24	165	189
Fiduciary Net Assets, End of Year	$ 420	$ 156	$ 576	$ 390	$ 208	$ 598

SCHEDULE OF FIDUCIARY NET ASSETS (in millions)

	Unclaimed Monies-FMD	All Other Fiduciary Funds	2010 Total Fiduciary Funds	Unclaimed Monies-FMD	All Other Fiduciary Funds	2009 Total Fiduciary Funds
Fiduciary Assets						
Cash and cash equivalents	$ 420	$ 57	$ 477	$ 390	$ 193	$ 583
Investments	0	99	99	0	15	15
Total Fiduciary Assets	$ 420	$ 156	$ 576	$ 390	$ 208	$ 598

31. Commitments and Contingencies

Legal Contingencies

The Department is a party in various administrative proceedings, legal actions, and claims, including equal opportunity matters which may ultimately result in settlements or decisions adverse to the U.S. Government. These contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. The Department has disclosed contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. The Department does not accrue for possible losses related to cases where the potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable.

In some cases, a portion of any loss that may occur may be paid by the Department's Judgment Fund, which is separate from the operating resources of the Department. For cases related to the Contract Disputes Act of 1978 and awards under federal anti-discrimination and whistle-blower protection acts, the Department must reimburse the Judgment Fund from future appropriations.

The Department has one contingent liability in fiscal year 2010 related to legal action taken in the case *American Council of the Blind and Others* where losses are determined to be probable and amount of loss cannot be estimated. In the opinion of the Department's management and legal counsel, based on information currently available, the expected outcome of other legal actions, individually or in the aggregate, will not have a materially adverse effect on the Department's financial statements, except for the pending legal actions described below which may have a materially adverse impact on the financial statements depending on the outcomes of the cases.

Pending Legal Actions

- *American Council of the Blind and Others, et. al. v. Paulson:* Plaintiffs have filed suit against the Department under Section 504 of the Rehabilitation Act seeking the redesign of U.S. currency. In 2007, a U.S. District Court judge ruled that the current U.S. currency design violates this Act; this ruling was subsequently appealed. In 2008, the United States Court of Appeals for the District of Columbia Circuit affirmed the District Court's ruling. No monetary damages were awarded by the Court but the Department was ordered to provide meaningful access to United States currency for blind and other visually impaired persons. This may require changes to U.S. currency (excluding the one-dollar note.) The Court ordered such changes to be completed in connection with each denomination of currency, not later than the date when a redesign is next approved by the Secretary of the Treasury. Because the cost of implementing these changes will be incorporated into future currency redesign costs, and cannot be estimated at this time, no redesign costs have been accrued in the accompanying financial statements as of September 30, 2010 and September 30, 2009.

  The Court of Appeals in the above mentioned case ordered the parties to confer and attempt to negotiate attorney fees and costs to be awarded the plaintiffs. In December 2008, the parties filed a joint stipulation agreeing to the payment of $672,675 in attorney fees and costs that was paid from the Judgment Fund in February 2009.

  On May 20, 2010, the Bureau of Engraving and Printing published in the Federal Register its proposed recommendations on the appropriate method(s) to comply with the Court's order to make currency accessible to the blind to be implemented with the next currency design. The comment period for the Federal Register notice closed on August 18, 2010. The BEP is currently evaluating the comments received and is considering various options to comply with the court's order.

- *Amidax Trading Group v. S.W.I.F.T.:* Plaintiffs allege that the Department's Terrorist Finance Tracking Program has involved unlawful disclosure of information by the Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.). Defendants include the Department of the Treasury as well as several Treasury officials. The case was dismissed by the District Court on February 13, 2009, and the plaintiff has subsequently appealed that ruling to the Court of Appeals for the Second Circuit. The parties have completed the appellate briefing, and the oral argument occurred on July 14, 2010. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *James X. Bormes v. United States of America:* The complaint alleges that the Government willfully violated certain provisions of the Fair and Accurate Credit Transaction Act (FACTA) P.L. 108-159. The transaction confirmation received by the complainant from Pay.gov included the expiration date of the credit card used for that transaction. The complaint does not state the amount of damages sought on behalf of the class beyond asserting that each class member would be entitled to $100 to $1,000 in statutory damages. In a letter sent to the Department of Justice, the plaintiff proposed a fund of $30 million for just the Illinois class members.

- *Cobell et al. v. Salazar et al. (formerly Cobell v. Kempthorne):* Native Americans allege that the Department of Interior and the Department of the Treasury have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. On August 7, 2008, the Federal District Court issued an opinion awarding $455 million to the plaintiffs. This decision was overturned on appeal in July 2009. The Appellate Court found that the government owes a cost-effective accounting, in scale with available funds.

  On December 8, 2009, a settlement was announced between the parties related to the claims raised in this lawsuit, as well as other claims for the mismanagement of assets and land. The settlement is contingent on the passage of new legislation to authorize the settlement terms and court approval. If the court approves the settlement after notice to the class, the government will pay $1.4 billion from the Judgment Fund to settle the claims for an historical accounting and for mismanagement of assets and land. The Government will also make available an additional sum of $2.0 billion from the Judgment Fund to purchase numerous small interests in land from Native Americans, as well as for other purposes. It has not been determined which federal agency will be assigned responsibility for the payment through the Judgment Fund. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time. The case was appealed to the U.S. Supreme Court however, the appeal was denied in June 2010. Legislation authorizing settlement is pending in Congress.

  Tribal Trust Fund Cases: Numerous cases have been filed in U.S. District Courts in which Native American Tribes seek a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the government to provide such an accounting. In addition, there are a number of other related cases seeking damages in the United States Court of Federal Claims which do not name the Department as a defendant. The Government is currently in the early stages of a discussion with counsel representing approximately 80 tribes with tribal trust cases pending against the United States (the Settlement Proposal to the Obama Administration or "SPOA" group) about the feasibility of an omnibus settlement of the tribal trust cases. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

  Other Legal Actions: The Department is also involved in employment related legal actions (e.g., matters alleging discrimination and other claims before the Equal Employment Opportunity Commission, Merit System Protection Board, etc.) for which an unfavorable outcome is reasonably possible, but for which an estimate of potential loss cannot be determined at this time. It is not expected that these cases will have a material effect on the Department's financial position or results.

There are other legal actions pending for which the possibility of loss could not be determined, and where the ultimate resolution of the legal action may materially affect the Department's financial position or results. As of September 30, 2010, one legal claim existed for which the possibility of loss could not be determined.

Other Commitments and Contingencies

Treaties and International Agreements

The Department does not have any treaties or international agreements to report for fiscal year 2010.

Multilateral Development Banks (MDB)

The Department has subscribed to capital for certain MDB, portions of which are callable under certain limited circumstances to meet the obligations of the respective MDB. There has never been, nor is there anticipated, a call on the Department's commitment for these subscriptions. As of September 30, 2010 and September 30, 2009, U.S. callable capital in MDB was as follows (in millions):

	2010	2009
African Development Bank	$ 1,634	$ 1,634
Asian Development Bank	5,911	5,911
European Bank for Reconstruction and Development	1,805	1,805
Inter-American Development Bank	28,687	28,687
International Bank for Reconstruction and Development	24,251	22,641
Multilateral Investment Guarantee Agency	301	301
North American Development Bank	1,275	1,275
Total	**$ 63,864**	**$ 62,254**

Terrorism Risk Insurance Program

The *Terrorism Risk Insurance Act* (TRIA or the Act) was signed into law on November 26, 2002. This law was enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. The Act helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The Terrorism Risk Insurance Program is activated upon the certification of an "act of terrorism" by the Secretary of the Department in concurrence with the Secretary of State and the Attorney General. If a certified act of terrorism occurs, insurers may be eligible to receive reimbursement from the U.S. Government for insured losses above a designated deductible amount. Insured losses above this amount will be shared between insurance companies and the U.S. Government. The Act also gives the Treasury Department authority to recoup federal payments made under the Program through policyholder surcharges under certain circumstances and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism.

The original TRIA program was to expire on December 31, 2005, but the Program was extended through December 31, 2007 by the *Terrorism Risk Insurance Extension Act of 2005* (Extension Act). This law included the following significant changes: it reduced the federal role in terrorism risk insurance markets by increasing insurer deductibles and excluding certain types of previously covered insurance. The Extension Act also reduced the U.S. Government's share of insured losses and added a "Program Trigger" provision which precludes federal payments unless insured losses from a certified act of terrorism exceed $ 100 million.

On December 26, 2007, the *Terrorism Risk Insurance Program Reauthorization Act of 2007* (Reauthorization Act) was enacted extending the Program through December 31, 2014. The Reauthorization Act, among other Program changes, revised the definition of "Act of Terrorism" to remove the certification requirement that the act be committed by an individual acting on behalf of a foreign person or foreign interest; revised the provisions of the Act with regard to the cap on annual liability for insured losses of $100 billion; and established deadlines by which recoupment of federal payments made under the Program would have to be accomplished.

In September 2008, the Department issued two notices of proposed rulemaking with requests for comment. One proposed rule incorporated and clarified statutory requirements of the Reauthorization Act for capping the annual liability for insured losses at $100 billion. The proposed rule described how the Department will determine the pro rata share of insured losses to be paid by each insurer that incurs losses under the Program when insured losses would otherwise exceed the cap and how the Federal share of compensation will be calculated. The Department issued a final rule on December 14, 2009.

The other proposed rule set forth the requirements for recoupment of the Federal share of compensation for insured losses. The rule described how the Department will determine the amounts to be recouped and the requirements for insurers to collect, report, and remit surcharges to the Department. The Department issued a final rule on December 14, 2009. There were no claims under TRIA as of September 30, 2010, or September 30, 2009.

On August 3, 2010, the Department issued a notice of proposed rulemaking with requests for comment. The intent of this rule is to provide a process by which the Department would close out its claims operation for insured losses from a Program Year. The Department expects to issue a final rule incorporating public comments early in fiscal year 2011.

Exchange Stabilization Agreement (ESA)

In April 1994, Treasury signed the North American Framework Agreement (NAFA), which includes the ESA with Mexico. The Department has a standing swap line for $3 billion with Mexico under the NAFA and its implementing ESA. The amounts and terms (including the assured source of repayment) of any borrowing under NAFA and ESA will have to be negotiated and agreed to before any actual drawing can occur. The ESA does provide sample clauses that state that transactions shall be exchange rate neutral for the ESF and shall bear interest based on a then current rate tied to U.S. Treasury bills. There were no drawings outstanding on the ESF swap line as of September 30, 2010 and September 30, 2009. On December 10, 2008, the Department renewed its participation in the agreement until December 2010.

New Arrangements to Borrow (NAB)

Public Law 111-32 also provided the authorization and appropriations for an increase in the United States participation in the NAB by the dollar equivalent of SDR 75,000 million which at the SDR/dollar exchange rate applicable on September 30, 2010 is equivalent to $116,714 million. However, this increase in the United States participation in the NAB is not effective as of September 30, 2010 and will not come into effect until all IMF member countries participating in the NAB submit notification of their consent to modifications to the decision governing the NAB and to their new SDR commitments to the NAB. Although $119,000 million was appropriated under Public Law 111-32, the United States publicly stated that it would limit its commitment to $100,000 million and agreed to a final commitment – which has not yet come into effect - of SDR 69,074.27 million (from SDR 6,639.83 million) on May 10, 2010 pursuant to IMF Executive Board Decision No. 14577-(10/35) adopted April 12, 2010. As with the quota increase, the new portion of the NAB will be subject to the FCRA and treated as a direct loan. Similarly, this will not affect the treatment of the reserve position in the IMF, only the budget presentation.

Contingent Liability to Government Sponsored Enterprises

The Department has recorded a contingent liability at September 30, 2010 of $359,900 million ($76,937 million at September 30, 2009) to the Government Sponsored Enterprises, Fannie Mae and Freddie Mac, based on probable future liability under the Senior Preferred Stock Purchase Agreement between the Department and the GSEs. Refer to Note 9 for a full description of the agreements and related contingent liability.

Required Supplemental Information (Unaudited)

Introduction

This section provides the Required Supplemental Information as prescribed by Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, as amended.

Other Claims For Refunds

The Department has estimated that $27,587 million may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the federal courts or internally. The total estimated payout (including principal and interest) for claims pending judicial review by the federal courts is $19,603 million and by appeals is $7,984 million.

Federal Taxes Receivable, Net

In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, some unpaid tax assessments do not meet the criteria for financial statement recognition as discussed in Note 1 to the financial statements. Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the U.S. Government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

The components of the total unpaid assessments at September 30, 2010 and September 30, 2009, were as follows (in millions):

	2010	2009
Total Unpaid Assessments	$ 330,000	$ 308,000
Less: Compliance Assessments	(93,000)	(75,000)
Write Offs	(99,000)	(105,000)
Gross Federal Taxes Receivable	**138,000**	**128,000**
Less: Allowance for Doubtful Accounts	(103,091)	(99,000)
Federal Taxes Receivables, Net	**$ 34,909**	**$ 29,000**

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $2,850 million, assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

Internal Revenue Service (IRS)

The unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment, as well as from the IRS's enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. A significant portion of this balance is not considered a receivable. Also, a substantial portion of the amounts considered receivables is largely uncollectible.

Under federal accounting standards, unpaid assessments require taxpayer or court agreement to be considered federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered federal taxes receivable. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that are considered federal taxes receivable.

Assessments with little or no future collection potential are called write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt, or defunct taxpayers, including many failed financial institutions liquidated by the Federal Deposit Insurance Corporation (FDIC) and the former Resolution Trust Corporation (RTC). As noted above, write-offs have little or no future collection potential, but statutory provisions require that these assessments be maintained until the statute for collection expires.

Alcohol and Tobacco Tax and Trade Bureau (TTB)

As an agent of the Federal Government and as authorized by 26 U.S.C., the Alcohol and Tobacco Tax and Trade Bureau (TTB) collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, special occupational taxes are collected from certain tobacco businesses. During fiscal year 2010, TTB collected nearly $23,800 million in taxes, interest, and other revenues. Federal excise taxes are also collected on certain articles produced in Puerto Rico and the Virgin Islands, and imported into the United States. In accordance with 26 U.S.C. 7652, such taxes collected on rum imported into the United States are "covered over" or paid into the treasuries of Puerto Rico and the Virgin Islands.

Substantially all of the taxes collected by TTB net of related refund disbursements are remitted to the General Fund of the U.S. Government. The Department further distributes this revenue to Federal agencies in accordance with various laws and regulations. The firearms and ammunition excise taxes are an exception. Those revenues are remitted to the Fish and Wildlife Restoration Fund under provisions of the *Pittman-Robertson Act of 1937.*

Deferred Maintenance

In fiscal year 2010 and 2009, the Department had no material amounts of deferred maintenance costs to report on vehicles, buildings, and structures owned by the Department.

Deferred maintenance applies to owned PP&E. Deferred maintenance is maintenance that was not performed when it should have been, or was scheduled to be, and is put off or delayed for a future period. Maintenance is defined as the act of keeping capitalized assets in an "acceptable condition" to serve their required mission. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected useful life. Maintenance excludes activities aimed at expanding the capacity or significantly upgrading the assets to a different form than it was originally intended (i.e., activities related to capitalized improvements, modernization, and/or restoration).

Logistic personnel use condition assessment surveys and/or the total life-cycle cost methods to determine deferred maintenance and acceptable operating condition of an asset. Periodic condition assessments, physical inspections, and review of manufacturing and engineering specifications, work orders, and building and other structure logistics reports can be used under these methodologies.

Statement of Budgetary Resources Disaggregated by Treasury Reporting Entity

The following table provides the Statement of Budgetary Resources disaggregated by Treasury reporting entity for fiscal year 2010. In addition, a new table provides the fiscal year 2010 SBR by significant programs within the Departmental Offices.

Fiscal Year 2010 Statement of Budgetary Resources Disaggregated by Sub-organization Accounts (in millions)

	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service
BUDGETARY RESOURCES						
Unobligated balance, brought forward, Oct. 1	$ 46	$ 91	$ 454,924	$ 25	$ 274	$ 876
Recoveries of prior year unpaid obligations	0	9	42,191	1	24	90
Budget authority:						
Appropriations (Note 23)	0	512,067	19,468	111	24,818	12,443
Borrowing authority:	0	0	151,473	0	0	0
Spending Authority from Offsetting Collections:						
Earned:						
Collected	632	213	208,575	4	236	136
Change in receivables from Federal sources	0	(5)	4	3	(3)	23
Change in unfilled customer orders:						
Advance received	(3)	0	(45)	0	0	0
Without advance from Federal sources	0	(4)	(5,105)	3	(5)	1
Anticipated for rest of year, w/o advances	0	0	0	0	0	0
Subtotal	629	512,271	374,370	121	25,046	12,603
Non-expenditure transfers, net	0	(4)	394	0	(29)	0
Temporarily not available pursuant to Public Law	0	(5)	(137)	0	0	0
Permanently not available	0	(97,800)	(130,177)	0	(8,620)	(152)
Total Budgetary Resources	**$ 675**	**$ 414,562**	**$ 741,565**	**$ 147**	**$ 16,695**	**$ 13,417**
STATUS OF BUDGETARY RESOURCES						
Obligations incurred (Note 25):						
Direct	0	414,266	371,565	109	16,185	12,475
Reimbursable	616	201	299	10	223	136
Subtotal	616	414,467	371,864	119	16,408	12,611
Unobligated Balance:						
Apportionment	59	80	287,754	26	273	236
Exempt from apportionment	0	0	12,116	0	2	0
Subtotal	59	80	299,870	26	275	236
Unobligated balance not available	0	15	69,831	2	12	570
Total Status of Budgetary Resources	**$ 675**	**$ 414,562**	**$ 741,565**	**$ 147**	**$ 16,695**	**$ 13,417**
CHANGE IN OBLIGATED BALANCE						
Obligated balance, net:						
Unpaid obligations brought forward, Oct. 1	115	75	184,825	15	339	1,620
Uncollected customer payments from Federal sources brought forward	(29)	(23)	(28,958)	(5)	(37)	(32)
Total unpaid obligated balance, net	86	52	155,867	10	302	1,588
Obligations incurred, net	616	414,467	371,864	119	16,408	12,611
Gross outlays	(614)	(414,457)	(285,223)	(102)	(16,310)	(12,335)
Recoveries of prior year unpaid obligations, actual	0	(9)	(42,191)	(1)	(24)	(90)
Change In uncollected customer payments from Federal source	0	9	5,101	(6)	8	(24)
Obligated balance, net, end of period:						
Unpaid obligations	117	76	229,275	30	413	1,807
Uncollected customer payments Federal sources	(29)	(14)	(23,857)	(10)	(29)	(57)
Total unpaid obligated balance, net, end of period	**$ 88**	**$ 62**	**$ 205,418**	**$ 20**	**$ 384**	**$ 1,750**
NET OUTLAYS						
Net Outlays:						
Gross outlays	614	414,457	285,223	102	16,310	12,335
Offsetting collections	(629)	(213)	(208,530)	(4)	(236)	(136)
Distributed offsetting receipts	0	(36,615)	(141,300)	0	(279)	(715)
Net Outlays	**$ (15)**	**$ 377,629**	**$ (64,607)**	**$ 98**	**$ 15,795**	**$ 11,484**

	U. S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol and Tobacco Tax and Trade Bureau	Budgetary	Non-Budgetary
BUDGETARY RESOURCES						
Unobligated balance, brought forward, Oct. 1	$ 246	$ 793	$ 310	$ 3	$ 415,761	$ 41,827
Recoveries of prior year unpaid obligations	29	0	4	1	2,979	39,370
Budget authority:						
Appropriations (Note 23)	0	0	0	103	569,010	0
Borrowing authority:	0	0	0	0	1	151,472
Spending Authority from Offsetting Collections:						
Earned:						
Collected	3,519	794	234	4	9,401	204,946
Change in receivables from Federal sources	0	0	0	0	22	0
Change in unfilled customer orders:						
Advance received	0	0	(8)	0	(56)	0
Without advance from Federal sources	1	0	0	0	2	(5,111)
Anticipated for rest of year, w/o advances	0	0	0	0	0	0
Subtotal	3,520	794	226	107	578,380	351,307
Non-expenditure transfers, net	0	0	0	0	361	0
Temporarily not available pursuant to Public Law	0	0	0	0	(142)	0
Permanently not available	(13)	0	0	0	(47,341)	(189,421)
Total Budgetary Resources	**$ 3,782**	**$ 1,587**	**$ 540**	**$ 111**	**$ 949,998**	**$ 243,083**
STATUS OF BUDGETARY RESOURCES						
Obligations incurred (Note 25):						
Direct	0	0	0	102	595,438	219,264
Reimbursable	3,671	740	236	4	6,136	0
Subtotal	3,671	740	236	106	601,574	219,264
Unobligated Balance:						
Apportionment	111	0	0	3	267,581	20,961
Exempt from apportionment	0	847	304	0	13,269	0
Subtotal	111	847	304	3	280,850	20,961
Unobligated balance not available	0	0	0	2	67,574	2,858
Total Status of Budgetary Resources	**$ 3,782**	**$ 1,587**	**$ 540**	**$ 111**	**$ 949,998**	**$ 243,083**
CHANGE IN OBLIGATED BALANCE						
Obligated balance, net:						
Unpaid obligations brought forward, Oct. 1	191	177	41	21	108,210	79,209
Uncollected customer payments from Federal sources brought forward	(7)	(3)	0	(2)	(168)	(28,928)
Total unpaid obligated balance, net	184	174	41	19	108,042	50,281
Obligations incurred, net	3,671	740	236	106	601,574	219,264
Gross outlays	(3,604)	(733)	(229)	(103)	(524,098)	(209,612)
Recoveries of prior year unpaid obligations, actual	(29)	0	(4)	(1)	(2,979)	(39,370)
Change In uncollected customer payments from Federal source	(1)	0	0	0	(24)	5,111
Obligated balance, net, end of period:						
Unpaid obligations	229	185	44	22	182,707	49,491
Uncollected customer payments Federal sources	(8)	(4)	0	(1)	(192)	(23,817)
Total unpaid obligated balance, net, end of period	**$ 221**	**$ 181**	**$ 44**	**$ 21**	**$ 182,515**	**$ 25,674**
NET OUTLAYS						
Net Outlays:						
Gross outlays	3,604	733	229	103	524,098	209,612
Offsetting collections	(3,519)	(794)	(226)	(4)	(9,345)	(204,946)
Distributed offsetting receipts	0	0	0	0	(169,303)	(9,606)
Net Outlays	**$ 85**	**$ (61)**	**$ 3**	**$ 99**	**$ 345,450**	**$ (4,940)**

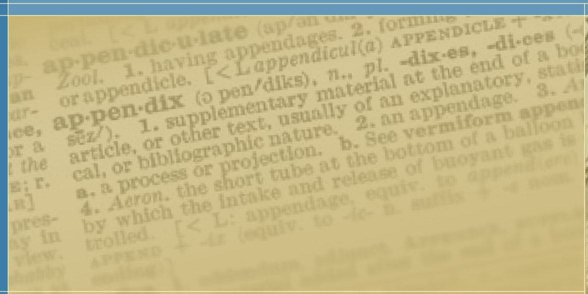
Fiscal Year 2010 Statement of Budgetary Resources Disaggregated by Departmental Offices Accounts (in millions)

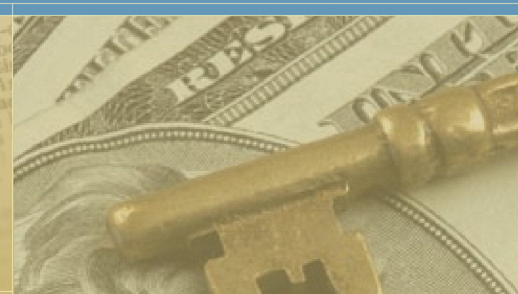
	Exchange Stabilization Fund	Government Sponsored Enterprises	Internal Assistance Programs	Office of Financial Stability	All Others	Combined Total
BUDGETARY RESOURCES						
Unobligated balance, brought forward	$ 44,001	$ 337,290	$ 34,303	$ 37,101	$ 2,229	$ 454,924
Recoveries of prior year unpaid obligations	983	6	516	40,537	149	42,191
Budget authority:						
Appropriations (Note 23)	0	0	2,475	5,151	11,842	19,468
Borrowing authority:	0	82,026	0	69,440	7	151,473
Spending Authority from Offsetting Collections:						
Earned:						
Collected	276	48,826	911	156,112	2,450	208,575
Change in receivables from Federal sources	0	0	0	0	4	4
Change in unfilled customer orders:						
Advance received	0	0	0	0	(45)	(45)
Without advance from Federal sources	0	0	0	(5,111)	6	(5,105)
Anticipated for rest of year, w/o advances		0		0	0	0
Subtotal	276	130,852	3,386	225,592	14,264	374,370
Non-expenditure transfers, net	0	29	67	0	298	394
Temporarily not available pursuant to Public Law	0	0	0	0	(137)	(137)
Permanently not available	59,510	(81,440)	0	(107,976)	(271)	(130,177)
Total Budgetary Resources	**$ 104,770**	**$ 386,737**	**$ 38,272**	**$ 195,254**	**$ 16,532**	**$ 741,565**
STATUS OF BUDGETARY RESOURCES						
Obligations incurred (Note 25):						
Direct	$ 61,169	$ 121,658	$ 3,414	$ 173,631	$ 11,693	$ 371,565
Reimbursable	0	0	0	0	299	299
Subtotal	61,169	121,658	3,414	173,631	11,992	371,864
Unobligated Balance:						
Apportionment	0	265,077	12,343	7,834	2,500	287,754
Exempt from apportionment	0	0	11,624	0	492	12,116
Subtotal	0	265,077	23,967	7,834	2,992	299,870
Unobligated balance not available	43,601	2	10,891	13,789	1,548	69,831
Total Status of Budgetary Resources	**$ 104,770**	**$ 386,737**	**$ 38,272**	**$ 195,254**	**$ 16,532**	**$ 741,565**
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS						
Obligated balance, net:						
Unpaid obligations brought forward, Oct. 1	$ 0	$ 6	$ 46,206	$ 135,353	$ 3,260	$ 184,825
Uncollected customer payments from Federal sources brought forward	0	0	0	(28,927)	(31)	(28,958)
Total unpaid obligated balance, net	**0**	**6**	**46,206**	**106,426**	**3,229**	**155,867**
Obligations incurred, net	61,169	121,658	3,414	173,631	11,992	371,864
Gross outlays	0	(114,083)	(3,478)	(157,401)	(10,261)	(285,223)
Recoveries of prior year unpaid obligations, actual	(983)	(6)	(516)	(40,537)	(149)	(42,191)
Change In uncollected customer payments from Federal source	0	0	0	5,111	(10)	5,101
Obligated balance, net, end of period:						
Unpaid obligations	60,186	7,575	45,626	111,046	4,842	229,275
Uncollected customer payments Federal sources	0	0	0	(23,816)	(41)	(23,857)
Total unpaid obligated balance, net, end of period	**60,186**	**7,575**	**45,626**	**87,230**	**4,801**	**205,418**
Net Outlays:						
Gross outlays	$ 0	$ 114,083	$ 3,478	$ 157,401	$ 10,261	$ 285,223
Offsetting collections	(276)	(48,826)	(911)	(156,112)	(2,405)	(208,530)
Distributed offsetting receipts	0	(21,748)	(24)	(118,860)	(668)	(141,300)
Net Outlays	**$ (276)**	**$ 43,509**	**$ 2,543**	**$ (117,571)**	**$ 7,188**	**$ (64,607)**

PART 4:

OTHER ACCOMPANYING INFORMATION

APPENDICES



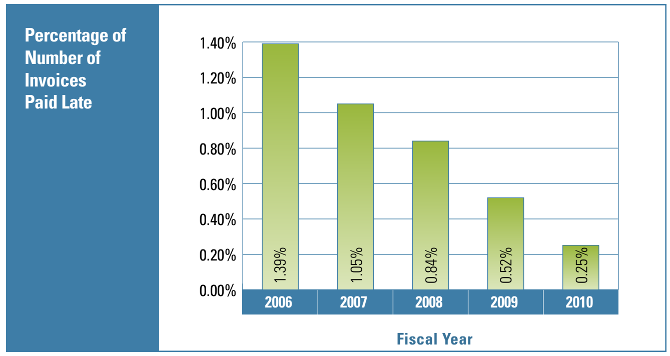


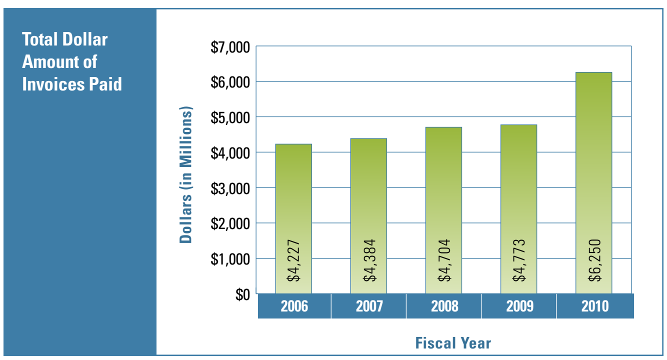
APPENDIX A:
OTHER ACCOMPANYING INFORMATION (UNAUDITED)

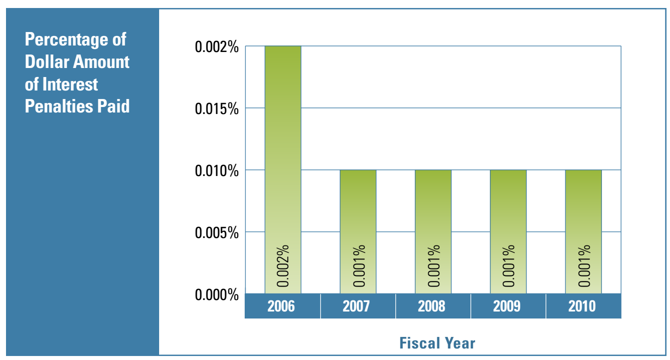
This section provides Other Accompanying Information as prescribed by OMB Circular No. A-136, *Financial Reporting Requirements*.

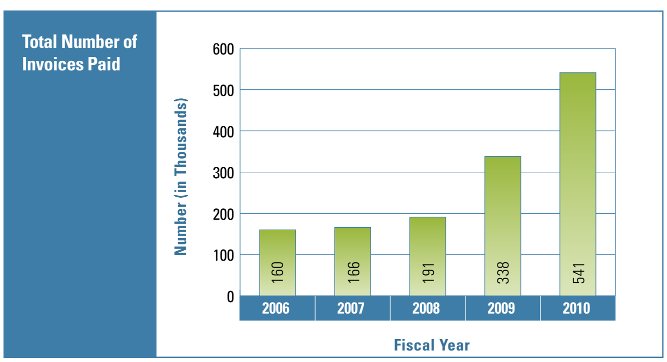
Prompt Payment

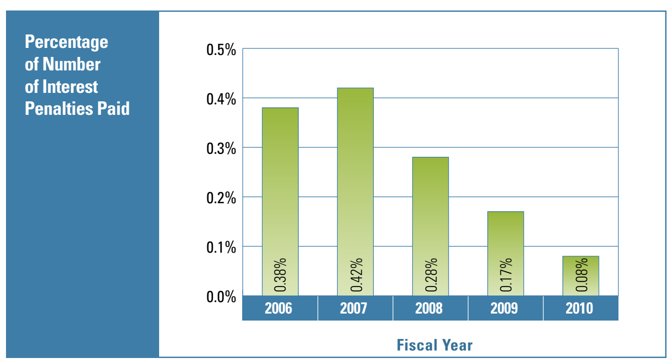
The *Prompt Payment Act* requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. Treasury bureaus report Prompt Payment data on a monthly basis to the Department, and periodic quality control reviews are conducted by the bureaus to identify potential problems.











Tax Gap

Reducing the tax gap is at the heart of IRS' enforcement programs. The tax gap is the difference between what taxpayers should pay and what they actually pay due to not filing tax returns, not paying their reported tax liability on time, or failing to report their correct tax liability. The tax gap, about $345 billion based on updated fiscal year 2001 estimates, represents the amount of noncompliance with the tax laws. Underreporting tax liability accounts for 82 percent of the gap, with the remainder almost evenly divided between non-filing (8 percent) and underpaying (10 percent). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.

The tax gap is the aggregate amount of tax (i.e., excluding interest and penalties) that is imposed by the tax laws for any given tax year but is not paid voluntarily and timely. The tax gap arises from the three types of noncompliance: not filing required tax returns on time or at all (the non-filing gap), underreporting the correct amount of tax on timely filed returns (the underreporting gap), and not paying on time the full amount reported on timely filed returns (the underpayment gap). Of these three components, only the underpayment gap is observed; the non-filing gap and the underreporting gap must be estimated. Each instance of noncompliance by a taxpayer contributes to the tax gap, whether or not the IRS detects it, and whether or not the taxpayer is even aware of the noncompliance. Obviously, some of the tax gap arises from intentional (willful) noncompliance, and some of it arises from unintentional mistakes.

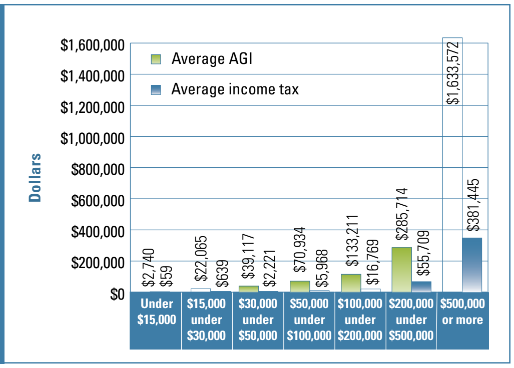
The collection gap is the cumulative amount of tax, penalties, and interest that has been assessed over many years, but has not been paid by a certain point in time, and which the IRS expects to remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable reported on the IRS' balance sheet. The tax gap and the collection gap are related and overlapping concepts, but they have significant differences. The collection gap is a cumulative balance sheet concept for a particular point in time, while the tax gap is like an income statement item for a single year. Moreover, the tax gap estimates include all noncompliance, while the collection gap includes only amounts that have been assessed (a small portion of all noncompliance).

Tax Burden

The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The following graphs and charts present the latest available information on income tax and adjusted gross income (AGI) for individuals by AGI level and for corporations by size of assets. For individuals, the information illustrates, in percentage terms, the tax burden borne by varying AGI levels. For corporations, the information illustrates, in percentage terms, the tax burden borne by these entities by various sizes of their total assets. The graphs are only representative of more detailed data and analysis available from the Statistics of Income (SOI) office.

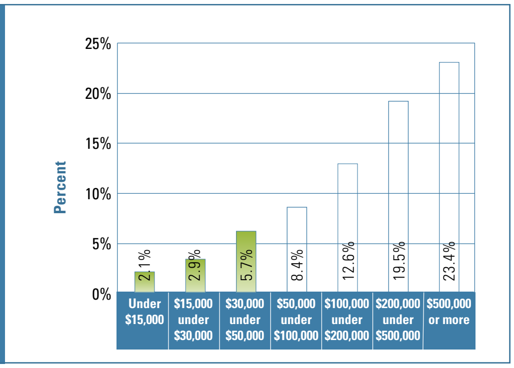
Average Adjusted Gross Income (AGI) and Average Individual Income Tax Liability

Tax Year 2008



Individual Income Tax Liability as a Percentage of AGI

Tax Year 2008



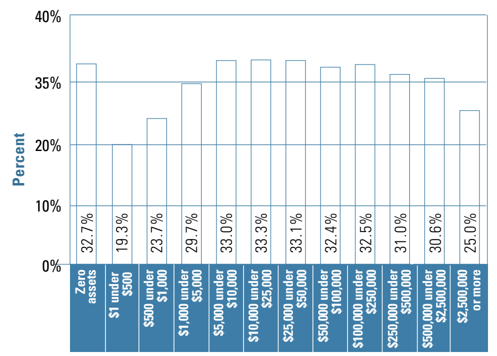
INDIVIDUAL INCOME TAX LIABILITY

Tax Year 2008

Adjusted gross income (AGI)	Number of taxable returns (in thousands)	AGI (in millions)	Total income tax (in millions)	Average AGI per return (in whole dollars)	Average income tax per return (in whole dollars)	Income tax as a percentage of AGI
Under $15,000	37,970	$ 104,025	$ 2,227	$ 2,740	$ 59	2.1%
$15,000 under $30,000	29,687	655,035	18,958	22,065	639	2.9%
$30,000 under $50,000	25,641	1,002,998	56,953	39,117	2,221	5.7%
$50,000 under $100,000	30,926	2,193,691	184,554	70,934	5,968	8.4%
$100,000 under $200,000	13,851	1,845,103	232,270	133,211	16,769	12.6%
$200,000 under $500,000	3,477	993,427	193,700	285,714	55,709	19.5%
$500,000 or more	899	1,468,581	342,919	1,633,572	381,445	23.4%
Totals	142,451	$ 8,262,860	$ 1,031,581			

Corporation Tax Liability as a Percentage of Taxable Income

Tax Year 2007 Data



CORPORATION TAX LIABILITY

Tax Year 2007

Total Assets (in thousands)	Income subject to tax (in millions)	Total income tax after credits (in millions)	Percentage of income tax after credits to taxable income
Zero Assets	$ 26,280	$ 8,593	32.7%
$1 under $500	8,205	1,582	19.3%
$500 under $1,000	4,292	1,017	23.7%
$1,000 under $5,000	15,577	4,628	29.7%
$5,000 under $10,000	10,008	3,299	33.0%
$10,000 under $25,000	16,650	5,547	33.3%
$25,000 under $50,000	13,139	4,347	33.1%
$50,000 under $100,000	16,621	5,392	32.4%
$100,000 under $250,000	27,977	9,100	32.5%
$250,000 under $500,000	35,046	10,876	31.0%
$500,000 under $2,500,000	145,944	44,586	30.6%
$2,500,000 or more	928,546	232,408	25.0%
Total	**$ 1,248,285**	**$ 331,375**	**26.5%**

APPENDIX B:
IMPROPER PAYMENTS INFORMATION ACT AND RECOVERY AUDITING ACT

The *Improper Payments Information Act of 2002* (IPIA) requires agencies to review their programs and activities annually to identify those susceptible to significant improper payments. According to the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (A-123, Appendix C), "significant" means that an estimated error rate and a dollar amount exceed the threshold of 2.5 percent and $10 million of total program funding. A-123, Appendix C also requires the agency to implement a corrective action plan that includes improper payment reduction targets.

The government-wide Chief Financial Officers Council developed an alternative for meeting IPIA requirements for federal programs that are so complex that developing an annual error rate is not feasible. Agencies may establish an annual estimate for a high-risk component of a complex program (e.g., a specific program population) with OMB approval. Agencies must also perform trend analyses to update the program's baseline error rate in the interim years between detailed program studies. When development of a statistically valid error rate is possible, the reduction targets are revised and become the basis for future trend analyses.

I. Description of the Department's risk assessment(s) performed subsequent to compiling its full program inventory and risk-susceptible programs

Each year, the Department develops a comprehensive inventory of the funding sources for all programs and activities and distributes it to the Treasury bureaus and offices. If program or activity funding is at least $10 million, risk assessments are required at the payment type level (e.g., payroll, contracts, vendors, travel, etc.). The Department's risk assessment follows the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework. The framework includes:

1. Internal Control Environment
2. Risk Assessment
3. Internal Control Activities
4. Information and Communications
5. Monitoring

Within the COSO Integrated Framework, the factors addressed to determine risk levels include:

- **Operating Environment –** Existence of factors which necessitate or allow for loosening of financial controls; any known instances of fraud
- **Payment Processing Controls –** Management's implementation of internal controls over payment processes including existence of current documentation, the assessment of design and operating effectiveness of internal controls over payments, the identification of deficiencies related to payment processes, and whether or not effective compensating controls are present
- **Quality of Internal Monitoring Controls –** Periodic internal program reviews to determine if payments are made properly; strength of documentation requirements and standards to support testing of design and operating effectiveness for key payment controls
- **Human Capital –** Experience, training, and size of payment staff; ability of staff to handle peak payment requirements; level of management oversight and monitoring against fraudulent activity

- **Complexity of Program –** Length of time program has been operating; complexity and variability of interpreting and applying laws, regulations, and standards required of the program

For those payment types resulting in high-risk assessments that comprise at least 2.5 percent and $10 million of a total funding source, (1) statistical sampling must be performed to determine the actual improper payment rate, and (2) a corrective action plan must be developed and submitted to the Department and OMB for approval.

Responses to the risk assessments produce a score that falls into pre-determined categories of risk. The following table describes the actions required at each risk level:

Risk Level	Required Action(s)
High Risk ≥ 2.5% Error Rate & > $10 Million	Corrective Action Plan
Medium Risk	Review Payment Controls for Improvement
Low Risk	No Further Action Required

The risk assessments performed across the Department in fiscal year 2010 resulted in all programs and activities as low and medium risk susceptibility for improper payments except for the Internal Revenue Service's (IRS) Earned Income Tax Credit (EITC) program. The EITC's high-risk status is well-documented, having been previously identified in the former Section 57 of OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, and has been deemed a complex program for the purposes of the IPIA.

In addition to the risk assessments monitored under IPIA, the Department continued its review of initial risk assessments related to the *American Recovery and Reinvestment Act of 2009* (Recovery Act) and required reassessments of high-risk Recovery Act programs.

II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified

Earned Income Tax Credit

The EITC is a refundable federal tax credit that offsets income taxes owed by low-income workers and, if the credit exceeds the amount of taxes owed, provides a lump-sum payment to those who qualify.

The section below describes how the IRS currently develops its erroneous payment projections. The most recent projection is based on a tax year 2006 reporting compliance study that estimated the level of improper overclaims for fiscal year 2010 to range between $15.3 to $18.4 billion and 23.9 percent (lower bound) to 28.7 percent (upper bound) of approximately $64.2 billion in total program payments.

National Research Program (NRP) Analysis

The complexity of the EITC program, the nature of tax processing, and the expense of compliance studies preclude statistical sampling on an annual basis to develop error rates for comparison to reduction targets. The estimates are based primarily on information from the National Research Program (NRP) reporting compliance study of individual income tax returns for tax year 2006—the most recent year for which compliance information from a statistically valid, random sample of individual tax returns is available. The approach is nearly identical to that used for earlier years.

Under the tax year 2006 NRP reporting compliance study, individual income tax returns filed during calendar year 2007 for tax year 2006 were randomly selected for examination.[1] This selection method allows the measures for the individual income tax

1 The NRP used a stratified, random sample design. Returns are grouped into predefined categories or "strata" and selected randomly within each stratum.

return filing population to be estimated from the results of the NRP sample returns. Because one of the objectives of the NRP is to provide data for compliance measurement, NRP procedures and data collection differed from those followed in standard examination programs. NRP classification and examination procedures were more comprehensive in scope and depth than those for standard examination programs. These expanded procedures were designed to provide a more thorough determination of what taxpayers should have reported on their returns.

The tax year 2006 NRP individual income tax return study covered filers of all types of individual income tax returns. About 2,200 of the returns in the regular NRP sample were EITC claimants. The NRP study results for this EITC claimant subset of NRP returns were the primary source of data for the improper payments estimates. Other data and information sources used for the estimates included the IRS Enforcement Revenue Information System (ERIS), which tracks assessments and collections from IRS enforcement-related activities; Treasury Department estimates of the effect of the EITC provisions in the *Economic Growth and Tax Relief Reconciliation Act of 2001* on erroneous EITC claims; and Treasury Department fiscal year 2010 EITC budget estimates.

III. Describe the Corrective Action Plans for reducing the estimated rate of improper payments for the EITC program

Base Program

In 2010, the IRS prevented more than $3.7 billion from being paid in error. The prevention activity primarily focused on three areas:

- **Examinations –** IRS identifies tax returns for examination and holds the EITC portion of the refund until an audit can be conducted. This is the only ongoing IRS audit program where exams are conducted before a refund is released. The examination closures and enforcement revenue protected in the charts below do not include test initiatives
- **Math Error –** Refers to an automated process in which the IRS identifies math or other statistical irregularities and automatically prepares an adjusted return for a taxpayer. Congressional approval is required for math error use
- **Document Matching –** Involves comparing income information provided by the taxpayer with matching information (e.g., W-2s, 1099s) from employers to identify discrepancies

The chart below shows significant results from fiscal year 2005 through an estimate of fiscal year 2011. In fiscal year 2010 alone, the IRS conducted over 474,000 examinations, issued 300,000 math error notices, and closed over 900,000 document matching reviews.

Compliance Activities (thousands)	FY05*	FY06*	FY07*	FY08*	FY09*	FY10**	FY11***	FY05-FY11 Total
Examination Closures	527,969	517,617	503,267	503,755	508,180	474,092	475,000	3,509,880
Math Error Notices**	515,890	460,316	393,263	432,797	355,416	300,000	250,000	2,707,682
Document Matching****	324,419	364,020	734,603	727,916	688,087	904,920	900,000	4,643,965
Amended Returns[1]				32,473	25,395	19,400	20,000	97,268

* Restated actual

** Preliminary estimates

*** Estimate based on fiscal year 2011 preliminary data.

**** Fiscal year 2007 and fiscal year 2008 restated to include enterprise data. In prior years, data included Wage and Investment data only. Small Business and Self-Employed data have been added.

[1] Amended returns are a subset of Examination Closures.

These activities had a significant effect. Treasury projects that continued enforcement efforts will protect over $23 billion in revenue through fiscal year 2011.

Enforcement Revenue Protected ($ billions)								
	FY05*	FY06*	FY07*	FY08*	FY09*	FY10**	FY11***	FY05-FY11 Total
Examination Closures	1.35	1.50	1.49	2.00	2.15	1.96	1.96	12.41
Math Error Notices**	0.52	0.46	0.41	0.44	0.40	0.34	0.28	2.85
Document Matching****	0.53	0.60	1.29	1.23	1.17	1.43	1.43	7.68
Amended Returns				0.07	0.07	0.06	0.06	0.26
TOTAL	2.40	2.56	3.19	3.74	3.79	3.79	3.73	23.20

* Restated actual
** Preliminary estimates
*** Estimate based on fiscal year 2011 preliminary data
**** Fiscal year 2007 and fiscal year 2008 restated to include enterprise data

Testing New Business Processes

The IRS continues to build new solutions for existing business processes and to use other activities to combat program error including:

Pilot Concept – Assessing State Data for Validating EITC Eligibility

Treasury proposes a Partnership Fund pilot to assess the availability, quality, completeness, and overall usefulness of state-administered benefits data, as well as state benefits screening processes, to help validate EITC eligibility. The pilot would address whether state data could identify both ineligible individuals who receive improper EITC payments and eligible individuals who are not claiming the EITC. The assessment will be conducted separate from, but parallel to, normal federal EITC operations. The IRS's actual eligibility results based on EITC claims in a pilot state will be compared to simulated eligibility results based on analysis of existing state data and potential state data that could be collected from new benefits enrollment questions. The results of the pilot will be used to develop administrative changes and statutory proposals to improve EITC payments nationally.

Maximize Current Business Processes

- Increase the activities associated with a suite of EITC paid preparer treatments, based on risk-based selections, including due diligence audits, visits by revenue and criminal investigation agents, streamlined injunctions, and educational and compliance notices to first-time and experienced preparers to influence the accuracy of EITC returns filed. Analyze short-term outcomes, including penalties and accuracy of returns
- Continuing the partnership with members from two key tax software associations to identify software enhancements and collaborative efforts that can help reduce EITC errors and assist preparers in meeting their EITC due diligence requirements
- Assess the 2010 EITC marketing/awareness campaigns that target EITC eligible and non-compliant populations to refine/focus efforts and to incorporate recent tax law changes on eligibility and benefits to increase overall participation and improve compliance

IV. EITC Improper Payment Reduction Outlook

The reduction outlook for EITC improper payments is as follows:

Improper Payment (IP) Reduction Outlook ($ in billions)

Program	PY Outlays	PY %	PY $	CY Outlays	CY IP%	CY IP$	CY+1 Est Outlays	CY+1 IP%	CY+1 IP$	CY+2 Est Outlays	CY+2 IP%	CY+2 IP$	CY+3 Est Outlays	CY+3 IP%	CY+3 IP$
EITC Upper Bound Estimate	$48.1	28.0%	$13.3	$64.2	28.7%	$18.4	$64.1	28.7%	$18.4	$58.2	28.7%	$16.7	$58.3	28.7%	$16.7
EITC Lower Bound Estimate	$48.1	23.0%	$11.2	$64.2	23.9%	$15.3	$64.1	23.9%	$15.3	$58.2	23.9%	$13.9	$58.3	23.9%	$13.9

Outlays: The amounts shown are projections of total payments for the EITC, estimated by the Office of Tax Analysis within the Department of the Treasury. Following prior methodology, the amount shown is the total EITC claimed.

IP % and IP $: These estimates follow the prior approach which provided a range for improper payments.

Note: The Improper Payment percentage and Estimated Outlay columns reflect a constant error rate pending the development of an annual error rate measurement.

CY and CY+1 estimates include Recovery Act EITC provisions which expand the EITC for families with three children and increase the beginning of the phaseout range for couples filing a joint return.

CY: Current year; PY: Prior year

V. Management Accountability

The Secretary of the Treasury has delegated responsibility for addressing improper payments to the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). Improper payments fall under the Department's management and internal control program. A major component of the internal control program is risk assessments, which are an extension of each bureau's annual improper payment review process. Under Treasury Directive 40-04, *Treasury Internal (Management) Control Program*, executives and other managers are required to have management control responsibilities as part of their annual performance plans. With oversight mechanisms such as the Treasury CFO Council and the IRS's Financial and Management Controls Executive Steering Committee, managerial responsibility and accountability in all management and internal control areas are visible and well-documented.

Improper payments also have been monitored for improvement as a significant deficiency under the *Federal Managers' Financial Integrity Act*. Executives who are responsible and accountable for reducing the level of EITC overclaims have been identified, while other senior and mid-level officials have responsibility for monitoring progress in this area as bureau and program internal control officers.

VI. Resources Requested in the Fiscal Year 2011 Budget Submission to Congress

The fiscal year 2011 President's Budget submission included no new initiatives related directly to the EITC program.

VII. Limiting Statutory and Regulatory Barriers

A number of factors continue to serve as barriers to reducing overclaims in the EITC program. These include:

- Complexity of the tax law
- Structure of the Earned Income Tax Credit
- Confusion among eligible claimants
- High turnover of eligible claimants
- Unscrupulous return preparers
- Fraud

No one of these factors can be considered the primary driver of program error. Furthermore, the interaction among the factors makes addressing the credit's erroneous claims rate, while balancing the need to ensure the credit makes its way to taxpayers who are eligible, extremely difficult.

VIII. Executive Order 13520 - Reducing Improper Payments and Eliminating Waste in Federal Programs

On November 20, 2009, President Barack Obama issued Executive Order 13520 - *Reducing Improper Payments and Eliminating Waste in Federal Programs* (EO 13520). According to EO 13520, the purpose of the order is to *"reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government, while continuing to ensure that Federal programs serve and provide access to their intended beneficiaries*."

The EITC has been identified as a "high-priority program" under EO 13520. Due to the "high-priority program" status, certain requirements must be met. OMB developed these requirements to promote accountability and transparency by the agency program and federal government to the public for its use of public funds. Requirements include but are not limited to:

- Designation of a Senate-confirmed accountable official
- Establishment of annual or semi-annual targets for reducing improper payments
- Report on agency methodology for identifying and measuring improper payments by the agency's high-priority program(s)
- Agency plan for meeting the reduction targets for improper payments in the high-priority program(s)
- Agency plan for ensuring that initiatives undertaken do not unduly burden program access and participation by eligible beneficiaries

Periodic reviews and analysis of the progress of remediation plans will be addressed with the accountable program officials, Inspector General, Chief Financial Officer, and OMB. Treasury submitted the required plan and informational documents as required by 13520.

Recovery Auditing Act

IX. Treasury's Recovery Auditing Program

Section 831 of the *Defense Authorization Act* for fiscal year 2002 added a new subchapter to U.S. Code (31 U.S.C 3561-3567), also known as the Recovery Auditing Act, that requires agencies that enter into contracts with a total value in excess of $500 million in a fiscal year to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. A required element of such a program is the use of recovery audits and recovery activities. In accordance with OMB Circular A-123, Appendix C, reporting on recovery auditing is required annually.

In fiscal year 2010, Treasury issued contracts totaling $6.4 billion. Treasury's annual IPIA risk assessment process includes a review of pre-payment controls that minimize the likelihood and occurrence of improper payments. For Recovery Auditing Act compliance, Treasury requires each bureau and office to review their post-payment controls and report on recovery auditing activities, contracts issued, improper payments made, and recoveries achieved. Bureaus and offices may use recovery auditing firms to perform many of the steps in their recovery auditing program and identify candidates for recovery action.

Treasury considers both pre-payment and post-payment reviews to identify payment errors a sound management practice that should be included among basic payment controls. All of Treasury's bureaus use some form of recovery auditing techniques to identify improper payments during post-payment reviews. At times, bureaus may use the services of recovery auditors to help them identify payment anomalies and target areas for improvement. However, Treasury has extensive contract payment controls that are applied at the time each payment is processed, making recovery activity minimal. The low level of improper payments in 2010 did not require any Treasury bureau to develop a management improvement program under Recovery Auditing Act guidance.

Recovery Auditing Information Fiscal Year 2004 - Fiscal Year 2010

Agency	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amount Identified for Recovery CY	Amount Recovered CY*	Amount Identified for Recovery PY	Amount Recovered PY	Cumulative Amts. Identified for Recovery (CY+PYs)	Cumulative Amts. Recovered (CY+PYs)
Treasury	$6,388,181,812	$5,825,819,856	$466,792	$518,000	$1,475,232	$1,357,672	$7,200,597	$6,018,579

Note: CY: Current year; PY: Prior year
* Includes amounts identified for recovery in prior years.

For fiscal year 2010, the total number of contracts subject to review was 33,069; the total number reviewed was 25,479, for a total recovery auditing program cost of approximately $1.2 million dollars.

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APPENDIX C:
MANAGEMENT AND PERFORMANCE CHALLENGES AND RESPONSES

In accordance with the *Reports Consolidation Act of 2000*, the Inspectors General issue Semiannual Reports to Congress that identify specific management and performance challenges facing the Department. At the end of each fiscal year, the Treasury Office of Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA) send an update of these management challenges to the Secretary and cite any new challenges for the upcoming fiscal year.

Under the *Emergency Economic Stabilization Act of 2008* (Pub. Law No. 110-343), the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) is not required to provide the Secretary with a semi-annual report or annual update on management and performance challenges.

The Appendix contains the incoming management and performance challenges letters from OIG and TIGTA and the Secretary's responses describing actions taken and planned to address the challenges.

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DEPARTMENT OF THE TREASURY
WASHINGTON

INSPECTOR GENERAL

October 22, 2010

INFORMATION MEMORANDUM FOR SECRETARY GEITHNER

FROM: Eric M. Thorson
Inspector General

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury (OIG-CA-11-001)

In accordance with the Reports Consolidation Act of 2000, we are providing you with our perspective on the most serious management and performance challenges facing the Department of the Treasury.

This year we have combined three challenges reported last year into two, renamed those two and expanded them to reflect significant economic events and new responsibilities given to Treasury. Specifically, we have:

- renamed the challenge previously reported as "Regulation of National Banks and Thrifts" to "Transformation of Financial Regulation." We have also expanded this challenge to incorporate significant events and changes that have taken place since last year, most notably those related to Treasury's new responsibilities under the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act.
- renamed the challenge previously reported as "Management of Treasury's New Authorities Related to Distressed Financial Markets" to "Management of Treasury's Authorities Intended to Support and Improve the Economy." This challenge encompasses the previously reported challenge entitled "Management of Recovery Act Programs" and has been expanded to recognize Treasury's new responsibilities and authorities related to the recently enacted Small Business Jobs Act of 2010.

We also continue to report two challenges from last year.

- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement
- Management of Capital Investments

Challenge 1: Transformation of Financial Regulation

In response to the need for financial reform, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) in July 2010. Dodd-Frank established new responsibilities for Treasury and created new offices tasked to fulfill those responsibilities.

A critical challenge in the near term is Treasury's role in standing up the Bureau of Consumer Financial Protection (BCFP). Established by Dodd-Frank, the purpose of BCFP is to implement and, where applicable, enforce federal consumer financial law consistently to ensure that all

Page 2

consumers have access to markets for consumer financial products and services and that those markets are fair, transparent, and competitive. Eventually, BCFP will be an independent bureau of the Board of Governors of the Federal Reserve System (the Board of Governors). However, the Treasury Secretary is charged with supporting the creation and management of BCFP until a Director is confirmed. On September 17, 2010, the President appointed Elizabeth Warren to serve as Assistant to the President and Special Advisor to the Secretary of the Treasury on BCFP. At this time, it is uncertain when a BCFP Director will be confirmed. In the mean time, much needs to be done to set up the BCFP. While BCFP remains in Treasury, it will be under the audit and investigative oversight of my office. We are, however, coordinating those oversight efforts with the Office of Inspector General of the Board of Governors.

Dodd-Frank also established the Financial Stability Oversight Council (FSOC), which is chaired by the Treasury Secretary. FSOC held its inaugural meeting on October 1, 2010. FSOC's mission is to identify risks to financial stability that could arise from the activities of large, interconnected financial companies; respond to any emerging threats to the financial system; and promote market discipline. The Council of Inspectors General on Financial Oversight (CIGFO), which I chair, facilitates the sharing of information among inspectors general with a focus on reporting our concerns that may apply to the broader financial sector and ways to improve financial oversight. Accordingly, CIGFO will be an important source of independent, unbiased analysis to FSOC. In the future, CIGFO may also vote to convene a working group to evaluate the effectiveness and internal operations of the FSOC. We held our inaugural meeting on October 21, 2010.

Dodd-Frank also established two new offices within Treasury: the Office of Financial Research (OFR) and the Federal Insurance Office (FIO). OFR is to be a data collection, research and analysis arm of FSOC. OFR will operate under a confirmed Director while the Director of FIO will be appointed by the Treasury Secretary. Among other things, the Director of OFR is to report to Congress annually on the office's activities and its assessments of systemic risk. FIO is to monitor the insurance industry, including identifying gaps or issues in the regulation of insurance that could contribute to a systemic crisis in the insurance industry or financial system. The Director of FIO will advise FSOC on insurance matters.

Intended to streamline the supervision of depository institutions and holding companies, Dodd-Frank transfers the powers and duties of the Office of Thrift Supervision (OTS) to the Office of the Comptroller of the Currency (OCC), the Board of Governors, and the Federal Deposit Insurance Corporation (FDIC) no later than July 21, 2011. Dodd-Frank requires OCC, OTS, the Board of Governors, and FDIC to jointly submit a plan within 180 days of the enactment of Dodd-Frank to their respective Inspectors General and Congress detailing the steps they will take to implement the transfer. The respective Inspectors General will evaluate that plan and jointly provide a written report to OCC, OTS, the Board of Governors, and FDIC, with a copy to Congress, on whether it conforms to the provisions of Dodd-Frank. Our joint report will be issued within 60 days of receiving the plan. In addition, we will jointly report on the status of the implementation of the plan every 6 months thereafter until all aspects of the plan are implemented.

Page 3

Clearly, the intention of Dodd-Frank is most notably to prevent, or at least minimize, the impact of a future financial sector crisis on our economy. In order to accomplish this, Dodd-Frank has placed a great deal of responsibility within Treasury and on the Treasury Secretary. The management challenge from our perspective is to implement an effective FSOC process supported by the newly created offices within Treasury and the streamlined banking regulatory structure that timely identifies and strongly responds to emerging risks. This is especially important in times of economic growth and financial institution profitability when such government action is likely to be unpopular. Our future work plans will include reviews to look at how well Treasury establishes the new offices and undertakes its other critical roles.

The other regulatory challenges that we discussed last year still remain. Specifically, since September 2007, 90 Treasury-regulated financial institutions have failed, with estimated losses to the Deposit Insurance Fund of approximately $36 billion. This is an increase of 51 financial institutions and $9 billion in losses since my last challenges letter. More financial institutions are expected to fail over the next 2 years.

Although many factors contributed to the turmoil in the financial markets, our work found that OCC and OTS did not identify early or force timely correction of unsafe and unsound practices by numerous institutions under their respective supervision. The irresponsible lending practices of many institutions are now well-recognized—including reliance on risky products, such as option adjustable rate mortgages, and degradation of underwriting standards. At the same time, financial institutions engaged in other high-risk activities, including high asset concentrations in commercial real estate and overreliance on unpredictable brokered deposits to fund rapid growth. Recently, the unprecedented speed at which servicers were foreclosing on defaulted mortgages has revealed flaws in the processing of those foreclosures. A number of the largest banks with servicing functions have voluntarily placed moratoriums on foreclosures either in certain states or nationwide until these matters are resolved. While the depth and extent of these problems are not fully known at the time of this writing, this is yet another troubling development in the manner in which financial institutions have been operating. I am also concerned about the impact this could have on an already stressed housing market. Addressing this issue could be the first major challenge for the FSOC.

The banking industry will continue to be stressed over the next several years. In the 2010 interagency Shared National Credits (SNC) review, OCC, OTS, and the other federal banking regulators found that credit quality improved from 2009 but remained weak with respect to the $2.5 trillion in large ($20 million or more) loans and loan commitments held by domestic bank organizations, foreign bank organizations, and nonbank entities such as securitization pools, hedge funds, insurance companies, and pension funds. The review, which covered $1 trillion of the $2.5 trillion SNC portfolio, identified total losses of $15 billion, down from total losses of $53 billion in 2009. Criticized assets declined to $448 billion from $642 billion and represented nearly 18 percent of the SNC portfolio, compared with 22 percent in 2009. The volume of poorly underwritten credits originated in 2006 and 2007 continued to adversely affect the overall credit quality of the portfolio. Refinancing risk within the portfolio is also significant, with nearly 67 percent of criticized assets maturing between 2012 and 2014.

Page 4

Our office is mandated to review the failures of Treasury-regulated financial institutions that result in material losses to the Deposit Insurance Fund. Since 2007, we have completed 21 such reviews and are engaged in 31 others. These reviews identify the causes of the failures and assess supervision exercised over failed institutions. Both OCC and OTS have been responsive to our recommendations for improving supervision. Dodd-Frank now mandates that our office also review failures that result in non-material losses to the Deposit Insurance Fund. To that end, we have completed 28 such reviews. However, neither the material nor non-material reviews address the broader supervisory effectiveness of the federal banking regulators as a whole or the effectiveness of the supervisory structure. It is therefore essential that OCC and OTS continue to take a critical look at their supervisory processes to identify why those processes did not prevent or mitigate the practices that led to the current crisis and what can be done to better protect the financial health of the banking industry and consumers going forward.

Since implementation of Dodd-Frank is in its early stages, Treasury and its two federal bank regulators, OCC and OTS, will need to work in concert with the other affected federal bank regulators to ensure a smooth and effective transition to the new regulatory structure and requirements.

Challenge 2: Management of Treasury's Authorities Intended to Support and Improve the Economy

Congress provided Treasury with broad authorities to address the financial crisis under the Housing and Economic Recovery Act (HERA) and the Emergency Economic Stabilization Act (EESA) enacted in 2008, the American Recovery and Reinvestment Act of 2009 (Recovery Act), and the Small Business Jobs Act of 2010. Certain authorities in HERA and EESA have now expired but challenges still remain in managing Treasury's outstanding investments. To an extent, Treasury's program administration under these two Acts has matured. In contrast, program administration for the Recovery Act is still evolving, and the Small Business Jobs Act programs must be stood up. Our discussion of this challenge will begin with the most recent Act passed to support and improve the economy and then discuss the other new programs Treasury is responsible for.

<u>Management of the Small Business Lending Fund and State Small Business Credit Initiative</u>

In late September 2010, Congress enacted the Small Business Jobs Act of 2010 creating within Treasury a $30 billion Small Business Lending Fund (SBLF) and providing $1.5 billion to be allocated by Treasury to approved states for eligible state programs through the State Small Business Credit Initiative (SSBCI). The Act represents a key initiative of the Administration to increase lending to small business and thereby support job creation. The challenge for Treasury will be to get these two programs up and running quickly while maintaining proper control to ensure transparency, equitable treatment of all participants, and program results. Our office is specifically directed in the Act to exercise vigorous oversight. To that end, I am establishing an Office of Small Business Lending Fund Oversight to be headed by a Special Deputy Inspector General.

Page 5

SBLF Under SBLF, Treasury will make capital investments in eligible financial institutions (e.g., banks with total assets of $10 billion or less and not on FDIC's problem bank list) after consultation with the institution's regulator. Eligible institutions are permitted to refinance securities issued to Treasury under the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP) as long as they are current on their CPP obligations. Treasury's capital investment may be up to 5 percent of the institution's risk-weighted assets depending on the institution's size. During the first 4½ years of Treasury's investment, participating institutions initially pay dividends to Treasury of 5 percent but that rate may be reduced to as low as 1 percent based on their demonstrated increase in small business lending (after 4 ½ years, the dividend rate increases to 9 percent and Treasury's investment is expected to be repaid within 10 years although there are provisions for extending repayment beyond that time).

As of this writing, Treasury has not published specific policies and guidance for program administration. It is critically important that a strong control structure along with commensurate staffing be established on the front-end of this effort. It is also critical in setting up this program that Treasury build on its experience with CPP. For example, in a recent (October 2010) report on TARP, GAO observed that applicants that withdrew from consideration for CPP in response to a request from their regulator received no review by Treasury or other regulators. GAO recommended that if Treasury administers programs containing elements similar to those of CPP, such as SBLF, that Treasury should implement a process for monitoring all applicants that regulators recommend for withdrawal to ensure that similar applicants are treated equitably. Treasury agreed to consider the GAO recommendation, and we believe that this should be a component of the control structure that Treasury establishes for SBLF. Another key provision of the Act is that banking regulators publish guidance by the end of November 2010 regarding prudent underwriting standards that must be used for loans made by participating institutions; these standards will need to be in place so that participating institutions have a clear understanding on how the funds are to be used. Furthermore, it is important that Treasury and regulators coordinate to ensure that participating institutions comply with the terms and conditions of the investments, to include validation of increased small business lending in return for reduced dividend rates on Treasury investments.

SSBCI On October 8, 2010, Treasury announced individual SSBCI funding allocations totaling $1.46 billion for the 50 States, the District of Columbia, and the U.S. territories, intended to support new small business lending through local programs. Under the SSBCI, states may apply for federal funds for programs that partner with private lenders to extend greater credit to small businesses. SSBCI allows states to build upon existing state-level small business lending programs. If a State does not have an existing small business lending program, the state can establish one in order to access SSBCI funding. States must provide plans for utilizing their funding allocations to Treasury for review and approval and report quarterly and annually on results. Another key feature is that participating states receive their allocations in 1/3 increments. Treasury may withhold a successive increment to a State pending the results of an audit by our office.

Page 6

> The Act also details specific expectations of Treasury for program administration to include consulting with the Small Business Administration and federal banking agencies; establishing minimum national standards for approved State programs; providing technical assistance and disseminating best practices; managing, administering, and performing necessary program integrity functions; and ensuring adequate oversight of approved State programs, including oversight of the cash flows, performance, and compliance of each approved State program. As with SBLF, Treasury will be challenged to stand this program up quickly with an adequate control structure and commensurate staffing to meet these expectations and make the federal funds available to the states.

A common theme we have seen in recent years, most notably with TARP and Recovery Act programs, is that Treasury first attempts to administer new and complex programs with minimal staffing only to find that more resources need to be devoted to program administration after problems start to surface. We cannot stress enough that a similar approach be avoided with SBLF and SSBCI.

Management of Recovery Act Programs

Treasury is responsible for overseeing an estimated $150 billion of Recovery Act funding and tax relief. Treasury's oversight responsibilities include grants for specified energy property in lieu of tax credits, grants to states for low-income housing projects in lieu of tax credits, increased Community Development Financial Institutions Fund grants and tax credits, economic recovery payments to social security beneficiaries and others, and payments to U.S. territories for distribution to their citizens.

Many of these programs were new to Treasury in 2009 and involve very large dollar amounts. It is estimated that Treasury's Recovery Act payments in lieu of tax credit programs—for specified energy property and to states for low-income housing projects—will cost more than $20 billion over their lives. To date, Treasury has already awarded more than $6 billion under these programs and has yet to implement comprehensive monitoring procedures. In 2009, we reported that Treasury had dedicated only a small number of staff to award and monitor these funds. That has not changed and we continue to have concerns that the current staffing level is not commensurate with the size of these programs. Payments made to recipients under the specified energy property program alone comprise more than $5 billion of the funds awarded to date and the number of applicants continues to grow. We initiated and plan a number of audits of recipients of payments under the specified energy property program to ensure funds were properly awarded to eligible applicants for eligible properties. Our audits of these recipients, however, should not be viewed as a substitute for appropriate and comprehensive management oversight and monitoring of the program.

Page 7

Management of the Housing and Economic Recovery Act and the Emergency Economic Stabilization Act

Through several HERA and EESA programs, Treasury injected much needed capital into financial institutions and businesses.

Under HERA, Treasury continues to address the distressed financial condition of Fannie Mae and Freddie Mac which are under the conservatorship of the Federal Housing Finance Agency. In order to cover the continuing losses of the two entities and their ability to maintain a positive net worth, Treasury agreed to purchase senior preferred stock, and as of June 30, 2010, had purchased $145 billion. Treasury also purchased and is still holding $184 billion of mortgage-backed securities issued by two entities under a temporary purchase program that expired in December 2009. Through the Housing Finance Agency Initiative supporting state and local finance agencies, Treasury purchased securities in Fannie Mae and Freddie Mac backed by state and local Housing Finance Agency bonds (New Issue Bond Program) and a participation interest in the obligations of Fannie Mae and Freddie Mac (Temporary Credit and Liquidity Program). Prior to expiring in December 2009, Treasury purchased $15.3 billion of securities under the New Issue Bond Program and provided $8.3 billion under the Temporary Credit and Liquidity Program. Even with this assistance, both entities remain in a weakened financial condition and may require prolonged assistance. Dodd-Frank requires the Secretary of the Treasury to conduct a study on ending the conservatorship of Fannie Mae and Freddie Mac and minimizing the cost to taxpayers. The report on this study is to be presented to Congress no later than January 31, 2011.

TARP, established under EESA, gave Treasury the authorities necessary to bolster credit availability and address other serious problems in the domestic and world financial markets. Treasury's Office of Financial Stability administers TARP, and through several of its programs, made purchases of direct loans and equity investments in many large financial institutions and other businesses, as well as guaranteed other troubled mortgage-related and financial assets. On October 3, 2010, the authority to make new investments under the TARP program expired. Treasury will, however, continue making payments for programs which have existing contracts and commitments. TARP is expected to be less costly than first thought. Treasury has recently estimated that the total cost of TARP will be about $50 billion. As the life-cycle of TARP is maturing, Treasury's challenge in this area is morphing from standing-up and running TARP programs to winding them down. That means Treasury must now focus on managing and exiting from its current TARP investments. These investments include, but are not limited to, AIG and General Motors. In this regard, at the time of this writing, it has been reported that AIG announced a restructuring plan that will accelerate the timeline for repaying the government, and General Motors is planning an initial public offering for later this year.

EESA also established a special inspector general for TARP and imposed oversight and periodic reporting requirements on both the special inspector general and GAO.

Page 8

As conditions improve, Treasury will need to continue to work with its partners to disassemble the structure established to support recovery efforts and ensure that federal funds no longer needed for those efforts are returned in an orderly manner to the Treasury general fund.

Challenge 3: Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

Treasury faces unique challenges in carrying out its responsibilities under the Bank Secrecy Act (BSA) and USA Patriot Act to prevent and detect money laundering and terrorist financing. The Financial Crimes Enforcement Network (FinCEN) is the Treasury bureau responsible for administering BSA. However, a large number of other federal and state entities participate in efforts to ensure compliance with BSA, including the five federal banking regulators, the Internal Revenue Service, the Securities and Exchange Commission, the Department of Justice, and state regulators. Many of these entities also participate in efforts to ensure compliance with U.S. foreign sanction programs administered by Treasury's Office of Foreign Assets Control (OFAC).

Treasury must coordinate the efforts of these multiple entities. To this end, FinCEN and OFAC have entered into memoranda of understanding with many federal and state regulators in an attempt to build a consistent and effective process. In 2009, FinCEN had memoranda of understanding with 43 percent of federal and state regulators. While important to promote coordination and cooperation, it should be noted that these instruments are nonbinding and carry no penalties for violations, and their overall effectiveness has not been independently assessed. Furthermore, the USA Patriot Act has increased the types of financial institutions required to file BSA reports. In fiscal year 2009, financial institutions filed approximately 15 million BSA reports. The number is lower than 2008, which Treasury has attributed primarily due to a change in law that increased currency transaction report exemptions. FinCEN needs to work with regulators to ensure that financial institutions establish effective BSA compliance programs and file BSA reports, as required.

Adding to this risk in the current environment is that financial institutions and their regulators may have decreased their attention to BSA and OFAC program compliance as they address safety and soundness concerns during the current economic crisis. FinCEN's analysis of suspicious activity report data also found non-bank lenders and originators initiated many of the mortgages associated with suspicious activity reports filed for possible mortgage fraud. Furthermore, evidence suggests a link between mortgage fraud and money laundering. In that regard, FinCEN is considering applying anti-money laundering and suspicious activity report regulations to these non-bank institutions.

FinCEN also has a particularly difficult challenge in dealing with money services businesses (MSB). FinCEN has to balance the needs of certain consumers who depend on access to MSBs (particularly the unbanked), with potentially unfettered access to the financial system that non-transparent MSBs create for those engaged in money laundering and terrorist financing. FinCEN has been working with the IRS to ensure MSBs comply with BSA registration and report filing requirements. IRS serves as the examining agency for MSBs but does not have the resources to annually inspect all MSBs or even identify unregistered MSBs, estimated to be in the tens of

Page 9

thousands. Within this framework, FinCEN has been concerned with MSBs that use informal value transfer systems and with MSBs that issue, redeem, or sell prepaid (or stored value) cards. MSBs using informal transfers have been identified in several attempts to launder proceeds of criminal activity or finance terrorism. Similarly, prepaid cards can make it easier for some to engage in money laundering or terrorist financing. In September 2010, FinCEN notified financial institutions to be vigilant and file suspicious activity reports on MSBs that may be inappropriately using informal transfers, when they use financial institutions to store currency, clear checks, remit and receive funds, and obtain other financial services. Also this year, FinCEN proposed revising definitions and other regulations pertaining to prepaid access to close regulatory gaps.

In September 2010, to add transparency to possible illicit wire transfer use of the financial system, FinCEN proposed a regulatory requirement for certain depository institutions and MSBs to report cross-border electronic transmittals of funds (CBETF). FinCEN determined that establishing a centralized database will greatly assist law enforcement in detecting and ferreting out transnational organized crime, multinational drug cartels, terrorist financing, and international tax evasion. If implemented, ensuring financial institutions, particularly MSBs, comply with the CBETF reporting requirements, as well as managing this new database, will be a significant challenge for FinCEN.

To ensure efficient management, safeguarding, and use of BSA information, FinCEN also plans to modernize BSA information management. BSA data is currently maintained by IRS and access to the database is generally handled through an IRS system known as WebCBRS. FinCEN believes modernization will provide increased data integrity and analytical tools, and maximize value for state and federal partners. BSA Information Technology (IT) Modernization is also discussed in challenge 4.

Given the criticality of this management challenge to the Department's mission, we continue to consider anti-money laundering and combating terrorist financing programs as inherently high-risk. Mandatory work, particularly material loss reviews of failed banks and thrifts, prevented us from performing any audits in this area in Fiscal Year 2009 and in 2010 we were limited to completing audits started years earlier. With legislated changes to the financial loss threshold for performing material loss reviews, we expect to be able to increase audit coverage of anti-money laundering and terrorist financing programs in Fiscal Year 2011.

Challenge 4: Management of Capital Investments

Managing large capital investments, particularly information technology investments, is a difficult challenge for any organization, whether public or private. In prior years, we reported on a number of capital investment projects that either failed or had serious problems. This year, we identified challenges in 4 on-going investments, 2 of which were identified by the Office of Management and Budget (OMB) as high-risk projects.

Replacement telecommunications platform The Information Technology Infrastructure Telecommunications investment with an overall value of $3.7 billion was rated as poorly

Page 10

performing by the Acting Chief Information Officer (CIO) and a high-risk project by OMB. This investment includes the Treasury's replacement telecommunications platform, TNet, as a major component. Treasury was originally to have begun implementation of TNet in November 2007 but was delayed until August 2009 and is still in transition. Additionally, TNet does not currently incorporate all OMB security requirements, and many Treasury components have reported performance concerns with the network.

Treasury implementation of a common identity management system OMB also recognized Treasury's Consolidated Enterprise Identity Management system as a high-risk project. This system is a $147 million effort to implement the requirements of the Homeland Security Presidential Directive 12. This directive requires deployment of a common identity standard. This initiative was identified as being more than $40 million over budget and significantly behind schedule.

Data Center Consolidation OMB initiated the Federal Data Center Consolidation Initiative to consolidate the number of federal data centers. Treasury has over 60 data centers around the country. Treasury is currently in the planning phase of a significant effort to reduce the number of data centers by 2015. This effort would require restructuring of Treasury's IT infrastructure over a relatively short time. Relocating and consolidating data centers is a major investment that requires careful planning to address security concerns, disaster recovery, and infrastructure support.

FinCEN's BSA IT Modernization As discussed in Challenge 3, Treasury, through FinCEN, is undertaking a major project known as BSA IT Modernization. Already underway, the project is expected to cost about $120 million. This project requires coordination between FinCEN and IRS, which has historically maintained the BSA database, and effective oversight by the Treasury Office of the CIO. A prior attempt, from 2004 to 2006, to develop a new BSA system ended in failure with over $17 million wasted because of shortcomings in project planning, management, and oversight.

Treasury's decentralized management of IT investments presents a significant hurdle to the successful implementation of major department-wide and government-wide initiatives. Large initiatives are often tasked to individual bureaus for overall management with some direction provided by the Treasury Office of the CIO. Coordination issues between bureaus can delay and disrupt implementation of department-wide policies and systems or prevent necessary changes from proceeding. Accordingly, Treasury should exercise continuous vigilance in managing the investments described above and others due to previously reported problems with large capital investments, and billons of procurement dollars at risk.

We would be pleased to discuss our views on these management and performance challenges in more detail.

cc: Daniel Tangherlini
Assistant Secretary for Management, Chief Financial Officer, and
Chief Performance Officer

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 15, 2010

MEMORANDUM FOR ERIC M. THORSON
INSPECTOR GENERAL

FROM: Timothy F. Geithner

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury

I am responding to your October 22, 2010, memorandum describing the most serious management and performance challenges facing the Department of the Treasury. This memorandum provides information on the actions completed in fiscal year (FY) 2010 and the actions planned for FY 2011 to address these challenges.

Treasury has established effective control structures to monitor the implementation of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank Act) and the *Small Business Jobs Act of 2010*, to ensure the Acts achieve their intended purposes, as well as provide unprecedented accountability and transparency. The Department is committed to staying vigilant about the risks associated with all of our programs and to adjust our strategies based on changing circumstances to achieve financial stability, economic security, and protection of the taxpayer. We look forward to working with you to further address these challenges.

Challenge 1 – Transformation of Financial Regulation

On July 21, 2010, the President signed into law the historic Dodd-Frank Act. The comprehensive financial regulatory reforms enacted under the Dodd-Frank Act include new requirements for enhanced prudential supervision of financial firms that could threaten financial stability; the creation of a Financial Stability Oversight Council (FSOC) to monitor emerging threats to the stability of the financial system; the establishment of a new Consumer Financial Protection Bureau (CFPB) to protect consumers against unfair, deceptive, or abusive financial practices and ensure consumers have the information they need to choose financial products that best meet their needs. The Act also includes reforms that bring transparency and regulation to the over-the-counter derivatives markets for the first time; and the creation of a resolution regime for large, highly interconnected financial firms to allow these firms to fail while protecting taxpayers and the economy. These reforms will help guard against many of the gaps, lapses, and inconsistencies in supervision of financial firms that clearly contributed to the recent financial crisis. More broadly, these reforms will help set a new foundation for a pro-investment and pro-growth financial system.

In implementing the Dodd-Frank Act, Treasury is working hard to ensure that the new rules provide necessary protections against financial excess while preserving the benefits of financial innovation. To that end, Treasury has adopted the following guiding principles for implementation:

- Reforms are implemented as quickly as possible to provide clarity to the public and the markets, recognizing that implementation will be complex in some cases

Page 2

- Full transparency and disclosure are provided in the implementation process through publication of draft rules, available opportunities for public comment, and consultation with a broad range of groups and individuals
- Regulations are streamlined and simplified where possible to minimize duplication and eliminate rules that do not work
- Implementation is coordinated with other federal agencies to ensure new rules across government work together, not against, each other
- Every effort is made to create a more level playing field, both between banks and non-banks in the U.S., as well as between major financial institutions globally
- Freedom of innovation is protected to ensure economic growth

Treasury has been working to implement the reforms of the Dodd-Frank Act since enactment. Immediately after passage, Treasury put in place a governance structure to oversee the Department's implementation of the reforms. Generally, Treasury developed implementation teams dedicated to each of its core responsibilities, such as helping to establish the FSOC, laying the groundwork for the Office of Financial Research (OFR), launching the CFPB, and creating a Federal Insurance Office (FIO). These teams update a steering committee of senior Treasury officials who meet daily to consider options, make decisions, move implementation forward, and, where appropriate, make recommendations.

Consumer Financial Protection Bureau

Title X of the Dodd-Frank Act establishes the CFPB within the Federal Reserve System to protect consumers against unfair, deceptive, or abusive financial practices and ensure consumers have the information necessary to choose consumer financial products and services that best meet their needs. The Dodd-Frank Act consolidates core authorities currently fragmented across seven federal agencies into a single, dedicated, and independent federal consumer protection watchdog. The CFPB will implement rules for consumer financial products and services and develop supervision programs to regularly examine the most critical bank and nonbank financial services providers. In addition, the CFPB will develop programs to promote greater financial literacy and establish a nationwide consumer complaint response unit, which will include a dedicated website and hotline for receiving consumer complaints about financial services.

Under the Dodd-Frank Act, the Department is responsible for standing up the new agency until the first CFPB Director is confirmed by the Senate. The Department has designated July 21, 2011, as the "designated transfer date," which is the date on which the CFPB will assume existing authorities of seven federal agencies. Treasury has made substantial progress preparing the CFPB to incorporate staff and assume authorities from those agencies.

Financial Stability Oversight Council

On October 1, 2010, the FSOC held its first meeting at which it took a number of important steps to fulfill its mandate under the Dodd-Frank Act. As established under the Act, the FSOC will provide, for the first time,

Page 3

comprehensive monitoring to ensure the stability of our nation's financial system. The FSOC is charged with identifying threats to the financial stability of the U.S., promoting market discipline, and responding to emerging risks to the stability of the U.S. financial system.

At its inaugural meeting, in addition to adopting organizational documents, the FSOC approved resolutions to seek public comment on the criteria for designating nonbank financial companies for heightened supervision, as well as to inform recommendations the FSOC will make on how to implement statutory restrictions on banking institutions' proprietary trading and investments in private funds (the "Volcker Rule"). In addition, the FSOC must also study and make recommendations for implementing the concentration limit, the macroeconomic effects of risk retention requirements, and the economic implications of financial regulation. Work on those studies is underway.

Office of Financial Research

The OFR is housed within the Treasury Department and will ultimately support the FSOC and its member agencies by providing them with better financial data, information, and analysis so policymakers and market participants have a more complete understanding of risk in the financial system. The OFR will be headed by a director nominated by the President and confirmed by the Senate. A Treasury staff team has begun to plan the OFR's functions and gather input from regulators and private stakeholders.

In FY 2011, Treasury will conduct a census of existing data standardization initiatives and existing sources of reference data. Once completed, the OFR team will move quickly to draw up detailed plans for OFR to facilitate and advance these initiatives without duplication or unnecessary burden. Treasury is also developing an organizational structure, hiring procedures and pay structures, information technology, and other requirements.

Federal Insurance Office

The Dodd-Frank Act established the FIO to monitor important domestic and international insurance matters and coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters. As part of the Department, FIO will monitor all aspects of the insurance industry, including identifying issues and gaps in the regulation of insurance that could contribute to a systemic crisis in the insurance industry or within the broader U.S. financial system. The FIO will also use its authority to negotiate, together with the U.S. Trade Representative, international insurance agreements on prudential measures. The FIO director will serve on the FSOC as a nonvoting member in an advisory capacity.

Treasury officials and staff are engaging frequently with interested parties and developing a framework within which FIO and the states, which would remain as the functional regulators, can work together. In FY 2011, Treasury will stand up the office, appoint a director, and hire key staff. Treasury will also begin to engage with representatives of other countries on insurance prudential issues as well as working closely with the U.S. Trade Representative.

Transfer and Abolishment of OTS
The Dodd-Frank Act abolishes the Office of Thrift Supervision (OTS), transferring its duties to the Office of the Comptroller of the Currency (OCC), Federal Reserve, and Federal Deposit Insurance Corporation. These reforms streamline the regulatory system and reduce potential for regulatory arbitrage. OCC's and OTS's current on-site supervisory assessments, which focus on the quality of credit risk management practices (including effective credit risk rating systems and problem loan identification), adequacy of loan-loss reserves, and effective loan work-out strategies, will continue in the new regulatory structure to prevent a repeat of the current crisis. In addition, in the new regulatory structure, OCC will continue to perform individual bank examinations on a variety of other activities aimed at identifying and responding to systemic trends and emerging risks that could adversely affect asset quality or the availability of credit at national banks and the banking system, and fair access to financial services. In FY 2011, Treasury will work closely with the OCC, OTS, and other federal financial regulatory agencies to implement the Dodd-Frank Act reforms and to monitor and respond to any residual threats to a robust economic recovery of the U.S. financial system.

Challenge 2 – Management of Treasury's Authorities Intended to Support and Improve the Economy

Small Business Lending Fund
Treasury's Office of Financial Institutions is working expeditiously to finalize and promulgate policy guidance for the Small Business Lending Fund (SBLF). More specifically, Treasury's stand-up team has drafted term sheets and applications, which soon will be posted to a newly created Treasury website for the SBLF. Additionally, Treasury is working with the federal banking agencies (FBAs) to come to agreement on a process for the intake and review of applications and lending plans (which are required pursuant to the *Small Business Jobs Act of 2010*). Once Treasury and the FBAs have agreed on the process, Treasury will post the term sheets and applications publicly.

As the Treasury team works to stand up the SBLF, careful consideration is being given to suggestions from the Government Accountability Office (GAO) and other oversight bodies.

State Small Business Credit Initiative
Treasury is also implementing the State Small Business Credit Initiative (SSBCI). Staffing and hiring are integral components of this process. Accordingly, Treasury has formulated a detailed hiring plan with full-time equivalent estimates, as well as the functional competencies that will be needed to support this initiative, including legal, analytical, and programmatic oversight support. Treasury is in the process of posting position descriptions for new hires and will likely engage contract support in the near term while hiring continues. This will provide the SSBCI with an adequate control structure and sufficient staff to meet the needs of the program.

Management of Recovery Act Programs
The Department of the Treasury played a pivotal role in implementing the *American Recovery and Reinvestment Act of 2009* (Recovery Act). By providing targeted investments and implementing tax provisions to benefit both

Page 5

businesses and individuals, the Department continued to stimulate the U.S. economy, create and sustain jobs, and build the foundation for long-term economic growth. Of the $787 billion provided by the Recovery Act, Treasury is managing programs that will contribute nearly $300 billion in benefits to the American people through 2019. These programs, once implemented, will have a significant, positive impact on the lives of millions of Americans.

Treasury's Recovery Act programs include investments in renewable energy and low income housing, local and state government support, and the implementation of approximately 60 tax incentives for households and businesses. The tax incentive programs include the Making Work Pay Credit, which by the end of calendar year 2010, will provide an estimated $49 billion in refundable tax credits to working individuals and married taxpayers filing joint returns; and Build America Bonds, which in FY 2010 provided over $107 billion in financing to state and local governments throughout the country to help finance schools, utilities, public safety programs, and transportation.

Treasury has managed the low income housing and specified energy property programs by supplementing a small, core staff in the Departmental Offices with support from Treasury bureaus, including IRS. For the energy program, Treasury entered into an interagency agreement with the Department of Energy to assist with the technical aspects of that program. As a result, Treasury successfully implemented both of these programs in five months and has made awards to date in excess of $10 billion.

In FY 2010, the Department implemented compliance monitoring programs for both the low-income housing and specified energy property programs. For the housing program, Treasury staff conducted reviews of state housing agencies, either by conducting in-person site visits or desk reviews. These reviews will continue in FY 2011. For the energy program, Treasury implemented an annual reporting process through an automated system, which provides information and supporting documentation necessary for Treasury to evaluate compliance with the program's terms and conditions. This process will be ongoing throughout the program's five year compliance period. Additionally, the IRS has plans to initiate a compliance initiative project relative to the energy property program in FY 2011. This project is being designed to ensure that recipients do not also claim a tax credit with respect to the same property and that recipients have properly stated their basis. Further, Treasury has and will continue to inform IRS of particular areas of concern related to energy property compliance for their consideration as IRS designs the project.

Treasury expanded the Recovery Act implementation team in FY 2010 with the addition of two senior managers. The Recovery Act team facilitates all Recovery Act implementation efforts department-wide and interfaces with the broader Recovery Act community. As part of this broad responsibility, the Team establishes internal processes, addresses external data requirements, manages risk inherent in Recovery Act implementation, and coordinates Treasury Recovery Act audits.

Management of the Housing and Economic Recovery Act and the Emergency Economic Stabilization Act
Treasury used the authority provided by the *Emergency Economic Stabilization Act* (EESA) to implement the Troubled Asset Relief Program (TARP) and strengthen the U.S. financial system, restore credit markets for

businesses and consumers, and address foreclosures in the housing market. During FY 2010, as the financial system stabilized and the Department began to wind down its activities, Treasury closed five programs to new investments: the CPP, the Targeted Investment Program, the Asset Guarantee Program, the Term Asset-Backed Securities Loan Facility (part of the Consumer and Business Lending Initiative), and the Public-Private Investment Program. In FY 2010, Treasury implemented two new programs: the Small Business Administration (SBA) 7a Purchases Program and the Community Development Capital Initiative, both part of the Consumer and Business Lending Initiative.

Treasury also introduced several initiatives in FY 2010, which together comprise the Treasury Housing Programs under TARP. These include the Hardest-Hit Fund, the Federal Housing Administration (FHA) Refinance Program, and subprograms under the Home Affordable Mortgage Program (HAMP). Subprograms under HAMP, the first lien loan modification program, include the Principal Reduction Alternative Waterfall Program, the Unemployment Program, and the Home Affordable Foreclosure Alternatives Program, as well as programs under the Making Home Affordable Program including the FHA-HAMP Program, the Second Lien Program, the FHA-Refinance Program, and the U.S. Department of Agriculture-HAMP Program. As additional focus turns to winding down the TARP investments, other dispositions will occur in FY 2011, including the possible conversion of Capital Purchase Senior Preferred loans to those offered through the SBLF.

As of September 30, 2010, $475 billion of EESA had been designated for particular TARP programs. Of that amount, over $474 billion had been obligated to specific institutions under signed agreements, over $387 billion of those funds had been disbursed, and $204 billion of TARP investments were repaid with income received on TARP investments totaling over $28 billion.

Treasury Departmental Offices played a critical role in contributing to a well-functioning Office of Financial Stability (OFS), which oversees all EESA investments. Since its inception, OFS has aggressively implemented the programs listed above and has grown into an organization of 215 full-time employees. For each program, OFS designed, planned, and implemented sound controls and oversight. The Assistant Secretary for Management has provided support services such as accounting, information technology, administration, and human resources on a reimbursable basis. OFS has prepared separate financial statements on its programs for which GAO gave an unqualified opinion. GAO also provided an unqualified opinion on OFS's internal controls and identified no material weaknesses.

Under the additional purchase authorities granted by the *Housing and Economic Recovery Act of 2008*, Treasury's Office of Debt Management purchased mortgage-backed securities (MBS) guaranteed by Fannie Mae and Freddie Mac from September 2008, until the authority's expiration on December 31, 2009. Treasury purchased over $220 billion face value of agency MBS through two expert asset managers, Barclays Global Investors (now Blackrock) and State Street Global Advisors. Through August 2010, Treasury received $69.8 billion in principal and interest payments with $164 billion of unpaid principal balance remaining. For increased transparency, the Department publishes aggregate information on its holdings of agency MBS monthly on FinancialStability.gov.

Page 7

Challenge 3 - Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

The Department faces unique challenges in carrying out its responsibilities under the *Bank Secrecy Act* (BSA) and the *USA PATRIOT Act* to prevent and detect money laundering and terrorist financing. The Financial Crimes Enforcement Network (FinCEN) has overall authority for BSA enforcement and compliance, and delegates examination authority to the Internal Revenue Service (IRS), OCC, OTS, and other federal banking agencies. The following paragraphs highlight actions taken by FinCEN, IRS, OCC, and OTS, in coordination with other federal and state authorities, in FY 2010, and actions planned in FY 2011 related to this challenge.

In the last several years, FinCEN has focused on effective and efficient administration, outreach, and engagement of existing industries covered by the BSA. However, new payment systems and industries vulnerable to money laundering continually evolve, such as prepaid access products, non-bank mortgage lenders and originators, and hedge funds. In FY 2011 and beyond, FinCEN will expand BSA regulations to new industry sectors, consistent with the Administration's priorities. Increasingly, FinCEN's regulations focus on risks involving transactions and institutions for which there is no federal regulator or, in some cases not even a state regulator, and for which any existing regulators or delegated supervisory functions will require significant guidance and support from FinCEN.

In FY 2009, FinCEN published a proposal simplifying the organizational structure of BSA requirements, and expects to implement it fully in FY 2011. FinCEN worked with the IRS and state regulators to develop a Money Services Business (MSB) examination manual. FinCEN initially released the manual in FY 2009, and translated it into Spanish in FY 2010. FinCEN facilitated the development of training materials on this manual, and fostered training for IRS and state examiners in FY 2010. Additionally, FinCEN issued an assessment in FY 2010 showing that regulatory changes in FY 2009 simplifying the appropriate exemption of customers from currency transaction reporting requirements resulted in higher value for law enforcement and efficiency for financial institutions. FinCEN also continued to promote electronic filing of BSA reports in FY 2010, issuing a brochure highlighting the benefits of e-filing and initiating a phased outreach approach to financial institutions that continue to file BSA reports on paper that has met with positive industry response.

To enhance the efficiency and effectiveness of the BSA regulatory framework, FinCEN also issued final rules in FY 2010 to accomplish the following:

- Expand the successful "314(a) program" to certain foreign law enforcement agencies, U.S. state and local law enforcement agencies, and certain other components within the Department of the Treasury
- Move to streamline mutual fund BSA requirements by allowing mutual funds to file currency transaction reports

FinCEN, in close cooperation with law enforcement and regulatory authorities, developed and issued a proposed rule in FY 2010 that proposes to establish a more comprehensive regulatory framework for non-bank prepaid access. The proposed rule focuses on prepaid programs that pose the greatest potential risks of money laundering and terrorist financing. Also in FY 2010, FinCEN issued a proposed rule that would require certain depository institutions and MSBs to affirmatively provide records to FinCEN of certain cross-border electronic transmittals of funds (CBEFT). FinCEN issued this proposal to meet the requirements of the *Intelligence Reform and Terrorism Prevention Act of 2004*. In addition, FinCEN reviewed comments received on a wide range of questions pertaining to the possible application of anti-money laundering (AML) program and suspicious activity reporting rules to non-bank residential mortgage lenders and originators in response to an Advance Notice of Proposed Rulemaking. In FY 2011, FinCEN will continue working toward finalizing these proposals, as well as proposed and/or final regulations related to:

- Clarifying the confidentiality of suspicious activity reports (SARs) and accompanying guidance to financial institutions on sharing SAR information within their organizational structure
- Clarifying foreign bank account reporting requirements
- Implementing regulations related to due diligence in correspondent banking pursuant to the *Comprehensive Iran Sanction, Accountability, and Divestment Act of 2010*

Outreach plays an important role in effectively administering the BSA. The Bank Secrecy Act Advisory Group (BSAAG) serves as the principal forum to discuss BSA issues among regulators, law enforcement, and industry. OCC, OTS, and other federal banking agencies actively participate on various BSAAG subcommittees. In FY 2010, FinCEN continued outreach to specific financial institutions, visiting several small depository institutions and insurance companies, and plans to conduct further outreach to additional industry segments in FY 2011.

Active engagement with other regulators is also critical to meeting this challenge. By the end of FY 2010, FinCEN had established 59 memoranda of understanding (MOU) with federal and state regulators to enhance the sharing of information derived from compliance examinations. FinCEN shared analytic reports in the form of BSA data profiles with these federal and state regulators, and surveyed its MOU partners to determine the impact of the information exchanged. Eighty-six percent of respondents indicated the information shared with them was valuable. As these MOUs mature, the information exchanged will help FinCEN improve BSA examination consistency and compliance. In FY 2011, FinCEN will pursue MOUs with additional state regulators, focusing specifically on state insurance regulators.

To enhance regulated financial industry understanding of and compliance with BSA requirements, in FY 2010, FinCEN, with input from OCC, OTS and other agencies, published a range of financial institution advisories and regulatory guidance, including an advisory for financial institutions on key terms to use when filing SARs regarding loan modification and foreclosure rescue scams, an updated advisory on informal value transfer systems, a distillation of existing guidance on obtaining and retaining beneficial ownership information, guidance to casinos on compliance program risk indicators, and advisories to financial institutions on several international issues including statements from the Financial Action Task Force and changes to Mexican currency regulations. In FY 2010, OCC and OTS collaborated with FinCEN and other federal banking agencies to issue guidance on the impact of new, more transparent messaging standards being adopted by industry via measures undertaken by the Society for Worldwide Interbank Financial Telecommunication. In FY 2011, FinCEN, OCC and OTS will

Page 9

continue to work with other federal banking agencies to issue guidance to institutions as needed and additional financial institution advisories as risks emerge.

In FY 2010, FinCEN conducted strategic analytical studies and published reports promoting greater awareness of emerging money laundering trends and vulnerabilities. Those analytic products included an assessment of suspicious activity reporting by insurance companies and casinos/card clubs, and several reports analyzing SARs related to mortgage loan and loan modification fraud. In FY 2011, FinCEN will continue to publish analytic products, which assess trends and patterns in mortgage fraud. Other analytic studies planned for FY 2011 include strategic assessments of suspicious activities which involve title and escrow companies, prepaid access devices, remote deposit capture, debt settlement and debt relief fraud, commercial real estate fraud, and identify theft.

A primary strategy for meeting the goal of a safer, more transparent financial system includes effective examination for any potential money laundering, terrorist financing, and BSA issues in supervised institutions. OCC and OTS continue to examine compliance with BSA, *USA PATRIOT Act*, and other AML provisions through a process which consists of on-site examinations conducted every 12-18 months, supplemented by off-site monitoring and follow-up to address identified supervisory issues. Additionally, in FY 2010 FinCEN and the IRS finalized a referral process to implement a more effective BSA examination regime for non-bank financial institutions that the IRS examines. Implementation of this process is part of a broader strategy implemented in FY 2010 to better enable FinCEN to develop cases and pursue enforcement actions based, in part, on its own analytical efforts and information from law enforcement. FinCEN will build upon current initiatives through FY 2011; work will include coordinating with the IRS to develop stronger relationships with state regulatory agencies, particularly with regard to non-bank financial institution examinations.

Throughout FY 2010, FinCEN, OCC, and OTS continued to work with the Federal Financial Institution Examination Council (FFIEC) agencies to ensure examination consistency, and to provide guidance and training to financial institutions and examiners regarding AML and BSA requirements. This collaboration helps achieve a consistent examination approach that is risk focused and provides uniform guidance to financial institutions on regulatory expectations. In April 2010, OCC, OTS, and the other federal banking agencies, in consultation with FinCEN, issued an updated FFIEC BSA/AML Examination Manual. The 2010 version was the fourth revision of the manual. OCC and OTS joined the other federal banking agencies in a webinar hosted by the American Bankers Association to provide an overview of significant revisions to the manual for the banking industry. In August 2010, the FFIEC, with participation from OCC, OTS and FinCEN, continued to enhance advanced BSA/AML training for banking examiners through the fourth FFIEC Advanced BSA/AML Specialists Conference in August 2010. Also, in FY 2010, the FFIEC agencies, in consultation with FinCEN, completed the development of a software application used by examiners to analyze BSA data for purposes of improving the scoping of BSA examinations.

Ensuring financial institutions comply with the BSA, AML, *USA PATRIOT Act*, and related regulations is critical to protecting the integrity of the U.S. financial system and combating money laundering and terrorist financing. In FY 2010, FinCEN, OCC, OTS, and IRS worked collectively and with other federal banking agencies to

Page 10

review examination results and take enforcement actions, as appropriate, against institutions that egregiously violated regulatory requirements. In March 2010, FinCEN and OCC, in conjunction with the Department of Justice, reached settlement on the largest civil penalty action to date under the BSA. These bureaus and agencies will continue to work together in FY 2011 to ensure financial institutions comply with AML and BSA requirements and protect the integrity of the financial system.

Challenge 4 - Management of Capital Investments

The Department takes its investment management role very seriously and remains committed to improving the management of information technology (IT). In support of this commitment, the Office of the Chief Information Officer (OCIO) is actively engaged in the following activities:

Infrastructure Optimization/Data Center Consolidation and Shared Services

In August 2010, the Department submitted its strategy for reducing the number of Treasury data centers to the Office of Management and Budget (OMB). In support of this strategy, the Treasury CIO Council approved proposals of specific initiatives to consolidate and optimize the Department's data centers. Data center consolidation efforts will focus on coordinating planning among those bureaus (e.g., Bureau of the Public Debt, Financial Management Service, OCC, OTS, and IRS) that have begun to work together to consolidate their operations. The Department expects to increase the efficiency of its data centers in support of energy reduction and release of real property. Enterprise Content Management will be a key shared service that will foster collaboration across the Department for a variety of administrative activities such as records management and correspondence tracking. In FY 2011, the Department will continue to focus on data center consolidation and shared services as key strategies to better manage costs of IT investments.

Monthly Evaluation of IT Investments

The Treasury OCIO continues to evaluate, on a monthly basis, the degree to which major IT investments achieve cost control, schedule, and other performance goals. The OCIO inputs and monitors progress made on these goals via an OMB website. The public transparency and the increased frequency of assessments have resulted in increased executive attention to IT investment management, which in turn results in more consistent management of the Treasury IT budget.

Taking advantage of the potential cost savings and/or cost avoidance from these efforts is not only good management, but is necessary if the Department is to effectively field the new capabilities required to support the Department's expanding financial and economic missions.

INSPECTOR GENERAL
FOR TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20005

October 15, 2010

MEMORANDUM FOR SECRETARY GEITHNER

FROM: J. Russell George *J. Russell George*
Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2011

The *Reports Consolidation Act of 2000*[1] requires that the Treasury Inspector General for Tax Administration (TIGTA) summarize, for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2010,* its perspective on the most serious management and performance challenges confronting the Internal Revenue Service (IRS). The issues described in this document are derived from a variety of activities conducted and reviewed by TIGTA. In addition to external factors, such as those that will be discussed that relate to recent attacks and threats to the IRS, each year TIGTA strategically evaluates IRS programs, activities, and functions to identify the areas of highest vulnerability to the Nation's tax system. For Fiscal Year 2011, the top 10 challenges in order of priority are:

1. Security;
2. Modernization;
3. Tax Compliance Initiatives;
4. Implementing Health Care and Other Tax Law Changes;
5. Providing Quality Taxpayer Service Operations;
6. Human Capital;
7. Erroneous and Improper Payments and Credits;
8. Globalization;
9. Taxpayer Protection and Rights; and
10. Leveraging Data to Improve Program Effectiveness and Reduce Costs.

While TIGTA's assessment of the major IRS management challenge areas for Fiscal Year 2011 has remained relatively unchanged from the prior fiscal year, one significant change did occur. Due to recent events at IRS facilities and the potentially expanding role of the IRS, Security has replaced Modernization as the top challenge facing the IRS. Notwithstanding this change, Modernization remains a major challenge for the IRS. For Fiscal Year 2011, we have also expanded the Implementing Tax Law

[1] 31 U.S.C. Section 3516(d).

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Two

Changes challenge to include the tax-related health care provisions of the *Patient Protection and Affordable Care Act*.[2]

Although not listed, complexity of the tax law remains a serious, underlying issue that has wide-ranging implications for both the IRS and taxpayers. This complexity, including frequent revisions to the Internal Revenue Code, makes it increasingly difficult for the IRS to explain and enforce the tax laws and more costly and time consuming for taxpayers who want to comply. As elected officials continue to effect broad policy changes using the Internal Revenue Code, the IRS will continue to face the challenge of responding quickly by shifting resources and altering established plans.

The following is a discussion of each of the most serious management and performance challenges facing the IRS during Fiscal Year 2011.

SECURITY

In addition to safeguarding a vast amount of sensitive financial and personal data, the IRS must also protect approximately 100,000 employees and more than 700 facilities throughout the country. Attacks and threats against IRS employees and facilities have risen steadily in recent years. The February 2010 attack on an IRS facility in Austin, Texas, is a stark reminder of the dangers that IRS employees face every day in trying to perform their jobs. Animosity towards the tax collection process is nothing new, but the Austin incident and other recent events point to a surge of hostility towards the Federal Government. According to the Anti-Defamation League, the militia movement has almost quadrupled in size in the past two years, growing to more than 200 groups across the country.[3] The Southern Poverty Law Center has reported that anti-government and hate groups have grown from 149 groups in 2008 to 512 groups in 2009, a 244 percent increase.[4] The ongoing public debate regarding the recently enacted health care legislation may also lead to increased threats against IRS employees and facilities, underscoring the need for continuing vigilance in the area of physical security.

As a result of these and other threats, the IRS is developing the Threat Information and Critical Incident Response Center (TIRC), which will be supported by TIGTA and other law enforcement agencies. The TIRC will encourage effective review and dissemination of threat information to IRS stakeholders in support of the critical employee-safety mission, an unprecedented effort to marshal resources and potentially lifesaving information in real time. The TIRC will also serve as a focal point for the timely and efficient sharing of threat information, including cyber- and Internet-based threats, to maximize the IRS's ability to engage in appropriate threat mitigation.

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[2] Pub. L. 111-148, 124 Stat. 119 (2010), as amended by the Health Care and Education Reconciliation Act of 2010 (Pub. L. 111-152, 124 Stat. 1029).

[3] Anti-Defamation League, *The Militia Movement in 2010: A Snapshot*, http://www.adl.org/main_Extremism/Hutaree_Militia_Facts.htm?Multi_page_sections=sHeading_2 (posted March 29, 2010).

[4] Mark Potok, *Rage on the Right: The Year in Hate and Extremism*, Southern Poverty Law Center Intelligence Report, Spring 2010.

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Three

Concurrent with the IRS's monitoring of threats against its employees and facilities, the IRS must also remain vigilant with regard to computer security, particularly as it relates to safeguarding the privacy of confidential taxpayer information. As computer usage continues to be inextricably integrated into core business processes, the need for effective information system security becomes essential to ensure the confidentiality, integrity, and availability of data. The IRS relies extensively on its computer systems to carry out the demanding responsibilities of administering the Nation's tax laws, including processing Federal tax returns and collecting Federal taxes. IRS computer systems process hundreds of millions of tax returns and contain confidential tax information for over 100 million taxpayers. From a security standpoint, the IRS is responsible for maintaining effective information security controls to protect confidential taxpayer information from inadvertent or deliberate misuse, improper disclosure, or destruction.

The IRS is specifically required by Federal law to keep taxpayer data confidential and prevent unauthorized disclosure or browsing of taxpayer records.[5] Each tax return contains Personally Identifiable Information, such as the filer's name, address, Social Security Number, and other personal information. Because of the volume and type of data it maintains, the IRS is an attractive target for criminals with the intent to commit identity theft by stealing and using someone's personal information for their own financial gain. In February 2010, the Federal Trade Commission reported that, for the 10th year in a row, identity theft was the number one consumer complaint nationwide.[6]

From a law enforcement perspective, the migration of Federal tax administration operations into the Internet and electronic environment increases internal and external vulnerabilities that can be exploited by criminals. For example, we have seen attacks on the integrity of the system launched from around the world, and we have also seen the amount of exposure and damage that can be done by a single individual employee whether intentional or accidental.[7] Hackers and foreign governments increasingly attempt sophisticated intrusions into computer networks. If an intrusion is successful, it could result in substantial economic disruption.

The *Federal Information Security Management Act* (FISMA)[8] requires each Federal Government agency to report annually to the Office of Management and Budget and to the Congress on the effectiveness of its security programs and to perform an annual independent evaluation of its information security program and practices. The IRS has made steady progress in complying with FISMA requirements since the law's enactment in 2002 and continues to place a high priority on efforts to improve its security program. However, the IRS still needs to take additional actions in the areas of certification and accreditation and configuration management to better secure its systems and data.

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[5] 26 U.S.C. Sections 6103, 7213, 7213A, 7431 (2006).
[6] *Consumer Sentinel Network Data Book for January – December 2009*, Federal Trade Commission, dated February 2010.
[7] Recently, in a case worked jointly with the IRS Criminal Investigation Division, individuals were arrested for their participation in an online international phishing scheme to steal income tax refunds intended for U.S. taxpayers. After taxpayers uploaded their tax information seeking refunds for Federal and State taxes, co-conspirators in Belarus collected the data and altered the returns so that legitimate tax refund payments would be redirected to U.S. bank accounts under their control.

[8] 107 Pub. L. 347, 116 Stat. 2899 (2002), codified as amended in 44 U.S.C. Sections 3541 – 3549.

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Four

Additionally, we have reported that the IRS prematurely closed the security roles and responsibilities component of its computer-security material weakness.[9] As a result, the IRS cannot ensure all IRS and contract employees will carry out their responsibilities to protect the confidentiality, integrity and availability of taxpayer data

MODERNIZATION

The Business Systems Modernization Program (Modernization Program or Program) is a complex effort to modernize IRS technology and related business processes. It involves integrating thousands of hardware and software components while replacing outdated technology and maintaining the current tax system. The IRS originally estimated that the Modernization Program would last up to 15 years and incur contractor costs of approximately $8 billion. The Program is now in its 12th year and has received approximately $3.24 billion for contractor services, plus an additional $474 million for internal IRS costs.[10] These amounts represent increases of approximately $540 million (20 percent) in contractor services and approximately $121 million (34 percent) in internal IRS costs from Fiscal Year 2009. The total amount for contractor services and for internal IRS costs increased by approximately $661 million (22 percent) from Fiscal Year 2009.

Factors that characterize the IRS's complex information technology environment include widely varying inputs from taxpayers (from simple concise records to complex voluminous documents), seasonal processing with extreme variations in processing loads, transaction rates on the order of billions per year, and data storage measured in trillions of bytes. The Modernization Program is working toward providing improved benefits to taxpayers that include:

- Issuing refunds, on average, five days faster than existing legacy systems;
- Offering electronic filing capability for large corporations and small businesses, tax-exempt organizations, and partnerships, with dramatically reduced processing error rates;
- Delivering web-based services for tax practitioners, taxpayers, and IRS employees; and
- Providing IRS customer service representatives with faster and improved access to taxpayer account data with real-time data entry, validation, and updates of taxpayer addresses.

The Modernization Program has continued to help improve IRS operations and is refocusing its efforts to improve business practices with new information technology solutions. However, project development activities have not always effectively implemented planned processes or delivered all planned system capabilities to achieve the Program's expectations. Management of the Program's cost and schedule has

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[9] Treasury Inspector General for Tax Administration, Ref. No. 2010-20-084, *More Actions Are Needed to Correct the Security Roles and Responsibilities Portion of the Computer Security Material Weakness* (2010).
[10] Treasury Inspector General for Tax Administration, Ref. No. 2010-20-094, *Annual Assessment of the Business Systems Modernization Program* (2010).

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Five

improved since the previous year, but more attention must be paid to the development and management of Program requirements.

Further, resolution has not yet been completely achieved for security vulnerabilities affecting two significant systems. The IRS revised its Modernization Program and is currently testing a prototype[11] database concept for all taxpayer data. The new approach will require the IRS to increase its employees' information technology-related skills, tools, and operations to effectively deliver the revised program.

Since November 2001, TIGTA has reported nine assessments on annual accomplishments and activities of the Modernization Program. In developing the assessments, TIGTA formulated four primary challenges the IRS must overcome to be successful:

1. Implement planned improvements in key management processes and commit necessary resources to enable success;
2. Manage the increasing complexity and risks of the Program;
3. Maintain the continuity of strategic direction with experienced leadership; and
4. Ensure effective management of contractor performance and accountability.

Notwithstanding recent progress made by the IRS, TIGTA continues to take the position that these four challenges still need to be met to achieve program success. We are encouraged by the actions the IRS has planned and taken to refocus the Program; however, we believe the IRS should consider the overall Modernization Program a material weakness at this time.

TAX COMPLIANCE INITIATIVES

Another serious challenge confronting the IRS is tax compliance. Despite an estimated voluntary compliance rate of 84 percent and IRS enforcement efforts, a significant amount of income remains unreported and unpaid. Tax compliance initiatives include the administration of tax regulations, collection of the correct amount of tax from businesses and individuals, and the oversight of tax-exempt and government entities. Increasing voluntary taxpayer compliance and reducing the Tax Gap[12] continue to be the focus of many IRS initiatives. The IRS continues to face significant challenges in obtaining complete and timely compliance data, and in developing methods necessary to interpret the data. Even with improved data collection, however, the IRS needs broader strategies and more research to determine what actions are most effective in addressing taxpayer noncompliance. The IRS's strategy for reducing the Tax Gap is largely dependent on funding for additional compliance resources and legislative changes. In its Fiscal Year 2011 budget submission, the IRS has requested a 5.3 percent increase in enforcement funds over its Fiscal Year 2010 request.

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[11] This prototype is an approach to system development using an iterative process of discovering requirements, designing, and building a trial model, examining the results, and repeating the process until the desired solution is attained.
[12] The IRS defines the Tax Gap as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely paid for a tax year.

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Six

Businesses and Individuals

The IRS estimated the gross Tax Gap for Tax Year 2001 – the most current figures to date – to be approximately $345 billion. Underreporting of taxes, which is comprised of four major components (individual income tax, employment tax, corporate income tax and estate and excise taxes), is estimated at $285 billion and accounts for the largest portion of the Tax Gap. Overall, the underreporting of individual income tax and employment tax constitute over 70 percent of the gross Tax Gap. The misclassification of millions of employees as independent contractors is a nationwide problem that continues to grow and contribute to the Tax Gap. In a report issued in Fiscal Year 2010,[13] we determined that the IRS has opportunities to enhance compliance in its Employment Tax Program by 1) taking measures to ensure employment tax forms are not misused to avoid paying taxes, and 2) regularly sharing the results of worker classification examinations to ensure the greatest possible use of the agency's resources when addressing the underreporting Tax Gap. Our audit identified over 74,000 taxpayers who may have avoided paying approximately $26 million in Social Security and Medicare taxes.

Tax-Exempt Entities

The IRS continues to face challenges in administering programs focused on ensuring that tax-exempt organizations comply with applicable laws and regulations to qualify for tax-exempt status. Legislative changes and judicial decisions contribute to a constantly changing environment affecting today's non-profit or tax-exempt organizations. For example, the January 2010 Supreme Court decision *Citizens United v. Federal Election Commission*,[14] could lead to additional expenditures by those tax-exempt organizations that advocate the election or defeat of Federal candidates.

Since more than $15 trillion in United States assets are currently controlled by tax-exempt organizations or held in tax-exempt retirement programs and financial instruments, the IRS recognized in its most recent strategic plan that careful oversight over the non-profit and tax-exempt sector is more important than ever before. In its Fiscal Year 2011 budget submission, the IRS reemphasized the importance of maintaining a strong enforcement presence in the tax-exempt sector to ensure that charitable organizations are compliant with the Internal Revenue Code and not used for non-charitable or illegal purposes.

In a report issued in Fiscal Year 2010,[15] we determined that the IRS has taken significant actions to identify Section 527 political organizations[16] that do not timely notify the IRS of their existence or timely submit reports of their contributions and

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[13] Treasury Inspector General for Tax Administration, Ref. No. 2010-30-025, *Employment Tax Compliance Could Be Improved With Better Coordination and Information Sharing* (2010).
[14] 130 S.Ct. 876 (2010).
[15] Treasury Inspector General for Tax Administration, Ref. No. 2010-10-018, *Improvements Have Been Made, but Additional Actions Could Ensure That Section 527 Political Organizations More Fully Disclose Financial Information* (2010).
[16] Political organizations include political parties; campaign committees for candidates for Federal, State, or local office; and political action committees. 26 U.S.C. Section 527 (2006).

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Seven

expenditures. However, the IRS has not fully addressed noncompliance among political organizations. For example, one out of every four Political Organization Report of Contributions and Expenditures (IRS Form 8872) that we reviewed had incomplete or missing contributor or recipient information. While some of these filings may later be deemed acceptable, we determined the IRS is not reviewing these filings to determine if they are complete or if penalties should be assessed.

Also, the IRS is not always timely issuing notices that include all information needed by political organizations to become compliant. Lastly, the IRS is not following up on information it has requested from political organizations to verify compliance.

Tax Return Preparers

An increasing number of taxpayers are turning to tax return preparers for assistance. In Calendar Year 2009, the IRS processed approximately 83.1 million individual Federal income tax returns prepared by paid preparers. However, these preparers were not required to meet or comply with any national standards before selling tax preparation services to the public.

A series of reports strongly suggesting a need to regulate those who prepare Federal tax returns, including reviews conducted by TIGTA, the Government Accountability Office and other agencies, led the IRS to launch its Return Preparer Review in June 2009. The following December, after its own six-month study of the problem, the IRS announced a suite of proposed reforms to improve oversight of the return preparer community. The reforms proposed by the IRS include the development of requirements for registration, competency testing, continuing professional education, ethical standards, and enforcement. The new preparer requirements will take several years to implement, and will be phased in through Calendar Year 2014, at which time all preparers will be subjected to suitability and competency tests. In the meantime, the IRS plans to develop and implement a management information system to gather data on preparers and establish a database to assist taxpayers in identifying qualified preparers. Further, the IRS is planning to ensure that taxpayers understand the new requirements and the importance of using only registered preparers to prepare their tax returns.[17]

IMPLEMENTING HEALTH CARE AND OTHER TAX LAW CHANGES

Each filing season tests the IRS's ability to implement tax law changes made by the Congress. Most individual taxpayers file their income tax returns during this annual January through April period and contact the IRS with questions about specific tax laws or filing procedures. Correctly implementing late tax law changes remains a significant challenge because the IRS must often act quickly to assess the changes and determine the necessary actions to ensure all legislated requirements are satisfied. In addition, the IRS must often create new or revise existing tax forms, instructions and publications; revise internal operating procedures; and reprogram major computer systems used for processing tax returns. For example, on November 6, 2009, the

[17] Treasury Inspector General for Tax Administration, Ref. No. 2010-40-127, *It Will Take Years to Implement the Return Preparer Program and to Realize Its Impact* (2010).

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Eight

Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA)[18] was enacted. The WHBAA, among other things, extended the First-Time Homebuyer Credit to May 1, 2010. In order to implement this legislation for the 2010 Filing Season, the IRS organized an executive task group to oversee revisions to the Form 5405 (First-Time Homebuyer Credit), its related instructions, and the extensive computer programming changes necessary to process the tax returns claiming the credit. The IRS completed revisions and released the Form 5405 and Instructions on January 15, 2010. However, due to the extensive programming changes required to process tax returns claiming the credit, the IRS had to postpone processing these returns until February 15, 2010. Refunds for these returns were subsequently delayed until mid-March 2010.

The Congress frequently changes the tax laws, so some level of change has become a normal part of the IRS's operating environment. Although the IRS has generally been able to adapt and react to tax law changes, the new laws do have a major effect on how the IRS conducts its activities, determines resource requirements, and progresses toward meeting its strategic goals. While the IRS has recognized the increasing complexity of tax administration in formulating its strategic plan, it has also acknowledged the impossibility of predicting with 100 percent accuracy the timing and extent of the impact of changes in the tax laws. As such, the IRS will continue to face significant challenges in its efforts to respond quickly, accurately, and effectively to tax law changes.

Health Care

The recently enacted health care reform legislation[19] contains an extensive array of tax law changes that will be a continuing source of challenge for the IRS in the coming years. While the Department of Health and Human Services will have the lead role in the policy provisions of the *Patient Protection and Affordable Care Act*, the IRS will administer the law's numerous tax provisions. The IRS estimates that at least 42 provisions will either add to or amend the tax code and at least eight will require the IRS to build new processes that do not exist within the current tax administration system. Examples of new IRS responsibilities resulting from this law include:

- Providing tax credits to businesses and individuals to assist in covering the cost of health coverage;
- Administering the mandate for individuals to purchase health coverage or be subject to a penalty on their individual Federal tax returns; and
- Administering multiple tax provisions designed to raise revenues to offset the cost of health care reform.

[18] *Worker, Homeownership, and Business Assistance Act of 2009* (Pub. L. No. 111-92, 123 Stat. 2984 (2009).
[19] *Patient Protection and Affordable Care Act* (Pub. L. 111-148, 124 Stat. 119 (2010), as amended by the *Health Care and Education Reconciliation Act of 2010* (Pub. L. 111-152, 124 Stat. 1029).

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Nine

American Recovery and Reinvestment Act

The *American Recovery and Reinvestment Act of 2009* (Recovery Act)[20] was enacted on February 17, 2009. The Recovery Act presents significant challenges to all Federal agencies as they move to implement provisions quickly while attempting to minimize risk and meet increased standards for transparency and accountability. With its 56 tax provisions (20 related to individual taxpayers and 36 related to business taxpayers), the Recovery Act poses significant challenges to the IRS as the Nation's tax collection agency and administrator of the tax laws. These provisions will continue to challenge the IRS as it implements the required changes over multiple filing seasons.

TIGTA has issued numerous reports related to the IRS's efforts to implement Recovery Act tax provisions. Some examples include:

- In a review of the IRS's implementation of mandated Health Coverage Tax Credit provisions, we determined that the IRS executed the provisions appropriately, but some project management practices need improvement.[21]
- In a review of the IRS's controls surrounding the First-Time Homebuyer Credit, we determined that although the IRS had taken positive steps to strengthen controls, 1) weaknesses allowed fraudulent claims filed by prison inmates to be processed, 2) multiple claims for the same home were allowed, and 3) claims were allowed for homes purchased prior to the dates allowed by law.[22]
- In a review of the IRS's 2010 Filing Season, we identified inadequate controls and incomplete and inaccurate programming related to certain Recovery Act tax benefits. Although the IRS executed an aggressive outreach campaign to alleviate confusion and prevent errors with the First-Time Homebuyer and the Making Work Pay Credits, we identified over 120,000 taxpayers claiming nearly $100 million in erroneous credits.[23]
- In a review of the IRS's readiness to implement the planning, awarding and reporting of Recovery Act-funded procurements, we determined that although the IRS took proactive steps prior to the enactment of the Recovery Act, it still does not have the necessary controls in place to ensure future procurements will comply with Recovery Act requirements.[24]
- In a review of the IRS's controls to ensure that direct subsidies for Build America Bonds were accurate and timely and whether controls prevented disbursement of erroneous payments, we determined that, generally, all complete requests for

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[20] *American Recovery and Reinvestment Act of 2009* (Pub. L. No. 111-5, 123 Stat. 115).
[21] Treasury Inspector General for Tax Administration, Ref. No. 2010-21-057, *Recovery Act Provisions for the Health Coverage Tax Credit Were Implemented, but Development Processes Could Be Improved* (2010).
[22] Treasury Inspector General for Tax Administration, Ref. No. 2010-41-069, *Additional Steps Are Needed to Prevent and Recover Erroneous Claims for the First-Time Homebuyer Credit* (2010).
[23] Treasury Inspector General for Tax Administration, Ref. No. 2010-41-128, *Verifying Eligibility for Certain New Tax Benefits Was a Challenge for the 2010 Filing Season* (2010).
[24] Treasury Inspector General for Tax Administration, Ref. No. 2010-11-071, *Additional Actions Are Needed to Ensure Readiness to Comply With the American Recovery and Reinvestment Act of 2009 Procurement Requirements* (2010).

payment of the Build America Bond Federal subsidies were processed accurately, timely and without indications of fraudulent or erroneous disbursement.[25]

TIGTA continues to support the Recovery Accountability and Transparency Board (Recovery Board) in fulfilling its responsibilities for providing transparency for Recovery Act-related funds and for preventing and detecting fraud, waste and mismanagement. We also continue to evaluate the IRS's compliance with Recovery Act and Office of Management and Budget guidance. Additionally, we have evaluated multiple Recovery Board leads that contain allegations of misuse of Recovery Act funds.

Other Tax Law Changes

Implementing legislation for the 2010 Filing Season required the IRS to update many tax products and perform extensive programming in an effort to ensure that tax returns would be processed accurately. We identified 71 tax products (33 tax forms, 12 instructions, and 26 publications) requiring updates due to new legislation. Although tax law changes challenged the IRS during the 2010 Filing Season, the IRS still completed the processing of tax returns on schedule and issued taxpayer refunds within 45 calendar days of the April 15, 2010, due date. However, implementation of some new tax law provisions did cause problems resulting in increases in error inventories from taxpayer errors, payment of erroneous claims, and the inability to identify and prevent erroneous claims at the time tax returns were processed.[26]

<u>PROVIDING QUALITY TAXPAYER SERVICE OPERATIONS</u>

In July 2005, the Congress requested that the IRS develop a five-year plan, including an outline of how the IRS will improve the service it provides to taxpayers and a detailed list of which services the IRS should provide. The IRS developed the plan – the Taxpayer Assistance Blueprint – which focuses primarily on services that support the needs of taxpayers who file or should file the Form 1040 series tax returns.[27] The Blueprint includes performance measures, service improvement initiatives and an implementation strategy for improving future service investment decisions. The IRS has begun implementing the Blueprint, but much of its implementation depends on the availability of future funding.

The Department of the Treasury and the IRS recognize that the delivery of effective taxpayer service has a significant impact on voluntary tax compliance. Answering taxpayers' questions to assist them to correctly prepare their returns reduces the need to send notices and correspondence when taxpayers make errors. Taxpayer service

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[25] Treasury Inspector General for Tax Administration, Ref. No. 2010-11-083, *Initial Build America Bond Subsidy Payments Were Processed Accurately and Timely* (2010).
[26] Treasury Inspector General for Tax Administration, Ref. No. 2010-41-128, *Verifying Eligibility for Certain New Tax Benefits Was a Challenge for the 2010 Filing Season* (2010).
[27] The Form 1040 series tax returns include any IRS tax forms that begin with "1040" such as the U.S. Individual Income Tax Return (Form 1040), U.S. Individual Income Tax Return (Form 1040-A), and Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ).

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Eleven

also reduces unintentional noncompliance and shrinks the need for future collection activity. The IRS continues to focus on the importance of improving service by emphasizing it as a main goal in its strategic plan, including seeking innovative ways to simplify or eliminate processes that unnecessarily burden taxpayers or government resources.

HUMAN CAPITAL

Human capital is the Federal Government's most critical asset. At a time when the Federal Government is preparing for increased retirements and taking on such challenges as health care reform, the recruitment of new employees and retention of existing employees plays a key role in ensuring the maintenance of a quality workforce capable of meeting the needs of the American public. Like many Federal agencies, the IRS is faced with the major challenge of replacing existing talent because of a large number of retirements expected over the next several years. Of the approximately 100,000 employees, including 9,100 managers that the IRS employs, more than half have reached age 50 and can retire within 10 years. In addition, 39 percent of IRS executives are already eligible for retirement. Replacing these employees represents a significant challenge since many possess unique skills and institutional knowledge that will be difficult to replace.

The IRS has taken significant actions to improve its ability to recruit qualified candidates. These improvements have enabled the IRS to report that it is on target to meet its mission-critical occupational,[28] geographic and diversity hiring goals. However, improving recruiting activities will require long-term commitment and focus, as some improvements are still in process.

The IRS's challenge of having the right people in the right place at the right time is made more difficult by many complex internal and external factors. The work performed by IRS employees continually requires greater expertise as tax laws become more complex, manual systems used to support tax administration become computer-based, and attempts by taxpayers and tax practitioners to evade compliance with the tax laws become more sophisticated. The IRS must also compete with other government agencies and private industry for the same human resources, which becomes more complicated as younger generations of employees move between jobs more frequently than employees in the past. Furthermore, budget constraints, legislative changes and economic shifts can create unforeseen challenges for the IRS in addressing its long-term human capital issues.

ERRONEOUS AND IMPROPER PAYMENTS AND CREDITS

As defined by the *Improper Payments Information Act of 2002*,[29] an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative or other legally applicable requirements. Improper payments include any payment to an ineligible recipient, any payment for an ineligible service, any duplicate

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[28] Mission-critical occupations are those positions critical to front-line enforcement and direct support to front-line operations needed to meet the stated IRS goals.
[29] Pub. L. No. 107-300, 116 Stat. 2350.

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Twelve

payment, payments for services not received and any payment that does not account for credit for applicable discounts. The Administration has emphasized the importance of reducing improper payments. In November 2009, the President issued Executive Order 13520, which included a strategy to reduce improper payments by increasing transparency, holding agencies accountable and creating strong incentives for compliance.[30] Recently, the *Improper Payments Elimination and Recovery Act of 2010*[31] placed additional requirements on Federal agencies to reduce improper payments. Erroneous and improper payments involving the IRS generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors.

Refundable Credits

The IRS administers numerous refundable tax credits. These refundable credits allow individual taxpayers to reduce their tax liability below zero and, thus, receive a tax refund even if no income tax was withheld or paid. Two significant refundable credits are the Earned Income Tax Credit (EITC) and the Additional Child Tax Credit. The Recovery Act also authorized several new refundable credits, examples of which include the First-Time Homebuyer Credit and the Making Work Pay Credit.

The EITC remains the main refundable credit and continues to be vulnerable to a high rate of noncompliance, including incorrect or erroneous claims caused by taxpayer error and resulting from fraud. Each year a substantial number of taxpayers claim the EITC. For example, in a population of 154 million Tax Year 2007 individual income tax returns, 24.5 million returns claimed $48.5 billion in Earned Income Tax Credits. Although numerous changes have been made to the EITC qualifications to reduce the amount of fraud associated with the claims, recent estimates indicate an EITC improper payment rate between 23 percent and 28 percent, or roughly $11 billion to $13 billion each year.[32]

In a recent review of the IRS's EITC Paid Preparer Strategy,[33] we determined that the IRS has made strides in its effort to increase EITC tax return preparer compliance. However, the IRS could further improve the effectiveness of identifying high-risk EITC tax return preparers by expanding risk factors and using the computed probability score. Although the IRS developed a process that appropriately weighs the significance of risk factors used to compute a probability

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[30] Executive Order 13520, 74 Fed. Reg. 62201 (Nov. 25, 2009). TIGTA has an ongoing audit related to assessing the IRS's efforts to implement this Executive Order. We initiated this audit to comply with the requirement under the Executive Order to evaluate the IRS's methodology for quantifying, preventing and recovering Earned Income Tax Credit improper payments. This audit is included in our Fiscal Year 2011 Annual Audit Plan.
[31] Pub. L. No. 111-204, 124 Stat. 2224.
[32] http://www.paymentaccuracy.usaspending.gov/content/programs-not-reported (last visited October 14, 2010).
[33] Treasury Inspector General for Tax Administration, Ref. No. 2010-40-116, *Actions Can Be Taken to Improve the Identification of Tax Return Preparers Who Submit Improper Earned Income Tax Credit Claims* (2010).

score to identify potentially noncompliant tax return preparers, the score was not used exclusively when identifying and selecting preparers for a due diligence visit.[34]

Contract and Other Payments

Federal contract spending has more than doubled since 2002. In Fiscal Year 2008, the Federal Government spent approximately $540 billion to acquire goods and services. Similarly, contract spending by the IRS represents a significant outlay of funds. As of March 2010, the IRS administered more than 839 contracts with a value of approximately $48 billion over the life of the contracts. Numerous past TIGTA audits have identified millions of dollars in questioned costs and several instances of contractor fraud.

We recently analyzed TIGTA audit findings related to the IRS's acquisition process from audit reports that were issued from January 1999 through June 2009. We identified several findings that continued to exist throughout the 10-year period, and which, if not corrected, could affect the IRS's ability to effectively prevent erroneous and improper payments and credits. Among TIGTA's findings: 1) the IRS did not have sufficient monitoring controls or processes to ensure contractors were meeting the contract terms and conditions; 2) contractors did not provide adequate documentation to support invoice charges; and, 3) invoices included unallowable labor and travel charges.[35]

GLOBALIZATION

The scope, complexity, and magnitude of the international financial system present significant enforcement challenges for the IRS. International business holdings and investment in the United States have grown from nearly $188 billion in 1976 to over $14.5 trillion in 2007, while U.S. business and investment grew from nearly $368 billion to nearly $15 trillion over the same period. As technology continues to advance and cross-border transactions rise, the IRS is increasingly challenged by economic globalization. Technological advances have provided opportunities for offshore investments that were once only possible for large corporations and wealthy individuals.

The number of taxpayers who conduct international business transactions – individuals, businesses and tax-exempt organizations – continues to grow. The IRS is challenged by a lack of information reporting on many cross-border transactions. In addition, the varying legal requirements imposed by different jurisdictions result in complex business structures that make it difficult to determine the full scope and effect of cross-border transactions.

Over the past few years, the Federal Government has taken actions to better coordinate international tax compliance issues. The IRS has developed a strategic plan specifically for international tax issues with two major goals: 1) enforce the law to ensure all taxpayers meet their obligation to pay taxes and 2) improve service to make voluntary compliance less burdensome. The IRS has also worked with the U.S. Department of

[34] A due diligence visit is an examination to determine whether a paid preparer is in compliance with all four due diligence requirements. 26 U.S.C. Section 6695.
[35] Treasury Inspector General for Tax Administration, Ref. No. 2010-10-088, *Procurement Audit Results Indicate Problems Continue to Exist After Corrective Actions Were Implemented* (2010).

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Fourteen

Justice on tax evasion cases that involve foreign countries with bank secrecy laws that prevent the U.S. from obtaining information on taxpayer transactions. Additionally, the President's Fiscal Year 2010 budget contained several proposals to change offshore tax strategies.[36] The proposals targeted both businesses and individuals with a particular emphasis on increasing transparency. This year, the IRS announced that it would realign and rename its Large and Mid-Size Business division to create a more centralized organization dedicated to improving international tax compliance. The IRS expects that the realigned division, now referred to as the Large Business and International division, will improve international tax compliance by allowing the IRS to focus on high-risk issues and cases with greater consistency and efficiency.

As capital markets become increasingly global, U.S. investors may be able to benefit from a corresponding increase in international investment opportunities. In this environment, the Securities and Exchange Commission (SEC) believes that U.S. investors would benefit from an enhanced ability to compare financial information of U.S. companies with that of non-U.S. companies. The SEC believes the International Financial Reporting Standards (IFRS)[37] have the potential to best provide the common platform on which companies can report and investors can compare financial information. In November 2008, the SEC proposed a "Roadmap" that would potentially require U.S. domestic issuers of annual reports to the SEC to use the IFRS. The "Roadmap" sets forth several milestones that, if reached, could lead to the mandatory use of the IFRS by U.S. issuers in their filings with the SEC in Calendar Year 2015 at the earliest. In Fiscal Year 2010, we assessed the IRS's progress in preparing for the tax issues and implications of potentially converting from United States Generally Accepted Accounting Principles to the IFRS. Our report noted the IRS's progress in this area.[38]

In another recent audit related to globalization, we reviewed the processing of U.S. Nonresident Alien Income Tax Returns (Form 1040NR) to determine whether controls were in place to ensure that taxpayers receiving refunds are entitled to those refunds. Our audit revealed significant control weaknesses in the processing of refunds claimed on Forms 1040NR. If the IRS does not take immediate steps to address these control weaknesses, the problem could increase significantly. We also found a lack of consistency by the IRS when applying tax treaty provisions regarding the taxability of gambling income and a need for clarification regarding the designation of certain income earned through U.S.-based, multi-level marketing companies as "U.S. Source Income."[39]

[36] *General Explanations of the Administration's 2010 Budget Proposal.* Department of the Treasury (Issued May 2009).
[37] The IFRS, issued by the International Accounting Standards Board, are a set of accounting standards that serve as a framework for financial reporting. The IFRS are rapidly gaining worldwide acceptance and are now used for public reporting purposes in more than 100 countries.
[38] Treasury Inspector General for Tax Administration, Ref. No. 2010-30-112, *Actions Are Being Taken to Address the Impact That International Financial Reporting Standards Will Have on Tax Administration* (2010).
[39] Treasury Inspector General for Tax Administration, Ref. No. 2010-40-121, *Improvements Are Needed to Verify Refunds to Nonresident Aliens Before the Refunds Are Sent Out of the United States* (2010).

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Fifteen

TAXPAYER PROTECTION AND RIGHTS

The IRS must ensure that tax compliance activities are balanced against the rights of taxpayers to receive fair and equitable treatment. The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of the *IRS Restructuring and Reform Act of 1998* (RRA 98).[40] Annual audit reports are mandated for the following taxpayer rights provisions:

- Notice of Levy;
- Restrictions on the Use of Enforcement Statistics to Evaluate Employees;
- Fair Debt Collection Practices Act Violations;
- Notice of Lien;
- Seizures;
- Illegal Protestor Designations;
- Assessment Statute of Limitations;
- Restrictions on Directly Contacting Taxpayers Instead of Authorized Representatives; and
- Separated or Divorced Joint Filer Requests.

In general, the IRS has improved its compliance with these statutory taxpayer rights provisions. The IRS has shown improvement over prior years when documenting that taxpayers were informed of their rights. However, the IRS did not fully comply with requirements concerning the use of records of tax enforcement results to evaluate employees,[41] and did not always follow procedures for mailing notices to taxpayers or their representatives in Federal tax lien cases.[42]

Some IRS management information systems do not track cases that require mandatory annual audit coverage.[43] Thus, neither TIGTA nor the IRS could evaluate the IRS's compliance with certain RRA 98 provisions.

LEVERAGING DATA TO IMPROVE PROGRAM EFFECTIVENESS AND REDUCE COSTS

While the IRS has made progress in using its data to improve program effectiveness and reduce costs, this area continues to be a major challenge. The IRS lacks a comprehensive, integrated system that provides accurate, relevant and timely financial and operating data that can be used to evaluate performance measures, productivity and the associated costs of IRS programs. In addition, the IRS cannot produce timely,

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[40] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[41] Treasury Inspector General for Tax Administration, Ref. No. 2010-30-076, *Fiscal Year 2010 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results* (2010).
[42] Treasury Inspector General for Tax Administration, Ref. No. 2010-30-072, *Actions Are Needed to Protect Taxpayers' Rights During the Lien Due Process* (2010).
[43] Treasury Inspector General for Tax Administration, Ref. No. 2010-30-026, *Fiscal Year 2010 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns* (2010) and Treasury Inspector General for Tax Administration, Ref. No. 2010-30-060, *Fiscal Year 2010 Statutory Review of Restrictions on Directly Contacting Taxpayers* (2010).

IRS MANAGEMENT CHALLENGES MEMORANDUM
Page Sixteen

accurate and useful information needed for day-to-day decisions, hindering its ability to address financial management and operational issues to fulfill its responsibilities.

TIGTA and GAO have continued to report that various IRS management information systems are insufficient to enable IRS management to measure costs, determine if performance goals have been achieved, or monitor progress in achieving program goals. In its most recent financial statement audit,[44] GAO reported that the IRS's financial management systems do not comply with *Federal Financial Management Improvement Act of 1996* (FFMIA)[45] requirements. In addition, GAO noted that the IRS continues to have material weaknesses in internal controls over information security and unpaid assessments.

While the IRS has made measurable progress in addressing the issues causing its noncompliance with the FFMIA, our review of the IRS's September 30, 2009, FFMIA remediation plan identified that the IRS continues to experience difficulties in developing resource estimates for remediation actions related to information security. In addition, the IRS informed us that it does not expect to become compliant with the FFMIA and address the material weakness relating to unpaid assessments until approximately November 2014.[46]

CONCLUSION

These are the 10 major management and performance challenges for the IRS in Fiscal Year 2011. TIGTA's *Fiscal Year 2011 Annual Audit Plan* and *Inspections and Evaluations Plan* contain our proposed reviews and are organized by these challenges. If you have questions or wish to discuss TIGTA's views on the challenges in greater detail, please contact me at (202) 622-6500.

cc: Deputy Secretary
Assistant Secretary for Management and Chief Financial Officer
Commissioner of Internal Revenue

[44] U.S. Government Accountability Office, GAO-10-176, *Financial Audit: IRS's Fiscal Years 2009 and 2008 Financial Statements* (2009).
[45] Pub. L. No. 104-208, 110 Stat. 3009.
[46] Treasury Inspector General for Tax Administration, Ref. No. 2010-10-065, *Measurable Progress Has Been Made in Addressing Federal Financial Management Improvement Act Noncompliance; However, Significant Challenges Remain* (2010).

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 15, 2010

MEMORANDUM FOR J. RUSSELL GEORGE
TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM: Timothy F. Geithner

SUBJECT: Response to Management and Performance Challenges Facing the Internal Revenue Service

I am responding to your October 15, 2010, memorandum describing the Internal Revenue Service's (IRS) most serious management and performance challenges. This memorandum provides information on the actions completed in fiscal year (FY) 2010 and the actions planned for FY 2011 to address these challenges.

Challenge 1 – Security

In FY 2010, IRS implemented a number of security enhancements at IRS buildings nationwide as a result of the February incident in Austin in which an IRS employee perished and several others were injured. The IRS placed guards on a 24/7 basis in 11 of the Austin offices, and security guards at all of the 401 taxpayer assistance centers (TACs). The IRS also established a more vigilant security posture at all buildings through increased canine patrols, random searches, and guard vigilance. In addition, IRS is conducting in-depth risk assessments at all 669 facilities that house IRS employees to identify any security countermeasures that would enhance security.

The IRS's Criminal Investigation Division (CI) enhanced its partnerships with the Treasury Inspector General for Tax Administration and Federal Protective Service to share information on potential threats so IRS can institute appropriate countermeasures. The IRS included physical security briefings for all employees in mandatory annual security awareness briefings.

During FY 2010, IRS expanded efforts to detect and prevent security threats and to protect access to taxpayer information, identifying and mitigating over 5,200 individual cyber incidents which could have compromised the integrity of the IRS to address computer security. The IRS combated online fraud schemes by monitoring, identifying, and mitigating fraudulent sites and phishing scams, shutting down 4,109 phishing sites (899 domestic and 3,210 international) in FY 2010, up from 3,444 sites shut down in 2009. The IRS has a team of capable "first responders" who are organized, trained, and equipped to identify, contain, and eradicate cyber threats targeting IRS computing assets.

Page 2

The IRS continues to take the issue of identity theft very seriously. In FY 2010, IRS flagged more than 284,000 accounts of identity theft victims with "markers" that indicated to an employee that they were dealing with a substantiated case of identity theft. In addition, IRS ensured that identity theft indicators and business rules isolated returns for additional screening to validate whether the true taxpayer filed the return. More than 82,000 returns were selected for additional screening and closed, and more than $245 million was protected from being refunded to perpetrators on thousands of fraudulent returns.

In FY 2011, IRS will deploy additional account "markers" that will improve the processing of taxpayer accounts impacted by identity theft. The IRS will also complete the development of a CI Disaster Recovery Site in Martinsburg, WV which will be used to prepare for, respond to, and recover from a disaster or emergency incident.

Challenge 2 – Modernization

In FY 2010, IRS modernization efforts continued to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. The Customer Account Data Engine (CADE), Modernized e-File (MeF), and Account Management Services (AMS) modernization projects delivered the changes necessary for a successful filing season, and continued to support implementation of the tax provisions of the *American Recovery and Reinvestment Act of 2009* (Recovery Act).

In FY 2010, IRS revised its CADE strategy (CADE 2) to implement a new taxpayer account database for the 2012 filing season that provides for daily updating of individual taxpayer accounts to improve taxpayer service and accuracy, reduce interest paid on late refunds, improve data security, and allow the development of new tools to combat fraud and improve enforcement activities. Completion of the taxpayer account database is the prerequisite for other major initiatives, including significant expansion of online services and transactions and the next generation of enforcement technologies.

The IRS deployed an additional release of MeF that enabled acceptance of additional forms and schedules to reach 61 percent of the e-file population, and with enhanced disaster recovery capabilities to manage operational risk. In addition, IRS deployed the final release of AMS, enabling users to view correspondence images online, eliminating manual processing, and reducing case cycle time from 10-14 days to zero days. AMS also facilitated the identification of unallowable or fraudulent claims for First-Time Home Buyer Credits claimed by taxpayers filing amended returns.

In FY 2011, IRS will continue to focus on modernization of the tax administration systems to provide additional benefits to taxpayers. The IRS will further develop CADE 2 to accommodate tax law changes in the 2012 filing season.

Page 3

Challenge 3 – Tax Compliance Initiatives

During FY 2010, IRS continued to focus on improving voluntary compliance in support of Treasury's goal of reducing the tax gap, ensuring businesses and individuals pay the correct amount of tax and overseeing tax-exempt and government entities. The IRS Research Community Strategic Plan, released in FY 2010, focuses on research efforts aimed at effectively determining ways to address taxpayer compliance. Specifically, IRS will develop several new estimates of taxpayer compliance, undertake research to support efficient methods to enhance compliance, and use analytically based technologies to provide tools for detecting and reducing noncompliance.

Businesses and Individuals

In FY 2010, IRS continued to make closing the tax gap, especially the portion attributable to underreporting of individual and business income tax, a major priority. While enforcement efforts are crucial, IRS also recognized the need to better identify noncompliant taxpayers, conduct exams more efficiently and with less taxpayer burden, and to engage and monitor tax return preparers, who are uniquely situated to impact taxpayer behavior and compliance.

The IRS requested increases in its FY 2011 Treasury budget submission to support the Presidential priority of addressing international tax evasion. The IRS's planned initiatives build on the work started in FY 2010, allowing IRS to continue the multi-year investment in international tax compliance activities. Increases in the coverage of the most strategically important international issues, including complex enterprise structures and transactions, promote greater compliance in high net-worth individuals and large enterprises, including those with international components, operated by businesses and investors through multiple interrelated financial and tax entities. The IRS will also be able to continue directing significant resources to examining returns from the Offshore Voluntary Disclosure Initiative and to the development of cases built upon data received from UBS for taxpayers who did not voluntarily disclose ownership of offshore accounts.

The IRS is continuing the individual National Research Program in order to update case scoring models to better identify noncompliant taxpayers. In FY 2011, IRS plans to use the improved case scoring models to identify a sample population on which to conduct examinations beginning in FY 2012.

During FY 2010, while IRS continued to take enforcement actions crucial to closing the tax gap, it also took steps to conduct exams more efficiently and with less taxpayer burden. In FY 2010, IRS began using new software that reduces the taxpayer burden of printing records stored electronically in response to business owners and tax professionals who have been advocating for the acceptance of taxpayer records in electronic format. The new software will allow IRS to retain a complete set of the taxpayer's accounting records. As a result, IRS anticipates a decrease in the size and complexity of initial document requests during an examination and in follow-up requests to taxpayers. The new software also has the potential to allow IRS to resolve audits more quickly due to increased efficiency in the analysis and testing of the books and records in electronic format.

For the first time since the early 1980s, IRS embarked on a three-year Employment Tax Compliance Study to determine the employment tax gap and employment tax compliance rates. The IRS developed new forms designed to provide a clearer procedure for workers who are being incorrectly classified as contractors by their employers. In FY 2011, systemic changes will identify returns that have incomplete forms attached, reducing the number of forms filed with incorrect Social Security and Medicare taxes reported. The IRS will report the results of the Employment Tax Compliance study once three years of data are available to develop robust compliance estimates, and will use the results to develop processes to correct the problem of misclassification of employees.

Tax-Exempt Entities

During FY 2010, IRS continued to recognize the importance of maintaining a strong enforcement presence in the tax-exempt sector and ensured that tax-exempt organizations met their requirements under federal tax law. In FY 2010, IRS improved the filing of required Forms 8871, *Political Organization Notice of Section 527 Status*, and 8872, *Political Organization Report of Contributions and Expenditures*, to better identify non-compliance by Section 527 political organizations. In FY 2011, IRS will continue to focus on these organizations by revising form instructions to improve the guidance provided to filers, developing procedures to both periodically sample forms submitted for compliance and to conduct reviews of responses received to compliance notices, and seeking to correct systemic issues related to the issuance of Form 8872 notices.

In FY 2010, IRS assisted the Department of Justice (DOJ) in fraud and conspiracy investigations related to municipal bond contracts and initiated examination projects in identified areas of noncompliance. One notable accomplishment is that compliance contacts for tax-exempt and government entities increased 19.7 percent in FY 2010 when compared to the previous year.

During FY 2010, international tax compliance continued to challenge IRS. In FY 2010, IRS addressed international compliance issues, including internationally sponsored pension plans, the movement of in-kind charitable gifts offshore, and cross-border commerce using Indian reservations and casinos. In FY 2011, IRS will continue to ensure tax-exempt organizations comply with applicable laws and regulations, as well as continue to address international compliance issues.

In FY 2010, IRS released an interim report on the compliance of colleges and universities for unrelated business taxable income and compensation. The Colleges and Universities project is part of an ongoing effort by IRS to review the largest, most complex organizations in the tax-exempt sector to identify issues that warrant additional guidance or scrutiny. Based on responses to compliance questionnaires sent to 400 public and private colleges and universities, IRS has opened several dozen examinations focusing on unrelated business income and executive compensation and will issue a final report in FY 2011.

Page 5

Tax Return Preparers

The IRS recognizes that return preparers are a critical component of tax administration and are uniquely situated to impact taxpayer behavior and improve compliance with tax laws. In FY 2010, IRS emphasized compliance among return preparers through a variety of methods, including due diligence and "knock and talk" visits, as well as examinations of cases where potential preparer violations were identified. As discussed further below, in 2010 IRS also began to lay a foundation for ensuring the quality and integrity of professional tax return preparation through a program of registration, competency testing, and continuing professional education.

Challenge 4 – Implementing Health Care and Other Tax Law Changes

Health Care

The *Affordable Care Act* (ACA) was signed into law on March 23, 2010, and later amended by the *Health Care and Education Reconciliation Bill of 2010* on March 30, 2010. ACA represents the largest set of tax law changes in more than 20 years, with more than 40 provisions that amend the tax laws. Although the new law goes into effect gradually over many years, numerous provisions required IRS to take immediate action, including the Small Business Health Care Tax Credit, the Qualifying Therapeutic Discovery Credit, the expanded Adoption Credit, and numerous tri-departmental ACA market reform regulations and subregulatory guidance issued jointly by the Department of Health and Human Services (HHS), Department of Labor, and Treasury (with IRS).

To implement various ACA provisions that are effective in 2010 and 2011, IRS established teams, organized by affected taxpayer groups: individual taxpayers, small businesses, large industry, and tax-exempt and government entities. During FY 2010, IRS focused on:

- Developing new systems and business processes for near-term provisions
- Conducting initial planning for longer-term provisions, and
- Defining appropriate outreach activities for each affected group

The IRS and HHS partnered to form a Coordinating Committee to assess cross-cutting policy considerations. Also, interagency working teams have formed to assess operational needs such as data infrastructure, eligibility, enrollment, customer service, communications, and payment of premium tax credits.

Provisions taking effect in later years (including the individual responsibility requirement and premium tax credit), when new options for buying health insurance through state-sponsored exchanges go into effect, place significant new administrative responsibilities on IRS. In preparation for these provisions, in FY 2010, IRS began to design and develop the requisite complex new systems and business processes and coordinate with other federal and state entities.

Recovery Act

The IRS is faced with implementing tax law changes each filing season, and in FY 2010 IRS successfully implemented the FY 2010 provisions of the Recovery Act. In response to the fraud that sometimes accompanies major tax law changes, IRS identified erroneous and fraudulent First-Time Homebuyer Credit claims through new system programming and pre-refund filters that rejected returns where claims in excess of the maximum allowable credit were made or claims in excess of allowable amounts for taxpayers with adjusted gross income exceeded income limitations. The IRS continues to take a strategic approach to this credit which includes both aggressive compliance and outreach components. From October to December 2010, IRS plans to send a series of notices to the millions of taxpayers who benefited from the program to remind them of the requirements on repayment and recapture of the credit. The IRS will also send notices to taxpayers who may have disposed of their home within the three years, reminding them of the requirement to report the disposition for the year it occurred. The IRS is also moving forward with its plans to use third party data to identify non-compliance and to address the areas of non-compliance already identified.

In FY 2010, IRS provided detailed Recovery Act training to employees responsible for developing Recovery Act-funded requirements to ensure the necessary controls were in place to comply with procurement requirements. The IRS also increased staff to ensure full coverage of required procurement activities. In FY 2011, IRS will continue to assess staffing throughout the procurement lifecycle to maintain adequate internal control functions.

Other Tax Law Changes

In FY 2010, taxpayers continued to use IRS.gov in record numbers to get real-time, updated information on available tax credits as they filed their returns. Taxpayers used the site to find answers to tax law questions through an Interactive Tax Assistant and updated phone tools to obtain information on the one-time $250 Economic Recovery payment.

In FY 2011, IRS will continue to monitor proposed changes to the tax laws and prepare accordingly to ensure taxpayers have the necessary forms and information for the filing season. Based on preliminary analysis of the Affordable Care Act, IRS will prepare to implement the Act, including the revision of more than 17 tax forms and the creation of three new forms.

Challenge 5 – Providing Quality Taxpayer Service Operations

During the 2010 filing season, IRS.gov remained the preferred source of information for taxpayers seeking answers to their questions on preparing and filing their tax returns accurately and timely and on new legislation. The IRS added more automated self-help web tools and services; e.g., an application for taxpayers to obtain a personal identification number to satisfy e-filing signature requirements and a multilingual website to facilitate participation in the tax system by individuals who do not speak English. These improvements are a part of IRS's continued implementation of the Taxpayer Assistance Blueprint (TAB) service improvements.

Page 7

The IRS and its partners provided free tax assistance to the elderly, disabled, and limited English proficient individuals and families at Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites during the filing season. Volunteers at over 12,000 VITA and TCE sites throughout the nation prepared more than 3.1 million tax returns, including 360,500 returns for individuals with disabilities and/or families with disabled dependents.

During FY 2010, IRS and its partners hosted five Open House events at 200 TACs and partner sites, including at least one in every state, in an effort to assist taxpayers during the economic downturn. The goal of these events was to improve the taxpayer's experience by creating seamless case resolution on a variety of tax issues and to assist taxpayers in preparing their tax returns. As a result, they served more than 31,400 taxpayers and prepared over 7,700 returns. Included in the 2010 events were assistors trained to help taxpayers who owed delinquent taxes, especially those who were having difficulties meeting their tax obligations because of unemployment or other financial problems. Services offered to taxpayers included added flexibility for missed installment agreement payments and streamlined processing for offers in compromise.

In FY 2011, IRS will continue to implement its TAB service improvements and provide greater access to service on non-workdays through events such as Open Houses. The IRS will also use IRS.gov to disseminate information to taxpayers quickly, continue to simplify forms to comply with the *Plain Writing Act of 2010*, and look for additional ways to improve the tax filing process.

Challenge 6 – Human Capital

In FY 2010, IRS completed its Human Capital Business Plan for 2010-2014, which describes how IRS will work toward further improving its ranking as a "best place to work in government."

To attract the best and most qualified applicants, IRS enhanced its recruitment programs and introduced a new recruitment brand – "Count on Me!" – on print materials, USAjobs.gov, the IRS Careers website, Internet advertisements, and social media. A job search tool on YouTube helped provide the public with information on employment opportunities. The IRS also took steps to streamline its hiring process to make it faster and more efficient, while reducing applicant burden.

In FY 2010, IRS had noteworthy hiring accomplishments, including meeting its goal of hiring 1,000 military veterans for the third year in a row, with veterans comprising 11 percent of total hires, up from 9 percent in FY 2009, and 7 percent in FY 2008. The IRS achieved this goal by working with veterans' organizations and other government agencies to hold targeted job fairs.

Also, IRS developed an overall strategy for improving coaching and mentoring skills at all leadership levels, including implementation of an internal coaching certification program and core workshops for all leaders to develop, promote, and retain IRS leaders. The IRS also completed 41 of 58 recommendations outlined in its 2009

Page 8

Workforce of Tomorrow (WOT) report, helping to resolve some of the most significant recruitment and retention workforce challenges facing current employees and managers.

In FY 2011, IRS will implement additional WOT recommendations, as well as an Accelerated Leadership Program pilot to test a "fast track" training program for identified high-potential candidates. The IRS will also continue to use cutting edge technologies and communication tools to increase the breadth of recruitment in an effort to attract the best and brightest applicants and will continue efforts to streamline the hiring process.

Challenge 7 – Erroneous and Improper Payments and Credits

Refundable Credits

During FY 2010, IRS continued to focus on refundable credits and the Earned Income Tax Credit (EITC) as areas for reducing erroneous payments. The IRS protected over $3.7 billion in revenue through EITC enforcement efforts, which included the examination of over 474,000 original and amended returns claiming the EITC, 900,000 document matching reviews, and 300,000 math error process corrections. The IRS also identified more than 405,555 fraudulent returns claiming over $3.0 billion in refunds, and stopped over $2.6 billion in fraudulent claims using the Electronic Fraud Detection System, with an average refund of $8,230.

In FY 2011, IRS will continue to address EITC noncompliance through its aggressive compliance program which includes examinations, reviews of income misreporting, systemic corrections during return processing, and focus on paid return preparers, who prepare 66 percent of EITC returns. The IRS believes the implementation of new preparer requirements for registration, competency testing, continuing education, and compliance checks will improve EITC compliance, decrease fraud, and reduce overall program noncompliance.

Contracts and Other Payments

In FY 2010, IRS emphasized the importance of the role of the Contracting Officer's Technical Representative (COTR) in contract administration and contract monitoring by providing on-line reference resources and developing more comprehensive training. The training is a mandatory requirement for all managers and employees involved in contract administration. It includes courses that separate the receipt and acceptance processes to clarify the requirements. The IRS has also established an automated system to ensure only properly certified employees serve as COTRs. To further assist COTRs in the contractor invoice review and approval process, detailed procedures include a requirement to verify contractor employee qualifications against the contract labor categories and descriptions prior to approval of any voucher for payment.

Challenge 8 – Globalization

During FY 2010, IRS continued to focus on taxpayers who shift income abroad and engage in offshore tax evasion schemes to hide their wealth and avoid paying taxes. With cross-border transactions on the rise, IRS more than doubled its offshore presence by opening new offices in Asia and Central America, placing additional personnel at its existing offices throughout the world, and expanding its interaction with key international organizations involved in tax and financial law compliance.

In FY 2010, IRS used audit results and intelligence from ongoing offshore initiatives to refine case identification and selection methods and to identify promoters, facilitators, and participants in abusive offshore arrangements. The IRS also began mining the information from participants of its offshore voluntary disclosure program, started in 2009, to identify financial institutions, advisors, and others who promoted or otherwise helped U.S. taxpayers hide assets and income offshore. This mined data will be used in FY 2011 to develop additional strategies to prohibit promoters and facilitators from soliciting new clients.

As part of a continuing effort to ensure the issues with erroneous and fraudulent refund claims on Forms 1040NR, *U.S. Nonresident Alien Income Tax Return*, are not widespread, IRS has developed new procedures for reviewing and processing the refund claims, assisted by recently passed legislation that extends the timeframe allowed for review. In FY 2011, a new database will be developed to provide for better tracking and validity reviews, and new criteria will be established to assist in the validation of claims. The IRS also plans to take steps to recover erroneous refunds through enforcement. The IRS continued to address emerging compliance issues with internationally sponsored pension plans, the movement of in-kind charitable gifts offshore, and adherence by charities to requirements for foreign bank accounts.

Challenge 9 – Taxpayer Protection and Rights

Taxpayer protection is a top priority for IRS. In FY 2010, IRS continued to monitor compliance with the taxpayer rights provisions of the *IRS Restructuring and Reform Act of 1998* (RRA 98), including quarterly managerial certifications and annual independent reviews of the RRA 98 Section 1204 provisions. The certification process serves to ensure management does not use enforcement statistics to evaluate employees and drive behavior in conflict with taxpayer rights. The IRS issued new policy guidance and developed an improved briefing on the retention standard to ensure that the fair and equitable treatment of taxpayers remains a critical factor in evaluating employees.

During FY 2010, IRS began laying the groundwork to ensure the quality and integrity of professional tax return preparation, which most taxpayers rely on in one form or another. The IRS successfully implemented an application process to comply with the mandate that all paid tax return preparers obtain a preparer tax identification number. In FY 2011, IRS will proceed with additional requirements related to competency testing and continuing professional education.

The notice of federal tax lien process is an important component of the IRS recovery strategy to protect the government's interest on unpaid tax liabilities. The IRS has taken several steps to address systemic and procedural concerns identified with the notice of federal tax lien process, including system enhancements, Internal Revenue Manual procedural updates, and operational reviews. The IRS continually examined and improved processes to ensure the protection of taxpayer rights. In FY 2011, IRS will implement automation tools to address notice requirements.

Challenge 10 – Leveraging Data to Improve Program Effectiveness and Reduce Costs

In FY 2010, IRS continued to make progress in financial management, particularly with use of its managerial cost accounting system that provides timely, accurate, and useful data across multiple business units. Currently, the system has five years of data that provide managers with useful cost information for decision making related to their programs and activities. The IRS has used its Integrated Financial System cost module to determine the full cost of a number of compliance activities at the program level, including the EITC program, and to develop cost-benefit analyses on other enforcement programs.

The IRS implemented the Redesign Revenue Accounting Control System (RRACS) in January 2010, bringing the revenue financial system substantially compliant with the United States Standard General Ledger. The requirement that RRACS provide transaction traceability for unpaid tax assessments to the sub-ledger prevents closure of the unpaid assessment material weakness at this time. Closure of this material weakness depends on implementation of CADE 2 (Transition State 2) to provide the capability to properly categorize unpaid assessment data and provide an audit trail to the detailed transactions residing in modernized and legacy operating systems.

APPENDIX D: MATERIAL WEAKNESSES, AUDIT FOLLOW-UP, FINANCIAL SYSTEMS, AND RECOVERY ACT RISK MANAGEMENT

This section consists of detailed descriptions of Treasury's material weakness inventory, including a summary of actions taken and planned to resolve the weaknesses; tracking and follow-up activities related to Treasury's GAO, OIG, TIGTA, and the Special Inspector General for the Troubled Asset Relief Program audit inventory; an analysis of potential monetary benefits arising from audits performed by Treasury's Inspectors General; an update on Treasury's financial systems framework; and an overview of Treasury's risk management activities related to the *American Recovery and Reinvestment Act of 2009* (Recovery Act).

1. Treasury's Material Weaknesses

Management may declare audit findings or internal situations as a material weakness whenever a condition exists that may jeopardize the Treasury mission or continued operations. Reporting on material weaknesses is required in these instances by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) and the *Federal Financial Management Improvement Act of 1996* (FFMIA).

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The FMFIA requires agencies to establish and maintain internal controls. The Secretary must annually evaluate and report on the controls (FMFIA Section 2) and financial systems (FMFIA Section 4 and FFMIA) that protect the integrity of federal programs. The requirements of the FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, financial reporting, and compliance with laws and regulations.

As of September 30, 2010, Treasury has four material weaknesses under Section 2 of the FMFIA, summarized as follows:

Summary of FMFIA and FFMIA Material Weaknesses	Section 2	Section 4	Total
Balance at the Beginning of FY 2010	5	0	5
Closures/Downgrades during FY 2010	1	0	1
Reassessed during FY 2010	0	0	0
New MW declared during FY 2010	0	0	0
Balance at the End of FY 2010	4	0	4

Below are detailed descriptions of Treasury's four material weaknesses:

Material Weakness Description	
INTERNAL REVENUE SERVICE - Improve Modernization Management Controls and Processes The IRS needs to improve its management of the Business Systems Modernization program. Key elements: • Assess the recommendations from the Special Studies and Reviews of the Business Modernization program and projects • Implement and institutionalize procedures for validating contractor-developed costs and schedules • Establish effective contract management practices • Complete a human capital strategy • Improve configuration management practices	
Actions Completed	**What Remains to be Done**
☑ Deployed release 5.2 of the Customer Account Data Engine (CADE) in January 2010, delivering the tax year 2009 filing season tax law changes affecting individual taxpayers, and providing technical improvements to the infrastructure and availability of current CADE ☑ Deployed Modernized e-File (MeF) release 6.1 in January 2010, delivering all functionality and tax law changes for corporate, partnership, and non-profit/tax exempt returns; and the build-out of the infrastructure to include a more robust disaster recovery capability to support 1040 processing ☑ Deployed Account Management Services (AMS) release 2.1 in September 2009, providing all AMS users the ability to view correspondence images online and on demand, eliminating users' reliance on manual processes to obtain copies of images. ☑ Exited CADE 2 Transition State 1 milestone 0-2 in February 2010; implemented CADE 2 Acquisition Strategy and Plan which provides oversight for all CADE 2 acquisition tasks	☐ Allow assessment time to observe long-term effect of actions completed and demonstrate sustained improved performance ☐ Targeted Downgrade/Closure: Fiscal year 2011

Material Weakness Description	
INTERNAL REVENUE SERVICE - Computer Security The IRS has various computer security controls that need improvement. Key elements: • Adequately restrict electronic access to and within computer network operational components • Adequately ensure that access to key computer application and systems is limited to authorized persons for authorized purposes • Adequately configure system software to ensure the security and integrity of system programs, files, and data • Appropriately delineate security roles and responsibilities within functional business operating and program units, as required by the *Federal Information Security Management Act* • Appropriately segregate system administration and security administration responsibilities • Sufficiently plan or test the activities required to restore certain critical business systems where unexpected events occur • Effectively monitor key networks and systems to identify unauthorized activities and inappropriate system configurations • Provide sufficient technical, security-related training to key personnel • Certify and accredit 90 percent of all systems	
Actions Completed	**What Remains to be Done**
☑ Security roles and responsibilities ☑ Security/System Administration segregation of duties ☑ Security training ☑ Certification and Accreditation ☑ Network access controls	☐ Systems/Application access controls ☐ Systems software configuration access controls ☐ Contingency planning ☐ Audit trails ☐ Targeted Downgrade/Closure: Fiscal year 2012

Material Weakness Description	
INTERNAL REVENUE SERVICE – Unpaid Assessments (remaining portions of Financial Accounting of Revenue – Custodial) The IRS needs to improve its internal control over Unpaid Assessments. Key elements: • Subsidiary ledger does not track and report one Trust Fund Recovery Penalty (TFRP) balance • Untimely posting of TFRP assessments and untimely review of TFRP accounts • IRS' general ledger for its custodial activities does not use the standard federal accounting classification structure	
Actions Completed	**What Remains to be Done**
☑ Implemented the Redesign Revenue Accounting Control System (RRACS) in January 2010, which enabled the custodial financial management system to substantially comply with the United States Standard General Ledger (USSGL) chart of accounts to address noncompliance with FFMIA. ☑ RRACS now records all tax revenue and refunds using the USSGL format and for the first time records the taxes receivable and allowance for doubtful accounts addressing this component of the material weakness	☐ Achievement of CADE 2 Transition State 2 target of a single, data-centric solution system which provides for daily processing of taxpayer accounts ☐ Targeted Downgrade/Closure: Fiscal year 2015

Material Weakness Description	
FINANCIAL MANAGEMENT SERVICE - Consolidated Government-wide Financial Statements The government does not have adequate systems, controls, and procedures to properly prepare the Consolidated Government-wide Financial Statements. Key elements: • The government lacks a process to obtain information to effectively reconcile the reported excess of net costs over revenue with the budget deficit, and when applicable, a reported excess of revenue over net costs with the budget surplus • Weaknesses in financial reporting procedures in internal control over the process for preparing the Consolidated Financial Statements	
Actions Completed	**What Remains to be Done**
☑ Partially reconciled fiscal year 2009 operating revenues with budget receipts ☑ Developed a model to provide analysis of unreconciled transactions that affect the change in net position ☑ Accounted for intra-governmental differences through formal consolidating and elimination accounting entries using all reciprocal fund categories including the General Fund ☑ Federal agencies submit complete closing packages to GAO ☑ Establish traceability from agency footnotes to the Consolidated Financial Statements (CFS) for completeness	☐ Complete reconciliation of operating revenues to budget receipts ☐ Complete reciprocal category for the Treasury General Fund ☐ Implement changes identified by the Office of the Fiscal Assistant Secretary as a result of its review of the Reporting Entity definitions per the Financial Accounting Standards Advisory Board criteria ☐ Include all disclosures as appropriate ☐ Include all loss contingencies as appropriate ☐ Targeted Downgrade/Closure: Fiscal year 2014

II. Audit Follow-up Activities

During fiscal year 2010, Treasury placed renewed emphasis on both the general administration of internal control issues throughout the Department and the timely resolution of findings and recommendations identified by the Office of the Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the Government Accountability Office, and external auditors. During the year, Treasury continued to implement enhancements to the tracking system called the "Joint Audit Management Enterprise System" (JAMES). JAMES is a Department-wide, interactive, web-based system accessible to the OIG, TIGTA, SIGTARP, bureau management, Departmental management, and others. The system tracks information on audit reports from issuance through completion of all corrective actions required to address findings and recommendations contained in an audit report. JAMES is the official system of record for Treasury's internal control program.

Potential Monetary Benefits

The *Inspector General Act of 1978*, as amended, Public Law 95-452, require the Inspectors General and the Secretaries of Executive Agencies and Departments to submit semiannual reports to the Congress on actions taken on audit reports issued that identify potential monetary benefits. The Department consolidates and analyzes all relevant information for inclusion in this report. The information contained in this section represents a consolidation of information provided separately by the OIG, TIGTA, and Department management.

In the course of their audits, the Inspectors General periodically identify questioned costs, make recommendations that funds be put to better use, and identify measures that demonstrate the value of audit recommendations to tax administration and business operations. "Questioned costs" include a:

- Cost that is questioned because of an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds
- Finding, at the time of the audit, that such costs are not supported by adequate documentation (i.e., an unsupported cost)
- Finding that expenditure of funds for the intended purpose is unnecessary or unreasonable

The Department regularly reviews progress made by the bureaus in realizing potential monetary benefits identified in audit reports, and coordinates with the auditors as necessary to ensure the consistency and integrity of information on monetary benefit recommendations being tracked.

The statistical data in the following summary table and charts represent audit report activity for the period from October 1, 2009 through September 30, 2010. The data reflect information on reports that identified potential monetary benefits issued by the OIG and TIGTA.

Audit Report Activity With Potential Monetary Benefits for Which Management Has Identified Corrective Actions (OIG and TIGTA)
October 1, 2009 through September 30, 2010
(Dollars in Millions)

	Disallowed Costs		Funds Put to Better Use		Revenue Enhancements		Totals	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	Report Total	Total Dollars
Beginning Balance	10	$36.9	6	$159.1	11	$2,536.3	27	$2,732.3
New Reports	2	.4	11	2,818.7	11	3,929.0	23	6,748.1
Total	12	37.3	17	2,977.8	22	6,465.3	50	9,480.4
Reports Closed	8	4.3	4	155.2	5	906.4	16	1,065.9
a. Realized or Actual	6	1.1	2	29.2	3	16.1	10	46.4
b. Unrealized - Written off	7	3.2	3	126.0[1]	5	890.3[2]	15	1,019.5
Ending Balance	4	$33.0	13	$2,822.6	17	$5,558.9	34	$8,414.5

1 This category includes one report, with $125.66 million written off, for which IRS management did not concur with TIGTA's projected benefits.

2 This category includes one report, with $209 million written off, for which IRS management did not concur with TIGTA's projected benefits; and one report, with $539.6 million written off, for which TIGTA does not agree with the IRS that the benefits have not been realized.

The following table presents a summary of OIG and TIGTA audit reports with potential monetary benefits that were open for more than one year as of the end of fiscal years 2008, 2009, and 2010.

Number of Reports with Potential Monetary Benefits Open for More than One Year

	PAR Report Year	9/30/2008	9/30/2009	9/30/2010
OIG	No. of Reports	1	0	1
	$ Projected Benefits	$29.4 million	$0 million	$10.5 million
TIGTA	No. of Reports	12	10	12
	$ Projected Benefits	$661.5 million	$673.8 million	$1,783.7 million

The following table presents a summary of TIGTA and OIG audit reports, broken out by year of report issuance, on which management decisions were made on or before September 30, 2009, but the final actions had not been taken as of September 30, 2010.

Details of the Audit Recommendations with Potential Monetary Benefits on Which Management Decisions Were Made On or Before September 30, 2009, But Final Actions Have Not Been Taken as of September 30, 2010
(Dollars In Thousands)

Bureau	Report Number	Report Issue Date	Brief Description	Disallowed Costs	Funds Put to Better Use	Revenue Enhancement	Total	Due Date
IRS	2004-20-142	8/26/2004	The IRS should ensure the Storage Strategy Study addresses the data storage capacity deficiency and recommends a cost-effective virtual tape system solution to reduce maintenance and tape shipping costs.		$ 200.0		$ 200.0	Due 12/31/2010
FY 2004	1				$ 200.0		$ 200.0	
IRS	2006-1c-142	9/25/2006	The IRS Contracting Officer (CO) should use the results of the Defense Contract Auditing Agency (DCAA) report to fulfill his/her duties in awarding and administering contracts.	$ 32,373.8			$ 32,373.8	Delayed to 10/15/2011
FY 2006	1			$ 32,373.8			$ 32,373.8	
IRS	2007-1c-149	9/24/2007	The IRS will work with DCAA and the contractor to resolve the questioned costs applicable to IRS contracts.	$ 62.2			$ 62.2	Delayed to 8/31/2011
FY 2007	1			$ 62.2			$ 62.2	

table continued on next page

Details of the Audit Recommendations with Potential Monetary Benefits on Which Management Decisions Were Made On or Before September 30, 2009, But Final Actions Have Not Been Taken as of September 30, 2010
(Dollars In Thousands)

Bureau	Report Number	Report Issue Date	Brief Description	Disallowed Costs	Funds Put to Better Use	Revenue Enhancement	Total	Due Date
FY 2008	N/A	N/A		—	—	—	—	N/A
DO	OIG-09-024	1/7/2009	Treasury should reactivate the state-held federal unclaimed assets recovery program with appropriate policies, procedures, and controls.			$ 10,500.0	$ 10,500.0	Due 6/30/2012
IRS	2009-10-107	7/24/2009	IRS should develop procedures requiring that workstation sharing levels are included in space needs assessments. When implementing these procedures the IRS should adjust its space needs to reflect workstation sharing and take action to release any unneeded space identified, where appropriate.		$ 30,000.0		30,000.0	Due 1/15/2011
IRS	2009-30-068	5/28/2009	As resources become available, the IRS should initiate actions to develop compliance strategies for ensuring more Commodity Credit Corporation income payments are properly reported.			92,200.0	92,200.0	Due 3/15/2011
IRS	2009-30-106	8/18/2009	IRS should coordinate with the respective functional areas to ensure employees receive periodic computer alerts to review large dollar frozen taxpayer accounts for credits that can be reelased and the freeze on accounts is systematically released when credits fall below the $10 million threshold by implementing agreed-upon computer programming modifications.		92,600.0		92,600.0	Due 1/15/2011
IRS	2009-40-112	8/6/2009	IRS should explore the feasibility of making greater use of mortgage interest data to pursue additional nonfilers and underrerporters for audit.			1,426,735.7	1,426,735.7	Due 12/15/2011
IRS	2009-40-137	9/24/2009	IRS should develop processes to identify erroneous Health Coverage Tax Credit claims based on criteria used to select taxpayers for examination and reject e-filed tax returns or forward paper-filed tax returns to the Error Resolution function at the time the tax return is filed.		9,000.0		9,000.0	Due 1/15/2011
IRS	2009-40-138	9/23/2009	IRS should discontinue providing the option to taxpayers of self-identifying by annotating a tax return with "Combat Zone" and continue to provide individuals the option of self-identifying by telephone or electronically.			1,100.7	1,100.7	Due 1/15/2012
IRS	2009-1c-134	9/28/2009	IRS should use the DCAA results in fulfilling the awarding and administration of IRS contracts.	$ 145.6			145.6	Due 10/15/2012
FY 2009	8			$ 145.6	$ 131,600.0	$ 1,530,536.4	$ 1,662,282.0	
TOTAL	11			$ 32,581.6	$ 131,800.0	$ 1,530,536.4	$ 1,694,918.0	

The following table provides a snapshot of OIG and TIGTA audit reports with significant recommendations reported in previous semiannual reports for which corrective actions had not been completed as of September 30, 2009 and September 30, 2010, respectively. OIG and TIGTA define "significant" as any recommendation open for more than one year. There were no "Undecided Audit Recommendations" during the same periods.

Audit Reports with Significant Unimplemented Recommendations				
	9/30/2009		9/30/2010	
	OIG	TIGTA	OIG	TIGTA
No. of Reports	8	26	6	24

III. Financial Management Systems Framework

Overview

The Department of the Treasury's financial management systems structure consists of financial and mixed systems maintained by the Treasury bureaus and the Department-wide Financial Analysis and Reporting System (FARS). The bureau systems process and record the detailed financial transactions and submit summary-level data to FARS on a scheduled basis. FARS maintains the key financial data necessary for consolidated financial reporting. In addition, the FARS modules also maintain data on the status of audit-based corrective actions. Under this systems structure, the bureaus are able to maintain financial management systems that meet their specific business requirements. On a monthly basis, the required financial data submitted to FARS to meet Departmental analysis and reporting requirements. The Department uses FARS to produce its periodic financial reports as well as the annual Performance and Accountability Report (PAR). This structured financial systems environment enables Treasury to receive an unqualified audit opinion and supports its required financial management reporting and analysis requirements.

The FARS structure consists of the following components:

- Bureau core and financial management systems that process and record detailed financial transactions
- Treasury Information Executive Repository (TIER) that consolidates bureau financial data
- CFO Vision that produces monthly financial statements and performs financial analysis
- Joint Audit Management Enterprise System (JAMES) that tracks information on audit findings, recommendations, and planned corrective actions

Bureaus submit summary-level financial data to TIER on a monthly basis, within three business days of the month-end. These data are then used by CFO Vision to generate financial statements and reports on both a Department-wide and bureau-level basis. This structure enables the Department to produce its audited annual financial statements and monthly management reports. During fiscal year 2010, Treasury continued to upgrade its FARS applications to take advantage of technology improvements such as information security and the technical environment.

As part of the Department's enhancement effort, 14 Treasury bureaus and reporting entities are cross-serviced for financial systems by the Bureau of the Public Debt's (BPD) Administrative Resource Center (ARC). Cross-servicing enables these bureaus to have access to core financial systems without having to maintain the necessary technical and systems architectures. In an ongoing effort to streamline its financial systems environment, Treasury continues to work with the bureaus to evaluate plans for continuous improvement to their financial management systems structure.

Continued Improvement

Treasury's target financial management systems structure continues to build upon the current FARS foundation. Treasury has enhanced FARS to support new financial and performance requirements and continues to provide management with the appropriate tools needed to align the Department's goals and objectives.

In fiscal year 2010, Treasury established a TIER Focus Group to improve communication with the bureaus and to coordinate changes impacting financial management systems and financial operations. Treasury enhanced the FARS applications to be Section 508 compliant, which assists users with disabilities in accessing reports and performing data entry. In addition, Treasury upgraded the FARS servers to improve performance.

The IRS continued to modernize the tax administration systems, improving the speed in which the IRS processes tax returns. In fiscal year 2010, the Customer Account Data Engine (CADE) posted more than 41.2 million tax returns and more than 35.8 million refunds. The Account Management Services System, which stores taxpayer information, has been enhanced to eliminate the processing of paper and reduce case cycle time from 14 days to recognizing real-time submissions; and IRS upgraded the servers which host the financial management system that accounts for $11.5 billion in IRS funding.

BPD/ARC continued to improve the effectiveness of providing efficient financial management systems and financial operations services to 14 Treasury bureaus and offices by implementing best practices in financial management. In fiscal year 2010, BPD/ARC upgraded the core financial management systems platform to increase its responsiveness in producing financial management reports and to adhere to financial reporting governance standards. BPD/ARC also provides administrative services in the areas of accounting, travel, payroll, human resources, and procurement to Treasury bureaus and offices and to other federal entities to support core business activities.

The Bureau of Engraving and Printing (BEP) enhanced its manufacturing system to be fully integrated into its existing financial management system to support capturing performance data into the managerial cost accounting process. BEP also participated in a pilot program with the Bureau of the Public Debt (BPD) for intra-governmental transactions, utilizing a secure, web-based electronic invoicing and payment information system provided by the Treasury's Financial Management Service.

Federal Financial Management Improvement Act (FFMIA) of 1996 Compliance

With the exception of the IRS, all Treasury bureaus are in compliance with FFMIA. As required by FFMIA, the IRS has a remediation plan in place to correct the deficiencies. For each FFMIA recommendation, the remediation plan identifies specific remedies, target dates, responsible officials, and resource estimates required for completion. This plan is reviewed and updated quarterly.

The IRS made significant progress in fiscal year 2010 toward achieving FFMIA compliance by implementing the Redesign Revenue Accounting Control System (RRACS), which enabled the custodial financial management system to substantially comply with the United States Standard General Ledger (USSGL) chart of accounts. RRACS now records all tax revenue and refunds using the USSGL format and, for the first time, records the taxes receivable and allowance for doubtful accounts. The IRS also implemented automated interfaces which enabled traceability for 98.6 percent of the over $2.3 trillion in revenue collections.

IV. Recovery Act Risk Management Activities

Upon the enactment of the Recovery Act in February 2009, just weeks after the new Administration took office, Treasury quickly designed and implemented a robust risk management program to support the Department's implementation of the Act. Following OMB's Recovery Act implementation guidance, Treasury required the programs' senior accountable officials in the bureaus to certify that they had taken the following actions for each Recovery Act program:

- Identified and documented program-specific risks
- Identified and documented applicable current process internal controls
- Determined the risk level (high, medium, or low) by using Treasury's Recovery Act risk and impact assessment questionnaire
- Determined additional controls needed, if any
- Developed (or updated existing) and implemented a risk mitigation plan for each program with a risk level of medium or high
- Performed ongoing monitoring and testing

Treasury created a Recovery Act Risk Management Council that continued to meet regularly during fiscal year 2010 to discuss the progress and status of each bureau's Recovery Act risk management activities.

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APPENDIX E:
GLOSSARY OF ACRONYMS

Glossary of Acronyms	
ABS	Asset-Backed Securities
ACA	Patient Protection and Affordable Care Act
ACD	Advanced Counterfeit Deterrent
ACH	Automated Clearing House
AD	Audit Division
ADR	Alternative Dispute Resolution
AFR	Agency Financial Report
AGP	Asset Guarantee Program
AIFP	Automotive Industry Financing Program
AIG	American International Group
AML	Anti-money laundering
AMS	Account Management Services
APR	Annual Performance Report
ARC	Administrative Resource Center
ASM/CFO	Assistant Secretary for Management & Chief Financial Officer
ATFC	Afghanistan Threat Finance Cell
AUR	Automated Underreporter
BCPO	Bureau Chief Procurement Officer
BEA	Bank Enterprise Award
BEP	Bureau of Engraving and Printing
BPD	Bureau of the Public Debt
BSA	Bank Secrecy Act
BSM	Business Systems Modernization
CADE	Customer Account Data Engine
CAMELS	Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk
CAP	Capital Assistance Program
CAP	Compliance Assurance Process
CAR	Collection Activity Report
CBP	U.S. Customs and Border Patrol
CBLI	Consumer and Business Lending Initiative
CBO	Congressional Budget Office
CCMM	Collections and Cash Management Modernization
CDCI	Community Development Capital Initiative
CDE	Community Development Entities
CDFI	Community Development Financial Institutions
CDS	Credit Default Swaps
CFPB	Consumer Financial Protection Bureau
CFO	Chief Financial Officer
CFS	Consolidated Financial Statements
CFT	Counter-terrorist financing
CFTC	Commodity Futures Trading Commission

Glossary of Acronyms	
CHCO	Chief Human Capital Officer
CHIPRA	Children's Health Insurance Program Reauthorization Act of 2009
CI	Criminal Investigators
CIF	Climate Investment Funds
CIGFO	Council of Inspectors General on Financial Oversight
CIO	Chief Information Officer
CMBS	Commercial Mortgage Backed Securities
CMF	Capital Magnet Fund
CO	Contracting Officer
COBRA	Consolidated Omnibus Budget Reconciliation Act of 1985
COLA	Certificate of Label Approval
COP	Congressional Oversight Panel
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPP	Capital Purchase Program
CRA	Community Reinvestment Act
CRE	Commercial Real Estate
Credit CARD Act	Credit Card Accountability, Responsibility and Disclosure Act of 2009
CSI	Customer Service Index
CSR	Customer Service Representative
CSRS	Civil Service Retirement System
CTF	Clean Technology Fund
DASHR/CHCO	Office of the Deputy Assistant Secretary for Human Resources/Chief Human Capital Officer
DASMB	Deputy Assistant Secretary for Management and Budget
DASPTR	Deputy Assistant Secretary Privacy, Transparency, and Records
DCAA	Defense Contract Auditing Agency
DCFO	Deputy Chief Financial Officer
DCIA	Debt Collection Improvement Act of 1996
DCP	Office of D.C. Pensions
DIP	Debtor-in-Possession
DISC	Discontinued
DMAS	Debt Management Account System
DO	Departmental Offices
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DOJ	Department of Justice
EBRD	European Bank for Reconstruction and Development
ECM	Enterprise Content Management
EEO	Equal Employment Opportunity
EESA	Emergency Economic Stabilization Act of 2008

Glossary of Acronyms	
EFT	Electronic Funds Transfer
EFTPS	Electronic Federal Tax Payment System
EGTRRA	Economic Growth and Tax Relief Reconciliation Act
EITC	Earned Income Tax Credit
EO	Executive Order
ERP	Economic Recovery Payment
ESF	Exchange Stabilization Fund
ETD	Error Tracking Database
EU	European Union
FAET	Firearms and Ammunition Excise Tax
Fannie Mae	Federal National Mortgage Association
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FATF	Financial Action Task Force
FCDA	Foreign Currency Denominated Assets
FCRA	Federal Credit Reform Act
FDIC	Federal Deposit Insurance Corporation
FEC	Financial Education and Counseling
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
FEGLI	Federal Employees Group Life Insurance
FEHBP	Federal Employees Health Benefits Program
FFB	Federal Financing Bank
FFETF	Financial Fraud Enforcement Task Force
FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHLB	Federal Home Loan Bank
FinCEN	Financial Crimes Enforcement Network
FinTRACA	Financial Transactions and Reports Analysis Center of Afghanistan
FIO	Federal Insurance Office
FISMA	Federal Information Security Management Act
FIRST	Financial Information and Reporting Standardization
FIST	Fraud Investigative Strike Team
FIT	Office of Financial Innovation and Transformation
FIU	Financial Intelligence Unit
FMFIA	Federal Managers' Financial Integrity Act
FMIS	Financial Management Information System
FMS	Financial Management Service
FOIA	Freedom of Information Act
FONL	Formulas Online
FR	Consolidated Financial Report of United States Government
FRB	Federal Reserve Bank
FRBNY	Federal Reserve Bank of New York

Glossary of Acronyms	
Freddie Mac	Federal Home Loan Mortgage Corporation
FSB	Financial Stability Board
FSOB	Financial Stability Oversight Board
FST	Floor Stocks Tax
FTO	Fine Troy Ounce
FY	Fiscal Year
G-7	Group of Seven
G-20	Group of Twenty
GAAP	Generally Accepted Accounting Principles
GAB	General Arrangement to Borrow
GAFSP	Global Agriculture and Food Security Program
GAIS	Government Agency Investment Services
GAO	Government Accountability Office
GEF	Global Environmental Facility
GFRA	General Fund Receipt Account
Ginnie Mae	Government National Mortgage Association
GM	General Motors
GMAC	General Motors Acceptance Corporation
GSA	General Services Administration
GSE	Government Sponsored Enterprises
GWA	Government-wide Accounting
HAMP	Home Affordable Modification Program
HCTC	Health Coverage Tax Credit
HEAT	Health Care Fraud Prevention and Enforcement Action Team
HECM	Home Equity Conversion Mortgage
HERA	Housing and Economic Recovery Act
HFA	Housing Finance Agency
HFFI	Healthy Food Financing Initiative
HHF	Hardest Hit Fund
HHS	Department of Health and Human Services
HIRE	Hiring Incentives to Restore Employment Act of 2010
HRF	Haitian Reconstruction Fund
HSPD	Homeland Security Presidential Directive
HUD	Department of Housing and Urban Development
I&E	Inspections and Evaluations
IAP	International Assistance Programs
ID	Investigation Division
IDB	Inter-American Development Bank
IEEPA	International Emergency Economic Powers Act
IFI	International Financial Institution
IFSR	Iranian Financial Sanctions Regulations
IG	Inspector General
IMF	International Monetary Fund
IPIA	Improper Payments Information Act
IRIS	Integrated Revenue Information System
IRISL	Islamic Republic of Iran Shipping Lines

Glossary of Acronyms	
IRS	Internal Revenue Service
IRS-CI	Internal Revenue Service - Criminal Investigations
ISO	International Organization for Standardization
IT	Information Technology
ITR	Iranian Transactions Regulations
JAMES	Joint Audit Management Enterprise System
LMSB	Large and Mid Sized Businesses
MBS	Mortgage-Backed Securities
MDB	Multilateral Development Banks
MeF	Modernized Electronic File
MHA	Making Home Affordable Program
MINT	U.S. Mint
MOU	Memorandum of Understanding
MRADR	Market Risk Adjusted Discount Rate
MSB	Money services business
MV&S	Modernization, Vision, and Strategy
NAB	New Arrangement to Borrow
NACA	Native American CDFI Assistance
NDIC	National Drug Intelligence Center
NEI	National Export Initiative
NIBP	New Issue Bond Program
NMTC	New Markets Tax Credit
NOL	Net Operating Loss
NPRM	Notice of Proposed Rulemaking
NRC	National Revenue Center
NRP	National Research Program
NTDO	Non-Treasury Disbursing Office
OA	Office of Audits
OCC	Office of the Comptroller of the Currency
ODM	Office of Debt Management
OECD	Organization for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control
OFAS	Office of the Fiscal Assistant Secretary
OFP	Office of Fiscal Projections
OFPP	Office of Federal Procurement Policy
OFR	Office of Financial Research
OFS	Office of Financial Stability
OI	Office of Investigations
OIA	Office of Intelligence and Analysis
OID	Original Issue Discount
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPCL	Office of Privacy and Civil Liberties
OPE	Office of the Procurement Executive
OPEB	Other Post Employment Benefits
OPM	Office of Personnel Management

Glossary of Acronyms	
ORB	Other Retirement Benefits
OTC	Over-the-Counter
OTS	Office of Thrift Supervision
PACT Act	Prevent All Cigarette Trafficking Act of 2009
PAM	Payments Application Modernization
PAR	Performance and Accountability Report
PB	President's Budget
PCA	Planned Corrective Actions
PCC OTC	Paper Check Conversion Over-the-Counter
PII	Personal Identifiable Information
PONL	Permits Online
PP&E	Property, Plant, and Equipment
PPIF	Public-Private Investment Fund
PPIP	Public-Private Investment Program
PSPA	Preferred Stock Purchase Agreements
PTIN	Preparer tax identification number
QEO	Qualified Equity Offering
QFI	Qualified Financial Institution
QTDP	Qualified Therapeutic Discovery Project
Recovery Act	American Recovery and Reinvestment Act of 2009
RMBS	Residential Mortgage Backed Securities
RRACS	Redesign Revenue Accounting Control System
S&ED	Strategic and Economic Dialogue
S.A.F.E. Act	Secure and Fair Enforcement for Mortgage Licensing Act of 2008
SAR	Suspicious Activity Report
SAS	Statement on Auditing Standards
SBA	Small Business Administration
SBLF	Small Business Lending Fund
SBR	Statement of Budgetary Resources
SCAP	Supervisory Capital Assessment Program
SCF	Strategic Climate Fund
SCMA	Strategic Cash Management Agreements
SDR	Special Drawing Rights
SEC	Securities and Exchange Commission
SES	Senior Executive Service
SFFAS	Statement of Federal Financial Accounting Standards
SFP	Supplementary Financing Program
SIG	Special Inspector General
SIGTARP	Special Inspector General for TARP
SME	Small and Medium-sized Enterprise
SNC	Statement of Net Cost
SOMA	System Open Market Account
SPSPA	Senior Preferred Stock Purchase Agreements
SPV	Special Purpose Vehicle
SSBCI	State Small Business Credit Initiative

Glossary of Acronyms	
SSG	Senior Supervisors' Group
SSP	Shared Service Provider
SSP	Stable Share Price
STR	Suspicious Transaction Report
TAC	Taxpayer Assistance Center
TAIFF	Troubled Assets Insurance Financing Fund
TALF	Term Asset-Backed Securities Loan Facilities
TARP	Troubled Asset Relief Program
TCE	Tax Counseling for the Elderly
TCLP	Temporary Credit and Liquidity Program
TE/GE	Tax Exempt and Government Entities
TEOAF	Treasury Executive Office for Asset Forfeiture
TFF	Treasury Forfeiture Fund
TFFC	Office of Terrorist Financing and Financial Crimes
TFI	Terrorism and Financial Intelligence
TFR	Thrift Financial Reports
TFTP	Terrorist Finance Tracking Program
TIER	Treasury Information Executive Repository
TIGTA	Treasury Inspector General for Tax Administration
TIP	Targeted Investment Program
TIPS	Treasury Inflation-Protected Securities
TOP	Treasury Offset Program
TPP	Trans-Pacific Partnership
TRIA	Terrorism Risk Insurance Act
TTB	Alcohol and Tobacco Tax and Trade Bureau
TWEA	Trading with the Enemy Act
UN	United Nations
UNSCR	United Nations Security Council Resolution
UP	Unemployment Program
USA PATRIOT Act	Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001
USDA	United States Department of Agriculture
USPS	United States Postal Service
USSGL	United States Standard General Ledger
VA	Department of Veteran's Affairs
VITA	Volunteer Income Tax Assistance
WHBAA	Worker, Homeownership, and Business Assistance Act of 2009
WMD	Weapons of Mass Destruction
WTO	World Trade Organization

WEBSITE INFORMATION

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