# Internal Revenue Service

**Program Summary by Appropriations Account**
(Dollars in Thousands)

| Appropriation | FY 2004 Enacted | FY 2005 Enacted | FY 2006 President's Budget | FY 2006 Increase/ Decrease | FY 2006 % change |
|---|---|---|---|---|---|
| Tax Administration & Operations | $9,762,024 | $9,998,165 | $10,460,051 | $461,886 | 4.6% |
| Assistance | $1,828,373 | $1,829,190 | $1,805,965 | ($23,225) | (1.3%) |
| Outreach | $544,146 | $500,329 | $466,217 | ($34,112) | (6.8%) |
| Processing | $1,337,128 | $1,276,459 | $1,295,273 | $18,814 | 1.5% |
| Subtotal, Taxpayer Service | $3,709,647 | $3,605,978 | $3,567,455 | ($38,523) | (1.1%) |
| Examination | $3,214,410 | $3,477,623 | $3,711,889 | $234,266 | 6.7% |
| Collection | $1,779,233 | $1,825,715 | $1,990,562 | $164,847 | 9.0% |
| Investigations | $656,131 | $681,980 | $767,418 | $85,438 | 12.5% |
| Regulatory Compliance | $256,248 | $252,993 | $264,855 | $11,862 | 4.7% |
| Research | $146,355 | $153,876 | $157,872 | $3,996 | 2.6% |
| Subtotal, Enforcement | $6,052,377 | $6,392,187 | $6,892,596 | $500,409 | 7.8% |
| Business Systems Modernization | $387,699 | $203,360 | $199,000 | ($4,360) | (2.1%) |
| Health Insurance Tax Credit Administration | $34,794 | $34,562 | $20,210 | ($14,352) | (41.5%) |
| Subtotal, All Appropriations Accounts | $10,184,517 | $10,236,087 | $10,679,261 | $443,174 | 4.3% |
| Offsetting Collections - Reimbursables | $165,635 | $159,000 | $103,000 | ($56,000) | (35.2%) |
| Mandatory Appropriations - User Fees | $62,524 | $100,000 | $100,000 | $0 | 0.0% |
| Total Program Operating Level | $10,412,676 | $10,495,087 | $10,882,261 | $387,174 | 3.7% |

## Explanation of Request

The Internal Revenue Service (IRS) budget request for FY 2006 is $10,679,261,000, a $443,174,088 increase, or 4.3 percent, over the FY 2005 enacted budget of $10,236,086,912. This represents a 1 percent decrease in Taxpayer Service and a 2 percent decrease in Business Systems Modernization, respectively, and an 8 percent increase in Enforcement.

This budget request supports the IRS' five-year strategic plan. This plan, which guides the agency's operations from October 1, 2004, through September 30, 2009, underscores the IRS' commitment to provide quality service to taxpayers and enforce America's tax laws in a balanced manner. The three themes of the strategic plan guiding the future direction of the IRS are:

- *Improve Taxpayer Service*. Improve service by helping people understand their tax obligations and making it easier for them to participate in the tax system.
- *Enhance Enforcement of the Tax Law*. Ensure taxpayers meet their tax obligations, so that when Americans pay their taxes, they can be confident their neighbors and competitors are also doing the same.
- *Modernize the IRS through its People, Processes, and Technology.* Strategically manage resources, associated business processes, and technology systems to effectively and efficiently meet service and enforcement strategic goals.

Taxpayer service is improving in key areas. In FY 2004, almost 62 million individuals filed their returns electronically – up 16 percent over last year. Electronic filing is faster and more reliable, both for the taxpayer and the IRS. The IRS is moving forward on its modernization efforts. This year, the IRS is beginning to process 1040EZ returns and issue refunds from its new computer system, the Customer Account Data Engine (CADE). At the same time, the IRS is modernizing its workforce including consolidating back-office operations to more efficiently and effectively deliver the IRS' taxpayer service and enforcement programs.

While our commitment to service continues, the IRS request includes $264,632,000 for initiatives aimed at enhancing enforcement of the tax laws. The great majority of Americans pay their fair share of taxes, but there is still a significant tax gap – the difference between what taxpayers are supposed to pay and what they actually do – due to non-filing, underreporting and nonpayment. Combating this tax non-compliance is a top priority. Americans deserve to feel confident that when they pay their taxes their neighbors and competitors are doing the same. These new investments will yield substantial additional revenue. The $264.6 million is above increases to fund the pay raise and other cost adjustments ($182 million) – for a total of $446 million for new enforcement investments and cost increases.

It is important that these cost increases and new enforcement investments be fully funded. The Administration is proposing to fund them as contingent appropriations. To ensure full funding of the new enforcement investments, the Administration

proposes to employ a budget enforcement mechanism that allows for an adjustment by the Budget Committees to the section 302(a) allocation to the Appropriations Committees found in the concurrent resolution on the budget. In addition, the Administration will also seek to establish statutory spending limits, as defined by section 251 of the Balanced Budget and Emergency Deficit Control Act of 1985, and to adjust them for this purpose. To ensure full funding of the cost increases, either of these adjustments would only be permissible if the base level for IRS enforcement was funded at $6,446 million and if the use of the funds was clearly restricted to the specified purpose. The maximum allowable adjustment to the 302(a) allocation and/or the statutory spending limit would be $446 million for 2006, bringing the total enforcement level in the IRS to $6,893 million.

The IRS yields more than four dollars in direct revenue from its enforcement efforts for every dollar invested in its total budget. In FY 2004, the IRS brought in a record $43.1 billion in enforcement revenue – an increase of $5.5 billion from the year before, or 15 percent. Beyond the direct revenues generated by increasing audits, collection, and criminal investigations, IRS enforcement efforts have a deterrent effect on those who might be tempted to skirt their tax obligations.

## Purpose of Program

The IRS administers America's tax laws and collects the revenues that fund most government operations and public services. Each year, IRS employees make hundreds of millions of contacts with the American taxpayers and businesses. The IRS and its employees represent the face of government to more U.S. citizens than any other agency.

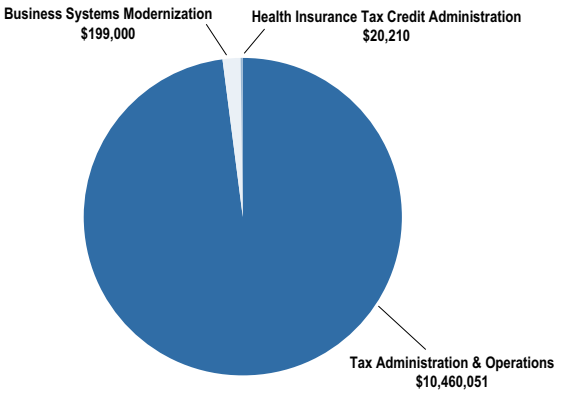
The IRS provides service to millions of taxpayers to help them understand and meet their tax obligations. The IRS also deters people inclined to evade their responsibilities and vigorously pursues those who violate tax laws.

To facilitate full alignment and integration of the IRS's goals and measures with its resources, the IRS proposes to restructure its budget beginning in FY 2006. The new budget structure has a more direct relationship to major IRS program areas and its Strategic Plan. The proposed budget structure combines the three major appropriations – Processing, Assistance, and Management (PAM); Tax Law Enforcement (TLE); and Information Systems (IS), into one appropriation called Tax Administration and Operations (TAO). The Health Insurance Tax Credit Administration (HITCA) and Business Systems Modernization (BSM) appropriations remain unchanged.

The Taxpayer Service and Enforcement programs of the TAO appropriation are divided among eight critical program areas. These budget activities focus on Assistance, Outreach, Processing, Examination, Collection, Investigations, Regulatory Compliance and Research. Full funding for each activity will be reflected in the budget, along with key outcome measures. As the IRS continues to move toward the development and implementation of this new structure, these program areas and the associated resource distributions will be refined to provide more accurate costing.

Highlights of the IRS' appropriations follow:

**IRS Budget by Account**
(Dollars in Thousands)




### Tax Administration and Operations (TAO)

For FY 2006, the IRS requests funding of $10,460,051,000, an increase of 4.6 percent over the FY 2005 appropriation of $9,998,164,640 for programs previously funded from the PAM, TLE and IS appropriations.

The TAO appropriation provides resources for the IRS' service and enforcement programs. The IRS is responsible for ensuring that each taxpayer receives prompt and professional service. To that end, the

IRS' assistance, outreach and processing activities funded in the TAO appropriation are dedicated to providing assistance to taxpayers in all forms – electronic interaction, published guidance, paper correspondence, telephone contact and face-to-face communication – so that taxpayers may fulfill their tax obligations timely and accurately. It also includes the resources the IRS requires to handle the processing and disposition of tax returns, refunds and other filing materials.

The IRS is also responsible for the fair enforcement of the nation's tax laws. Each year, a small percentage of taxpayers file erroneous returns or, for reasons both innocent and less benign, fail to file a return at all. The IRS conducts enforcement activities using a variety of methods, including correspondence audits, matching reporting documents (such as Forms W-2) to information on taxpayer returns, in-person audits, criminal investigations of those suspected of violating tax laws and participation in joint governmental task forces. The IRS' examination, collection, investigations, regulatory compliance and research activities funded in the TAO appropriation provide the resources required for equitable enforcement of the tax code and the investigation and prosecution of individuals and organizations that circumvent tax laws.

**Business Systems Modernization (BSM)**

For FY 2006, the IRS requests funding of $199,000,000, substantially the same funding as the FY 2005 appropriated level of $203,360,000. The BSM appropriation provides resources for the planning and capital asset acquisition of information technology systems to modernize the IRS' antiquated business systems.

The IRS collects $2 trillion in revenues annually through a network of computer systems developed over a 40-year period. These outdated systems need to be replaced. Recognizing the long-term commitment needed to solve the problem of modernizing these antiquated systems, Congress created a special Business Systems Modernization account in FY 1998. Failure to modernize the IRS' tax administration business systems will result in a significant increase in the resources required to maintain the IRS' legacy systems – systems that no longer efficiently serve America's taxpayers.

The IRS' modernization program is providing real business benefits to taxpayers and IRS employees by delivering several modernized systems. For example, the Customer Account Data Engine (CADE) is a modern database, which will eventually house tax information for more than 200 million individual and business taxpayers, replacing the outdated legacy system. The IRS began using CADE to process 1040 EZ returns in late FY 2004. The IRS also implemented the first release of the Integrated Financial System (IFS), which replaces the core financial systems, including expenditure controls, accounts payable, accounts receivable, general ledger and purchasing controls. The IRS also fully deployed online e-Services functionality for tax practitioners and other third parties, such as banks and brokerage firms that file Form 1099s. Under P.L. 108-447, the IRS is permitted to use Private Collection Agencies (PCAs); the IRS plans to leverage the need to manage the use of PCAs with the first release of Filing & Payment Compliance (F&PC) (formerly known as Collection Contract Support). The IRS deployed Modernized e-File, which provides e-filing for the first time to businesses and exempt organizations.

**Health Insurance Tax Credit Administration (HITCA)**

For FY 2006, the IRS requests funding of $20,210,000, a decrease of 41.5 percent below the FY 2005 appropriation of $34,562,272. The Health Insurance Tax Credit Administration (HITCA) Appropriation funds the costs to administer a refundable tax credit for health insurance to qualified individuals. In August 2002, the President signed Public Law 107-210, the Trade Act of 2002, which, among other things, provides a refundable tax credit for the cost of health insurance for certain individuals who receive a trade readjustment allowance or a benefit from the Pension Benefit Guaranty Corporation (PBGC). The tax credit is equal to 65 percent of the health insurance premium paid by eligible persons for themselves and qualifying family members.

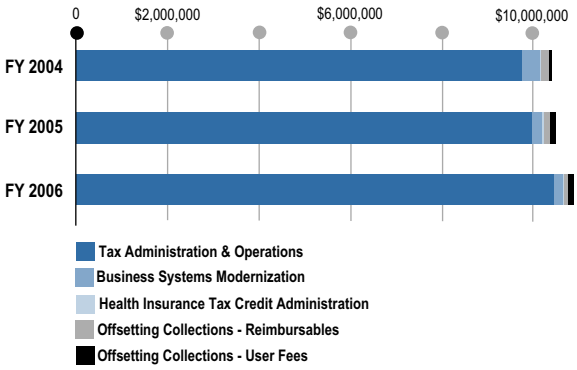
**Offsetting Collections and User Fees**

The FY 2006 budget includes an estimate of $103,000,000 in offsetting collections from reimbursable agreements with other U.S. Government agencies, and an estimate of $100,000,000 in spending from user fees.

## Program Description

The IRS request of $10,882,261,000 includes $10,679,261,000 from appropriations and an estimated $203,000,000 from offsetting collections and user fees.

**IRS Funding History**
(Dollars in Thousands)




## Explanation of Budget Activities

### Tax Administration and Operations (TAO)

*The following Budget Activities support Taxpayer Service programs. These activities support the IRS' strategic goal to improve taxpayer service and Treasury's strategic objective to collect Federal tax revenue when due through a fair and uniform application of the law. Total direct resources for Taxpayer Service programs are $3,567,455,000.*

*Assistance ($1,805,965,000)* The Assistance activity provides resources to taxpayers who have tax-related questions and need to resolve account inquiries via correspondence, face-to-face meetings, telephone calls and electronic communications. Resources provided by this activity enable taxpayers to fulfill their tax obligations timely and accurately, while minimizing taxpayer burden. Funds are also included for the Taxpayer Advocate Service to assure taxpayers' problems are resolved promptly and fairly. Cost for forms and other published documents are also paid from this activity.

*Outreach ($466,217,000)* This activity funds proactive programs for taxpayers, businesses, non-profit organizations, tax practitioners and others to ensure that taxpayers understand their tax obligations and have the information and materials necessary to fulfill their responsibilities. These resources are used to develop understandable notices, produce tax forms and publications, provide media services and develop published information for the visually impaired. Outreach manages educational programs such as Tax Counseling for the Elderly and Volunteer Income Tax Assistance, provides multi-lingual services and develops stakeholder partnerships.

*Processing ($1,295,273,000)* The processing activity includes resources to track, process and resolve all electronic and paper returns. This activity also funds the issuance of refunds, payments and tax notices, and the receipt and processing of the information returns that permit the IRS to match data provided on a taxpayer's return.

*The following Budget Activities support the IRS' Enforcement programs. These activities support the IRS' strategic goal to enhance enforcement of the tax laws and Treasury's strategic objectives to collect Federal tax revenue when due through a fair and uniform application of the tax law and to disrupt and dismantle the financial infrastructure of terrorists, drug traffickers, and to detect and deter other financial crimes. Total direct resources for Enforcement programs are $6,892,596,000.*

*Examination ($3,711,889,000)* This activity supports the verification of information provided on tax returns as well as conducting audits at various levels of complexity. The IRS matches documents using computer databases which compare information reported on tax returns to information reported to the IRS by employers, banks and brokerage firms, ensuring the accuracy of tax returns. This activity also provides resources for tax auditors to conduct on-site examinations, for revenue agents to conduct business and corporate audits, and for cooperation with treaty partners and international organizations.

*Collection ($1,990,562,000)* The collection activity provides resources to collect income tax due from all sources: individuals, small and large corporations, partnerships and the self-employed. Collection primarily occurs in field offices and compliance campuses. IRS uses a variety of approaches and techniques, including full payment demands, installment agreements, offers-in-compromise, liens, levies, bankruptcy procedures and property seizures.

Such activities may be related to correspondence, or notices, or may require litigation or more stringent collection efforts. Collection procedures help to ensure that the tax law is applied with integrity and fairness to all.

*Investigations ($767,418,000)* Investigation funds the exploration of potential criminal violations of the tax laws in a manner that fosters confidence in the tax system. This function ensures the tax laws are applied with integrity and fairness to all. The major goal in a financial investigation is to identify and document the movement of money during the course of a crime. The link between the source of money, who gets it, when it is received and where it is stored or deposited, can provide proof of criminal activity. Resources are dedicated to combating abusive schemes and scams, curtailing fraudulent refund crimes, enforcing money laundering statutes, documenting financial transactions related to narcotics trafficking, dismantling the financial infrastructure of terrorists, exposing Bank Secrecy Act violations, and participating in various intra-governmental task forces. Beginning in FY 2006, this activity will also include organized crime and drug enforcement resources previously reimbursed by the Department of Justice.

*Regulatory Compliance ($264,855,000)* The regulatory compliance activity provides resources for: the interpretation of and guidance on tax laws; the development of published guidance materials; the enforcement of regulatory rules, laws and approved business practices; and the monitoring of currency transaction reporting requirements for financial institutions. These resources also support the IRS' increased focus on offshore credit cards, abusive schemes, technical tax shelters and high-income taxpayers. This is accomplished through published guidance and acceleration of the issuance of notices identifying abusive tax avoidance transactions. Regulatory compliance protects the integrity of tax administration by resolving tax law issues before returns are filed. This increases taxpayer voluntary compliance and accelerates issue resolution.

*Research ($157,872,000)* The research activity includes analyses of IRS-wide operations and performance, economic and demographic comparisons related to taxpayer behavior, statistical evaluations of IRS' program activities and specialized studies in all areas of tax administration. This activity enables IRS and Treasury to access the necessary information to make decisions on tax policy and administration issues. Research ranges from multi-year studies to short-term program evaluations. In addition, this activity provides regular data sets to the Treasury Department, the Joint Committee on Taxation and other Federal agencies; publishes tax data for the general public; and provides research and reference tools for front-line IRS employees.

**Business Systems Modernization (BSM)**

*Information Technology Investments ($199,000,000)* The BSM appropriation provides resources for the planning and capital asset acquisition of information technology to modernize the IRS' business systems. Projects funded in FY 2006 include the Customer Account Data Engine, Modernized e-File, and Filing and Payment Compliance.

**Health Insurance Tax Credit Administration (HITCA)**

*Health Care Tax Administration ($20,210,000)* The Health Insurance Tax Credit Administration (HITCA) activity funds costs to administer a refundable tax credit for health insurance to qualified individuals.

## Explanation of FY 2005 Current Estimate

The FY 2005 current estimate of IRS appropriations is a total of $10,236,086,912. This is comprised of three appropriations:

- $9,998,164,640 for Tax Administration Operations
- $203,360,000 for Business System Modernization
- $34,562,272 for Health Insurance Tax Credit Administration.

## Explanation of FY 2006 Built-In Changes – Decreases

**Tax Administration and Operations (TAO)**

*Savings from Increased Individual Master File (IMF) E-Filing -$7,700,000/-190 FTE* These savings are based on the projected decrease in IMF paper returns and processing costs for electronically filed IMF returns

**FY 2006 Budget Highlights**
(Dollars in Thousands)

| Appropriation | Tax Administration & Operations | Business Systems Modernization | Health Insurance Tax Credit Administration | Total |
|---|---|---|---|---|
| FY 2004 Enacted | $9,762,024 | $387,699 | $34,794 | $10,184,517 |
| FY 2005 Consolidated Appropriations | $10,078,795 | $205,000 | $34,841 | $10,318,636 |
| Rescission H.R. (4818) | ($80,630) | ($1,640) | ($279) | ($82,549) |
| FY 2005 Current Estimates | $9,998,165 | $203,360 | $34,562 | $10,236,087 |
| Current Services | | | | |
| Adjustments to Base | $331,457 | ($4,360) | ($14,352) | $312,745 |
| Pay Inflation Adjustment | $220,909 | | $64 | $220,973 |
| Non-Pay Inflation Adjustment | $55,367 | | $774 | $56,141 |
| Transfer to TIGTA (FECA) | ($201) | | | ($201) |
| Adjustment for Full Costing of HITCA | ($202) | | $202 | $0 |
| Transfer from Justice | $55,584 | | | $55,584 |
| Business Systems Modernization | | ($4,360) | | ($4,360) |
| Reduce Health Insurance Tax Credit Administration | | | ($15,392) | ($15,392) |
| Base Re-Engineering | ($230,096) | | | ($230,096) |
| Taxpayer Service Re-Engineering | ($134,103) | | | ($134,103) |
| Savings from Increased Individual Master File (IMF) E-Filing | ($7,700) | | | ($7,700) |
| Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations | ($66,654) | | | ($66,654) |
| Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations | ($14,928) | | | ($14,928) |
| Detect and Deter Corrosive Corporate Non-Compliance | ($6,711) | | | ($6,711) |
| FY 2005 Current Services Level | $10,099,526 | $199,000 | $20,210 | $10,318,736 |
| Program Initiatives - Reinvestments | $95,893 | | | $95,893 |
| Increasing Returns Processing Efficiencies | $7,600 | | | $7,600 |
| Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations | $66,654 | | | $66,654 |
| Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations | $14,928 | | | $14,928 |
| Detect and Deter Corrosive Corporate Non-Compliance | $6,711 | | | $6,711 |
| Program Initiatives - Increases | $264,632 | | | $264,632 |
| Attack Corrosive Non-Compliance Activity Driving the Tax Gap | $149,700 | | | $149,700 |
| Detect and Deter Corrosive Corporate Non-Compliance | $51,800 | | | $51,800 |
| Increase Individual Taxpayer Compliance | $37,900 | | | $37,900 |
| Curtailing Fraudulent Refund Crimes | $10,772 | | | $10,772 |
| Combat Abusive Transactions by Special Tax Status Entities | $14,460 | | | $14,460 |
| FY 2006 President's Budget | $10,460,051 | $199,000 | $20,210 | $10,679,261 |

in Submission Processing Centers. IMF e-filing rates rose from 31 percent in FY 2001 to 46.5 percent in FY 2004. The projected e-file rate in FY 2006 is 55 percent. In FY 2006, IMF paper return filings are projected to decrease by four million as a direct result of the increase in electronic filing.

*Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations -$66,654,000/-649 FTE* Case Processing activities support the IRS' examination, collection and lien processing programs. This initiative is a continuation of the project to consolidate the IRS' Case Processing operations currently performed at over 86 field locations into four campus sites (Cincinnati, Memphis, Ogden and Philadelphia). These important processes will be standardized, efficiencies implemented and expertise enhanced to improve service to customers. Consolidation will ultimately allow improved response to peak demand and better management of the workload. *(See offsetting program reinvestment under program initiatives.)*

*Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations -$14,928,000/-134 FTE* Insolvency operations protect the government's interest in bankruptcy proceedings.

This initiative is a continuation of the project to consolidate administrative activities into the Philadelphia campus. The consolidation will retain professional employees in all existing offices while centralizing and standardizing clerical and para-professional processes. This effort will increase efficiencies, eliminate duplication of effort and provide clarity and convenience for taxpayers. Standardized workloads that correspond with appropriate job categories will provide improved work products with quality reviews. *(See offsetting program reinvestment under program initiatives.)*

*Detect and Deter Corrosive Corporate Non-Compliance -$6,711,000/-52 FTE* By using improved issue management and risk assessment strategies for examining corporations, the IRS expects to realize productivity improvements for FY 2006. *(See offsetting program reinvestment under program initiatives.)*

*Taxpayer Service Re-Engineering -$134,103,000/ -1,205 FTE* IRS is working aggressively to improve productivity and achieve cost savings. Efforts such as expanded use of pay-for-performance incentives, legislative proposals to accelerate full growth, competitive sourcing and reducing dependence on walk-in taxpayer service will save $134 million in taxpayer service programs in 2006.

**Business Systems Modernization (BSM)**

*Business Systems Modernization Savings -$4,360,000/ 0 FTE* This reduction reflects a reduced portfolio of projects and scaled-back infrastructure and management activities associated with program-level operations.

**Health Insurance Tax Credit Administration (HITCA):**

*Reduce Health Insurance Tax Credit Administration -$15,392,000/0 FTE* Costs for the HITCA program have declined since implementation due to the IRS' active program oversight and management and several cost-cutting initiatives currently in process since March 2004. A comprehensive action plan outlining cost reduction initiatives was developed and is being followed to achieve these savings. This plan includes program improvements in customer service, reductions in information technology support, and space consolidation. The plan also includes protection of several key features of the program to assure continued delivery of high quality service while driving down program costs. For example, the plan assumes no extension of the current cycle for registration, maintenance of accurate and complete customer accounts, timely payments, and no increase in burden.

## Explanation of FY 2006 Built-In Changes – Increases

*Adjustments Necessary to Maintain Current Levels +$276,913,000/0 FTE* Funds are requested for pay raise and annualization of $220,973,000 and non-labor items, $56,141,000. It also includes a technical adjustment to Treasury Inspector General for Tax Administration (TIGTA) of $201,000 for its share of unemployment costs currently funded by the IRS.

*Transfer from the U.S. Department of Justice +$55,584,000/+329 FTE* The FY 2006 budget transfers the IRS' portion of the Interagency Crime and Drug Enforcement (ICDE) appropriation from the Department of Justice in FY 2006. Of this amount, $53,913,000 is the 2005 enacted level transferred from Justice and $1,671,000 is for maintaining current levels.

## Explanation of FY 2006 Program Changes

**Program Initiatives – Base Reinvestments**

*Increase Returns Processing Efficiencies +$7,600,000/ +12 FTE* This initiative reinvests savings realized from processing efficiencies to enable the IRS to continue its consolidation of Individual Master File (IMF) returns processing into fewer Submission Processing sites. Funds will cover the costs associated with the ramp-down of the Memphis Submission Processing Site and include staff separation costs (e.g., buyouts and severance pay), real estate restacking costs, equipment and furniture relocation and costs related to information technology equipment. The IRS initiative to increase electronic filing will continue to have a significant impact on Submission Processing Centers as IMF paper volumes decline.

*Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations +$66,654,000/+585 FTE* This reinvestment is a continuation of the FY 2005 project to consolidate case processing activities. These resources are necessary to cover costs to consolidate front-line resources from 86 field locations to four campus sites. *(See offsetting program reductions under initiative decreases.)*

Benefits from the centralization of Case Processing operations will occur in FY 2006 and years forward. The reduced staffing levels necessary to maintain case processing in a centralized environment will create resource savings for redirection to front-line enforcement activities in FY 2006.

*Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations +$14,928,000/+156 FTE* This reinvestment is a continuation of the FY 2005 project to consolidate insolvency activities. This reinvestment initiative provides the required resources to centralize the Insolvency administrative processes. *(See offsetting program reductions under initiative decreases.)*

Benefits from centralizing Insolvency administrative functions will occur in FY 2006. Benefits include improved taxpayer service through the creation of a toll-free telephone service to answer questions from taxpayers who have filed or are contemplating filing bankruptcy. Hours of service will be extended to both taxpayers and employees, because the centralized site will operate day and swing shifts. This initiative will also provide taxpayers with a single point of contact for mail processing.

*Detect and Deter Corrosive Corporate Non-Compliance +$6,711,000/+52 FTE* This initiative reinvests savings resulting from improved issue management and risk assessment strategies for examining corporations to fund front-line enforcement activities. This reinvestment will provide a pipeline of skilled and knowledgeable agents for addressing complex, high-risk issues, tax shelter promoter compliance and ensuring compliance among tax professionals. *(See offsetting program reductions under initiative decreases.)*

**Program Initiatives – Increases**

*Attack Corrosive Non-Compliance Activity Driving the Tax Gap +$149,700,000/+920 FTE* The concern over the proliferation of abusive trusts and shelters, including offshore credit cards and organized tax resistance, require new and innovative approaches to combat noncompliance. Traditional approaches aimed at maintaining audit coverage and managing growing case inventories have failed to adequately address the complex enforcement issues associated with high-income individuals who use structured transactions to conceal tax liability and avoid payment of taxes owed. The increasingly global economy requires that the IRS devise strategies to assure that the worldwide revenues due the United States are assessed and collected. Audit closures by tax compliance officers will increase by approximately 3,000 units, and correspondence examiner hires will expect to close an additional 25,600 audits.

This enforcement initiative provides resources to increase coverage of the growing number of high-risk compliance problems and to address the largest portion of the tax gap – the underreporting of tax. The initiative includes a funding increase across all major domestic and international compliance programs to leverage new workload selection systems and case building approaches from continuing reengineering efforts.

This initiative will contribute to reducing reporting noncompliance by providing personnel to bolster coverage and presence in this area. Increased staffing will also provide enhanced compliance coverage of approximately 4.6 million Americans living abroad.

*Detect and Deter Corrosive Corporate Non-Compliance +$51,800,000/+236 FTE* This initiative will allow the IRS to address complex, high-risk issues in abusive tax avoidance transactions, promoter activities, corporate fraud and aggressive domestic and off-shore transactions, resulting in increased corporate and high-income audit coverage and audit closures. This initiative strengthens enforcement and corporate governance for the largest corporate taxpayers by providing resources to combat corrosive non-compliance. It will enable the Service to attack complex abusive tax avoidance transactions on a global

basis and to challenge those who promote their use. Additionally, critical post-filing support provided by outside experts will facilitate increased resolution of issues at the field examination level, reducing taxpayer burden and increasing the credibility of the Service's positions on the most complex and potentially highest compliance impact issues sent to court.

*Increase Individual Taxpayer Compliance +$37,900,000/+417 FTE* This initiative will bolster enforcement presence to address widespread concerns regarding the continued growth in non-compliance reported by the Treasury Inspector General for Tax Administration (TIGTA), the General Accounting Office (GAO), Congress and the media. It is comprised of four components aimed at addressing the tax gap: identifying and implementing actions to address non-compliance with filing requirements; increasing Automated Underreporter resources to address the reporting compliance tax gap; increasing audit coverage; and expanding collection work in Taxpayer Assistance Centers (TACs). The IRS expects to increase audit coverage by 81,800 cases and increase the verification of income through information matching by 362,000 cases.

*Combat Abusive Transactions by Entities with Special Tax Status +$14,460,000/+77 FTE* This initiative strengthens the IRS' ability to address its strategic objective to deter tax avoidance of tax-exempt and governmental entities. The tools and resources funded by this initiative will improve the Service's ability to identify compliance risks and significantly expand coverage of regulated communities. Improved access to information will help focus on the most egregious cases of non-compliance and identify compliance risks sooner, reducing burden on compliant customers and enabling the development of new interventions to curtail the growth of abusive transactions.

Funding for this initiative will support the following activities: initiating examinations more promptly after the detection of a risk and equipping agents with better information prior to their first contact with taxpayers; safeguarding compliant customers from unscrupulous promoters through earlier detection of abusive schemes and heightened efforts to prevent their proliferation; and increasing vigilance to ensure that the assets of tax-exempt organizations are put to their intended tax-preferred purpose and not misdirected to fund terrorism or for private gain, including enhanced processing of questionable exemption applications and increased technical support to the examination process. The IRS estimates an additional 1,050 cases will be closed.

*Curtailing Fraudulent Refund Crimes +$10,772,000/+22 FTE* This initiative allows the IRS to attack questionable refunds and return preparer fraud identified through expanded operations of the Fraud Detection Centers located on IRS campuses. Fraudulent refund schemes are one of the most serious threats to voluntary compliance and an IRS investigative priority. The number of false claims for refunds has tripled since 2000 and is expected to again double by 2008. Additional investigative resources are needed to combat this threat. In addition, access to the Department of Health and Human Services' National Directory of New Hires will be used to more efficiently identify fraudulent refund crimes. This will reduce taxpayer burden by releasing legitimate refunds promptly, streamline the investigative process and ensure the integrity of the tax system.

The IRS estimates to initiate twenty new subject criminal investigations in FY 2006 and close four of these cases within the year.

## Legislative Proposals

The proposals below reflect the IRS' ongoing effort to manage the agency efficiently and effectively. They reshape the IRS workload by: 1) allowing the IRS to concentrate its resources on high-income, high-risk areas; 2) automating a number of routine actions; 3) consolidating resources related to judicial and counsel review; 4) using electronically available data and resources to reduce manual actions; and 5) broadening administrative authorities and accesses to support further electronic administration and tax reform.

- Make Section 1203 of the IRS Restructuring and Reform Act of 1998 more effective and fair.
- Curb the use of frivolous submissions and filings made to impede or delay tax administration.
- Allow for the termination of installment agreements for failure to file returns and for failure to make tax deposits.

- Consolidate judicial review of collection due process cases in the United States Tax Court.
- Eliminate the monetary threshold for counsel review of offers in compromise
- Allow the Financial Management Service to retain transaction fees from levied amounts to recover delinquent taxes.
- Extend the due date for electronically filed returns to provide additional incentive for taxpayers to e-file and expand the authority to require electronic filing by businesses and exempt organizations.
- Allow IRS to access information in the National Directory of New Hires for tax administration purposes.

# Financial Management Service

**Program Summary by Appropriations Account**
(Dollars in Thousands)

| Appropriation | FY 2004 Enacted | FY 2005 Enacted | FY 2006 President's Budget | FY 2006 Increase/ Decrease | FY 2006 % change |
|---|---|---|---|---|---|
| Salaries and Expenses | $227,210 | $229,083 | $236,243 | $7,160 | 3.1% |
| Payments | $136,534 | $141,287 | $145,591 | $4,304 | 3.1% |
| Collections | $16,426 | $16,693 | $17,102 | $409 | 2.5% |
| Debt Collection | $14,696 | $9,855 | $10,264 | $409 | 4.2% |
| Government-wide Accounting | $59,554 | $61,248 | $63,286 | $2,038 | 3.3% |
| Subtotal, Financial Management Service | $227,210 | $229,083 | $236,243 | $7,160 | 3.1% |
| Offsetting Collections - Reimbursables | $161,899 | $151,135 | $167,770 | $16,635 | 11.0% |
| Total Program Operating Level | $389,109 | $380,218 | $404,013 | $23,795 | 6.3% |

Total resources required to support FMS activities for FY 2006 are $404,013,000, including $236,243,000 from appropriations and $167,770,000 from offsetting collections and reimbursable agreements.

## Explanation of Request

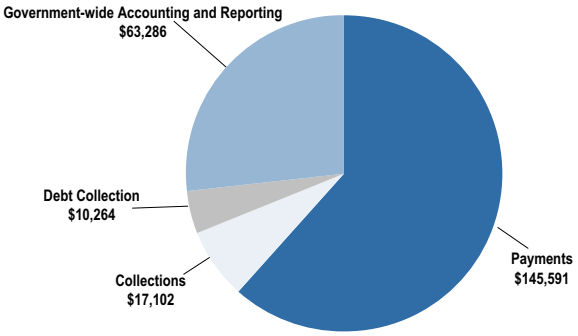
The mission of the Financial Management Service (FMS) is to provide central payment services to Federal program agencies, operate the Federal Government's collections and deposit systems, provide Government-wide accounting and reporting services, and manage the collection of delinquent debt. This is accomplished by providing financial services, information, advice and assistance to customers, including taxpayers, the Department of the Treasury, Federal agencies, Government policymakers, and Congress. FMS' activities are divided among four budget activities: Payments, Collections, Debt Collection, and Government-wide Accounting.

The FMS FY 2006 President's budget request includes funding to continue to modernize its capital equipment to ensure the flawless issuance of Federal payments. This will include the purchase of presort equipment to: 1) allow FMS to sort payment files according to zip codes, and qualify the daily mail pieces for a discount postage rate of up to $.06 per mail piece; and 2) provide an estimated savings of approximately $1.5 million per year Government-wide based on projected mail volumes after full implementation, as well as contain FMS' postage costs. In addition, this request includes increased funding provided for payments to the Federal Accounting Standards Advisory Board (FASAB), which will streamline the payment and budget process and consolidate the Executive Branch's contribution to FASAB. The FMS budget also includes investments in information technology paid for by savings produced by productivity gains, investments in technology and other methods.

## Purpose of Program

FMS' activities encompass all work performed to improve the quality of government financial management and include implementing payment policy and procedures for the Federal Government, issuing and distributing payments, promoting the use of electronic methods in payment and collection processes, assisting agencies in converting payments from paper checks to electronic funds transfer (EFT), operating the Federal Government's collection and deposit systems, centrally managing and collecting delinquent debts owed to the Federal Government, and providing Government-wide accounting and reporting services.

**FMS Funding by Budget Activity**
(Dollars in Thousands)




### Salaries and Expenses

The total FY 2006 salaries and expenses appropriations request for FMS is $236,243,000. The $7,160,000 increase over the FY 2005 base estimates is to fund adjustments to maintain current services, modernize capital equipment for payment functions, and increase funding for payments to the Federal Accounting Standards Advisory Board.

### Offsetting Collections and Reimbursable Amounts

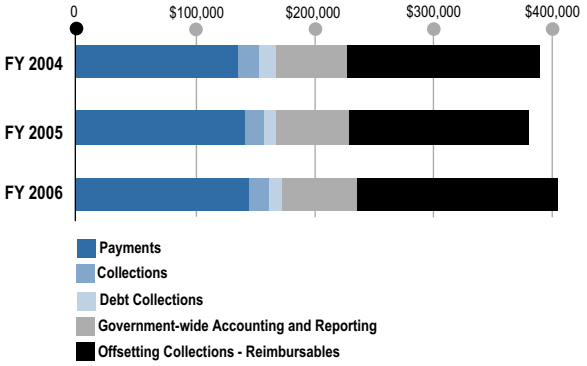
FMS' offsetting collections and reimbursable agreements for FY 2006 are estimated at $167,770,000. FMS' offsetting collections and reimbursable activities include:

- Disbursement of Federal Agency payments to beneficiaries, including Social Security payments, Railroad Retirement Board payments, tax refunds and Department of Veterans Affairs benefit payments (Payments);
- Debt collection services for Federal Agencies and states through the Treasury Offset Program, State Tax Debt Program, Federal Tax Levy, and the Cross-Servicing Program (Debt Collection); and
- Administrative support and accounting and reporting services to Treasury Agency Services, the FMS Franchise Fund organization (Government-wide Accounting).

## Program Description

The FMS request of $404,013,000, includes $236,243,000 from direct appropriations and $167,770,000 from offsetting collections and reimbursable agreements to process Federal payments and collections, conduct debt collection activities and provide government-wide accounting and reporting services. Program funding supports Treasury's efforts to increase the use of an all-electronic Treasury and conduct the government's financial transactions in a timely, accurate and efficient matter.

**FMS Funding History**
(Dollars in Thousands)




## Explanation of Budget Activities

### Salaries and Expenses

FMS' appropriation is divided into four budget activities: Payments, Collections, Debt Collection and Government-wide Accounting.

*Payments ($272,676,000, including $145,591,000 from direct appropriations and $127,085,000 from offsetting collections and reimbursements)*
FMS' Payments program disburses 85 percent of the Federal Government's payments to a wide variety of recipients, such as those who receive Social Security payments, Internal Revenue Service (IRS) tax refunds, and veterans' benefits. The function of the Payments Activity is to develop and implement Federal payment policy and procedures, issue and distribute payments, promote the use of electronics in the payment process, and assist agencies in converting payments from paper checks to Electronic Funds Transfer (EFT). FMS continues to expand the use of electronic media to deliver Federal payments (projected at 78 percent in FY 2006), improve service to payment recipients, and reduce government program costs.

*Collections ($17,102,000 from direct appropriations)*
FMS' Collections program collects more than $2.3 trillion annually through a network of more than 10,000 financial institutions. It also manages the collection of Federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines, and proceeds from leases. FMS establishes and implements collection policies, regulations, standards and procedures for the Federal Government. FMS develops and operates a variety of collection mechanism and systems (e.g., Electronic Federal Tax Payment System [EFTPS], lockboxes, Treasury General Accounts, debit/credit cards, and Pay.gov) to meet program agency needs. FMS continues to promote the use of electronics in the collections process and assists agencies in converting collections from paper to electronic media, projected at 83 percent in FY 2006.

*Debt Collection ($50,449,000, including $10,264,000 from direct appropriations and $40,185,000 from offsetting collections and reimbursements)* FMS' Debt Collections program maximizes collection of government delinquent debt by managing

government-wide delinquent debt collections as required by the Debt Collection Improvement Act of 1996 (DCIA). This includes maintaining and operating the Treasury Offset Program (TOP), a centralized offset program developed by FMS to assist Federal agencies and states in the collection of delinquent debts. FMS also operates the Cross-servicing Program, a centralized debt collection process that collects delinquent debts referred from Federal program agencies through the use of various tools, including private collection agencies.

*Government-wide Accounting and Reporting ($63,786,000, including $63,286,000 from direct appropriations and $500,000 from offsetting collections and reimbursements)* FMS' Government-wide Accounting program maintains the Federal Government's central accounting and reporting system, keeping track of its monetary assets and liabilities. It also works with Federal agencies to adopt uniform accounting and reporting standards and systems and provides support, guidance and training to assist Federal Program Agencies (FPAs) to improve their government-wide accounting and reporting responsibilities. FMS gathers and publishes government-wide financial information that is used in establishing fiscal and debt management policies and also used by the public and private sectors to monitor the government's financial status.

**FY 2006 Budget Highlights**
(Dollars in Thousands)

| Appropriation | Salaries & Expenses |
|---|---|
| FY 2004 Enacted | $227,210 |
| FY 2005 Consolidated Appropriations (H.R. 4818) | $230,930 |
| Rescission (H.R. 4818) | ($1,847) |
| FY 2005 Current Estimates | $229,083 |
| Current Services | |
| Reductions, Non-Recurring Costs and Savings Total | ($1,554) |
| Rent -relocation of San Francisco Center | ($700) |
| Accounting Information Infrastructure Efficiencies | ($425) |
| Check Reconciliation and Claims Improvements | ($250) |
| Automation of Standard Application Payments | ($179) |
| Adjustments to Maintain Current Services | $5,842 |
| Pay Inflation Adjustment | $4,076 |
| Non-Pay Inflation Adjustment | $1,766 |
| FY 2005 Current Services Level | $233,371 |
| Program Initiatives - Base Reinvestments | $1,554 |
| Workstation Replacement | $1,554 |
| Program Initiatives- Increases | $1,318 |
| Mail Sorting Equipment | $799 |
| FASAB | $519 |
| FY 2006 President's Budget | $236,243 |

## Explanation of FY 2005 Current Estimate

The FY 2005 current estimate of FMS appropriations is a total of $229,082,560 to fund Salaries and Expenses.

## Explanation of FY 2006 Built-In Changes – Decreases

*Program Reductions/Redirection of Base Resources -$1,554,000/0 FTE* FMS continuously reviews its operations to identify opportunities to realign resources to fund priority requirements, meet mission objectives and support Treasury's goal of managing the government's finances effectively within its budgetary constraints. For the FY 2006 Budget Cycle, FMS reviewed its programs to identify low-value efforts, non-recurring costs, and opportunities to re-engineer its business processes to seek optimal uses of limited resources. As a result of this review, FMS was able to redirect funding to higher mission critical needs, while remaining within current funding levels. These decreases consisted of savings of: (1) $700,000 of reduced rental expenses realized as a result of moving one of our Regional Finance Centers from San Francisco to Oakland, CA; (2) $429,000 in funding realized as a result of improved efficiencies in our payments and claims processes due to the implementation of the Treasury Check Information System (TCIS) and efficiencies created by the Automated Standard Application for Payments (ASAP); and (3) $425,000 of non-recurred funding from the development phase of FMS' FY 2005 Accounting Information Infrastructure Initiative to standardize access to Federal accounting terminology. These savings ($1,554,000) will be redirected in full to support computer security needs. In FY 2006, FMS will need to replace computer workstations that pose security risks to its network and Enterprise platform due to technical/operating software obsolescence. The net effect of this redirection is $0.

## Explanation of FY 2006 Built-In Changes – Increases

*Adjustments Necessary to Maintain Current Levels +$5,842,000/0 FTE* Funds are requested for: FY 2006 cost of the January 2005 pay increase of $1,302,000; proposed January 2006 pay raise of $2,774,000; other labor related benefits; and non-labor related items

such as contracts, travel, supplies, equipment, and GSA rent adjustments of $1,766,000.

## Explanation of FY 2006 Program Changes

### Program Initiatives - Base Reinvestments

*Workstation Replacement +$1,554,000/0 FTE* In FY 2006, FMS will need to replace computer workstations that pose security risks to its network and Enterprise platform due to technical/operating software obsolescence. Funding for this project will come from the program reduction and redirection identified above. No new program funding is requested for the workstation replacement project. The net effect of this redirection is $0.

### Program Initiatives - Increases

*Capital Investments +$799,000/0 FTE* In FY 2006, FMS is requesting funding to continue to modernize its capital equipment to ensure the flawless issuance of Federal payments. This will include the purchase of presort equipment to allow FMS to sort payment files according to zip codes, and qualify the daily mail pieces for a discount postage rate of up to $.06 per mail piece. Each year approximately 28.5 million daily mail pieces are mailed out at the standard postage rate. These mail pieces are daily vendor, miscellaneous, and salary payments, claims mailings and letters from various Federal agencies. Based on projected mail volumes, in addition to containing FMS' postage costs, this initiative is estimated to generate savings of over $1.5 million per year government-wide after full implementation.

*Financial Accounting Standards Advisory Board (FASAB) Increase +$519,000/0 FTE* The FMS appropriation includes an additional $519,000 that would have otherwise been appropriated to the Office of Management and Budget (OMB). This amount represents OMB's portion of the annual payment to the Financial Accounting Standards Advisory Board (FASAB). Both OMB and Treasury share operating costs ($519,000 and $429,000, respectively) and responsibilities for improving government accounting standards as the two Executive Branch sponsors of FASAB. Under this new approach, the Financial Management Service (FMS) will forward a payment of $938,000 to the FASAB. This single payment will streamline the payment and budget process and consolidate the Executive Branch's contribution to FASAB.

## Legislative Proposals

The following legislative proposals are being resubmitted as a part of FMS' FY 2006 President's budget request. These proposals are part of FMS' recommended follow-up actions to the Program Assessment Rating Tool (PART) review of the Debt Collection activity.

- Allow the offset of past-due, legally enforceable state unemployment compensation debts against overpayments. This initiative would allow FMS to offset Federal tax refunds to collect past-due, legally enforceable state unemployment compensation debts. Presently, FMS offsets Federal tax refunds to collect delinquent debt owed to Federal agencies, delinquent child support obligations, and delinquent state income tax debt. FMS would match information about state unemployment compensation debts with Federal tax returns, deduct amounts due from the Federal income tax refunds, and credit those amounts to the appropriate state unemployment insurance trust fund maintained by Treasury. This change would yield an estimated increase in collections of $281 million in the first year. This would require an amendment to section 6402 of the Internal Revenue Code (26 U.S.C. 6402) and minimal system and operational changes to implement this proposal.

- Eliminate the 10-year limitation on collection of debts owed to the United States. This initiative would eliminate the 10-year limitation on the collection of delinquent Federal debts through the Treasury Offset Program. Presently, the collection of delinquent Department of Education student loans has no limitation period. This change would yield an estimated increase in collections of $11 million in the first year. For the offset of non-tax payments, this would require an amendment to the Debt Collection Act (31 U.S.C. 3716 (e)) and conforming regulatory amendments. For the offset of tax refund payments, no statutory change would be required; however, minimal system and operational changes would be required.

# Bureau of the Public Debt

**Program Summary by Appropriations Account**
(Dollars in Thousands

| Appropriation | FY 2004 Enacted | FY 2005 Enacted | FY 2006 President's Budget | FY 2006 Increase/ Decrease | FY 2006 % change |
|---|---|---|---|---|---|
| Salaries and Expenses[1] | $177,027 | $178,165 | $179,923 | $1,758 | 1.0% |
| Wholesale Securities Services | $12,064 | $11,905 | $12,306 | $401 | 3.4% |
| Government Agency Investment Services | $13,756 | $13,360 | $13,812 | $452 | 3.4% |
| Retail Securities Services | $145,419 | $147,298 | $148,014 | $716 | 0.5% |
| Summary Debt Accounting | $5,788 | $5,602 | $5,791 | $189 | 3.4% |
| Subtotal, Bureau of the Public Debt[1] | $177,027 | $178,165 | $179,923 | $1,758 | 1.0% |
| Offsetting Collections - Reimbursables | $6,195 | $7,190 | $8,378 | $1,188 | 16.5% |
| Other - Unobligated Balance Lapsing | $2,101 | | | | |
| Total Program Operating Level[1] | $183,222 | $185,355 | $188,301 | $2,946 | 1.6% |

[1]Includes direct appropriations and user fees.

## Explanation of Request

The Bureau of the Public Debt's (BPD) mission is to borrow the money needed to operate the Federal Government and account for the resulting debt. BPD conducts the Department's debt finance operations by issuing and servicing marketable and non-marketable Treasury securities sold to wholesale and retail investors as well as government entities. The bureau also administers the regulations for the Government Securities market. BPD has four budget activities: Wholesale Securities Services, Government Agency Investment Services, Retail Securities Services, and Summary Debt Accounting.

BPD's FY 2006 Budget request includes five program changes, not including inflation, paid for by savings realized by productivity gains, investments in technology, and other methods.

Total resources required to support BPD activities for FY 2006 are $188,301,000, including $176,923,000 from direct appropriations, $3,000,000 from user fee collections and $8,378,000 from reimbursable agreements.

## Purpose of Program

On behalf of the Department of the Treasury, BPD borrows the money needed to operate the Federal Government and refund maturing debt.

### Salaries and Expenses

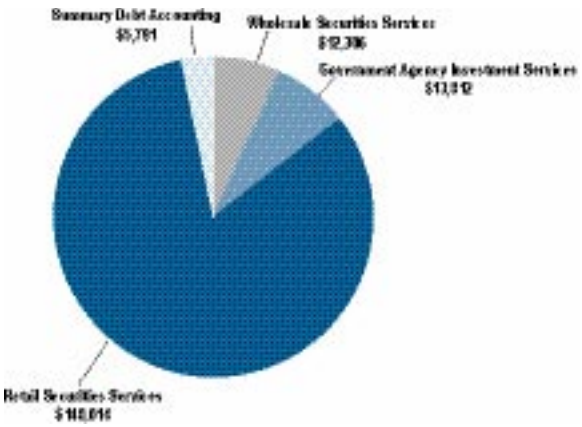
The total FY 2006 direct appropriation request for BPD is $176,923,000. New budget authority is only requested for inflationary increases. All other increases are funded through base reinvestments.

### Offsetting Collections and Reimbursable Amounts

The FY 2006 program includes $3,000,000 in user fee collections and an estimate of $8,378,000 in reimbursable agreements with other agencies for services performed by BPD, which include:

- Administrative support (space, mainframe and network use, training, and legal services, etc.) to the Treasury Franchise Fund, Administrative Resource Center (All budget activities).
- Investment accounting to numerous trust funds on behalf of the Secretary of Treasury (Government Agency Investment Services).
- Postage meter use (All budget activities).
- Performing savings bond/social security income matches to identify unreported or underreported resources (Retail Securities Services).
- Collecting user fees from the public for TreasuryDirect accounts that exceed $100,000 in par value and for the issuance of definitive marketable securities (Retail Securities Services).

**BPD Funding by Budget Activity**
(Dollars in Thousands)

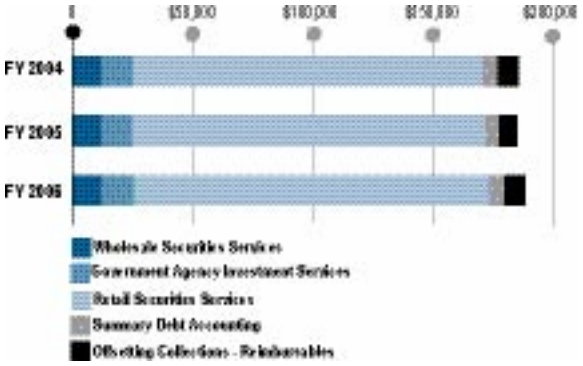


## Program Description

The BPD's operating level of $188,301,000 includes $176,923,000 from direct appropriations, $3,000,000 from user fee collections and $8,378,000 from reimbursable agreements to continue fully servicing wholesale and retail securities, providing government agency investment services, and fully accounting for the resulting debt. Program funding supports Treasury's efforts to realize the goal of an all-electronic Treasury, and conduct the Government's financial transactions in a timely, accurate, and efficient manner.

BPD's appropriation is divided into four budget activities: Wholesale Securities Services (WSS), Government Agency Investment Services (GAIS), Retail Securities Services (RSS), and Summary Debt Accounting (SDA).

**BPD Funding History**
(Dollars in Thousands)




## Explanation of Budget Activities

### Salaries and Expenses

*Wholesale Securities Services ($12,675,000, including $12,306,000 from direct appropriations plus reimbursements of $369,000)* This activity involves the auction and issue of marketable Treasury bills notes and Treasury Inflation Protected Securities (TIPS). WSS provides an efficient infrastructure for the custody and transfer of those securities. BPD conducts some 200 marketable securities auctions annually, resulting in the issue of more than $4.6 trillion in Treasury bills and notes. The Commercial Book-Entry System holds approximately $3.9 trillion, or 98 percent, of Treasury bills, notes and TIPS purchased by market participants and their customers. Some $900 billion marketable Treasury issues are transferred among account holders each day in the Commercial Book-Entry System.

*Government Agency Investment Services ($17,009,000, including $13,812,000 from direct appropriations plus reimbursements of $3,197,000)* BPD supports local, State, and Federal agencies' investments in non-marketable Treasury securities as well as Federal agency borrowing from Treasury. The two major non-marketable special purpose securities involved are the Government Account Series (GAS) and the State and Local Government Series (SLGS). GAS securities are issued only to funds managed by Federal agencies with statutory investment authority. With approximately $3.1 trillion in investments, GAS securities comprise approximately around 42 percent of the public debt outstanding. SLGS securities are offered to State and local governments as investment alternatives to assist issuers of tax-exempt securities in complying with yield restriction and arbitrage rebate provisions of the Internal Revenue Code. BPD manages approximately 5,600 SLGS active accounts valued at $160 billion.

*Retail Securities Services ($152,653,000, including $148,014,000 from direct appropriations, reimbursements of $1,639,000 and user fee collections of $3,000,000)* This activity serves the more than 50 million retail customers who hold marketable and savings securities directly with Treasury. Marketable securities have been issued solely in electronic (book-entry) form for many years, while savings bonds are still available in paper form. BPD's implementation of the Internet-accessed TreasuryDirect system, which currently allows customers to purchase and manage electronic savings bonds, responds to increasing customer demand for electronic services. TreasuryDirect is positioning the Department to achieve its goal of an all-electronic retail environment leading to the eventual discontinuance of issuing savings bonds in paper form. Investors will be able to convert the 700 million paper bonds they hold to book-entry, which will also help in improving the operational efficiency of the savings bond program and, over the longer-term, lower operational costs.

*Summary Debt Accounting ($5,964,000, including $5,791,000 from direct appropriations plus reimbursements of $173,000)* Through this program BPD accounts for and reports on the balance and composition of the public debt and reconciles more than $78 trillion in securities transactions reported from numerous systems to cash flowing in and out of the Federal Government annually. BPD's summary level accounts represent the control totals for dozens of subordinate securities systems that provide detailed information on the more than $7.5 trillion public debt. This is the single largest liability on the Federal Government's balance sheet.

**FY 2006 Budget Highlights**
(Dollars in Thousands)

| Appropriation | Salaries & Expenses |
|---|---|
| FY 2004 Enacted | $177,027 |
| FY 2005 Consolidated Appropriations (H.R. 4818) | $179,566 |
| Rescission (H.R. 4818) | ($1,401) |
| FY 2005 Current Estimates | $178,165 |
| Current Services | |
| Reductions, Non-Recurring Costs and Savings Total | ($5,792) |
| User Fee Reduction | ($1,400) |
| Issuing Agent Fees and Postage | ($2,185) |
| Paying Agent Fees | ($1,600) |
| TreasuryDirect Back-up Servers | ($287) |
| Retired Bond Imaging | ($185) |
| FAIR Act Inventory | ($100) |
| Bond Stock Reduction | ($35) |
| Adjustments to Maintain Current Levels | $3,920 |
| Pay Inflation Adjustment | $2,602 |
| Non-Pay Inflation Adjustment | $1,318 |
| FY 2005 Current Services Level | $176,293 |
| Program Initiatives - Base Reinvestments | $3,630 |
| Litigation Support | $2,243 |
| Accelerated Conversions of Savings Bonds | $504 |
| TreasuryDirect Application Development | $421 |
| TreasuryDirect Workload Volume | $289 |
| Locating Owners of Matured, Unredeemed Savings Bonds | $173 |
| FY 2006 President's Budget[1] | $179,923 |

[1]Includes $3,000 in user fees.

## Explanation of FY 2005 Current Estimate

The FY 2005 current estimate for BPD is a total of $178,164,672, including $173,764,672 from direct appropriations and $4,400,000 from user fee collections.

## Explanation of FY 2006 Built-In Changes – Decreases

*User Fee Reduction -$1,400,000/0 FTE* BPD proposes a reduction of $1,400,000 due to a decline in *TreasuryDirect* account maintenance and definitive marketable securities user fee collections.

*Program Reductions -$4,392,000/-12 FTE* BPD continuously reviews its operations to identify opportunities to realign resources to fund priority requirements, meet mission objectives and support Treasury's goal of managing the government's finances effectively within its budgetary constraints. For the FY 2006 Budget Cycle, BPD reviewed its programs to identify low-value efforts, non-recurring costs, and opportunities to re-engineer its business processes to seek optimal uses of limited resources. As a result of this review, BPD was able to redirect funding to higher mission-critical needs, while remaining within current funding levels. Savings of $4,392,000 and 12 FTEs are anticipated from: 1) declining issuing agent fees and postage ($2,185,000); 2) declining paying agent fees ($1,600,000); 3) a partial non-recur of the expenses for back-up servers for TreasuryDirect ($287,000); 4) increased productivity produced from BPD's Retired Bond Imaging project ($185,000 and 12 FTEs); 5) a non-recur of FAIR Act funding ($100,000); and 6) a non-recur of funding for savings bond stock due to the decline in issues ($35,000).

The program reductions listed above will be redirected to fund: 1) litigation support ($2,243,000) for the ongoing *Cobell v. Norton* litigation and 24 other lawsuits filed by Native American tribes against the Federal Government; 2) accelerated savings bond conversions ($504,000); 3) accelerated TreasuryDirect application development ($421,000); 4) increased TreasuryDirect customer service workload ($289,000) and 5) efforts to locate owners of matured, unredeemed savings bonds ($173,000). The net effect of this redirection is an overall reduction of $762,000 and 12 FTE.

## Explanation of FY 2005 Built-In Changes – Increases

*Adjustments Necessary to Maintain Current Levels +$3,920,000/0 FTE* Funds are requested for: FY 2005 cost of the January 2005 pay increase of $822,000; proposed January 2006 pay raise of $1,780,000; other

labor related benefits; and non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments of $1,318,000.

## Explanation of FY 2006 Program Changes

### Program Initiatives – Base Reinvestments

*Litigation Support +$2,243,000/0 FTE (All Budget Activities)* Public Debt proposes to reinvest $2,243,000 in resources toward litigation support. In addition to the ongoing *Cobell* litigation, numerous American Indian tribes have filed lawsuits against the Federal Government relating to its administration and management of tribal trust funds and property. At present, 24 lawsuits have been filed, and this number could rise. The Bureau has been, and will likely continue to be involved in these litigations and must stand ready to meet all regulatory and court-ordered instructions related to the preservation and production of records in connection with these suits. This initiative is funded through redirection of program funding. No new funding is requested.

*Accelerate Conversion of Paper Savings Bonds to Book Entry +$504,000/0 FTE (Retail Securities Services)* This reinvestment will allow BPD to accelerate conversions of paper savings bonds to electronic form by funding an additional 10 positions that will assist with conversion transactions. This conversion feature will also encourage investors to buy electronic savings bonds rather than paper securities. Increasing the percentage of retail securities held in electronic form will help BPD meet stated performance goals. That said, processing conversions is potentially a massive undertaking. Investors hold about 700 million paper bonds worth about $150 billion that they could choose to convert to electronic securities. If, over a three-year period, they presented just 10 percent of those bonds, Public Debt would have to manually handle 23 million paper bonds each year. Although the potential volume is significant, the process for converting paper savings bonds to electronic form is straightforward. After setting up a TreasuryDirect account, investors will initiate a conversion requests by accessing the TreasuryDirect website (treasurydirect.gov), enter key information related to bonds considered for conversion and send the bonds to Public Debt to be placed in their accounts. This initiative is funded through redirection of program funding. No new funding is requested.

*TreasuryDirect Application Development +$421,000/0 FTE (Retail Securities Services)* TreasuryDirect system's design is predicated on maximizing customer self-sufficiency and minimizing off-line processing by customer service and related personnel. BPD anticipates functional releases of the software – which add additional capacity of the system – at the rate of about three per year. The request for funding for an additional 5 positions will allow BPD to develop and deploy more robust releases, and implement more system functionality faster. This initiative is funded through redirection of program funding. No new funding is requested.

*TreasuryDirect Workload +$289,000/0 FTE (Retail Securities Services)* BPD proposes to reinvest $289,000 to fund 5 additional positions to process customer service transactions for TreasuryDirect. Future enhancements to TreasuryDirect include issuing marketable securities, conversion of existing paper savings bonds to book-entry, and conversion of existing marketable accounts from the legacy system. All of these changes will increase the number of TreasuryDirect customers and accounts. While TreasuryDirect is designed to allow investors to purchase and manage Treasury securities online, there are times when they need assistance to complete a transaction. Customer service representatives handle phone and Internet inquiries, offline authentication forms processing, and deceased owner cases. The additional FTEs will allow BPD to continue to provide quality, timely customer service for the increasing number of investors who buy and hold securities in TreasuryDirect. This initiative is funded through redirection of program funding. No new funding is requested

*Locating Owners of Matured, Unredeemed Savings Bonds +$173,000/0 FTE (Retail Securities Services)* BPD proposes to reinvest $173,000 to fund 5 additional positions to locate owners of matured unredeemed debt (MUD). MUD is created when savings securities reach maturity and stop earning interest, but investors have not redeemed the

securities. The securities may remain unredeemed due to death of the owner, loss of the securities, lack of recognition that the security has matured, forgetfulness, etc. As of May 2004, nearly $11 billion of unredeemed savings securities have stopped earning interest. The additional FTEs will enable BPD to increase the number of customer contacts. This initiative is funded through redirection of program funding. No new funding is requested.

## Legislative Proposals

None requested.

# Departmental Offices

**Program Summary by Appropriations Account**

(Dollars in Thousands)

| Appropriation | FY 2004 Enacted | FY 2005 Enacted | FY 2006 President's Budget | FY 2006 Increase/ Decrease | FY 2006 % change |
|---|---|---|---|---|---|
| Salaries and Expenses[1] | $175,070 | $156,299 | $195,253 | $38,954 | 24.9% |
| Executive Direction | | $14,683 | $16,656 | $1,973 | 13.4% |
| Economic Policies and Programs | | $29,936 | $32,011 | $2,075 | 6.9% |
| Financial Policies and Programs | | $25,127 | $24,721 | ($406) | (1.6%) |
| Financial Crimes Policies and Programs | | $25,127 | $39,938 | $14,811 | 58.9% |
| Treasury-wide Management and Programs | | $13,473 | $16,843 | $3,370 | 25.0% |
| Administration | | $47,953 | $65,084 | $17,131 | 35.7% |
| Office of Foreign Assets Control | $0 | $22,113 | $0 | ($22,113) | (100.0%) |
| Treasury Bldg & Annex Repair and Restoration | $24,852 | $12,217 | $10,000 | ($2,217) | (18.1%) |
| Department-wide Systems & Capital Invest. Program | $36,185 | $32,002 | $24,412 | ($7,590) | (23.7%) |
| HR Connect | | $15,367 | $0 | ($15,367) | (100.0%) |
| Critical Infrastructure Program | | $5,754 | $5,800 | $46 | 0.8% |
| E-Government Initiatives | | $2,740 | $2,762 | $22 | 0.8% |
| Treasury Back-up Disaster Recovery Capacity | | $1,732 | $1,746 | $14 | 0.8% |
| Integrated Wireless Network | | $1,488 | $1,500 | $12 | 0.8% |
| Cyber Security (Includes Operational Security, Information Assurance & Identification Management) | | $2,540 | $2,304 | ($236) | (9.3%) |
| Enterprise Architecture | | $397 | $400 | $3 | 0.8% |
| Appliance-Based Computer Security | | $1,488 | $0 | ($1,488) | (100.0%) |
| Certificate-Based Internet Security | | $496 | $0 | ($496) | (100.0%) |
| TS/SCI Network | | $0 | $6,000 | $6,000 | 0.0% |
| Treasury Secure Data Network (TSDN) | | $0 | $2,800 | $2,800 | 0.0% |
| Defense Messaging System | | $0 | $500 | $500 | 0.0% |
| Documents Management | | $0 | $600 | $600 | 0.0% |
| Air Transportation Stabilization Program | $2,523 | $1,984 | $2,942 | $958 | 48.3% |
| Subtotal, All Appropriations Accounts | $238,631 | $224,615 | $232,607 | $7,992 | 3.6% |
| Offsetting Collections-Reimbursables | $0 | $0 | $11,386 | $11,386 | 100.0% |
| Total Program Operating Level | $238,631 | $224,615 | $243,993 | $19,378 | 8.6% |

[1]Includes legislative proposal to restore OFAC into the Salaries and Expenses appropriation under Financial Crimes Policies and Programs.

## Explanation of Request

Treasury's Departmental Offices (DO) has a unique role as the headquarters for the Department of the Treasury. DO must provide leadership in critical areas such as economic and financial policy, law enforcement, and general management of the Treasury Department. As such, DO is the primary organization responsible for Treasury Department policy direction and formulation.

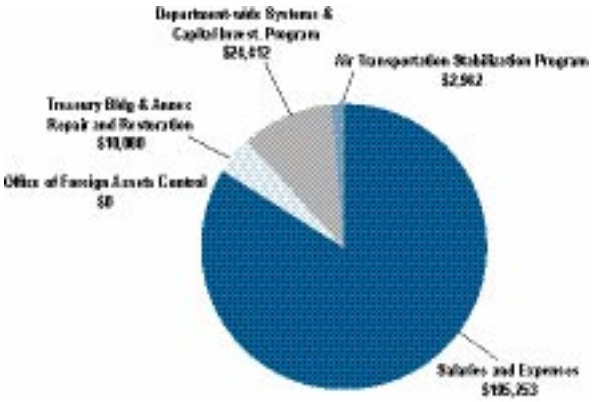
This request includes funding to enhance support of DO's mission and to continue operational excellence. The Office of Terrorism and Financial Intelligence (TFI) provides policy, strategic, and operational direction to the Department on issues relating to terrorist financing and financial crimes, including money laundering, counterfeiting, and other offenses threatening the integrity of the financial system. The establishment of TFI unifies, the functions of the Office of Intelligence Analysis and Security Programs, the Office of Terrorist Financing and Financial Crimes, the Financial Crimes Enforcement Network, the Office of Foreign Assets Control, and the Treasury Executive Office for Asset Forfeiture.

In addition to the Treasury Building and Annex Repair and Restoration project, DO will continue major facilities projects and services for the Main Treasury and Treasury Annex buildings to ensure the safety and health of occupants and to perform critical and non-critical structural repairs and improvements.

DO will provide significant support for the President's Management Agenda to improve the Treasury's financial performance and expanded electronic government initiatives. In addition, the budget request supports the on-going effort in the areas of information and operational security. The Chief

Information Officer will continue to modernize the IT infrastructure, including upgrading the Storage Area Network and DO Exchange Server. It also requests funding to upgrade technology for the Media Room in the Main Treasury building and enhance remote access. The FY 2006 request includes $232,607,000 in appropriations required to support DO. Planned spending from offsetting collections and reimbursable programs totals $11,386,000.

**DO Funding by Account**
(Dollars in Thousands)




## Purpose of Program

DO formulates and oversees implementation of domestic and international financial, tax, economic, enforcement, and management policies of both the Department and of the Federal Government. These responsibilities include:

- Recommending and implementing U.S. domestic and international economic, financial services, tax, and fiscal policy;
- Managing the development of financial policy on the public debt;
- Overseeing the fiscal operations of the Federal Government;
- Representing the U.S. on international monetary, trade, and investment issues;
- Fighting the war on terrorist finance by countering, investigating, and prosecuting terrorists;
- Maintaining foreign assets control;
- Managing Treasury's overseas operations and major regulatory functions relative to international trade, depository institutions, the collection of revenue related to domestic consumption of alcohol and tobacco; and
- Setting policy, directing and overseeing bureaus and programs, and managing the internal management operations of the Department. DO does not have a separate strategic plan but is fully covered by the Treasury-wide strategic plan. Thus DO's strategic goals and objectives follow the Department's plan.

### Salaries and Expenses

The FY 2006 request for Salaries and Expenses is $195,253,000, an increase of $16,842,000 above the FY 2005 enacted appropriation, which includes the Office of Foreign Assets Control (OFAC). This request continues funding in critical areas that affect domestic and international economics, finance, the war on terrorist financing, and general management of the Department. In FY 2005, Congress provided funding to OFAC as a separate appropriation. The FY 2006 request proposes restoring OFAC to the Salaries and Expenses appropriation which will allow for proper alignment with the Office of Terrorism and Financial Intelligence. This proposal also involves the realignment of the Office of Emergency Preparedness and the Foreign Terrorist Division within TFI.

### Treasury Building and Annex Repair and Restoration

The FY 2006 request for Treasury Building and Annex Repair and Restoration (TBARR) is $10,000,000. The FY 2005 enacted TBARR appropriation was $8,000,000 below the FY 2005 President's Budget. The FY 2005 enacted level leaves the Department unable to complete the renovation project and, therefore, part of the Main Treasury building remains uninhabitable. Additional funds requested in FY 2006 are needed to complete the project and re-occupy the affected space.

### Department-wide Systems and Capital Investment Program

The FY 2006 request for the Department-wide Systems and Capital Investment Program is $24,412,000, a decrease of $7,590,000 below the FY 2005 enacted level. This request continues funding in critical areas cutting across multiple Treasury bureaus or involving Treasury work with other government agencies.

### Air Transportation Stabilization Program

The FY 2006 request for Air Transportation Stabilization Program is $2,942,000, an increase of $958,000 above the FY 2005 enacted level. Funding will continue to be used for monitoring loans provided to airlines under the Air Transportation Stabilization Program.

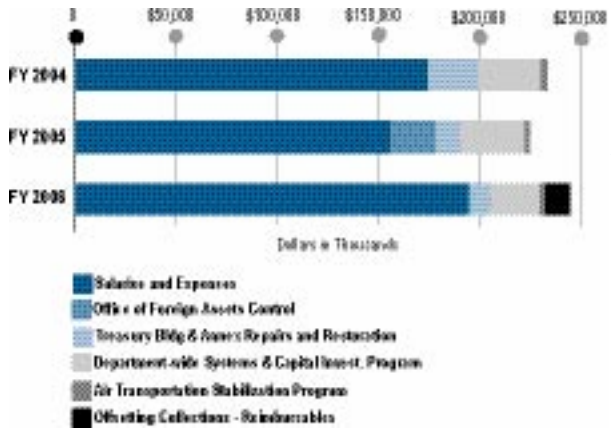
### Offsetting Collections and Reimbursable Amounts

The FY 2006 program includes an estimate of $11,386,000 in offsetting collections from reimbursable agreements with other U.S. Government Agencies who buy services from DO.

## Program Description

The Departmental Offices' request of $243,993,000 includes $232,607,000 from appropriations and $11,386,000 from offsetting collections to continue support of the policy and oversight activities of the Secretary and his staff for the Treasury Department's areas of responsibility. The resources requested are critical to the successful implementation and management of federal domestic and international economic, financial, tax, and financial crimes policies.

**DO Funding History**
(Dollars in Thousands)




## Explanation of Budget Activities

### Salaries and Expenses

*Executive Direction ($16,656,312 in direct funding)* Direction, policy formulation, and coordination are provided by the Secretary, the Deputy Secretary and their immediate staff with the assistance of the Office of General Counsel. They are also supported by the Offices of Legislative Affairs and Public Affairs, who interact with Congress and the public on Departmental policy matters.

*Economic Policies and Programs ($34,251,626, including $32,010,626 in direct funding, plus reimbursements of $2,241,000)* Offices include Economic Policy and International Affairs. They monitor and analyze current and prospective macro- and micro-economic developments, as well as collect and analyze international financial data, including foreign credits and credit guarantees. They support consistency of government-wide economic programs, execute U.S. international financial policies analysis of international trade investments, and provide economic and financial technical assistance to foreign governments.

*Financial Policies and Programs ($26,517,468, including $24,720,468 in direct funding, plus $1,797,000 in reimbursable funding)* Offices include Domestic Finance and Tax Policy. They provide official estimates of all U.S. governmental receipts, support development of tax policies and programs, review regulations and rulings in administration of the Internal Revenue Code, and negotiate tax treaties for the U.S. They also provide economic and legal policy analysis, oversee domestic finance, banking and financial institutions and financial markets, and monitor government asset privatization, public debt financing and daily government cash flow.

*Financial Crimes Policies and Programs ($42,607,450 including $39,938,450 in direct funding plus $2,669,000 in reimbursable funding)* This activity includes the Office of Terrorism and Financial Intelligence (TFI) which oversees Terrorist Financing and Financial Crimes, Intelligence Analysis, and the Office of Foreign Assets Control. These offices provide advice to the Secretary on matters related to fighting financial crimes, money laundering, and terrorist financing. TFI provides policy development and direction to safeguard the financial system against illicit use and use Treasury's array of economic tools against rogue nations, terrorist facilitators, money launderers, drug kingpins, and other national security threats. TFI also provides oversight for the Financial Crimes Enforcement Network and the Office of Foreign Assets Control,

as well as coordinates with the Internal Revenue Service-Criminal Investigations Division. It manages and provides policy development and support for enforcement funds; coordinates development and ensures delivery of technical assistance in support of counter-terrorist financing and counter-financial crimes initiatives; and develops and implements strategies to counter money laundering and terrorist financing.

*Treasury-wide Management Policies and Programs ($21,522,447, including $16,843,447 in direct funding plus $4,679,000 in reimbursable funding)* This activity supports the Chief Financial Officer (CFO) Act, the Government Performance and Results Act (GPRA), and the Information Technology Management Reform Act and the Chief Human Capital Officer (CHCO).

*Administration ($65,083,697)* This activity provides operational support to all Headquarters offices. These activities include financial and budget, human resources, informational technology, procurement, facilities support, and travel services.

**Treasury Building and Annex Repair and Restoration (TBARR)**

*TBARR ($10,000,000)* This activity funds the completion of the repair and restoration of the Main Treasury building. Major repairs and restoration have resulted in a more modernized working environment while preserving the historic integrity of the Treasury Building and, and have ensured improved working conditions for the health and safety of Treasury employees and visitors.

**Department-wide Systems and Capital Investment Program**

*Critical Infrastructure Protection ($5,800,000)* Critical Infrastructure Protection (CIP) resources are required to sustain current CIP efforts including those associated with National Security Emergency Preparedness and Homeland Security. The Department's CIP efforts are also focused on the protection of the Banking and Financial sector of our National Critical Infrastructure. Research and development efforts are focused on addressing emerging threats posed from unfriendly foreign nations, terrorists, and criminals, which create increased vulnerabilities, particularly as the Banking and Financial community moves more heavily into the world of E-Commerce and internet banking. In direct support of Homeland Security Presidential Decision Directive-7, Treasury must also continue developing and implementing plans for the protection of its critical IT assets, conduct interdependency analyses of CIP assets, develop policy and standards, and provide necessary training.

*E-Government Initiatives ($2,762,000)* The Department's implementation of the Expanding Electronic Government component of the President's Management Agenda (PMA) supports the government-wide consolidation of redundant information systems, enhances government-wide efficiency and effectiveness, and improves service delivery to citizens, businesses, and government. This request will support the Department's participation in the following E-Government initiatives in FY 2006: Business Gateway, E-Authentication, E-Rulemaking, E-Travel, Integrated Acquisition Environment, Geospatial One-Stop, Grants.gov, Financial Management Line of Business, Human Resources Line of Business, and Grants Management Line of Business.

*Treasury Back-up Disaster Recovery Capacity ($1,746,000)* Treasury must maintain and enhance, as necessary, the Departmental Offices (DO) disaster recovery capabilities. These critical efforts protect many of Treasury's technology systems and provide for the continuity of operations for key Treasury officials and functions in the event of a disaster. This funding provides ongoing support for existing servers, software for DO critical services such as email, shared drive and mainframe applications, email archiving and Internet access.

*Integrated Wireless Treasury Network ($1,500,000)* Funding is requested to continue managing its wireless assets for the Internal Revenue Service-Criminal Investigation, Treasury Inspector General for Tax Administration, Bureau of Engraving and Printing, the U.S. Mint, and the Department's Headquarters Operations.

*Cyber Security – (Includes Operational Security, Information Assurance, and Identity Management) ($2,304,000)* Funding is requested to continue

strengthening the Department's information assurance and operational security programs, thereby improving compliance with the Federal Information Security Management Act (FISMA) and related Federal information security policies and guidance. Supported initiatives include: identifying cyber security weaknesses, maintaining and implementing enterprise-wide hardware and software solutions and processes to mitigate pervasive vulnerabilities (such as the Treasury Computer Security Incident Response Capability), tracking and validating program and system level cyber security plan of action and milestones, and conducting the Department's annual FISMA review.

*Enterprise Architecture ($400,000)* Funding is requested to continue implementation of the Treasury Enterprise Architecture (EA) to ensure that IT investments align with functional requirements and strategic goals. Treasury EA is needed to effectively manage its IT portfolio and to fulfill the Office of Management and Budget (OMB) Federal Enterprise Architecture (FEA) requirements.

**Air Transportation Stabilization Program (ATSP)**

*ATSP ($2,942,000)* On September 22, 2001, President Bush signed into law the Air Transportation Safety and Systems Stabilization Act, P.L. 107-42. The Act establishes the Air Transportation Stabilization Program. The Program may issue up to $10 billion in loan guarantees. The Program is currently managing a portfolio of loan guarantees to a number of airlines; however, it does not anticipate making any new loan guarantees in 2006.

### Explanation of FY 2005 Current Estimate

The FY 2005 current estimate for Departmental Offices appropriations of $224,615,584 consists of the following amounts:

- $156,299,520 for Salaries and Expenses
- $22,112,672 for the Office of Foreign Assets Control
- $12,217,472 for Treasury Building and Annex Repair and Restoration
- $32,001,920 for Department-wide Systems and Capital Investment Program
- $1,984,000 for Air Transportation Stabilization Program

### Explanation of FY 2006 Built-In Changes – Decreases

*Program Reduction: -$5,074,000/-10 FTE* In FY 2006 resources will be reduced for staffing in certain offices, as well as the Turkey Loan Financing Facility, the Office of Financial Education, and two previously funded programs which were funded by Congress but were not requested in the FY 2005 President's Budget.

- Hiring Freeze - $1,740,000/- 10 FTE
- Turkey Loan Financing Facility - $1,000,000/ 0 FTE
- Office of Financial Education - $334,000/0 FTE
- Financial Literacy (not requested in the FY 2005 President's Budget) - $1,000,000/0 FTE
- Critical Infrastructure (not requested in the FY 2005 President's Budget) - $1,000,000/ 0 FTE

*Non-Recurring Costs: Development for HR Connect -$15,368,000/0 FTE* By FY 2006 all primary development projects for HR Connect will be completed, so funding will be transferred from the Department-wide Systems Capital Investment Program (DSCIP) to the Working Capital Fund (WCF). Development and implementation of modest new functionality and services as part of its baseline service adopting a release approach to deliver new functionality will continue however additional implementations or major enhancements will be funded through the requesting clients. HR Connect will maintain one outsourced production environment with a single code line, and training responsibility will consist of the development of course materials only and "train-the-trainer."

### Explanation of FY 2006 Built-In Changes – Increases

*Adjustments Necessary to Maintain Current Levels + $4,700,000/0 FTE* Funding requested includes the cost of the January 2005 pay increase, the proposed January 2006 pay raise and non-labor related items

## FY 2006 Budget Highlights

(Dollars in Thousands)

| Appropriation | Salaries & Expenses | Office of Foreign Assets Control | Treasury Bldg & Annex Repair & Restoration | Department-wide Systems & Capital Invest. Program | Air Transportation Stabilization Program | Total |
|---|---|---|---|---|---|---|
| FY 2004 Enacted | $175,070 | $0 | $24,852 | $36,188 | $2,523 | $238,631 |
| FY 2005 Consolidated Appropriations (H.R. 4818) | $157,560 | $22,291 | $20,316 | $36,072 | $2,000 | $238,239 |
| Rescission (H.R. 4818) | ($1,261) | ($178) | ($8,099) | ($4,070) | ($16) | ($13,624) |
| FY 2005 Current Estimates | $156,299 | $22,113 | $12,217 | $32,002 | $1,984 | $224,615 |
| Current Services | | | | | | |
| Reductions, Non-Recurring Costs and Savings Total | ($5,074) | ($22,113) | ($2,217) | ($17,490) | $0 | ($46,894) |
| Critical Infrastructure Protection | ($1,000) | $0 | $0 | $0 | $0 | ($1,000) |
| Financial Literacy Initiative | ($1,000) | $0 | $0 | $0 | $0 | ($1,000) |
| Hiring Freeze/Attrition FTE | ($1,740) | $0 | $0 | | $0 | ($1,740) |
| Office of Financial Education | ($334) | $0 | $0 | $0 | $0 | ($334) |
| Turkey Loan | ($1,000) | $0 | $0 | $0 | $0 | ($1,000) |
| Office of Foreign Assets Control - Transfer to S&E | $0 | ($22,113) | $0 | $0 | $0 | ($22,113) |
| HR Connect | $0 | $0 | $0 | ($17,490) | $0 | ($17,490) |
| Treasury Bldg & Annex Repair & Restoration | $0 | $0 | ($2,217) | $0 | $0 | ($2,217) |
| Transfers in | $22,113 | $0 | $0 | $0 | $0 | $22,113 |
| Office of Foreign Assets Control | $22,113 | $0 | $0 | $0 | $0 | $22,113 |
| FY 2005 Annualizations | $5,782 | $0 | $0 | $0 | $0 | $5,782 |
| TFI Start Annualization | $5,782 | $0 | $0 | $0 | $0 | $5,782 |
| Adjustments to Maintain Current Services | $4,700 | $0 | $0 | $0 | $0 | $4,700 |
| Pay Inflation Adjustment | $3,267 | $0 | $0 | $0 | $0 | $3,267 |
| Non-Pay Inflation Adjustment | $1,433 | $0 | $0 | $0 | $0 | $1,433 |
| FY 2005 Current Services Level | $183,820 | $0 | $10,000 | $14,512 | $1,984 | $210,316 |
| Program Initiative - Increases | $11,433 | $0 | $0 | $9,900 | $958 | $22,291 |
| Office of Intelligence Analysis Analysts | $1,843 | $0 | $0 | $0 | $0 | $1,843 |
| Office of Terrorism Financing Staff | $587 | $0 | $0 | $0 | $0 | $587 |
| Personnel Security Investigations | $115 | $0 | $0 | $0 | $0 | $115 |
| General Counsel Support for TFI | $171 | $0 | $0 | $0 | $0 | $171 |
| Legislative Affairs Support for TFI | $162 | $0 | $0 | $0 | $0 | $162 |
| Building Safety and Structural Repairs | $1,000 | $0 | $0 | $0 | $0 | $1,000 |
| Financial Statement Audits | $1,807 | $0 | $0 | $0 | $0 | $1,807 |
| Modernization of DO IT Infrastructure | $1,755 | $0 | $0 | $0 | $0 | $1,755 |
| Integration of Multi-Media Room | $720 | $0 | $0 | $0 | $0 | $720 |
| Upgrade Fiscal Projections Program | $300 | $0 | $0 | $0 | $0 | $300 |
| Overseas Presence | $200 | $0 | $0 | $0 | $0 | $200 |
| Foreign Credit Reporting System Ops. & Maintenance | $295 | $0 | $0 | $0 | $0 | $295 |
| Declassification Project | $676 | $0 | $0 | $0 | $0 | $676 |
| Cuban Sanctions Litigation Unit | $81 | $0 | $0 | $0 | $0 | $81 |
| Office of Foreign Assets Control Staffing | $1,721 | $0 | $0 | $0 | $0 | $1,721 |
| TS/SCI Network | $0 | $0 | $0 | $6,000 | $0 | $6,000 |
| Treasury Secure Data Network (TSDN) | $0 | $0 | $0 | $2,800 | $0 | $2,800 |
| Defense Messaging System | $0 | $0 | $0 | $500 | $0 | $500 |
| Documents Management | $0 | $0 | $0 | $600 | $0 | $600 |
| Monitoring of ATSP loan portfolio | $0 | $0 | $0 | $0 | $958 | $958 |
| FY 2006 President's Budget | $195,253 | $0 | $10,000 | $24,412 | $2,942 | $232,607 |

such as contracts, travel, supplies, equipment, and GSA rent adjustments.

*Annualization of Positions used to create the Office of Terrorism and Financial Intelligence +$5,782,000/ +27 FTE* This level of funding annualizes the start-up cost and FTE realization of the FY 2004 positions for the Office of Terrorism and Financial Intelligence.

## Explanation of FY 2006 Program Changes

### Program Initiatives – Increases

*Office of Intelligence Analysis Analysts (TFI) +$1,843,000/+10 FTE* Funding for a total of 21 intelligence analyst positions will ensure that Treasury accesses actionable intelligence to fulfill its mission and integrates intelligence that supports Treasury linking directly to the intelligence community. The primary functions of the analysts will be to build a robust terrorist financing analytical capability and to provide intelligence support to senior Treasury officials on a wide range of international economic and political issues of concern to the Department.

*Office of Terrorism Financing Staff (TFI) +$587,000/ +3 FTE* Funding for five positions will enable the Office of Terrorism Financing (OTF) to enhance resources in the following areas:

- *Regional Analytical/Policy* OTF is responsible for all international issues and Treasury engagement related to terrorist financing, money laundering, and financial crimes. Additional resources are needed for a more robust regional/international coverage and flexibility or deeper engagement with specific jurisdictions. Additional expertise is critical and flexibility to engage bilaterally, regionally, and multilaterally with jurisdictions on all matters related to effective creation and enforcement of anti-money laundering and anti-terrorist financing regimes.

- *Rogue Regime and Institution Asset Tracking* OTF has led the U.S. Government's efforts to freeze and repatriate Iraqi and Saddam Hussein-related assets with very limited resources. Additional resources are needed for strategic forecasting and implementation of the tracking of rogue regimes and related leadership assets. In addition, no devoted capacity exists to strategically implement the provisions of Section 311 of the USA PATRIOT Act, which allows for the Secretary to designate foreign governments, entities, and classes of transactions as "primary money laundering concerns."

- *Compliance and Regulatory Oversight* Treasury is responsible for the effective implementation and enforcement of the Bank Secrecy Act (BSA) and the related oversight of the Financial Crimes Enforcement Network. Additional resources are needed to strategically review and expand the U.S. anti-money laundering regime. This team will be devoted to outreach efforts and exploring the use of new technologies to ensure the most efficient money laundering regime possible.

- *Terrorist Financing and Money Laundering Systems Expertise* It is essential that Treasury serve as a reservoir of expertise for policy makers, the private sector, other agencies, and the international community regarding systems that are abused by terrorist groups and international criminal networks to raise and move money. Additional resources are requested to expand expertise in areas of anti-terrorist financing concern.

*Personnel Security Investigations +$115,000/0 FTE* With creation of the Office of Terrorism and Financial Intelligence (TFI) and additional personnel, more personnel security investigations are needed to clear employees at appropriate clearance levels. Additional resources are requested for this and a perpetual backlog of files that need periodic re-investigation.

*General Counsel Support for TFI (OGC) +$171,000/ +1 FTE* Creation of the new Office of Terrorism and Financial Intelligence (TFI) requires new skill sets within the Office of the General Counsel (OGC), particularly in the area of intelligence law. OGC requests one position, as it currently has no full-time experts in this field, but expects demand for these skills from the new Assistant Secretary for Intelligence and Analysis and their staff.

*Legislative Affairs Support for TFI (LA) +$162,000/ +1 FTE* Creation of the Office of Terrorism and Financial Intelligence (TFI) increases the workload and representation requirements for the Office of Legislative Affairs. Currently Legislative Affairs splits the duties of TFI among its existing staff. Additional

resources are requested to adequately accommodate the workload increase and representation requirements generated by TFI.

*Office of Foreign Assets Control (OFAC) Staffing +$1,721,000/+9 FTE* OFAC faces increasing responsibilities and growing importance in the war against terrorism, narcotics trafficking, and other enemies. OFAC intends to use these increased resources to achieve three key components of Treasury's overall strategic plan:

- Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other criminals and isolate their support networks
- Execute the nation's financial sanctions policies
- Manage Treasury resources to effectively accomplish the mission and provide quality customer service

Nine additional positions are requested to ensure continued success of the U.S. Government's sanctions policies. OFAC must make more designations, increase its public education, catch more violators, and mete out appropriate penalties to deter additional potential violators. It must integrate internal systems, ensure precise record management, and monitor compliance. Timeliness and transparency are key to ensuring effective administration and enforcement of a growing number of programs. These additional positions will improve OFAC's focus on countering terrorism, countering drug trafficking, transparency/customer service, management enhancements, enforcement of Cuba travel restrictions, and the effective administration of 29 sanctions programs.

*Cuba Sanctions Litigation Unit +$81,000 /+1 FTE* The Office of Foreign Assets Control (OFAC) imposes civil penalties for violations of the U.S. sanctions against Cuba and North Korea which went into effect in 2003. Alleged violators have a right to a hearing before an administrative law judge (ALJ) who reviews these cases. Therefore the Office of General Counsel needs one additional attorney position to manage anticipated caseload generated by these ALJ hearings. Funding for this position will be provided by OFAC.

*Building Safety and Structural Repairs +$1,000,000/0 FTE* Additional funding is requested for major facilities projects and services. Projects categories include: Safety, Health and Environmental; Functional and Non-Critical Structural; and Repair and Improvements (R&I). Treasury's Annex building requires repair, replacement or modernization of component systems to comply with building and fire codes, and the Americans with Disabilities Act (ADA). Non-compliant areas include: fire life safety systems (sprinklers, smoke detectors, fire control panels). ADA concerns include: elevator control panels, elevator cabs, fire alarm pull stations. Far past their cyclical maintenance are (mortar repairs, cleaning of the exterior, repair of limestone block, repair of ornamental fencing, and window refurbishment.

*Financial Statement Audits +$1,807,000/0 FTE* The Office of the Inspector General (OIG) is responsible for annual Departmental-level audits. Treasury lacks the resources to perform these audits so it is necessary to procure the services of an external accounting firm. The cost of these audit contracts is expected to increase in FY 2005, partly because the scope of audits changes annually and the FY 2006 audit is expected to be broader in scope. This request covers the financial statement audits and the cost of internal control audits which were not required in previous years.

*Modernization of DO IT Infrastructure +$1,755,000/0 FTE* The Departmental Offices (DO) Information Technology (IT) requires a program of continued modernization to meet increased demands and refresh existing and obsolete infrastructure. Funding is requested for needed upgrades to the Storage Area Network and the DO Exchange Server, enhancements to remote access service and other communication improvements for new application and functionality requirements. This will enhance the DO IT infrastructure so it can handle increasing data communication loads and reduce recurring single points of network failure. Multi-year authority is requested to accommodate a three-year refresh cycle.

*Integration of the Multi-Media Room +$720,000/0 FTE* The media room in the Main Treasury building has become a focal point for high level meetings, teleconferences, press briefings, and the Secretary's press conferences. It is used by all senior Treasury officials - the Secretary, Deputy Secretary

and the Under Secretaries. Additional funding is needed to provide resources that meet current technological standards for live transmissions of critical economic information, web casts, satellite broadcasts, teleconferences with other countries and the transmission of media room events on the local Treasury TV station.

*Upgrade of Fiscal Projections Program +$300,000/ +2 FTE* The Office of Domestic Finance's Office of Fiscal Projections (OFP) tracks and monitors Treasury's daily cash position and forecasts cash needs to ensure effective cash and debt management. Current staffing levels are severely strained, and inadequate to monitor the U.S. Government's cash flow (outlays, receipts and debt) which is approximately $4 trillion annually. Additional resources are requested to meet daily operational demands, increased requests for complex forecasting analysis, to improve and refine the forecasting process, and to implement improved investment techniques.

*Overseas Presence +$200,000 /+1 FTE* In support of the United States' goal to promote political stability and economic growth in the Middle East, the Office of International Affairs requests additional resources to establish a financial attaché office in Baghdad, Iraq. Treasury already has a temporary long-term presence in Baghdad and needs to establish a presence there to assist with restoring peace and stability in FY 2006 and beyond.

*Foreign Credit Reporting System Operation and Maintenance +$295,000/0 FTE* The Foreign Credit Reporting System (FCRS) is the central web-based modern repository of foreign credit owed to the U.S. Government by other countries. Operation funding is critical as the FCRS transitions from development to operation and maintenance. The FCRS automates a historically manual process which allows much quicker and efficient production of reports such as the Annual "Salmon Book" on U.S. Government Foreign Credit Exposure which the Office of International Affairs is statutorily required to publish. Inadequate funding of operation and maintenance for the FCRS may force Treasury and its interagency partners to resort to the manual process, which will consume thousands of labor hours.

*Declassification Project +$676,000/0 FTE* Treasury needs to meet the President's deadline to review approximately 3.5 million pages of classified records 25 years old and older by December 31, 2006. Failure to do this will result in the wholesale automatic declassification of Treasury and other government agencies' classified permanent records without first determining whether these records should be exempt from declassification based upon specific exemption criteria. Absent additional funding, a massive effort by subject matter experts, primarily in the offices of International Affairs and Terrorism and Financial Intelligence, will be necessary to meet the deadline. It is estimated that this will require an estimated 14.27 man-years of work over the next two years which these staffs will have to divert from their missions.

*Treasury Building and Annex Repair and Restoration (TBARR) +$10,000,000/0 FTE* FY 2006 funding for TBARR is needed to complete Phase IV renovations (approximately 100,000 square feet) of the Treasury Building in a cost effective and timely manner. If funding is not approved in FY 2006, the project completion costs will increase to an estimated total of $18,500,000 and the overall delay to reoccupy the space could exceed two years. Further, securing the facility for shutdown will cost an estimated $1,000,000 that could otherwise be used towards construction completion. Extending the use of swing space and associated security and courier services will cost approximately $1,900,000 annually. Delay in completing Phase IV will also require new design and bid documents, and procurement of a new construction contract.

In addition, the unfinished status and lack of environmental controls in the unusable portion will accelerate the deterioration of historic spaces. Relocation of senior officials to spaces specifically designed for their protection will also be delayed. Finally, the unavailability of office space within the building will delay efforts for co-location of policy offices including the new Office of Terrorism and Financial Intelligence.

*TFI Top Secret/Sensitive Compartmented Information (TS/SCI) Network +$6,000,000/0 FTE* Treasury's increasing counterterrorism responsibilities require it to upgrade its TS/SCI network infrastructure that

supports ongoing programs that combat terrorist financing, money laundering, and organized crime. This will strengthen Treasury's exchange of critical intelligence information with the Terrorist Threat Integration Center, Department of Homeland Security, Department of Defense, and others within the intelligence community.

*Treasury Secure Data Network (TSDN) +$2,800,000/0 FTE* TSDN is the computer and network infrastructure that enables the communication and distribution of classified information to over 400 Treasury users. It also provides Treasury users with access to the Secret Internet Protocol Router Network and the Department of Defense classified communications network. Access is vital to ensure that the newly created Office of Terrorism and Financial Intelligence and its components: the Office of Foreign Assets Control, and Office of Intelligence and Analysis, Financial Crimes Enforcement Network, and IRS Criminal Investigations have the capability to communicate effectively with colleagues within the law enforcement and intelligence communities.

*Documents Management +$600,000/0 FTE* Funds are requested to develop and pilot an enterprise document management and records management system for the Department of the Treasury. The system will improve information sharing by capturing and storing documents throughout their lifecycle while providing decision makers with more timely, accurate, and complete information.

*Defense Messaging System +$500,000/0 FTE* Funds are requested to complete implementation of the Defense Messaging System on the Department's internal secure networks and the wider defense and intelligence community networks.

*Loan Monitoring and Restructuring +$958,000/0 FTE* A funding increase of $958,000 is requested for the Air Transportation Stabilization program. In the event that an air carrier suffers a financial crisis (e.g. bankruptcy), a full examination and analysis of loan repayment options must be undertaken. These resources are necessary for analysis related to loan restructuring should an air carrier enter into bankruptcy.

## Legislative Proposals

None requested.

## Office of Terrorism and Financial Intelligence Program Summary

The Office of Terrorism and Financial Intelligence (TFI), created within Treasury's Departmental Offices, continues to focus on protecting the United States and international financial sectors against abuse and wielding Treasury's array of economic authorities against national security threats, including terrorist financiers, proliferators of weapons of mass destruction, and rogue regimes.

The Office of Terrorist Financing and Financial Crimes (TFFC), the Office of Intelligence and Analysis (OIA), the Financial Crimes Enforcement Network (FinCEN), the Office of Foreign Assets Control (OFAC) and the Treasury Executive Office for Asset Forfeiture (TEOAF) are all organized under the leadership of TFI.

This past May, the Treasury Department designated the Commercial Bank of Syria (CBS) as a "primary money laundering concern," based on issues relating to financial transparency, and problems the Department observed with that institution, including terrorist financing. Pursuant to this designation, the Department has issued a proposed rule that, when issued in final form, will obligate U.S. financial institutions to sever all correspondent relations with CBS. The Commercial Bank of Syria will either take effective steps to address our concerns, or the Department will cut it off from the U.S. financial system. Actions of this type spur jurisdictions and institutions to adopt real reforms that impose an acceptable degree of financial transparency, and help protect the integrity of our financial system.

TFI remains fully engaged in the pursuit of assets looted from the Iraqi people by the Saddam Hussein regime. Thanks to collaborative efforts by TFI and other U.S. agencies, the United States has facilitated the finding and freezing of nearly $6 billion in Iraqi assets outside of Iraq, the return of over $2.7 billion of those funds, and the recovery of more than $1 billion in cash inside Iraq. To date, the U.S. has also designated 232 entities and individuals tied to the former Hussein regime and submitted their names to the United Nations for global asset freezing.

TFI has designated and frozen the assets of prominent terrorist financiers and organizations, including Adel Batterjee, a Saudi financier of al Qaida, and the Islamic African Relief Agency (IARA), a corrupt charity that supported Usama bin Laden and HAMAS. Since September 2001, the United States and our allies have designated 397 terrorist related entities and frozen nearly $146 million in terrorist assets.

TFI is the United States representative to and a world leader at the Financial Action Task Force (FATF), which sets anti-money laundering and counter-terrorist financing standards for more than 120 countries. In 2004, TFI was instrumental in the effort to introduce a new FATF standard targeting cross-border cash smuggling. FATF-style regional bodies (FSRBs), which hold members to FATF's standards, already exist in South America, the Caribbean, Africa, Europe, and Asia. With significant guidance and assistance from TFI, two new FATF-style regional bodies were established in Central Asia and in the Middle East/North Africa region late last year. This is a major achievement that will bring a range of critical jurisdictions under the financial standards of the international community.

# Financial Crimes Enforcement Network

**Program Summary by Appropriations Account**
(Dollars in Thousands)

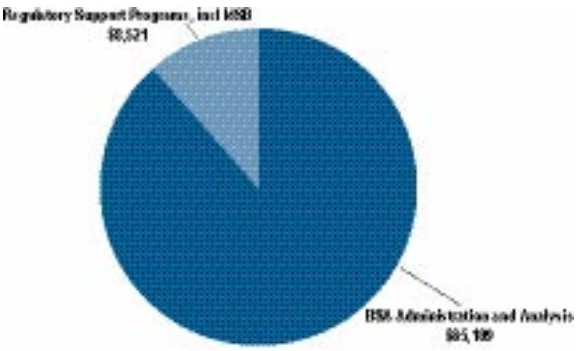
| Appropriation | FY 2004 Enacted | FY 2005 Enacted | FY 2006 President's Budget | FY 2006 Increase/ Decrease | FY 2006 % change |
|---|---|---|---|---|---|
| Salaries & Expenses | $57,231 | $71,922 | $73,630 | $1,708 | 2.4% |
| BSA Administration & Analysis | $49,127 | $63,635 | $65,109 | $1,474 | 2.3% |
| Regulatory Support Programs, including MSB | $8,104 | $8,287 | $8,521 | $234 | 2.8% |
| Subtotal, FinCEN | $57,231 | $71,922 | $73,630 | $1,708 | 2.4% |
| Offsetting Collections - Reimbursables | $3,341 | $1,541 | $1,541 | $0 | 0.0% |
| Total Program Operating Level | $60,572 | $73,463 | $75,171 | $1,708 | 2.3% |

## Explanation of Request

The Financial Crimes Enforcement Network (FinCEN) is a key organizational element in Treasury Department's Office of Terrorism and Financial Intelligence (TFI), reporting directly to the Under Secretary of Treasury for the office of TFI. FinCEN's mission is to safeguard the financial system from the abuses of financial crime; including terrorist financing, money laundering, and other illicit activity. This is accomplished by administering the Bank Secrecy Act (BSA); supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; building global cooperation with our counterpart financial intelligence units; and networking people, ideas, and information. FinCEN works in close coordination with TFI's Office of Intelligence and Analysis in developing strategic analysis for Treasury policymakers.

FinCEN's FY 2006 Budget request includes four critical areas. These increases will position FinCEN to better assess and respond to the challenges posed by terrorist financiers and operatives, money launderers, and other perpetrators of financial crime against domestic and global financial systems. These increases will: 1) enhance outreach to financial institutions newly covered by Bank Secrecy Act Regulations, and strengthen FinCEN's oversight of Bank Secrecy Act examination and enforcement activities; 2) strengthen analytical support services by building a secure support structure to fully integrate all data sources; 3) expand FinCEN's support to international Financial Intelligence Units to facilitate information exchange and coordination with law enforcement, enhance international regulatory efforts, and increase technical support and training functions associated with expanded use of the Egmont secure network; and 4) upgrade the Bank Secrecy Act (BSA) filing environment by improving marketing and outreach for electronic filing and augment analytical tools to improve search capabilities. The FY 2006 appropriations required to support these initiatives for FinCEN are $73,630,000. Planned spending from offsetting collections and reimbursable programs totals $1,541,000.

**FinCEN Funding by Budget Activity**
(Dollars in Thousands)




## Purpose of Program

The purpose of this program is to safeguard the financial system from the abuses of financial crime. Among a broad range of interrelated activities, FinCEN:

- Issues, interprets, and enforces compliance with regulations implementing the Bank Secrecy Act, which includes key provisions of Title III of the USA PATRIOT Act;
- Supports and oversees compliance examination functions delegated to other federal regulators;
- Manages the collection, processing, storage, and dissemination of Bank Secrecy Act data;
- Maintains a government-wide access service to the Bank Secrecy Act data, and network users with overlapping interests;
- Conducts analysis in support of policy makers; law enforcement, regulatory, and intelligence agencies; and the financial industry; and

- Coordinates with and collaborates on anti-terrorism and anti-money laundering initiatives with domestic law enforcement and intelligence agencies, and with our foreign financial intelligence unit counterparts.

### Salaries and Expenses

The total FY 2006 appropriations request for FinCEN is $73,630,000. The $1,708,000 increase over the FY 2005 base maintains current levels of services and strengthens critical programs.

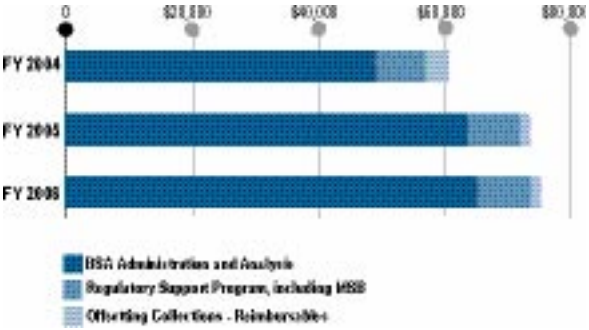
### Offsetting Collections and Reimbursable Amounts

The FY 2005 program includes an estimate of $1,541,000 from: (a) funding from IRS to maintain the BSA electronic filing system, a shared development effort; and (b) technical assistance funding from Department of State to support international anti-money laundering training for developing Financial Intelligence Units.

## Program Description

The Financial Crimes Enforcement Network (FinCEN) request of $75,171,000 includes $73,630,000 from direct appropriation and $1,541,000 from reimbursable agreements to continue our efforts to safeguard the financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity.

**FinCEN Funding History**
(Dollars in Thousands)




## Explanation of Budget Activities

### Salaries and Expenses

FinCEN's appropriation is divided into two budget activities: BSA Administration and Analysis and Regulatory Support Programs, including Money Services Businesses.

*BSA Administration and Analysis ($66,650,000, including $65,109,000 from direct appropriation plus offsetting collections of $1,541,000)* This activity supports FinCEN's efforts to administer the BSA such as promulgating regulations, providing outreach and guidance to the regulated industries, initiating regulatory enforcement actions, and providing oversight of the compliance with the Bank Secrecy Act by the financial services industry through expanded partnership with the federal regulators. Internationally, FinCEN promotes the development of anti-money laundering regimes through training and technical assistance. This activity also incorporates FinCEN's efforts to support law enforcement, such as providing investigative case research, facilitating the exchange of investigative information with foreign jurisdictions, and identifying foreign and domestic money laundering and terrorist financing trends, patterns, and techniques.

*Regulatory Support Programs, including Money Services Businesses ($8,521,000 from direct appropriations)* This activity supports requirements to strengthen anti-money laundering controls within the money services businesses industry, casinos, broker/dealers, securities, and other industries with new program or reporting requirements under the Bank Secrecy Act. This activity also supports FinCEN's efforts with the Internal Revenue Service, especially related to the money services businesses industry, to assure compliance, respond to public inquiries, distribute forms and publications, and support information processing of BSA data.

## Explanation of FY 2005 Current Estimate

The current estimate of FinCEN's appropriation is $71,922,000 to fund Salaries and Expenses. This includes $63,635,000 for BSA Administration and Analysis and $8,287,000 for Regulatory Support Programs, including Money Services Businesses. In addition, FinCEN will invest $2,100,000 of unexpended prior year funding to enhance regulatory outreach to new industries and strengthen a number of information technology systems. Specifically, these one-time investments include studies of industries that are newly covered by anti-money laundering requirements, developing systems to support a centralized BSA regulatory assistance call

**FY 2006 Budget Highlights**
(Dollars in Thousands)

| Appropriations | Salaries & Expenses |
|---|---|
| FY 2004 Enacted | $57,231 |
| FY 2005 Consolidated Appropriations (H.R. 4818) | $72,502 |
| Rescission (H.R. 4818) | ($580) |
| FY 2005 Current Estimates | $71,922 |
| Current Services | |
| Reductions, Non-Recurring Costs and Savings Total | ($7,184) |
| Non-Recur Costs for BSA Direct | ($5,000) |
| Redirect Analysis Efforts to Higher Priorities | ($2,184) |
| Adjustments to Maintain Current Levels | $2,744 |
| Annualization of FY 2005 Initiatives | $1,276 |
| Pay Inflation Adjustment | $842 |
| Non-Pay Inflation Adjustment | $626 |
| FY 2005 Current Services Level | $67,482 |
| Program Initiatives - Base Reinvestments | $2,184 |
| Enhance Capability to Provide Comprehensive Analysis | $2,184 |
| Program Initiatives - Increases | $3,964 |
| Enhance Anti-Money Laundering/Terrorist Regulatory Structure | $1,093 |
| Expansion of International Terrorist Financing Information Exchange | $790 |
| Strengthen Overall Analytical Support Services | $1,383 |
| Terrorist Data Analysis and Filing Environment/Enhance Anti-Money Laundering | $698 |
| FY 2006 President's Budget | $73,630 |

center, enhancing the BSA electronic filing system, and upgrading the Egmont Secure Web. Due to the urgency of these requirements, these efforts will begin in FY 2005.

## Explanation of FY 2006 Built-In Changes – Decreases

*Non-Recurring Costs for BSA Direct -$5,000,000/ 0 FTE* One-time development funding of $5,000,000 provided in FY 2005 will not recur. This funding was provided for the initial design and development of the BSA Direct data retrieval system. FinCEN's FY 2006 base contains $2,500,000 to maintain the system.

*Redirect Analysis Efforts to Higher Priorities -$2,184,000/-16 FTE* FinCEN continually reviews its overall activities and programs to identify opportunities to redirect resources to the highest priorities. As part of the recent reorganization, FinCEN examined its analysis functions and gained efficiencies from consolidating case development, intelligence analysis, and strategic analysis into one division. In addition, efficiencies were realized from consolidating and streamlining some administrative processes related to case processing and networking and decreasing, to some extent, case support efforts related to data checks and data retrieval. This allowed FinCEN to redirect FTE to enhance capabilities to provide comprehensive analysis as described below.

## Explanation of FY 2006 Built-In Changes – Increases

*Adjustments Necessary to Maintain Current Levels +$1,468,000/ 0 FTE* Funding is required for: the FY 2006 cost of the January 2005 pay increase of $268,000; the proposed January 2006 pay raise of $574,000; and non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments of $626,000.

*Annualization of FY 2005 Initiatives +$1,276,000/+8 FTE* Additional funding is required to annualize the staffing initiative approved in FY 2005. FinCEN will continue to develop an expert cadre in support of expanded anti-money laundering programs and suspicious activity reporting requirements to additional industries. By the end of FY 2005, anti-money laundering programs will be required for mutual funds, operators of credit card systems, life insurance companies, unregistered investment companies, and the precious metal, stones, and jewelry industries. Further, by 2005, FinCEN will expand Suspicious Activity Reporting (SAR) requirements to additional segments of the financial services industry and segments of the insurance industry. These additional resources will also support FinCEN's efforts to enhance the overall quality of its customer support efforts. In addition, this provides funding for two FTE to expand customer support to users accessing BSA data directly through FinCEN's Gateway process. This will allow FinCEN to provide two coordinators in each of the six geographic regions to support training and overall customer interface. These enhancements are scheduled to complement the overall modernization of the data retrieval aspects of the system through BSA Direct and will allow FinCEN to establish a process to support its future client base in a cost effective manner.

## Explanation of FY 2006 Program Changes

### Program Initiatives – Base Reinvestments

*Enhance Capability to Provide Comprehensive Analysis +$2,184,000/+16 FTE* As part of the reorganization, FinCEN reviewed its analytical efforts and redirected FTE to strengthen its capacity related to financial analysis of terrorism activities. This included redirecting FTE resources to: (1) provide on-site analysis to the National Terrorism Center; (2) improve overall terrorist investigative analysis - especially SAR analysis; (3) identify targets for possible special measures under the USA PATRIOT Act Section 311 as primary money laundering concerns; (4) proactively monitor the Bank Secrecy Act data to identify potential compliance deficiencies; and (5) provide collaborative international predictive analysis through joint collaborative projects with the financial intelligence units (FIUs). These enhanced analytical efforts have already begun in conjunction with the reorganization.

### Program Initiatives - Increases

*Enhance Anti-Money Laundering/Terrorist Regulatory Structure +$1,093,000/+6 FTE* FinCEN must improve its outreach to financial institutions newly covered by Bank Secrecy Act Regulations and also strengthen its oversight of Bank Secrecy Act compliance examination activities of the federal regulators. These activities are critical to FinCEN's ability to assess the level of compliance in the industry and the effectiveness of the examination process. The USA PATRIOT Act greatly expanded regulatory support needs by extending the BSA regulatory framework and anti-money laundering requirements to a vast array of financial industries, from three in FY 2001 to more than fifteen by FY 2006. To meet this additional workload, FinCEN must increase staffing and related resources to provide the necessary support, assistance, and oversight to ensure the appropriate implementation and maintenance of the regulatory regime. Financial institutions are the first line of defense for money laundering and combating the financing of terrorism so it is imperative to provide adequate oversight of their implementation of the regulatory regime.

FinCEN will also improve the effectiveness and efficiency of its essential customer service functions, through its Financial Regulatory Help Line, Financial Institutions Hot Line, and Webmaster electronic mail systems, by establishing a full service resource/call center that would provide both the administrative assistance and interpretive guidance to financial institutions subject to the BSA. This will ensure quality and consistency in guidance and support, as well as provide the most efficient deployment of FinCEN resources to these functions. Given the growth in the number of industries covered by the anti-money laundering rules and suspicious activity reporting, sufficient time has passed for the education and outreach phase and a significant increase in enforcement actions is anticipated by FY 2006. An increase in this area was not included in previous budget submissions since there is an expected lag of a couple of years before it is prudent to focus on enforcement actions. As FinCEN begins its enforcement actions for these new industries, the workload demands will also require additional dedicated legal staff to work with this regulatory enforcement team.

*Strengthen Overall Analytical Support Services +$1,383,000/+1 FTE* The single most important operational priority for FinCEN is countering terrorism by identifying the techniques and methodologies used for financing terrorists and their operations, as well as industry and regional vulnerabilities to terrorist abuse. FinCEN must continue to add value to the nation's anti-terrorist efforts through FinCEN's expertise in mining information and providing link analyses that follow the money of criminals and terrorists to uncover its source, show the existence of terrorist networks, identify systemic or geographic weaknesses, and predict trends and patterns. As evidenced by the hearings related to September 11, 2001, intelligence information needs to be better integrated into all efforts to sever the lines of financial support to international terrorists. To accomplish this, FinCEN will need to retool and build the necessary security related support structure to allow full integration of all data sources. FinCEN will need additional funding to upgrade and sustain the clearance for all intelligence research analysts at the top-secret status. This initiative will also include funding to bring additional Treasury Secure Data Network (TSDN) terminals, through Treasury's

seat management contract, to allow the analysts to efficiently integrate data from sensitive sources, both classified and unclassified for their analysis. This new environment will require an upgrade in the overall security support structure, including upgrades to the COOP/Alternate Site, guard service, and overall information, personnel and document security. Finally, FinCEN must invest significant new resources in its most critical asset – FinCEN's employees, to ensure that they have the training and skills necessary to continue this country's war on terrorism, money laundering, and other financial threats to our nation's financial infrastructure.

*Expansion of International Terrorist Financing Information Exchange +$790,000/+4 FTE* FinCEN is a charter member of the Egmont Group of Financial Intelligence Units, created in 1994 as an offshoot from the G-7 Financial Action Task Force to facilitate the exchange of financial transaction information on subjects of interest to national law enforcement and judicial authorities. FinCEN believes that it should significantly upgrade its use of the financial intelligence unit network to take advantage of inherent opportunities to rapidly identify account and financial transaction information linked to terrorist subjects and related entities. The Egmont Secure Web housed by FinCEN provides unparalleled opportunities to move time-sensitive information requests rapidly among any or all of the governmental organizations established to receive suspicious or unusual activity reports from financial institutions in each of the 100-plus Egmont participant nations.

FinCEN intends to use its leadership role within Egmont to implement information exchange policies and procedures to systematize terrorism-related financial record checks and analysis throughout the global network. To do so, FinCEN will need to upgrade its cadre of country desk officers to decrease the current ratio of countries per desk officer to assure adequate information exchange coverage and coordination with law enforcement; to enhance its international regulatory efforts within international organizations, and to increase staff performing Egmont technical support and training functions to support expanded use of the secure network.

*Enhance Anti-money Laundering/Terrorist Data Analysis and E-Filing Environment +$698,000/+2 FTE* This initiative combines two projects to upgrade the overall regulatory filing environment by improving marketing and outreach for electronic filing (e.g. PATRIOT Act Communication System) and to enhance FinCEN's analytical tools to improve text retrieval search capabilities. FinCEN has set as an immediate goal increasing the percentage of top filers who e-file through the BSA Electronic Filing System (PACS) to 90% over the next 2-5 years. To accomplish this goal, FinCEN will need to reach out to these filers, educate them about this system and the benefits of e-filing, and offer assistance to help them make the transition to e-filing. Currently, only 161 of the top 1,500 filers are enrolled in BSA E-filing. FinCEN's business goal is to encourage the entities that file the greatest number of BSA forms to utilize the system. For example, the first outreach priority would be to the top 1,500 filers, which accounted for 91.28% of all filings. This outreach effort is necessary to advance electronic filing since many of the covered institutions already have in place both business processes and systems that support either paper or magnetic filing. As a result, financial institutions are reluctant to invest funding to change their systems to allow electronic filing. These investments in additional outreach will achieve future savings through the reduced collection and processing costs associated with paper filings.

This initiative will also improve our technology tools to enhance our capability for text retrieval, including searching Suspicious Activity Report (SAR) narratives for key words, but these are limited. Essentially, our current technology performs the proverbial haystack search for a person or word already known to be of interest. Technology now exists to extract meaning from unstructured text (such as the SAR narratives) to pre-categorize and aggregate topics of key interest, to use mathematical algorithms to synopsize and infer meaning from the text, and to identify previously undetected patterns and associations among entities and even topics referred to in text. FinCEN plans to leverage the benefits of such text mining in two ways: First, these capabilities will allow FinCEN analysts to identify far more connections in the SAR narratives than are possible with existing tools. The result will

be improved analytical products, including industry, U.S. geographic, and country analyses that FinCEN can then provide to its regulatory, international, and law enforcement partners. Second, FinCEN plans to make text-mining tools available to external agencies that access the BSA data through BSA Direct. This will allow other users at the Federal, state, and local level to mine all, or a subset of, SAR narratives for patterns and connections of particular interest to them.

## Legislative Proposals

None requested.

# Alcohol and Tobacco Tax and Trade Bureau

**Program Summary by Appropriations Account**
(Dollars in Thousands)

| Appropriation | FY 2004 Enacted | FY 2005 Enacted | FY 2006 President's Budget | FY 2006 Increase/ Decrease | FY 2006 % change |
|---|---|---|---|---|---|
| Salaries and Expenses | $79,528 | $82,336 | $91,126 | $8,790 | 10.7% |
| Collect the Revenue | $56,801 | $45,285 | $50,119 | $4,834 | 10.7% |
| Protect the Public | $22,727 | $37,051 | $41,007 | $3,956 | 10.7% |
| Subtotal, Alcohol and Tobacco Tax and Trade | $79,528 | $82,336 | $91,126 | $8,790 | 10.7% |
| Offsetting Collections - Reimbursables | $1,700 | $1,700 | $1,700 | $0 | 0.0% |
| Total Program Operating Level | $81,228 | $84,036 | $92,826 | $8,790 | 10.5% |

## Explanation of Request

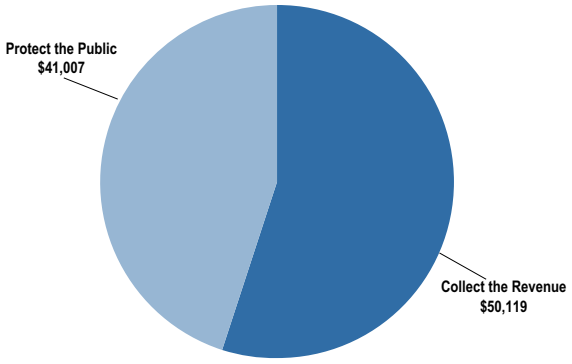
The Alcohol and Tobacco Tax and Trade Bureau (TTB) FY 2006 request maintains a program level consistent with the current level of effort necessary to support TTB's responsibility for revenue collection and enforcement of laws and regulations governing alcohol and tobacco commodities, and requests additional support for an information technology (IT) infrastructure, needed to replace IT support from the U.S. Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives, scheduled to end with FY 2006. The FY 2006 appropriations required to support these initiatives for TTB are $91,126,000 and planned spending from offsetting collections and reimbursable programs totals $1,700,000.

The Budget proposes to establish user fees to cover the costs of TTB's regulatory functions under its "Protect the Public" line-of-business. The new user fees include administrative fees for "drawbacks" from Manufacturers of Non Beverage Products (MNBP), filing fees for Certificate of Label Approvals (COLAs) for distilled spirits, wine and beer, American Viticultural Areas (AVA), proposed formulas, and new permit applications. The industry would pay for the benefits it receives from TTB's regulatory efforts. These efforts assure the public of unadulterated alcohol and tobacco products, help product sales, and promote fair competition among industry members. User fees would not apply to the "Collect the Revenue" activities.

## Purpose of Program

The passage of the Homeland Security Act of 2002 established the Alcohol and Tobacco Tax and Trade Bureau within the Department of the Treasury on January 24, 2003. The Act transferred the firearms, explosives, and arson functions of the Bureau of Alcohol, Tobacco and Firearms (ATF) to the Department of Justice and retained the tax collection and consumer protection provisions of the Internal Revenue Code (IRC) of 1986 and Federal Alcohol Administration Act in TTB, within the Department of the Treasury. While TTB is a relatively new agency, the history of TTB's regulatory responsibility dates back to the creation of the Department of the Treasury and the first federal taxes being levied on distilled spirits in 1791.

**TTB Funding by Budget Activity**
(Dollars in Thousands)




TTB collects significant revenues for the government and performs crucial investigations of tax fraud and consumer deception associated with alcohol and tobacco commodities. In addition to collecting alcohol, tobacco, firearms, and ammunition excise taxes, TTB protects the consumer by ensuring that alcohol beverages are labeled, advertised, and marketed in accordance with the law.

TTB enforces Federal laws related to the production and distribution of alcohol and tobacco products through education, inspection, laboratory testing, and investigation. TTB works with industry, state governments, and other interested parties to facilitate compliance with regulatory requirements. TTB provides technical expertise, training, information, and research results to industry members, government agencies and others in order to better protect and serve the public.

The Administration proposes permanent legislation this year to collect user fees as noted above. Language in the appropriations bill will allow the spending from these receipts to be scored against the appropriations bill for 2006 only. The 10-year savings credited to the authorizers would equal $297 million. OMB will work with Congress to reclassify these enacted fees as discretionary in 2007 so that they may be used by TTB to fund its ongoing regulatory efforts. In an effort to assure TTB's mission is uninterrupted, the appropriations are to be structured to insulate the bureau so that fluctuations in user fee revenue will not have an adverse impact on operations. TTB is authorized to draw funds from the Treasury in advance of the user fee collections so that such Bureau's appropriations will not be affected in the event that fees collected in any fiscal year are less than appropriations for that year.

### Salaries and Expenses

The FY 2006 request for Salaries and Expenses is $91,126,000, an increase of $8,790,000 above the FY 2005 enacted budget. The associated FTE level is 544, the same level as FY 2005. This request supports TTB's transition from ATF's IT infrastructure and investments in its core business applications.

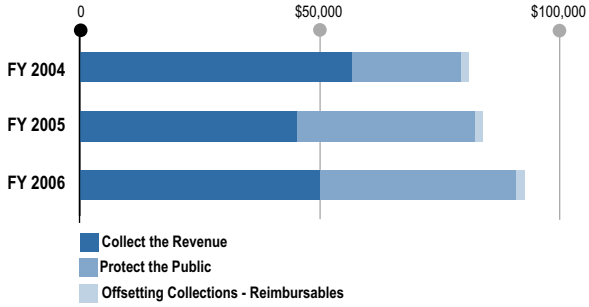
### Offsetting Collections and Reimbursable Amounts

The FY 2006 program includes an estimate of $1,700,000 in offsetting collections relating to necessary expenses for conducting the Puerto Rican enforcement operations. All costs associated with the functioning and support of this office are paid from the "cover-over" (return) which is offset from the roughly $300 million in cover over taxes collected in the United States on products originating in Puerto Rico and the Virgin Islands. In Puerto Rico, TTB conducts annual audit/investigations of industry members regarding the collection of revenue, application processing and product integrity. Revenue inspections are used to conduct tax examinations on major producers of alcohol and tobacco. This is critical due to the requirements of verifying tax payments under the IRC and subsequent accountability of all cover-over amounts due the Puerto Rico government. All distilled spirits producers/processors, wineries, wholesalers, importers, Manufacturer of Non-Beverage Products claimants and Specially Denatured Alcohol permit applicants, including those in Puerto Rico, are subjected to a qualification inspection under the IRC. Additionally, major producers of distilled spirits, wine, and malt beverages are subjected to inspection and audits.

## Program Description

The FY 2006 Bureau budget of $92,826,000, consists of direct appropriations of $91,126,000 and offsetting collections of $1,700,000. The resources requested are critical to enforce the Federal laws and regulations relating to alcohol and tobacco by working directly and in cooperation with others.

**TTB Funding History**
(Dollars in Thousands)




## Explanation of Budget Activities

### Salaries and Expenses:

*Collect the Revenue ($51,054,000, including $50,119,000 in direct funding plus $935,000 in reimbursable funding)* The Collect the Revenue budget activity encompasses TTB's revenue strategy and goal to provide the most effective and efficient system for the collection of all revenue that is rightfully due; prevent or eliminate tax evasion and other criminal conduct; and provide high quality service while imposing the least regulatory burden. This program includes projects designed to allow taxpayers to report and pay excise taxes electronically; enable industry customers to access the Pay.Gov system; and consolidate the tax collection and reporting databases at the NRC into a single integrated state of the art system that will promote greater efficiency and reduce costs.

*Protect the Public ($41,772,000, including $41,007,000 in direct funding plus $765,000 in reimbursable funding)* The Protect the Public budget activity encompasses TTB's strategy and goal to ensure compliance with laws and regulations by regulated industries by providing adequate information to the public as to the identity of alcohol beverages and preventing consumer deception. Under this activity, TTB enforces compliance with federal laws related to the production and distribution of alcohol products through education, inspection, investigation, and laboratory testing. TTB provides technical expertise, training, information, and research results to industry members, government agencies and others in order to better protect the public. TTB relies on innovation, partnerships, and open communication to ensure the safety of the public.

**FY 2006 Budget Highlights**
(Dollars in Thousands)

| Appropriation | Salaries & Expenses |
|---|---|
| FY 2004 Enacted | $79,528 |
| FY 2005 Consolidated Appropriations (H.R. 4818) | $83,000 |
| Rescission (H.R. 4818) | ($664) |
| FY 2005 Current Estimates | $82,336 |
| Current Services | |
| Adjustments to Maintain Current Levels | $2,686 |
| Pay Inflation Adjustment | $1,420 |
| Non-Pay Inflation Adjustment | $1,266 |
| FY 2006 Current Services Level | $85,022 |
| Program Initiatives-Increases | $6,104 |
| IT Enterprise Information Services | $4,404 |
| Integrated Revenue Information System (IRIS) | $1,700 |
| FY 2006 President's Budget | $91,126 |

## Explanation of FY 2005 Current Estimate

The FY 2005 enacted appropriations is $84,036,000, including $82,336,000 from direct appropriations and offsetting collections of $1,700,000.

## Explanation of FY 2006 Built-in Changes – Increases

*Adjustments Necessary to Maintaining Current Levels +$2,686,000/0 FTE* Funds requested for FY 2006 include the cost of the FY 2006 pay increase of $979,000; annualization of a FY 2005 pay raise of $441,000 and non-labor costs of $1,266,000.

## Explanation of FY 2006 Program Changes

### Program Initiatives

*IT Infrastructure +$4,404,000/0 FTE* This investment is needed to ensure the successful migration off of the Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives' (ATFE) IT infrastructure platform. When TTB was created, all IT infrastructure and support was provided by ATFE. That support is scheduled to terminate at the end of FY 2005. The TTB Enterprise Information Services initiative provides the underlying infrastructure required for all TTB applications. It provides essential support to the applications and systems, which TTB relies on to meet its strategic goals. The IT Infrastructure portion of the initiative provides the critical infrastructure (hardware, software, and services) TTB requires to function, as well as meet its strategic goals and objectives and carry out mission critical activities for the Bureau. Without its own infrastructure, TTB's ability to collect over $14 billion annually in federal excise taxes would be severely impaired. Furthermore, were this initiative not funded, TTB would be unable to support other applications that interface with industry to facilitate its compliance with regulations, and thus protect the public. Finally, without the IT infrastructure, TTB would be unable to design and deploy new e-Government solutions through which the Bureau refines its management practices.

*Integrated Revenue Information System (IRIS) +$1,700,000/0 FTE* The IRIS system was created to provide a single integrated system (which had originally functioned as multiple stand-alone databases) and has already merged the industry operational reports database with the alcohol and tobacco permit database. The FY 2006 request will provide $1.7 million to consolidate the Federal Excise Tax database into IRIS. This investment will provide TTB with a means to coordinate and consolidate records relating to regulated industry member activities. Information managed by IRIS can be effectively used to support timely, complete and informed decision-making, enhance service delivery, and ensure accountability. IRIS will also provide for sharing of information between TTB and its industry members; streamline and increase the efficiency of compliance processes; and realize significant cost savings to industry members and

improved productivity (e.g., reduce paperwork to industry, eases burden on production and tax reporting requirements, improve industry data reliability and accuracy, etc.).

## Legislative Proposals

The following legislative proposals are being resubmitted as a part of the FY 2006 President's budget request:

- Sec. 216. Section 122(g)(1) of Public Law 105-119 (5 U.S.C. 3104 note) is further amended by striking "7 years" and inserting "8 years".

  The Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY 1999 authorized the Secretary of the Treasury to establish in the Department of the Treasury a personnel management demonstration project ("pay demonstration project") for designated critical technical positions. This project was established to enhance Treasury's ability to effectively recruit and retain highly qualified employees. The Treasury Department authorized TTB's predecessor to establish a pay demonstration project and the Homeland Security Act of 2002, which established TTB, provided for the continuation of the pay demonstration project in TTB. The pay demonstration project has been extended several times to cover successive fiscal years to include FY 2005. This change would extend the project through FY 2006.

- The Budget proposes to establish user fees to cover the costs of TTB's regulatory functions under its "Protect the Public" line-of-business. The new user fees include administrative fees for "drawbacks" from Manufacturers of Non Beverage Products, filing fees for Certificate of Label Approvals for distilled spirits, wine and beer, American Viticultural Areas, proposed formulas, and new permit applications. This change would generate estimated user fee collections of $28,640,000 annually. Authorizing legislation will be proposed that amends the Internal Revenue Code (Title Internal Revenue Code of 1986, 26 U.S.C.) and the Federal Alcohol Administration Act (27 U.S.C.), and system and operational changes would be needed to implement the new fees. Language in the appropriations bill would allow the spending from these receipts to be scored against the appropriations bill for 2006.

# Office of the Inspector General

**Program Summary by Appropriations Account**
(Dollars in Thousands)

| | FY 2004 | FY 2005 | FY 2006 | | |
|---|---|---|---|---|---|
| Appropriation | Enacted | Enacted | President's Budget | Increase/ Decrease | % change |
| Salaries and Expenses | $12,923 | $16,368 | $16,722 | $354 | 2.2% |
| Audits | $9,434 | $11,299 | $11,476 | $177 | 1.6% |
| Investigations | $3,489 | $5,069 | $5,246 | $177 | 3.5% |
| Subtotal, OIG | $12,923 | $16,368 | $16,722 | $354 | 2.2% |
| Offsetting Collections - Reimbursables | $1,272 | $2,342 | $2,342 | $0 | 0.0% |
| Total Program Operating Level | $14,195 | $18,710 | $19,064 | $354 | 1.9% |

## Purpose of Program

The Treasury OIG mission, based directly on responsibilities established in law, is to:

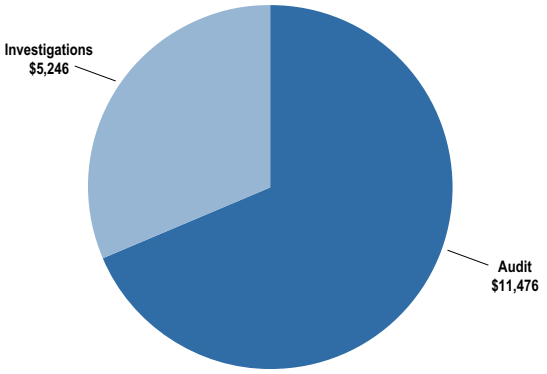
- Conduct and supervise audits, evaluations, and investigations relating to Treasury programs and operations.
- Promote economy, efficiency, and effectiveness in the administration of Treasury programs and operations.
- Provide leadership and promote policies designed to prevent and detect fraud, waste, and abuse in Treasury programs and operations.
- Keep the Secretary of the Treasury and Congress fully and currently informed about problems and deficiencies in Treasury programs and operations, and the need for and progress of corrective actions.

## Explanation of Request

The Office of the Inspector General (OIG) requests resources for the audit and investigations programs to meet the requirements of the Inspector General Act. The OIG is made up of an audit and an investigation program. In FY 2006, the OIG is requesting funds to maintain current service levels. The audit program performs audits, attestation engagements, and evaluations that: (1) are mandated by law; (2) support the President's Management Agenda; and (3) address areas of high risk in Treasury programs and operations. The investigations program performs investigative activities relating to complaints of fraud, waste, and abuse in Treasury programs and operations.

Total resources required to support OIG activities for FY 2006 are $19,063,925 including $16,722,000 from direct appropriations and $2,341,925 from reimbursable agreements.

**OIG Funding by Budget Activity**
(Dollars in Thousands)



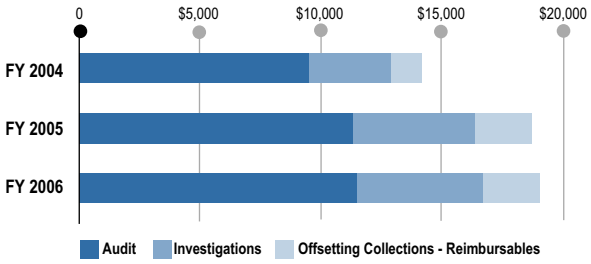

### Salaries and Expenses

In FY 2006, the OIG requests $16,722,000 in direct appropriation funding supporting 115 direct FTE. This is an increase of $354,000 over the FY 2005 enacted appropriation.

### Offsetting Collections and Reimbursable Amounts

The FY 2006 request includes an estimate of $2,341,925 in reimbursable agreements with other agencies for work performed by the OIG's Inspector General Auditor Training Institute.

**OIG Funding History**
(Dollars in Thousands)



## Program Description

OIG's request of $19,063,925 includes $16,722,000 from direct appropriations and $2,341,925 from reimbursable agreements to continue OIG's mission.

## Explanation of Budget Activities

OIG's appropriation is divided into two budget activities: audit and investigations.

*Office of Audit ($11,476,000 from direct appropriations)* The Office of Audit conducts or supervises financial, IT, program, and contract audits, attestation engagements, and evaluations to improve the quality, reduce the cost, and ensure the integrity of Treasury's operations. Employees perform this work in compliance with the standards and guidelines established by the Comptroller General of the United States, the President's Council on Integrity and Efficiency (PCIE), and other professional organizations. Program work is: (1) mandated by law; (2) requested by management, the Office of Management and Budget, or members of Congress; or (3) self-initiated through an annual planning process.

*Office of Investigations ($5,246,000 from direct appropriations)* The Office of Investigations provides leadership and promotes policies designed to prevent and detect fraud, waste, and abuse in Treasury programs and operations. This includes the detection and prevention or deterrence of employee misconduct and fraud or related financial crimes within or directed against Treasury. Criminal investigators perform this work in compliance with the standards and guidelines established by PCIE, other professional organizations, and U.S. Law and Regulations.

*Inspector General Audit Training Institute (IGATI) ($2,341,925 in reimbursable authority)* IGATI provides specialized training to enhance the skills, abilities and knowledge of Federal Offices of Inspector General auditors. It serves as the focal point of professional development and growth for auditors, inspectors, and evaluators across government.

**FY 2006 Budget Highlights**
(Dollars in Thousands)

| Appropriation | Salaries & Expenses |
|---|---|
| FY 2004 Enacted | $12,923 |
| FY 2005 Consolidated Appropriations (H.R. 4818) | $16,500 |
| Rescission (H.R. 4818) | ($132) |
| FY 2005 Current Estimates | $16,368 |
| Current Services | |
| Adjustments to Maintain Current Services | $354 |
| Pay Inflation Adjustment | $245 |
| Non-Pay Inflation Adjustment | $109 |
| FY 2005 Current Services Level | |
| FY 2006 President's Budget | $16,722 |

## Explanation of FY 2005 Current Estimate

The FY 2005 enacted direct appropriation for OIG is a total of $16,368,000.

## Explanation of FY 2006 Built-In Changes – Increases

*Adjustments Necessary to Maintain Current Levels +$354,000/0 FTE* Funds requested for FY 2006 include the cost of the January 2005 pay increase of $94,000; the proposed January 2006 pay raise of $151,000; non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of $109,000.

## Explanation of FY 2006 Program Changes

No program changes.

## Legislative Proposals

None requested.

# Treasury Inspector General for Tax Administration

**Program Summary by Appropriations Account**
(Dollars in Thousands)

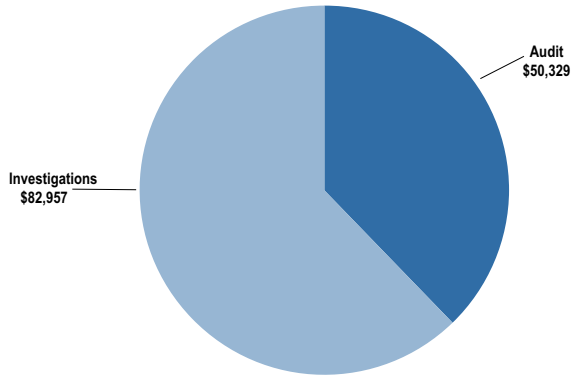
| Appropriation | FY 2004 Enacted | FY 2005 Enacted | FY 2006 President's Budget | FY 2006 Increase/ Decrease | FY 2006 % change |
|---|---|---|---|---|---|
| Salaries and Expenses | $127,279 | $128,093 | $133,286 | $5,193 | 4.1% |
| Audit | $48,347 | $48,392 | $50,329 | $1,937 | 4.0% |
| Investigations | $78,932 | $79,701 | $82,957 | $3,256 | 4.1% |
| Subtotal, TIGTA | $127,279 | $128,093 | $133,286 | $5,193 | 4.1% |
| Offsetting Collections - Reimbursables | $3,073 | $3,041 | $2,950 | ($91) | (3.0%) |
| Total Program Operating Level | $130,352 | $131,134 | $136,236 | $5,102 | 3.9% |

## Explanation of Request

The Treasury Inspector General for Tax Administration's (TIGTA) mission is to provide audit and investigative services that promote economy, efficiency, and integrity in the administration of the internal revenue laws. In order to ensure the Internal Revenue Service (IRS) is accountable in its administration of almost $2 trillion in revenue, TIGTA performs audits and investigations that foster economy and efficiency, while maintaining protection against any internal or external corruption activities.

TIGTA's FY 2006 request includes an initiative that responds to recent legislation allowing the IRS to use private debt collection agents. Total resources required for FY 2006 to support TIGTA's mission are $136,236,000, which includes $133,286,000 from direct appropriations and approximately $2,950,000 from reimbursable agreements.

**TIGTA Funding by Budget Activity**
(Dollars in Thousands)




## Purpose of Program

TIGTA structures its audit and investigative activities to identify opportunities to improve the administration of the nation's tax laws. The management challenges facing the IRS and its susceptibility to risks that could potentially harm the nation's tax base are carefully reviewed by TIGTA on an annual basis. TIGTA reviews IRS priorities, considering input from IRS, Congress, and other stakeholders to develop an audit plan designed to identify and overcome programmatic and operational weaknesses. To combat fraud and abuse, investigative casework is centered on three core performance areas: employee integrity, employee and infrastructure security, and external attempts to corrupt tax administration. Criminal and administrative misconduct by IRS employees weakens the public's trust in government and impedes effective tax administration.

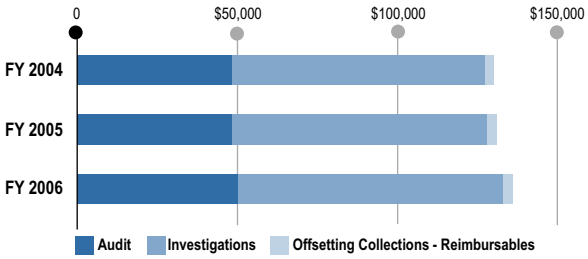
### Salaries and Expenses

The FY 2006 request for Salaries and Expenses is $133,286,000, which is $5,193,000 above the FY 2005 appropriation of $128,093,000. This request continues funding in the two program areas: audit and investigations.

### Offsetting Collections and Reimbursable Amounts

The FY 2006 request includes an estimate of $2,950,000 in reimbursable agreements with other agencies for work performed by TIGTA.

**TIGTA Funding History**
(Dollars in Thousands)




## Program Description

TIGTA's request of $136,236,000 includes $133,286,000 from direct appropriations and $2,950,000 from reimbursable agreements to continue TIGTA's mission to ensure integrity of

the nation's tax system. Program funding supports audit and investigations that provide useful, balanced information that assists Treasury, the IRS and ultimately the American taxpayer.

### Salaries and Expenses

*Office of Audit ($50,454,000, including $50,329,000 from direct appropriations plus reimbursements of $125,000)* Audits are focused on providing a responsive and comprehensive analysis of IRS systems and operations, including independent performance and financial audits; assessing efficiency, effectiveness and economy of programs; ensuring compliance with applicable tax laws and regulations; and preventing, detecting and deterring fraud, waste and abuse. Audits are focused on IRS' major management challenges such as ensuring effective customer service and enforcement, modernizing computer systems, complying with financial stewardship duties, and meeting human capital requirements, while ensuring the security of staff, the computer systems, the data, and property. In addition, TIGTA performs audits required by statute, and addresses areas of concern to the Congress, the IRS Oversight Board, and other interested parties. Recommendations from these audits result in cost savings, increased or protected revenue, reduction of taxpayer burden, and protection of IRS resources and taxpayer rights, entitlements, privacy and security.

*Office of Investigations ($85,782,000, including $82,957,000 from direct appropriations plus reimbursements of $2,825,000)* The United States' system of taxation rests on a foundation of voluntary compliance. Taxpayers are expected to voluntarily fulfill their Federal tax obligations. In return taxpayers expect that those charged with administering the Federal tax laws adhere to high standards of honesty and treat all taxpayers equitably. If the government fails to detect and prevent IRS internal misconduct or external manipulation of the tax system, the result could be extensive non-compliance with the tax laws, jeopardizing its main source of revenue and endangering U.S. security and economic welfare. TIGTA works to maintain U.S. citizens' belief in the integrity of the Federal tax infrastructure by ensuring that the tax system is managed fairly and effectively and those violators of the public's trust can and will be investigated. Investigative activities involve the protection of the integrity of tax administration and Treasury's ability to collect revenue owed to the Federal government. As much of the work is reactive in nature, TIGTA must balance resources to ensure complete and thorough responses to allegations of criminal activity and IRS employee misconduct; while preserving proactive efforts to explore and detect fraud and criminal vulnerabilities.

**FY 2006 Budget Highlights**
(Dollars in Thousands)

| Appropriation | Salaries & Expenses |
|---|---|
| FY 2004 Enacted | $127,279 |
| FY 2005 Consolidated Appropriations (H.R. 4818) | $129,126 |
| Rescission (H.R. 4818) | ($1,033) |
| FY 2005 Current Estimates | $128,093 |
| Current Services | |
| Adjustments to Maintain Current Services | $4,443 |
| Pay Inflation Adjustment | $2,672 |
| Non-Pay Inflation Adjustment | $1,570 |
| FECA Transfer from IRS | $201 |
| FY 2005 Current Services Level | $132,536 |
| Program Initiatives-Increases | $750 |
| Collection Contract Initiative | $750 |
| FY 2006 President's Budget | $133,286 |

### Explanation of FY 2005 Current Estimate

The FY 2005 current estimate for TIGTA is a total of $128,093,000 to fund Salaries and Expenses.

### Explanation of FY 2006 Built-In Changes – Increases

*Adjustments Necessary to Maintain Current Levels +$4,443,000/0 FTE* Funds requested for FY 2006 include cost of the January 2005 pay increase of $908,000; the proposed January 2006 pay raise of $1,764,000; non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of $1,570,000; and $201,000 from a transfer from the IRS to cover TIGTA's Federal Employee Compensation Act costs which had previously been paid by the IRS.

### Explanation of FY 2006 Program Changes

*Collection Contract Initiative +$750,000/+4 FTE* TIGTA is requesting resources to ensure the success of the IRS' use of private debt collectors. The IRS

will engage approximately 12 contractors involving 2,500 contract employees to pursue outstanding revenue due to the Federal government. TIGTA's statutory responsibilities provide the basis for our request for critical audit and investigative oversight of the process and implementation; further ensuring the fair and equitable treatment of taxpayers. Ensuring tax compliance is a cornerstone of Treasury's mission and therefore, it is critical that oversight be in place to assist in the success of this endeavor. This initiative ensures that TIGTA is involved in providing oversight at the start-up as opposed to later, to make certain that both taxpayer rights and the government's interests are protected. The debt collection contract will go beyond the typical private contract in terms of potential risks and potential bad publicity because the contractor compensation is based on collection incentives.

## Legislative Proposals

None requested.

# Community Development Financial Institutions Fund

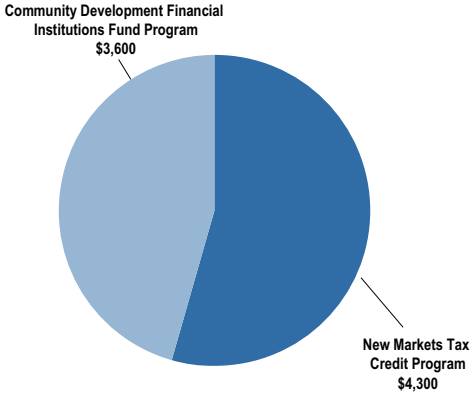
**Program Summary by Appropriations Account**
(Dollars in Thousands)

| Appropriation | FY 2004 Enacted | FY 2005 Enacted | FY 2006 President's Budget | FY 2006 Increase/ Decrease | FY 2006 % change |
|---|---|---|---|---|---|
| Salaries and Expenses | $60,640 | $55,078 | $7,900 | ($47,178) | (85.7%) |
| Community Development Financial Institutions Fund Program | $41,160 | $31,421 | $3,600 | ($27,821) | (88.5%) |
| New Markets Tax Credit | $4,700 | $6,221 | $4,300 | ($1,921) | (30.9%) |
| Bank Enterprise Award Program | $14,780 | $11,415 | $0 | ($11,415) | (100.0%) |
| Native Initiatives | $0 | $6,021 | $0 | ($6,021) | (100.0%) |
| Subtotal, Community Development Financial Institutions Fund | $60,640 | $55,078 | $7,900 | ($47,178) | (85.7%) |
| Total Program Operating Level | $60,640 | $55,078 | $7,900 | ($47,178) | (85.7%) |

## Explanation of Request

The Community Development Financial Institutions Fund is requesting $7,900,000 in direct appropriations. The resources will allow the Fund (CDFI) to administer the New Markets Tax Credit (NMTC) and manage the Fund's existing award portfolio.

**CDFI Funding by Budget Activity**
(Dollars in Thousands)




## Purpose of Program

The mission of the NMTC is to attract private sector capital into low-income communities through Community Development Entities (CDEs). The Community Renewal Tax Relief Act of 2000 created the NMTC program, which is designed to spur investment of private capital into privately managed investment vehicles called CDEs. CDEs make loans and equity investments in new markets businesses located in and serving economically distressed communities.

While funding is no longer requested for the Native Initiatives, Bank Enterprise Award, and the Financial and Technical Assistance programs, disbursements of awards under outstanding legal agreements must still be made, and awardee performance under these awards will require compliance and monitoring activities. As a result, the Fund seeks resources to manage the existing loan/grant portfolio.

The CDFI budget is requested in conjunction with the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act.

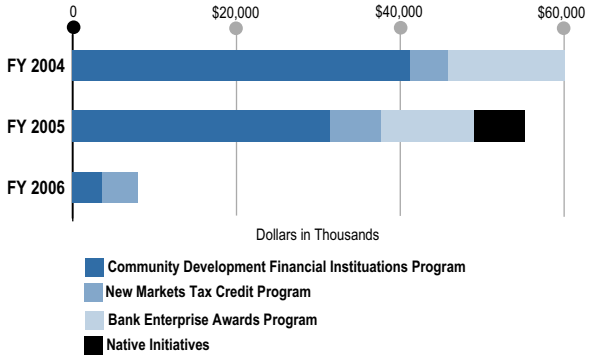
### Salaries and Expenses

The FY 2006 request for salaries and expenses is $7,900,000. This is a reduction of $47,178,000 from the FY 2005 enacted budget. The associated FTE level is 35, a reduction of 33 FTE from FY 2005. This request represents the Fund's needed requirements to administer the NMTC Program, manage the award portfolio, and conduct compliance and monitoring for NMTC and the existing loan/grant portfolio.

## Program Description

The Community Development Financial Institutions Fund requests $7,900,000 in direct funding in FY 2006. All funding requested for FY 2006 is for the administration of the New Markets Tax Credit Program, and management of the existing awards under the Community Development Financial Institutions Program, the Bank Enterprise Award Program, and Native Initiatives. The latter programs are proposed to be consolidated with other Federal community development programs within the Department of Commerce. The intent of this consolidation is to achieve greater results and focus on communities most in need of assistance. The FY 2006 appropriations required to support the administration of the NMTC and manage existing award programs is $7,900,000.

**CDFI Funding History**
(Dollars in Thousands)




## Explanation of Budget Activities

### Salaries and Expenses

*New Market Tax Credit Program ($4,300,000 in direct funding)* The NMTC spurs investment of private capital into a range of privately managed investment vehicles. The program offers a credit against income taxes for qualified equity investments made through investment vehicles called Community Development Entities (CDEs). In turn, CDEs make loans and equity investments in commercial enterprises located in economically distressed communities. In FY 2006 and 2007, CDEs will create $7 billion in private sector equity investments.

*Community Development Financial Institutions Program ($3,600,000 in direct funding)* The Fund projects that there will be over 400 undisbursed awards as of the end of FY 2005 (100 of these awards will require disbursement in FY 2006). The remaining 300 awards will be disbursed subsequent to FY 2006. CDFI also requires funding to wind down operations of these programs including a termination fee required for leased space through the General Services Administration, payment of annual leave, retention bonuses and employee buyouts, and the operation of program and financial management systems.

**FY 2006 Budget Highlights**
(Dollars in Thousands)

| Appropriation | Salaries & Expenses |
|---|---|
| FY 2004 Enacted | $60,640 |
| FY 2005 Consolidated Appropriations (H.R. 4818) | $55,522 |
| Rescission (H.R. 4818) | ($444) |
| FY 2005 Current Estimates | $55,078 |
| Current Services | |
| Reductions, Non-Recurring Costs and Savings Total | ($47,304) |
| Non-Recur All but NMTC Administration | ($47,304) |
| Adjustments to Maintain Current Levels | $126 |
| Pay Inflation Adjustment | $189 |
| Non-Pay Inflation Adjustment | ($63) |
| FY 2005 Current Services Level | $7,900 |
| FY 2006 President's Budget | $7,900 |

## Explanation of FY 2005 Current Estimate

The FY 2005 enacted appropriation for CDFI is $55,078,000, to fund Salaries and Expenses.

## Explanation of FY 2006 Built-in Changes – Increases

*Adjustments Necessary to Maintaining Current Levels +189,000/0 FTE* Funds are requested for: the FY 2006 cost of $130,000 to pay for the January 2005 pay increase and $59,000 to pay for the annualization of the FY 2005 pay raise.

## Explanation of FY 2006 Built-in Changes – Decrease

*Adjustments Necessary to Maintaining Current Levels -$63,000/0 FTE* This decrease is made up of a FY 2005 reduction in non-labor costs of $63,000.

## Explanation of FY 2006 Program Changes

*Program Reductions -$47,304,000/-33 FTE* The FY 2006 budget decreases $47,304,000 of program funding for the Community Development Financial Institutions Program, the Bank Enterprise Award Program, and Native Initiatives programs within CDFI. As mentioned previously, these programs are proposed to be consolidated with other Federal community development programs within the Department of Commerce.

## Legislative Proposals

The FY 2006 budget includes a proposal to consolidate most of the current activities of the Community Development Financial Institutions Funds programs into a new economic and community development program at the Department of Commerce. The Fund would maintain the administration of the New Markets Tax Credit program and the life-cycle management of existing awards under the Community Development Financial Institutions Program, the Bank Enterprise Award Program, and Native Initiatives. The request changes CDFI funding from two-year funding to one-year funding.