DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT

FISCAL YEAR 2019

WEBSITE INFORMATION

Treasury....www.treasury.gov
Alcohol and Tobacco Tax and Trade Bureau....www.ttb.gov
Bureau of Engraving & Printing....www.bep.gov
Fiscal Service....www.fiscal.treasury.gov
Community Development Financial Institutions Fund....www.cdfifund.gov
Financial Crimes Enforcement Network....www.fincen.gov
Internal Revenue Service....www.irs.gov
Office of the Comptroller of the Currency....www.occ.gov
U.S. Mint....www.usmint.gov
The Financial Stability Plan....www.financialstability.gov
Making Home Affordable Program....www.makinghomeaffordable.gov
The Recovery Act....www.recovery.gov
Office of Inspector General....www.treasury.gov/oig
Treasury Inspector General for Tax Administration....www.tigta.gov
Special Inspector General for the Troubled Asset Relief Program....www.sigtarp.gov

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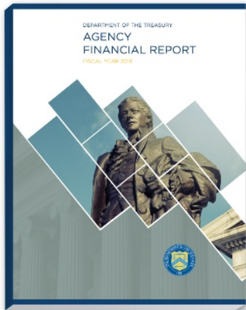
ABOUT THIS REPORT



Our *Agency Financial Report* (AFR) for Fiscal Year (FY) 2019 presents the Department of the Treasury's (Treasury, Department, or our) financial information relative to our vital mission and stewardship of the resources entrusted to us. The AFR also highlights our priorities, accomplishments, and challenges implementing programs that promote conditions for sustaining economic growth and stability at home and abroad, protecting the integrity of our nation's financial system, and effectively managing the United States (U.S.) government's finances and resources. In accordance with Office of Management and Budget's (OMB) Circular A-136, *Financial Reporting Requirements,* we produce the following reports: *(i)* an *AFR* issued on November 15, 2019, and *(ii)* an *Annual Performance Report* (APR) submitted with Treasury's congressional budget justification, to be issued by February 1, 2020. The AFR will be available online at https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/agency-financial-report. The APR will be available online at https://www.treasury.gov/about/budget-performance/Pages/cj-index.aspx.

HOW THIS REPORT IS ORGANIZED

Our AFR provides financial and performance information for the FY beginning October 1, 2018, and ending on September 30, 2019, with comparative prior year data, where appropriate. The AFR demonstrates our commitment to our mission and accountability to Congress and the American people. This report presents Treasury's operations, accomplishments and challenges. The AFR begins with a message from the Secretary of the Treasury, Steven T. Mnuchin. This introduction is followed by three main sections.

Part 1: Management's Discussion and Analysis

Provides a high-level overview of our organizational structure, strategic framework, programmatic and financial performance, and management assurances related to Treasury's internal controls.

Part 2: Financial Section

Begins with a message from the Assistant Secretary for Management and Deputy Chief Financial Officer, followed by the Independent Auditors' Report, audited financial statements and notes, and supplementary information.

Part 3: Other Information

Contains various information including Management and Performance Challenges identified by the Inspectors General and Management's response, along with information related to tax gap and tax burden, improper payments, and other relevant information.

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MESSAGE FROM THE SECRETARY OF THE TREASURY

MISSION STATEMENT

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

Treasury's annual Agency Financial Report offers an opportunity for reflection and allows us to review the accomplishments of the past year. We have taken great strides towards achieving sustained economic growth and prosperity. The steps we have taken to hold those that fund terrorism accountable, reduce regulatory burdens on taxpayers, promote free and reciprocal trade, and ultimately serve as good stewards of taxpayer dollars are producing positive results for the American people. In the coming year, we will remain focused on security issues and promoting pro-growth policies that spur continued economic growth.

TAX CUTS AND JOBS ACT IMPLEMENTATION

Successfully implementing the historic *Tax Cuts and Jobs Act* (TCJA) was, and continues to be, a top priority of the Treasury Department. Our economy is strong thanks in large part to this law, which cut taxes for families and made American businesses competitive. Companies have been investing in America's workforce and pouring hundreds of billions of dollars back into our economy.

The Internal Revenue Service (IRS) acted quickly to implement more than 119 tax provisions at unprecedented speed, delivering 50 new tax products and updates to 500 existing products for individuals and businesses to date. Implementing these provisions required modifying 128 complex systems and 550 new or revised business rules. The IRS delivered new tools for taxpayers including a new withholding estimator, which has been used by over 250,000 unique users since deployment in August. Altogether taxpayers have visited IRS.gov more than 600 million times in 2019, a six percent increase. The IRS has answered more than 46 million taxpayer calls and served two million taxpayers at Taxpayer Assistance Centers. The IRS also hosted hundreds of events for the tax community. This timely guidance and outreach provided individuals and businesses essential information for tax year 2018 filing. While the TCJA has already delivered results, there is still more to be done. Treasury's Office of Tax Policy and

IRS continue to issue important tax guidance to reflect changes in the law.

Housing Finance Reform

Pursuant to a March 2019 Presidential Memorandum, the Department released the Treasury Housing Finance Reform Plan in September. Treasury met with a diverse range of stakeholders and interagency partners to propose nearly 50 legislative and administrative reforms designed to protect American taxpayers against future bailouts, preserve the 30-year fixed-rate mortgage, and help hardworking Americans fulfill their goal of buying a home. The housing finance system is in serious need of reform, and Treasury's proposals achieve the goals of a vibrant availability of mortgages and ending the conservatorships of the Government-sponsored enterprises, promoting competition in the housing finance system, and enhancing taxpayer protections.

CFIUS

Foreign direct investment is vital to innovation, job creation, and economic growth in the United States. Treasury chairs the Committee on Foreign Investment in the United States (CFIUS), which reviews foreign investment for potential national security risks. Recently, the Department proposed regulations in order to comprehensively implement the *Foreign Investment Risk Review Modernization Act of 2018* (FIRRMA) that strengthens and modernizes CFIUS's capabilities to address national security concerns. These regulations enhance CFIUS's ability to protect America's open investment policy and address its authority to review real estate transactions and non-controlling investments. FIRRMA received strong bipartisan support in Congress, and the Department will continue to collaborate with its interagency committee members to ensure that the legislation is properly implemented.

Trade

Free, fair, and reciprocal trade has been a cornerstone of the Trump administration's economic agenda, and Treasury has worked with our interagency colleagues and trading partners in order to modernize trade for the benefit of all Americans. These values have been reflected in our government's ongoing negotiations with China, and in the historic trade deal we recently signed with Japan. The United States-Mexico-Canada Agreement will establish the highest standards ever in a trade agreement to protect intellectual property rights, support small and mid-sized businesses, open markets for agricultural products, and spur manufacturing. The Administration continues to engage with Congress to secure approval of the agreement for American workers and businesses.

Illicit Finance

Treasury has continued to use every tool in its economic toolbox to advance the administration's national security priorities and protect the international financial system from potential abuse. The economic authorities of Treasury's Office of Terrorism and Financial Intelligence (TFI) play an increasingly central role in countering the nation's most critical national security and illicit finance threats. In the last two years, TFI has, among many other achievements, cut off billions of dollars in revenue that would have otherwise flowed to Iran, the world's largest state sponsor of terror; disrupted major networks that had provided Bashar al-Assad with oil and other resources to brutalize the Syrian people, destabilize the region and fund terror; choked off funds to Hizballah; expanded sectoral and other sanctions in response to Russia's continued aggression; exposed and disrupted the malign activity of Russian oligarchs; disrupted North Korean shipping, financial, and export networks and worked in concert with our allies and the United Nations to create a diplomatic opening for discussion; led the Financial Action Task Force (FATF) in adopting comprehensive measures to prevent digital assets from being used for illicit activity; and targeted and disrupted networks of human rights abusers and corrupt officials all over the world, including the illegitimate Maduro regime in Venezuela. Treasury has worked with the intelligence community and our national security partners to expose and disrupt numerous illicit finance schemes around the world.

GENERAL ECONOMY

Strengthening our economy for the American people has been at the core of President Trump's agenda. The American economy's Gross Domestic Product (GDP) realized 2.9 percent annual growth in 2018, and the current economic expansion became the longest on record in July 2019. Through September 2019, employers have added 6.5 million nonfarm payroll jobs since the election. Average hourly earnings for production workers are up 3.5 percent in nominal terms over the year through September. The unemployment rate averaged just 3.9 percent in 2018 and, in 2019, reached a 50-year low of 3.5 percent in September.

The historic success of our economy is thanks, in large part, to the role Treasury plays in eliminating burdensome regulations, promoting pro-growth economic policies and serving as responsible stewards of taxpayer dollars.

Of course, one of Treasury's core functions is to be effective stewards of taxpayer resources and to provide transparent reporting to the American people. I am pleased to report that Treasury received an unmodified audit opinion of its consolidated financial statements and validated its financial and performance data as complete and reliable. Treasury strengthened management controls and made progress toward achieving all U.S. financial systems and control objectives. We provide this report as a comprehensive review of the Department's important work and finances.

Treasury's outstanding workforce is fully committed to upholding the storied history of this great American institution, and their hard work is improving the lives of families all across our nation. I look forward to the coming year and the steps we will be taking to secure a prosperous future for all Americans.

Steven T. Mnuchin
Secretary of the Treasury
November 15, 2019

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THE TREASURY DEPARTMENT
ALBERT GALLATIN
SECRETARY OF THE TREASURY
GENIUS OF FINANCE
SENATOR AND REPRESENTATIVE
COMMISSIONER FOR THE TREATY OF GHENT
MINISTER TO FRANCE AND GREAT BRITAIN
AND STEADFAST
CHAMPION OF DEMOCRACY
1761 1849

TREASURY AT A GLANCE

FOUNDATION

After the American Revolution, Congress realized that funding a war without proper infrastructure and financial discipline presented an enormous challenge to our country's economic stability. Out of the necessity to levy and collect taxes and manage the U.S. government's finances, Congress established the Department of the Treasury on September 2, 1789. President George Washington appointed Alexander Hamilton as Treasury's first Secretary. Since then, 77 Secretaries have led the Department.

Throughout its history, Treasury has been the foundation for other federal agencies. For example, the U.S. Postal Service, U.S. Customs Service, Secret Service, Federal Law Enforcement Training Center, and U.S. Coast Guard were all, at one time, under our jurisdiction.

The Treasury building in the late 1800s. The Treasury building colonnade from the southeast side shows the bustle of pedestrian traffic on 15th Street as they passed in front of the Treasury building.

U.S. Department of the Treasury building, Washington, D.C.

TODAY'S TREASURY AND HOW WE SERVE THE NATION

Treasury remains as one of the premier financial institutions, responsible for the nation's debt management, cash production, issuing Social Security and other benefit payments, loans made to other federal agencies, tax collection, and economic policy formulation. We are a trusted policy advisor to the President, formulating and recommending domestic and international financial, economic, and tax policy. Our contributions to policy development shape America's economic health and security.

The Department also performs a critical and far-reaching role in enhancing national security and reducing our exposure to international terrorism. We do this by employing the Department's national security tools and authorities—including sanctions—to identify, disrupt, and dismantle priority national security and foreign policy threats.

Additionally, we identify and reduce vulnerabilities in the U.S. and international system to prevent abuse by illicit actors. We also leverage our relationships with our federal partners and the private sector to identify cutting-edge technologies to identify, detect, and prevent threats to our economic stability before they occur.

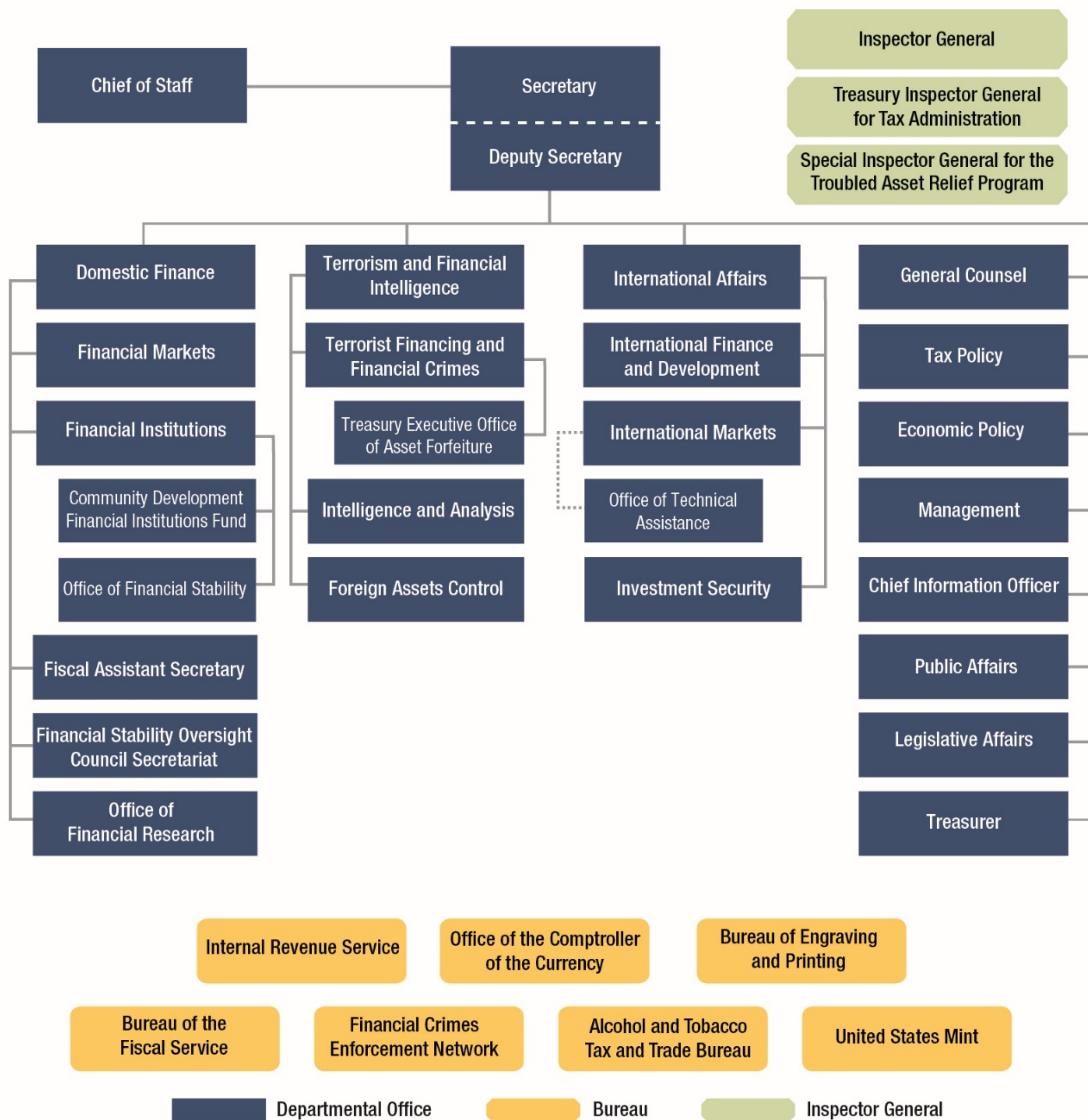
We work to increase opportunities for small businesses, which are the backbone of our economy; create jobs to improve the well-being of U.S. citizens; and safeguard and grow our national economy. We have been a continuously influential part of the government's service to the American people, adapting to meet the nation's needs.

Globally, Treasury represents the U.S. in key economic forums and international financial institutions, including the Group of Seven (G-7) and the Group of Twenty (G-20), which hold annual summits with heads of state to discuss global foreign policy issues. We play a vital role in promoting stability and growth in the global economy via our leadership roles in the International Monetary Fund, the World Bank, regional development banks, and other multilateral organizations, such as the Financial Stability Board and the Financial Action Task Force.

Although Treasury has evolved to meet the nation's needs, our core mission has remained the same since 1789. Today, with approximately 100,000 employees, we remain steadfast in our commitment to promote conditions that enable economic growth and stability at home and abroad, protect the integrity of the financial system, and effectively manage the U.S. government's finances and resources. We remain the principal steward of the U.S. economy—collecting revenue, meeting financial obligations, and, when appropriate, borrowing.

ORGANIZATION

Treasury is organized into the Departmental Offices, seven bureaus, and three offices of Inspector General. The Departmental Offices are primarily responsible for headquarters operations and policy formulation, while the bureaus are the operating units of the organization.



Departmental Offices

Domestic Finance works to preserve confidence in the U.S. Treasury securities market, strengthen financial institutions and markets, and promote access to credit, in service to long-term economic strength and stability.

Terrorism and Financial Intelligence (TFI) uses unique policy, intelligence, enforcement and regulatory tools and authorities to disrupt and disable terrorists, criminals, and other national security threats while also safeguarding the financial system against abuse by illicit actors.

International Affairs protects economic prosperity and national security by working to foster a most favorable external environment for sustained jobs and economic growth.

Tax Policy develops and implements tax policies and programs, reviews regulations and rulings to administer the Internal Revenue Code, and provides revenue estimates for the President's Budget.

Economic Policy reports on economic developments and assists in the determination of appropriate economic policies. It also reviews and analyzes domestic economic issues and financial market developments.

The Treasurer of the United States serves as a principal advisor to the Secretary and leads the Office of Consumer Policy, which provides policy leadership, research, and analysis to foster economic growth and financial security for American families in a robust consumer marketplace. The Treasurer also oversees the U.S. Mint, including advising the Secretary on coinage matters and liaising with the Federal Reserve.

The Office of Management and Chief Financial Officer, manages the Department's financial resources and oversees Treasury-wide programs, including human capital, organizational performance, information technology, acquisition, and diversity issues.

Other offices within Departmental Offices include the General Counsel, Legislative Affairs, and Public Affairs.

INSPECTORS GENERAL

Three Inspectors General – the Office of Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), and the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) – provide independent audits, investigations, and oversight of Treasury and our programs.

BUREAUS

The Alcohol and Tobacco Tax and Trade Bureau (TTB) collects federal excise taxes on alcohol, tobacco, firearms, and ammunition and enforces and administers laws covering production, use, and distribution of alcohol and tobacco products.

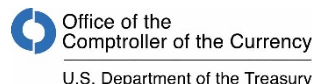
The Bureau of Engraving and Printing (BEP) develops and produces U.S. currency notes, as well as secure documents for government use.

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

The Bureau of the Fiscal Service (Fiscal Service) promotes financial integrity and operational efficiency by operating the U.S. government's collections and deposit systems, and providing central payment services to the American public on behalf of federal agencies. It also manages the collection of delinquent debt, borrows funds needed to operate the U.S. government through the sale of marketable and special-purpose U.S. Treasury securities, and accounts for the resulting debt. Additionally, it delivers administrative shared services to federal agencies and provides government-wide accounting and reporting.

The Internal Revenue Service (IRS) determines, assesses, and collects U.S. tax revenue and helps taxpayers understand their tax responsibilities and combats tax-related fraud.

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



The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks and federal savings associations as well as federal branches and agencies of foreign banks to ensure that they operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

TREASURY STRATEGIC MANAGEMENT

FRAMEWORK

The Government Performance and Results Act (GPRA) and the *GPRA Modernization Act of 2010* require agencies to identify goals, report progress against targets, and conduct data-driven reviews. These practices serve two key purposes for stakeholders within and outside of the organization — to assess the organization's health and impact, and to enhance effective decision-making and strategy, including resource allocation. In this spirit, Treasury developed a strategic framework using best-in-class organizational performance practices to help achieve our strategic goals and objectives.

ORGANIZATIONAL PERFORMANCE REVIEW CYCLE

Our organizational performance reviews provide a regular forum for open dialogue and coordination between bureau and departmental policy office management and leadership. We bring together different perspectives to set and align priorities, identify and solve problems, review agency performance, and drive results. The cycle integrates statutory requirements to conduct quarterly performance reviews of agency goals and a Strategic Objective Annual Review (SOAR). The SOAR process includes analyzing cross-cutting performance and identifying a set of strategic objectives as priority focus areas. In 2019, the *Foundation for Evidence-Based Policy Act* was signed into law to further advance the Federal Government's evidence-building functions. In this fiscal year, Treasury approached the implementation of the evidence-building requirements by leveraging Treasury's strategic management framework, including the SOAR, to initiate an agency learning agenda.

At designated points throughout the fiscal year, we set annual priorities, evaluate progress against goals and objectives, discuss new strategies to improve program outcomes, and assess funding options to increase results for the agency. Treasury's process and framework for managing to our strategic objectives and performance outcomes are described in Table 1 below.

TABLE 1: STRATEGIC FRAMEWORK

Sessions	Fall (October – November)	Winter (February – March)	Spring (April – May)	Summer (June – July)
Focus	**Organizational Performance**	**SOAR**	**Organizational Performance**	**Budget**
Chair	Assistant Secretary for Management/Performance Improvement Officer (ASM/PIO)	ASM/PIO and Deputy PIO	ASM/PIO	ASM/PIO and Budget Officer
Goals/Outcomes	• Review prior year's performance at the bureau/office level • Set priorities for year ahead • Recognize successes • Identify shortfalls/ accountability	• Evaluate cross-agency progress toward strategic objectives • Identify strategic shifts/ validate Treasury priorities • Outline potential topics for annual review with the Office of Management and Budget (OMB)	• Assess progress on priorities • Identify necessary adjustments/near-term improvements • Surface problems or assistance needed • Recognize successes • Identify shortfalls/ accountability	• Connect priorities to future funding • Explore performance impacts • Strengthen information technology acquisition budgeting accountability

FY 2018 – 2022 STRATEGIC FRAMEWORK

The strategic framework comprises the Department's FY 2018–2022 strategic goals and objectives and FY 2018–2019 Agency Priority Goals (APGs), which align to specific objectives. All bureaus and offices align their programs and performance within this framework. In FY 2019, after Treasury's annual review to assess progress towards the Department's strategic objectives, Treasury leadership identified three key updates. First, we realigned Strategic Objective 2.2 (Foreign Exchange Practices) as a new strategy under Strategic Objective 1.4 (Free and Fair Trade). Second, we updated Strategic Objective 3.3 (Economic Strength and National Security) to ensure our supporting strategies on this objective better distinguished responsibilities among offices and to reflect Treasury's current efforts. Finally, we expanded Strategic Objective 5.3 from only reflecting "customer value" to "customer value and experience" to better align with the President's Management Agenda's goal of improving customer experience. Our updated goals and objectives are reflected below.

	Strategic Goals	Strategic Objectives/APGs	Contributing Bureaus/Offices
Economic	**Goal 1:** Boost U.S. Economic Growth	1.1: Tax Law Implementation *Aligned APG: Reducing Refund Fraud* 1.2: Strong Economic Fundamentals 1.3: Trusted Currency and Services *Aligned APG: Improved Business Qualification Process* 1.4: Free and Fair Trade	Domestic Finance International Affairs Tax Policy Treasurer Economic Policy IRS BEP U.S. Mint TTB OCC
Economic	**Goal 2:** Promote Financial Stability	2.1: Housing Finance Reform 2.2: (Incorporated into Strategic Objective 1.4) 2.3: Foreign Technical Assistance 2.4: Financial Sector Critical Infrastructure and Cybersecurity	Domestic Finance International Affairs Management OCC
Security	**Goal 3:** Enhance National Security	3.1: Strategic Threat Disruption *Aligned APG: U.S. and Mexico Strategic Dialogue on Illicit Finance* 3.2: Anti-Money Laundering and Combating Financing of Terrorism Framework 3.3: Economic Strength and National Security	TFI FinCEN International Affairs Economic Policy OCC
Financial	**Goal 4:** Transform Government-wide Financial Stewardship	4.1: Financial Data Access and Use 4.2: Debt Management 4.3: Federal Financial Performance	Domestic Finance International Affairs IRS Fiscal Service
Management	**Goal 5:** Achieve Operational Excellence	5.1: Workforce Management 5.2: Treasury Infrastructure 5.3: Customer Value and Experience	All Offices and Bureaus, led by the Office of Management

PERFORMANCE OVERVIEW

Treasury carries great responsibility for fostering prosperity and security for the American people. We play a critical role in U.S. and global economies and continue to progress in our mission to meet the needs of the nation. The *Treasury Strategic Plan 2018–2022* charts a course to guide our responsibilities to taxpayers. The following performance overview reflects our accomplishments and challenges in achieving the goals of economic growth, financial stability, national security, financial stewardship, and operational excellence in service to our country.

Goal 1: Boost U.S. Economic Growth

The Administration set forth a bold agenda to bolster economic growth, with Treasury playing a central role in fostering prosperity for the American people. The Department has four strategic objectives aligned with the goal of achieving economic growth. Our first strategic objective—assessed as an area of noteworthy progress and a focus area for improvement in our FY 2019 SOAR process—concentrates on administering the tax law to better enable its implementation and protecting the integrity of the tax system. Our second strategic objective under this goal—assessed as achieving noteworthy progress in our FY 2019 SOAR process—relates to strong economic fundamentals. This objective aims to spur faster economic growth by right-sizing regulations and advancing domestic economic policies that boost investment, employment, and innovation. Our third strategic objective pushes Treasury to deliver trusted currency and services that enable citizens and businesses to participate in the economy. Lastly, our fourth strategic objective under this goal advances free and fair trade for U.S. businesses through the successful negotiation of trade agreements and implementation of investment policies. We made noteworthy progress in two of four of these strategic objectives and noted one strategic objective for a focus area for improvement in our FY 2019 SOAR.

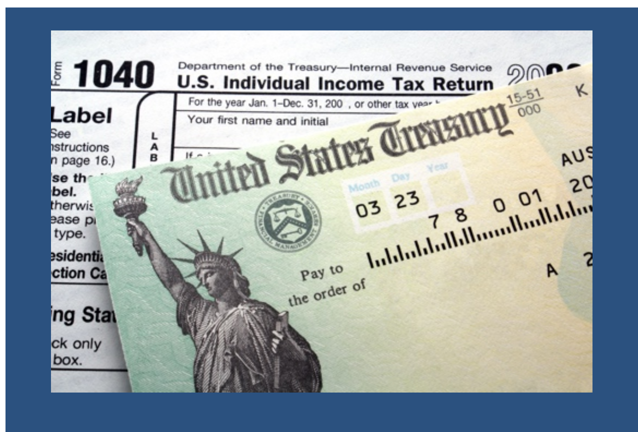
TAX LAW IMPLEMENTATION

The Office of Tax Policy continued the successful implementation of the regulatory guidance associated with the *Tax Cuts and Jobs Act* (TCJA), P.L. 115-097. In addition, Treasury also worked with the State Department and Senate Foreign Relation Committee to obtain Senate approval for the ratification of the long-pending tax protocols with Spain, Japan, Switzerland and Luxembourg. This approval and ratification represents a significant positive step toward restoring confidence to existing and potential new treaty partners. Treasury also continues to work on making progress on the approval of our income tax treaties with Chile, Poland, and Hungary.

The most visible taxpayer service the IRS provides each year is the delivery of an efficient, reliable tax filing season. The implementation of TCJA, along with the lapse in appropriations in January 2019 presented challenges for the bureau. The IRS took steps to minimize TCJA implementation issues by educating employees, taxpayers, and partners on the TCJA legislative changes. The IRS's top priority was to ensure that taxpayers and tax professionals had the information they needed and the support of knowledgeable IRS employees to help fulfill tax obligations with the least possible burden.

The IRS developed and heavily promoted the new IRS Publication 5307, *Tax Reform Basics for Individuals and Families*, which was translated into seven languages and provides an overview of TCJA provisions that impact individual taxpayers and highlights the changes to deductions, retirement plans, and dependent benefits for the 2018 tax year.

Since the implementation of TCJA, the IRS has been encouraging taxpayers to do a "Paycheck Checkup," to ensure they are not over- or under-withholding at tax time, by using the Withholding Calculator on IRS.gov. In July 2019, the IRS redesigned and renamed this online tool. The IRS's new Tax Withholding Estimator is even more user-friendly and covers a wider range of tax situations.



FY 2019 Filing Season

On April 15, 2019, the IRS processed about 15.3 million returns, the largest single-day filing volumes ever recorded, and observed record-breaking use of the IRS On-line Account and Direct Pay applications.

As an indication of our success, the IRS began the 2019 filing season on time on January 28, 2019. Additionally, the IRS continued to issue nine out of ten refunds within 21 days of receiving taxpayer's return.

STRONG ECONOMIC FUNDAMENTALS

Following focused deregulation and tax reform, the American economy's Gross Domestic Product (GDP) realized 2.9 percent annual growth in 2018, and the current economic expansion became the longest on record in July 2019. Employers added 2.7 million jobs in 2018, while workers' average hourly wages grew 3.3 percent and inflation remained steady. The unemployment rate averaged just 3.9 percent in 2018 and, in 2019, reached a near 50-year low in the months of April and May. Small business optimism, consumer confidence, and consumer sentiment all reached their highest levels since before the 2008 financial crisis.

TRUSTED CURRENCY AND SERVICES

Treasury continues to deliver on our responsibilities related to U.S. currency and other business services. In FY 2019, BEP received authority to construct a new facility, and delivered currency orders on time. The effective construction of a new facility is a major undertaking critical to delivering the next generation of trusted currency on time. From a customer service perspective, Treasury continues to assess the decline in Mint's customer base on promoting a successful coin program.

Treasury also continues to improve business and product services for industry, as reflected in TTB's permitting and labeling initiatives for the alcohol industry, despite slow-downs in service levels this fiscal year.

ADVANCING THE U.S. TRADE AGENDA

Treasury continues to be deeply engaged in the trade agenda of the Administration to reduce barriers and level the playing field for U.S. workers and companies. For example, we advocate for open markets for U.S. financial services firms through engagement with finance officials and regulators globally. In 2019, we played a lead role in analyzing implications for U.S. financial services firms in relation to the United Kingdom's exit from the European Union. Treasury also crafted rules in the context of our trade agreements to prevent the use of currency manipulation by our trading partners to gain a trade advantage.

GOAL 1: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 16	FY 17	FY 18	FY 19	FY 19 Target	Result vs Target
Customer Service Representative Level of Service (IRS)[1]	53.4%	77.1%	75.9%	65.4%	63.0%	Exceeded
Enterprise Self-Assistance Participation Rate (IRS)[2]	89.0%	79.0%	82.0%	85.4%	Indicator	N/A
Timeliness of Critical Individual Filing Season Tax Products (IRS)[3]	92.5%	93.1%	59.6%	92.6%	85.0%	Exceeded
Percentage of Permit Applications Processed within Service Standards (TTB)[4]	32.4%	48.1%	71.2%	57.6%	85.0%	Unmet
Currency Notes Delivered Returned Due to Defects – Parts per Million (BEP)[5]	N/A	<0.008	0.0031	.09	<1	Met

Explanation of Results

[1]This measure represents the number of toll-free callers that either speak to a Customer Service Representative or receive information messages divided by the total number of attempted calls. FY 2019 Level of Service was 65.4 percent, exceeding the target of 63.0 percent.

[2]This indicator represents the percentage of taxpayer assistance requests resolved using self-assisted automated services. The FY 2019 Enterprise Self-Assistance Participation Rate was 85.4 percent, exceeding the FY 2018 result by 3.4 percent. This is due in part to, Get Transcripts Online increased by 30 percent, Where's My Refund increased more than 19 percent, and Transcript Delivery System increased by almost 31 percent from prior year.

[3]This measure represents the percentage of critical individual filing season tax products (tax forms, schedules, instructions, publications, tax packages, and certain notices required by numerous filers to prepare a complete and accurate tax return) available to the public in a timely fashion. The FY 2019 result of 92.6 percent surpassed its target of 85 percent. These results were achieved as a result of preparation for Tax Reform changes that started in October 2017. The FY 2020 target will be increased to 89 percent.

[4]This measure represents the overall rate at which TTB is meeting its annual service standard (75 days for FYs 2016 – 2019) for all original permit applications. The measure gauges the efficiency and consistency of TTB's permitting process and supports effective communication with industry members as to level of service. TTB performance fell below target in FY 2019 based on the service delays that resulted from the 35-day lapse in appropriations in December 2018. At year-end, TTB was able to reduce average processing times to 75 days. However, during the lapse in appropriations, with industry continuing to file for Federal permit approval, the backlog of pending applications continued to increase and age. As a result, the percent of applications processed within TTB's 75-day service standard was 56 percent for FY 2019. Based on progress made in Q4, TTB plans to maintain its 85 percent target for this measure in FY 2020. To meet the target, TTB is undertaking process and system improvements, including an effort to streamline the permit application requirements, to meet its service standard more consistently going forward.

[5]This measure incentivizes continuous product quality improvement and reduces defect-driven returns of currency notes by the Federal Reserve back to BEP. BEP's Office of Security collects and tracks the number of notes by denomination that are returned from the Federal Reserve Banks. The target for this measure comports with manufacturing industry quality standards. No data exists for years prior to FY 2017.

Goal 2: Promote Financial Stability

U.S. economic growth must be achieved in a stable and sustainable way, which is why Treasury works to promote financial stability around the world. Of the four strategic objectives for achieving this goal, we identified two focus areas for improvement in the FY 2019 SOAR, underscoring important priorities for Treasury in FY 2020. The first strategic objective identified as a focus area, centers on resolving the conservatorships of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), known as the Government-Sponsored Enterprises (GSEs). The second strategic objective is to achieve foreign exchange practices through multilateral engagement with international partners. This objective is now aligned as a strategy under Strategic Objective 1.4 (Free and Fair Trade) per our strategic plan update. The third strategic objective is to provide technical assistance to enable foreign partner countries to better raise and manage financial resources and protect their financial sectors. Finally, our fourth strategic objective, also identified as a focus area, emphasizes enhancing security, improving resiliency, and reducing the risk of significant cybersecurity and other incidents to the financial sector's critical infrastructure (domestically and internationally).

Housing Finance Reform

In March 2019, the President signed a memorandum (Presidential Memorandum) on the urgent need to reform the U.S. housing finance system. During the 2008 financial crisis, the GSEs suffered significant losses because of structural flaws and a lack of sufficient oversight. To prevent the GSEs' failure, they were placed in conservatorship, which continues today. The Presidential Memorandum directed Treasury to develop a plan for administrative and legislative reforms to achieve specific housing reform goals. In September 2019, Treasury released its Housing Finance Reform Plan (Plan), which made recommendations to achieve the reforms outlined in the Presidential Memorandum. In FY 2020, Treasury will work to implement the Plan to pass comprehensive housing finance reform legislation that ends the conservatorships of the GSEs; facilitates competition in the housing finance market; safeguards the safety and soundness of the GSEs or their successors; and provides for the federal government to be compensated for its support of the secondary housing market. Pending such congressional action, Treasury will work to implement the Plan through administrative reforms.

Financial Sector Cybersecurity and Critical Infrastructure Protection

In FY 2019, Treasury's Office of Cybersecurity and Critical Infrastructure Protection promoted enhanced cybersecurity and resilience of the financial services sector's critical infrastructure both domestically and internationally. Treasury leverages a vast network of vital partnerships responsible for protecting interdependent infrastructures (e.g. private-sector financial firms, trade associations, federal and state regulators, other government agencies). In FY 2019, Treasury worked with financial regulators in the Financial and Banking Information Infrastructure Committee (FBIIC) to coordinate responses to cyber and natural hazard incidents and promote information sharing. Furthermore, we led various work streams to identify and remediate systemic cyber risks and financial infrastructure vulnerabilities, which will continue into FY 2020 and beyond. We also worked closely with the Financial Services Sector Coordinating Council (FSSCC), including joint meetings with the FBIIC and FSSCC, to promote open communications of cyber-related activities, vulnerabilities, and encourage open dialogue. Treasury continues to provide regular threat briefings to private-sector officials and regulators to promote timely protective measures to respond to the changing threat environment.

GOAL 2: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 16	FY 17	FY 18	FY 19	FY 19 Target	Result vs Target
Engagement of Partner Countries in Programs – 5 point scale (International Affairs)[1]	3.9	4.0	3.8	3.6	3.6	Met

Explanation of Results

[1]Measures the degree to which foreign counterparts are engaging proactively and constructively with Office of Technical Assistance (OTA) advisors, at the working and policy levels. Counterpart engagement is both a key outcome of OTA efforts to structure and execute effective technical assistance projects that support host country ownership as well as the most crucial input to the successful achievement of the intermediate goals and ultimate outcomes described in the project's terms of reference and work plan during the fiscal year – such as passage of law or regulation, an increase in government revenues, an improvement in a government's credit rating, or a reduction in economic crimes. The measure is scored on a 5-point scale and averaged across all projects to provide one overall measure of OTA's performance.

Goal 3: Enhance National Security

Through its national security mission and statutory authority, Treasury's Office of Terrorism and Financial Intelligence (TFI) and the Financial Crimes Enforcement Network (FinCEN) have broad tools to address activity that threatens national security in the interest of protecting the U.S. and international financial system from abuse. There are three strategic objectives for achieving this goal, the first two of which are under TFI's and FinCEN's purview. The first strategic objective—identified as an area of noteworthy progress in the FY 2019 SOAR process—focuses on identifying, disrupting, and dismantling priority threats to the U.S. and international financial systems. The second objective is to identify and reduce vulnerabilities in the U.S. and international financial system to prevent abuse by illicit actors. The third strategic objective, led by our Office of International Affairs and identified as a focus area for improvement in the FY 2019 SOAR, advances American prosperity and security through economic growth, investment, trade, and expansion of the American industrial base while protecting national security.

Strategic Threat Disruption

TFI deploys Treasury's powerful economic tools and authorities in a tailored, strategic way to ensure maximum effect against rogue regimes, proliferators of weapons of mass destruction, terrorist groups, transnational criminal organizations, and human rights abusers, among others. In deploying our financial tools and authorities, TFI evaluates each threat individually to ensure that we achieve maximum impact and further our national security objectives.

Treasury continued to play a leading role in the implementation of the Administration's Iran policy. Treasury's actions have disrupted the Iranian regime's ability to fund its broad range of malign activities, including supporting its proxies, Hizballah and Hamas. Following the Administration's decision to fully impose nuclear-related sanctions previously lifted or waived under the Joint Comprehensive Plan of Action (JCPOA), Treasury took the largest single-day action by sanctioning over 700 individuals, entities, aircraft, and vessels in November 2018. We followed these sanctions with a number of targeted financial measures to disrupt funding sources such as oil (Iran's primary source of funds), as well as other areas such as banking, petrochemicals, shipping, and metals. Of note, in September 2019, Treasury designated with sanctions the Central Bank of Iran and the National Development Fund of Iran, which provided billions of dollars and served as a major source of foreign currency to the Islamic Revolutionary Guard Corps, among other entities.

Treasury's financial tools also made a significant impact in the fight against terrorist organizations by disrupting the financial networks that support terrorist activity. Over the past year, TFI used its powerful tools and authorities to target Hizballah and Hamas, as well as the Islamic State of Iraq and Syria (ISIS) and Al-Qa'ida with impactful counterterrorism actions. Over the past year, Treasury designated with sanctions over 40 Hizballah-affiliated individuals and entities, more than any previous year. Hizballah's leader made an unprecedented call to supporters for additional funds due to the financial pressure caused by our sanctions. Treasury also took action to disrupt key ISIS financial facilitators operating across Europe, Africa, and the Middle East, designating with sanctions individuals and entities in Turkey, Iraq, Syria, and Belgium.

We also applied our tools and authorities against Venezuela's corrupt Maduro regime. Specifically, Treasury designated with sanctions nearly 200 individuals and entities pursuant to its authorities, including former President Maduro and members of his inner circle, as well as a state-owned oil company aligned to his regime. FinCEN also issued an advisory to financial institutions to assist in reporting suspected Venezuelan public corruption and assisted in blocking funds from moving through the U.S. financial system.

In addition, FinCEN issued requests to dozens of financial institutions related to a range of illicit finance concerns, including North Korea, Iran, Venezuela, Third Party Money Launders, and Transnational Organized Crime. FinCEN expects to receive approximately 50 million records in response to these requests which will help to identify future targets and further map out broad illicit financial activity under Section 311 of the *United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* (*USA PATRIOT Act*). Moreover, in coordination with interagency partners, TFI expanded the use of its Section 311 authorities by investigating cases of drug trafficking and illicit financial activity in Latin America, the proliferation of weapons of mass destruction in Asia, and other activities in the Middle East and sub-Saharan Africa.

On Russia, Treasury continued to exert financial pressure in response to threats to our democracy. Treasury strategically deployed tools to maximize financial pressure on Russia to include expanded sectoral and other sanctions in response to continued aggression. Similarly, Treasury continued to designate with sanctions individuals and entities using our authorities under the *Countering America's Adversaries through Sanctions Act*.

Finally, Treasury continued to target and disrupt networks of human rights abusers and corrupt officials all over the world under authorities contained in a number of our programs, including the *Magnitsky Act* and the *Global Magnitsky Act*. In FY 2019, Treasury targeted a former governor of Mexico, complicit members of his family and a number of related business entities for a wide array of corrupt activities, including the misappropriation of state assets and taking bribes from drug trafficking organizations. We also targeted those involved in the deplorable actions of the Maduro regime to obstruct humanitarian aid delivery and steal from Venezuela's food distribution program. Treasury also designated sanctions on a former Ugandan official for his role in serious human rights abuse and corruption. Using authorities under the *Magnitsky Act*, Treasury further sanctioned three individuals and their related entities for undermining peace and security in South Sudan.

Anti-Money Laundering (AML)/Combating Financing of Terrorism (CFT) Framework

In June 2019, Treasury completed its presidency over the Financial Action Task Force (FATF), which is an international money laundering/combating the financing of terrorism (AML/CFT) standard setting body. During our tenure, Treasury achieved critical advances in the fight to combat illicit finance. Under U.S. leadership, FATF prioritized initiatives including virtual currencies, which resulted in the adoption of comprehensive measures for how countries must regulate and supervise digital assets. Additionally, we placed emphasis on combating terrorist financing, and enhancing work on preventing the financing of the proliferation of weapons of mass destruction. Treasury also co-chaired the FATF Inter-Cooperation Review Group that publicly identified countries with significant AML/CFT deficiencies.

FinCEN issued a series of important advisories addressing critical issues to combat money laundering and terrorist financing, as detailed in the following graphic.

Advisory Notices Issued in FY 2019

FinCEN issued a series of important advisories in FY 2019 addressing critical issues to combat money laundering and terrorist financing:

- Venezuela – listed red flags to assist with identifying and reporting suspicious activity that may be indicative of political corruption.
- Iran – addressed illicit and malign activities, and attempts to exploit the financial system.
- Nicaragua – alerted U.S. financial institutions of the increasing risk that proceeds of political corruption from Nicaragua may enter the U.S. financial system.
- Fentanyl – alerted financial institutions to financial schemes related to the trafficking of fentanyl and other synthetic opioids that will assist these institutions in detecting and reporting related criminal activity.

COMMITTEE ON FOREIGN INVESTMENT IN THE U.S. (CFIUS)

As CFIUS chair, Treasury began implementing an expanded scope as authorized by the *Foreign Investment Risk Review Modernization Act* (FIRRMA) and experienced an increased workload. In October 2018, Treasury issued temporary pilot program regulations to protect critical American technology and intellectual property from potentially harmful foreign acquisitions. The pilot program also made effective FIRRMA's mandatory declarations provision for transactions that fall within the scope of the pilot program. In September 2019, Treasury issued proposed regulations to comprehensively implement FIRRMA and to better address national security concerns arising from certain types of investments and certain real estate transactions.

GOAL 3: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 16	FY 17	FY 18	FY 19	FY 19 Target	Result vs Target
Percentage of CFIUS Cases Reviewed within Statutory Timeframes (International Affairs)[1]	100%	100%	100%	100%	100%	Met
Number of New or Modified Sanctions Programs Established by Executive Order or Congressional Mandate (TFI)[2]	6	5	5	7	Indicator	N/A
Percentage of Domestic Law Enforcement and Foreign Financial Intelligence Units finding FinCEN's Analytic Products Valuable to the detection and deterrence of illicit activity (FinCEN)[3]	95%	92%	95%	92%	95%	Not Met

Explanation of Results

[1]This measure tracks compliance with statutory deadlines for completing national security reviews of transactions notified to the CFIUS to ensure that the CFIUS process is timely and efficient.

[2]This indicator tracks the number of new or modified sanctions programs that must be implemented and enforced, but does not capture the levels of relative complexity for each sanctions' programs, or the complexity of individual national security objectives that sanctions attempt to achieve. We do not set targets for new or modified sanctions programs since the existence of a sanctions program is not itself a measure of success.

[3]This performance measure tracks what the analytics products are intended to do, i.e. be useful to a wide range of customers and have impact, such as identify new leads or provide previously unknown information. The measure is the percent of customers finding FinCEN's analytic products and advanced research positively affected investigations, operations, or understanding of threats to the financial system. Even though the target was narrowly missed, FinCEN was able to achieve this high level of performance by continuously evaluating and enhancing the processes that FinCEN uses to ensure that intelligence products meet the demands of its domestic and international stakeholders. Increased outreach and feedback to and from the users of FinCEN's intelligence products resulted in the introduction of new types of intelligence products focusing on high-profile actors and illicit finance networks.

Goal 4: Transform Government-wide Financial Stewardship

As the financial manager of the U.S. government, Treasury plays a central role in managing taxpayer funds responsibly. Of the three strategic objectives for achieving this goal, the first is to increase the access to and use of federal financial data to strengthen government-wide decision-making, transparency, and accountability. The second strategic objective is to fund the federal government at minimal cost over time. The third strategic objective aims to improve federal financial management performance, using innovative practices to support effective government.

Financial Data Access and Use

During FY 2019, Treasury led the federal government in strengthening the use of financial data, including through the management of the "Do Not Pay" Program and USASpending.gov. In FY 2020, data accessibility and quality will likely remain as challenges, but Treasury continues to be confident that we can lead the federal government to further improvements.

Do Not Pay (DNP) Program

Through June 2019, federal agencies identified or stopped 15,489 improper payments totaling $27.3 million using DNP tools. The DNP Program also actively engaged and partnered with states and other federal agencies on analytical projects that ultimately led to legislative proposals aimed at provisioning DNP direct authority to acquire (designate) data sources for inclusion in DNP systems to combat improper payments. Additionally, Fiscal Service continued to pursue access to additional data sources that will enable agencies to further reduce improper payments.

Fiscal Service established the Payment Integrity Center of Excellence, a community of experts from various programs within the bureau that provide business insight and solutions to assist government agencies in identifying, preventing, and recovering improper payments. This initiative increases the ability to predict, detect, and recover improper payments, while enabling the U.S. government to take corrective actions to ensure that payments are made to the right people, at the right time, in the right amount.

USASpending.gov

USASpending.gov and the Data Lab promote transparency of federal government spending by making federal financial data available and accessible to all Americans. Using a combination of interactive visualizations and a personalized approach, visitors to USASpending.gov and the Data Lab can learn about federal finance across a variety of topics, including federal contracts, grants, and other spending by federal agencies.

In FY 2019, the Data Lab published "Your Guide to America's Finances" (formerly known as the Citizen's Guide). The guide translates the complicated aspects of the federal government's revenue, spending, deficit, and debt into a simple, straightforward, and engaging customer experience.

We also led work across the federal government to improve data standards and effectively roll out enhancements. We addressed requests to improve our data from the public and other stakeholders.

Robotic Process Automation (RPA)

In FY 2019, Fiscal Service's Administrative Resource Center automated 30 processes using RPA generating savings of $450 thousand and 6,900 labor hours. The bots implemented so far are projected to save more than $2 million over the next five years, and new bots in the pipeline have the potential to save another $3.5 million over five years.

Debt Management

In FY 2019, Treasury introduced a new product to the Treasury securities market. Treasury launched the 8-week Treasury bill with the intentions of satisfying investors and helping Treasury meet issuance goals.

Fiscal Service is working to modernize the Treasury auction system, as some components of the system reach their end-of-life over the coming years. Fiscal Service will ensure that the existing auction system continues to meet high-performance standards during a complex modernization effort that faced challenges in FY 2019. In FY 2020, Fiscal Service will be finalizing plans for moving the modernization effort forward.

Federal Financial Performance

Fiscal Service continues to explore and implement innovative solutions that advance federal financial management and performance. In FY 2019, Fiscal Service successfully conducted two Distributed Ledger Technology proofs of concept. They demonstrated opportunities to increase efficiency, reduce reporting burdens, and automate transactions and workflows.

Fiscal Service also actively participated in the RPA Community of Practice, which the General Services Administration initiated, to further the adoption of RPA across the federal government. Fiscal Service led development of an RPA Playbook. It will help guide agencies that are just beginning to use RPA, as well as those agencies that are expanding their use of RPA.

Similarly, Fiscal Service initiated efforts to explore artificial intelligence to help improve the customer experience. For example, Fiscal Service is exploring the use and feasibility of chat technology to enhance customer experiences.

Lastly, in FY 2019, OMB pre-designated Treasury as the Financial Management Quality Service Management Organization (QSMO). The Financial Management QSMO will create a marketplace of solutions and services to help agencies meet their financial management needs and shared government-wide goals to standardize processes and data. It also will reduce operations and maintenance costs, modernize and automate processes, and improve customer satisfaction.

GOAL 4: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 16	FY 17	FY 18	FY 19	FY 19 Target	Result vs Target
Dollar Amount (in millions) of Improper Payments Identified and Prevented through the Do Not Pay (DNP) program (Fiscal Service)[1]	$58.98	$36.58	$ 35.53	$27.3	$33.6	Undetermined
Dollar Amount (in billions) of Delinquent Debt Collected through All Tools (Fiscal Service)[2]	$7.41	$7.61	$7.44	$9.65	$7.7	Exceeded
Percentage of Treasury Payments Made Electronically (Fiscal Service)[3]	94.9%	95.1%	95.4%	95.6%	95.4%	Exceeded
Percentage of Total Federal Government Receipts Settled Electronically (Fiscal Service)[4]	98.2%	98.3%	98.0%	98.4%	98.0%	Exceeded

Explanation of Results

[1]This measure provides the dollar amount, in millions, of payments identified as improper plus the payments that were prevented through the DNP program. The FY 2019 value is through June 30, 2019. DNP will not have the final FY 2019 results until November 2019, when agencies report back. Therefore, the Result vs Target is undermined as of the date this report is published.

[2]This measure provides the total amount of delinquent debt collected, in billions, through debt collection tools operated by Fiscal Service.

[3]This measure provides the portion of the total volume of payments that is made electronically.

[4]This measure provides the percentage of total federal government revenue collection dollars settled electronically.

Goal 5: Achieve Operational Excellence

The federal government strives to emulate successful businesses that provide exceptional value by improving internal operations wherever and whenever possible. There are three strategic objectives for achieving this goal of operational excellence. Our first strategic objective under this goal—assessed as a focus area for improvement in our FY 2019 SOAR process— intends to foster a culture of innovation for hiring, engaging, developing, and optimizing a diverse workforce with the competencies necessary to accomplish our mission. Our second strategic objective targets mission delivery by improving the reliability, security, and resiliency of Treasury's infrastructure. Lastly, in our third strategic objective, we aim to improve customer value and experience by increasing product and service quality, while lowering costs.

Workforce Management

In FY 2019, Treasury designed and began implementing a new governance structure and operationalizing processes that improve human capital planning and performance management. Treasury continued deploying the Integrated Talent Management Learning and Performance Management modules. This single, integrated system now delivers training to 90% of Treasury bureaus, delivers performance management functionality to 100% of the Senior Executive Service, and will be used to conduct the General Schedule employee performance management process in 50% of the bureaus in FY 2020.

Treasury continued to make strides in workforce satisfaction in FY 2019. In the wake of an extended lapse in appropriations, Treasury still demonstrated improvement in its Federal Employee Viewpoint Survey in FY 2019. Results in 11 out of 13 indices showed an increase in positive employee perceptions with no change in the remaining two indices. Notably, the overall employee satisfaction scores increased by 3%, the largest increase of all indices. Because workforce risks and challenges overlapped in a majority of Treasury's strategic objectives, Treasury's workforce management strategic objective remains a focus area for improvement for FY 2020.

Customer Value and Experience

Because the public's trust in government is directly related to the experience they have with government employees and services, Treasury emphasizes improving the customer experience across all bureaus in the coming year. FY 2019 saw a number of enhancements to Treasury's key public-facing services. Highlights include updates to the U.S. Mint's public website to improve the overall customer experience and security, as well as the deployment of a new ID Verify tool championed by the IRS. Furthermore, the IRS continues to work on consolidating more than 60 case management tools into a single tool, and TTB has launched an initiative (MyTTB) to develop a personalized, "one-stop" shop for industry members doing business with them online.

Acquisition

Oversight of mission-critical procurement actions ensures proper acquisition planning and execution, while providing an opportunity to cultivate better business strategies and economical outcomes across the Department. In FY 2019, the Office of Procurement Executive reviewed 30 major acquisitions for a total value of $7.4 billion. Treasury continued its trend of increasing use of best-in-class vehicles in support of the President's Management Agenda's Cross Agency Priority Goal, increasing procurement spending for best-in-class vehicles from 39.5 percent to 41.4 percent.

Infrastructure

Information technology is a key enabler for many of the essential services Treasury provides. Modernizing and protecting that infrastructure is essential to ensuring Treasury's continued ability to safely meet the expectations of the markets Treasury serves. Treasury continued its adoption of cloud-based infrastructure while also consolidating internal data centers.

Correspondingly, we remain diligent in strengthening our cyber defenses, with more than 85 percent of findings

closed associated with internal reviews of Treasury's High Value Asset systems. Treasury also continues to move forward with its Treasury Enterprise Infrastructure Solutions (TEIS) acquisition. When awarded, TEIS will provide a modernized enterprise-wide network for telecommunications and other infrastructure components to improve efficiency, reliability, scalability, and elasticity.

GOAL 5: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 16	FY 17	FY 18	FY 19	FY 19 Target	Result vs Target
Percentage of Aged Hardware (IRS)[1]	52.2%	52.3%	45.5%	31.0%	43.8%	Exceeded
Seigniorage per Dollar Issued (U.S. Mint)[2]	0.52	0.45	0.37	0.40	0.36	Exceeded
Manufacturing Costs – Dollar Costs per Thousand Notes Produced (BEP)[3]	$44.25	$43.58	$47.41	$51.01	$51.66	Exceeded
Treasury-wide EVS Satisfaction Index (Management)[4]	61%	65%	63%	66%	65%	Exceeded
Percent of High or Critical Findings closed for Treasury's High Valued Assets (HVAs) (Management)[5]	N/A	N/A	N/A	86%	100%	Unmet

Explanation of Results

[1]The measure shows the quantity of IT hardware in operation past its useful life as a percentage of total hardware in use. The IRS has made considerable progress reducing the percentage of aged hardware within the IT environment from 45.5 percent at the end of FY 2018 to 31 percent at the end of FY 2019. This represents a reduction of nearly 36,000 aged assets during the fiscal year through efforts such as refreshing employee workstations, upgrading aged server operating systems and related aged hardware, and phasing out old equipment.

[2]Seigniorage per dollar issued is the seigniorage generated from each dollar of circulating coinage face-value shipped to the Federal Reserve Banks. FY 2019 results exceeded the target as a result of a 12 percent decrease in cost of goods sold.

[3]Manufacturing Costs for Currency (dollar cost per 1,000 notes produced) is an indicator of manufacturing efficiency and effectiveness of program management. The measure is based on contracted price factors, productivity improvements, as well as the mix of denominations ordered. Actual performance against standard costs depends on BEP's ability to meet spoilage, efficiency, and capacity utilization goals.

[4]The Federal Employee Viewpoint Survey (FEVS) is the primary tool that agencies use to measure employee sentiment. Each year, we track and report on the FEVS Overall Satisfaction Index which comprises three FEVS satisfaction questions.

[5]This measure is the percentage of High or Critical findings against Treasury's HVAs that were closed in FY 2019. These findings are typically discovered during reviews of Treasury's key assets/systems.

Enterprise Risk Management

Framework

OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, provides guidance to federal managers to effectively manage risks to achieve strategic objectives. Management, together with the Chief Risk Officer (CRO), is responsible for establishing a governance structure to effectively implement a robust process of risk management and internal control and for developing an enterprise-wide risk profile. Successful implementation requires us to establish and foster an open, transparent culture that encourages people to communicate information about potential risks and other concerns.

The CRO meets regularly with senior leaders to discuss top risks to critical programs, systems, projects, and priorities, including response strategies. The Office of Risk Management (ORM) has also established an Enterprise Risk Management (ERM) Council, chaired by the Deputy CRO, which brings together risk managers from each of our bureaus and policy offices on a bi-monthly basis to share best practices, and discuss risks. ORM works with the bureaus and policy offices across Treasury to monitor and annually update our risk profile.

Beyond its work at Treasury, ORM leads an interagency ERM community of practice including officials from approximately 40 federal agencies. This group grew from ORM's efforts to support agencies in their implementation of ERM, including the July 2016 publication of the *Playbook: Enterprise Risk Management (ERM) for the U.S. Federal Government.* This government-wide working group meets on a bi-monthly basis to discuss common risks and various methods of implementing the guidelines of the Circular.

Enterprise Risks and Challenges

Through the FY 2019 SOAR and enterprise risk management process, we identified the following cross-cutting operational risks.

Evolving Cyber Climate: Treasury, the U.S. government, and the whole financial sector face growing complexity of technology, increasing sophistication of adversaries, and techniques.

Aging IT Infrastructure, Data Sharing and Analytics Capabilities: Aging infrastructure and technical debt, a risk shared across the U.S. government, can impede analytics capabilities, program innovation, and improved delivery of products and services.

Procurement, Acquisition, and Vendors: Supply chain vulnerabilities and insufficient acquisition planning increase operational risk.

Workforce Management: Ongoing government-wide challenges in recruiting and retaining qualified candidates presents mission risks, and exacerbates the long-standing risk of knowledge and skills gaps as a greater proportion of Treasury's workforce becomes eligible to retire.

Balancing Mission Objectives and Resource Constraints: Treasury is at the forefront of several new initiatives to improve our economy and keep it on a stable footing. Due to uncertain funding amounts and timing, there is a risk that we will not be as agile as we should be in balancing new innovations or initiatives with existing requirements or projects.

FY 2020 OUTLOOK

Our FY 2019 SOAR outlined several critical leadership actions for the coming year: (1) implement the tax law; (2) reform housing finance; (3) address vulnerabilities in the financial sector critical infrastructure and cybersecurity; (4) implement new legal requirements regarding investment security; and (5) transform how we manage our workforce.

Looking ahead, we will make progress in these areas and other key priorities through several targeted initiatives:

- Effectively advocate for and implement the IRS Integrated Business Modernization plan to address inefficiency in the aged architectural structure, improve taxpayer experience, and ensure systems and data are secure;
- Engage with stakeholders to pass legislation that implements recommendations on housing finance reform;
- Improve identification and response to threats to the financial sector;
- Take the necessary steps to implement new legislation modernizing the Committee on Foreign Investment in the United States; and
- Roll out the integrated talent management system and related change management efforts across Treasury.

In addition, we will work diligently to implement the *Taxpayer First Act of 2019*, which Congress intended to improve taxpayer service and ensure that the IRS continues to enforce the tax laws in a fair, impartial manner. The act authorizes modernization of the organizational structure of the IRS, which was last updated between 1998 – 2000, and addresses other key issue areas for the IRS, including identity theft and disclosure, customer service, electronic filing, training, and information technology.

FINANCIAL HIGHLIGHTS – FINANCIAL OVERVIEW

The financial highlights below are an analysis of the information included in our consolidated financial statements that appear within Part 2, "Financial Section" of this report. Our principal financial statements have been prepared to report the agency's financial position and results of operations, pursuant to the requirements of 31 USC 3515(b). These consolidated financial statements have been prepared from the books and our records in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities and the formats prescribed by OMB. The consolidated financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The financial statements are for a component of the U.S. government, a sovereign entity.

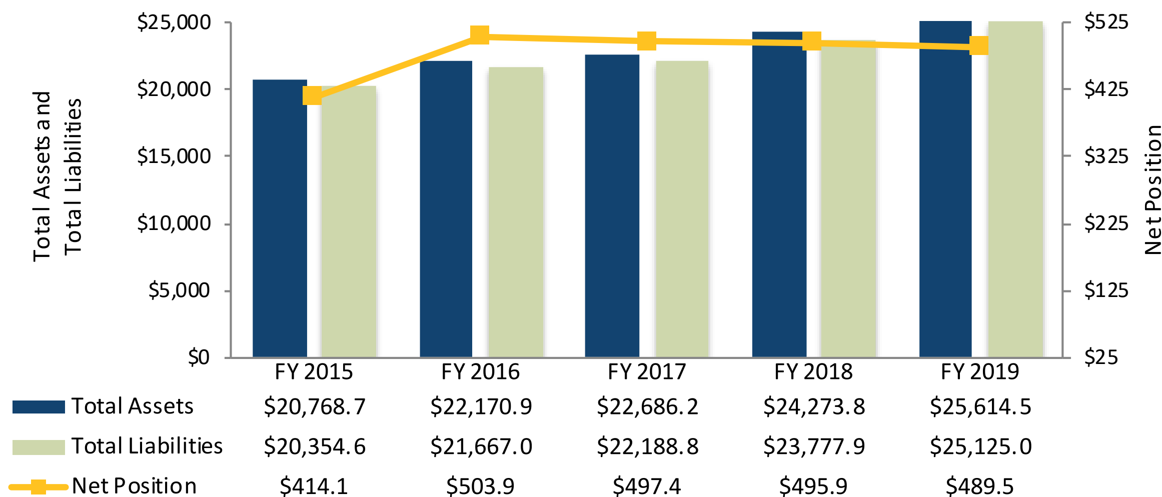
The chart below presents changes in key financial statement line items as of and for the fiscal year ended September 30, 2019 compared to September 30, 2018.

Summary Financial Information (*dollars in billions*)

	2019	2018	$ Change	% Change
Total Assets	$ **25,614.5**	$ 24,273.8	$ 1,340.7	5.5 %
Total Liabilities	$ **25,125.0**	$ 23,777.9	$ 1,347.1	5.7 %
Total Net Position	$ **489.5**	$ 495.9	$ (6.4)	(1.3)%
Total Net Cost of Treasury Operations	$ **16.6**	$ 21.4	$ (4.8)	(22.4)%
Net Federal Debt Interest Costs	$ **528.9**	$ 485.0	$ 43.9	9.1 %
GSEs Non-Entity Revenue, Net	$ **(14.2)**	$ (30.4)	$ 16.2	(53.3)%
Total Net Cost of Treasury Operations and Non-Entity Costs	$ **542.6**	$ 488.2	$ 54.4	11.1 %
Total Budgetary Resources	$ **930.3**	$ 882.3	$ 48.0	5.4 %
Agency Outlays, Net	$ **537.9**	$ 498.3	$ 39.6	7.9 %
Net Revenue Received (Custodial)	$ **3,190.2**	$ 3,098.1	$ 92.1	3.0 %

Financial Overview. Our financial performance as of and for the fiscal year ended September 30, 2019, reflects several major trends. Most significantly, the outstanding federal debt, including interest, rose by $1.2 trillion to $22.8 trillion to finance the U.S. government's operations.

Additionally, our "Total Net Cost of Treasury Operations and Non-Entity Costs" for FY 2019 increased by $54.4 billion. This increase primarily stems from $43.9 billion of higher net federal debt interest costs, and $16.2 billion of lower revenue from our GSE investments – Fannie Mae and Freddie Mac – pursuant to our Senior Preferred Stock Purchase Agreements (SPSPAs), as amended (refer to the *GSEs Non-Entity Revenue, Net* discussion below).



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Total Assets	$20,768.7	$22,170.9	$22,686.2	$24,273.8	$25,614.5
Total Liabilities	$20,354.6	$21,667.0	$22,188.8	$23,777.9	$25,125.0
Net Position	$414.1	$503.9	$497.4	$495.9	$489.5

Figure 1: Total Assets, Total Liabilities, and Net Position (*in billions*)

Total Assets of $25.6 trillion at September 30, 2019 consist of a receivable due from the General Fund of the U.S. government (General Fund) of $22.9 trillion, intra-governmental loans and interest receivable of $1.6 trillion, and fund balance and various other assets, which totaled $1.2 trillion (Figure 2).

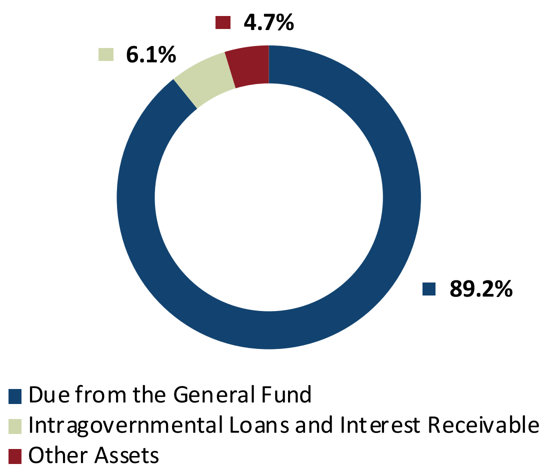


Figure 2: FY 2019 Total Assets (Composition)

The $1.3 trillion (or 5.5 percent) increase in total assets at the end of FY 2019 over the prior year is primarily due to a $1.2 trillion increase in our receivable, "*Due from the General Fund of the U.S. Government,*" which corresponds to the increase in federal debt and interest payable. The "*Due from the General Fund of the U.S. Government*" asset account represents future funds required from the General Fund to pay borrowings from the public and other federal agencies.

Intra-governmental loans and interest receivable represent loans issued primarily by the Fiscal Service to other federal agencies for their own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. This receivable grew by $56.3 billion (or 3.7 percent) to $1.6 trillion at the end of FY 2019 due to increased borrowings by various federal agencies—such as the Departments of Education, Transportation, Agriculture, and Housing and Urban Development—to fund their existing programs.

Among other things, other assets include operating cash balances (held on behalf of the U.S. government), foreign currency investments, and other monetary assets (primarily Special Drawing Rights), as well as investments in, and credit program receivables due from, certain financial institutions for which we provide financial assistance in the effort to stabilize financial markets. Other assets increased by $75.8 billion, largely reflecting an increase in net federal taxes receivable. This increase is a result of unpaid taxes related to Internal Revenue Code USC 965, implemented as part of the TCJA, which allows certain taxpayers to pay their 965(h) taxes on foreign earnings on an installment schedule (refer to Note 8 to the Consolidated Financial Statements entitled *Taxes, Interest, and Other Receivables, Net*).

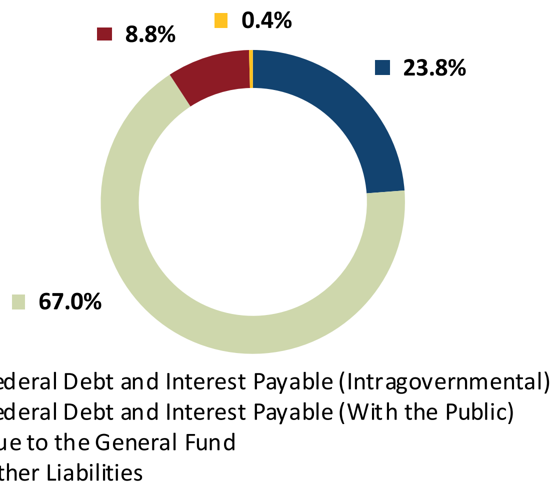


Figure 3: FY 2019 Total Liabilities (Composition)

Total Liabilities of $25.1 trillion at September 30, 2019 principally consist of the federal debt held by the public, including interest, of $16.8 trillion (Figure 3), which was mainly issued as Treasury Notes and Bills. Liabilities also include intra-governmental liabilities totaling $8.2 trillion (of which $6.0 trillion represent principal and interest of federal debt in the form of Treasury securities held by other federal agencies), and various other liabilities totaling $81.2 billion. The $1.3 trillion (or 5.7 percent) increase in total liabilities over the prior year is attributable to a $1.2 trillion increase in federal debt, including interest, held by the public and other federal agencies that was needed to finance the U.S. government's budget deficit.

The increase in total liabilities is also attributable to a $140.7 billion increase in our payable "*Due to the General Fund,*" which corresponds primarily to the increases in the intra-governmental loans and interest receivable and net federal taxes receivable, as discussed above.

Total Net Position of $489.5 billion at September 30, 2019 represents the combined total of our cumulative results of operations and unexpended appropriations at the end of the fiscal year. The $6.4 billion (or 1.3 percent) decrease in the net position at the end of FY 2019 was principally attributable to normal business operations.

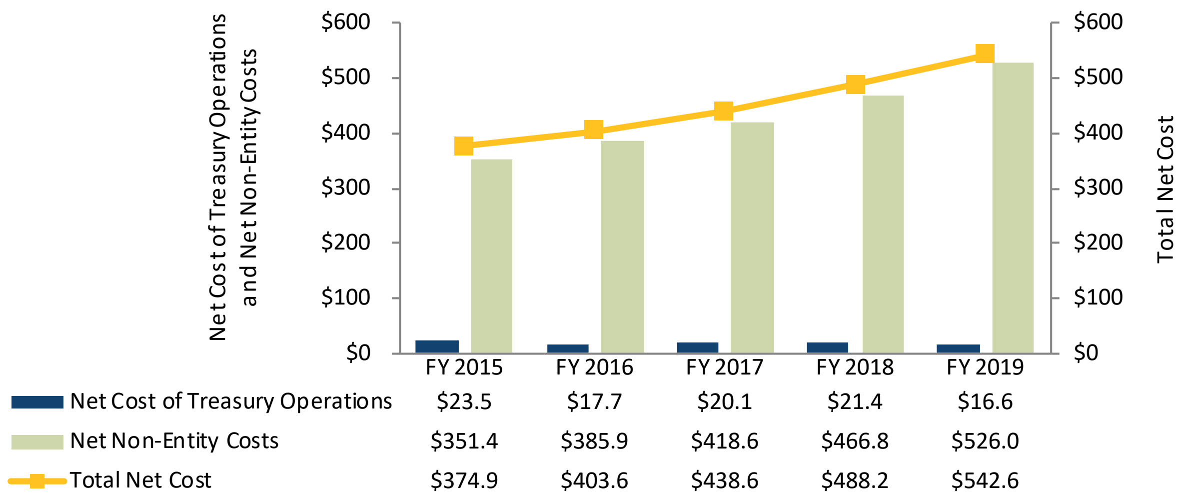


Figure 4: Net Cost of Treasury Operations and Non-Entity Costs (*in billions*)

Total Net Cost of Treasury Operations and Non-Entity Costs, is presented on our Consolidated Statements of Net Cost (Figure 4). "*Net Cost of Treasury Operations*" represents the gross costs, net of earned revenues, we incurred related to our own entity activities comprising both operating bureaus and Departmental Offices that are consolidated with the Department. "*Net Non-Entity Costs*" represent the gross costs, net of earned revenues, we incurred on behalf of the U.S. government (or General Fund), and primarily include federal debt interest costs, net of interest revenue from loans, and GSE non-entity revenues. "*Total Net Cost of Treasury Operations and Non-Entity Costs*" totaled $542.6 billion and $488.2 billion for FY 2019 and 2018, respectively, an increase of $54.4 billion (or 11.1 percent) over the prior year. Net costs associated with our non-entity operations

("*Net Non-Entity Costs*") contributed $59.2 billion to the year-over-year increase in this line item, partially offset by a decrease of $4.8 billion in our entity operations ("*Net Cost of Treasury Operations*").

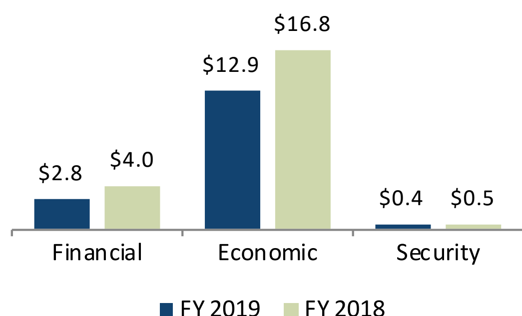


Figure 5 : Net Cost of Treasury Operations by Strategic Program (in billions)

Net Cost of Treasury Operations is presented on our Consolidated Statements of Net Cost by strategic program. There are three main categories of strategic programs presented—financial, economic, and security—as well as a management strategic program which is combined with the financial program due to the immateriality of the management program (Figure 5). Our Net Cost of Treasury Operations totaled $16.6 billion for FY 2019 compared to $21.4 billion for FY 2018, a decrease of $4.8 billion (or 22.4 percent). This decrease primarily reflects $4.0 billion in liquidity payments to the GSEs in FY 2018 under the terms of the SPSPAs, to cover their net worth deficit that was driven by a reduction in the U.S. corporate income tax rate in connection with the TCJA. There were no required liquidity payments made to the GSEs in FY 2019.

Net Federal Debt Interest Costs (*a non-entity cost*) primarily reflect interest expense on the federal debt, net of interest income on loans, which increased $43.9 billion (or 9.1 percent) in FY 2019. The higher cost was primarily attributable to an increase in outstanding debt held by the public.

GSEs Non-Entity Revenue, Net totaled $14.2 billion for FY 2019 compared to $30.4 billion for FY 2018. GSE non-entity revenue is driven by fair value changes to our GSE investments, changes to the liquidation preference of our GSE senior preferred stock, and cash dividends received from the GSEs pursuant to the SPSPAs. The $16.2 billion year-over-year decrease in net revenue was driven by a combination of a $16.8 billion decrease in the estimated value of our GSE investments at the end of FY 2019, and a decrease of $4.8 billion associated with our senior preferred stock liquidation preference. These decreases were partially offset by a $5.4 billion increase in preferred stock dividends received in FY 2019. Our GSE investments are comprised of the estimated value of our senior preferred stock and our warrants to purchase GSE common stock.

Our senior preferred stock fair value decreased year-over-year as a result of an increase in the market value of the GSEs' other equity securities that comprise the GSEs' total equity value, partially offset by a lower discount rate which was driven by a lower risk-free rate and reduced volatility among comparable companies. This decrease in the value of our senior preferred stock was partially offset by an increase in the fair value of our warrants due to an increase in the market value of GSE common stock. The liquidation preference of our senior preferred stock increased in value by $5.2 billion in FY 2019 compared to $10.0 billion in FY 2018, further contributing $4.8 billion to the year-over-year decrease in our GSE non-entity revenue. We increased the value of this liquidation preference by $5.2 billion and $6.0 billion for FY 2019 and 2018, respectively, pursuant to amendments to the SPSPAs that increased the GSEs' capital reserve amounts. The liquidation preference in FY 2018 was further increased by the $4.0 billion in liquidity payments made to the GSEs. (Refer to Note 10 to the Consolidated Financial Statements entitled *Investments in Government Sponsored Enterprises*).

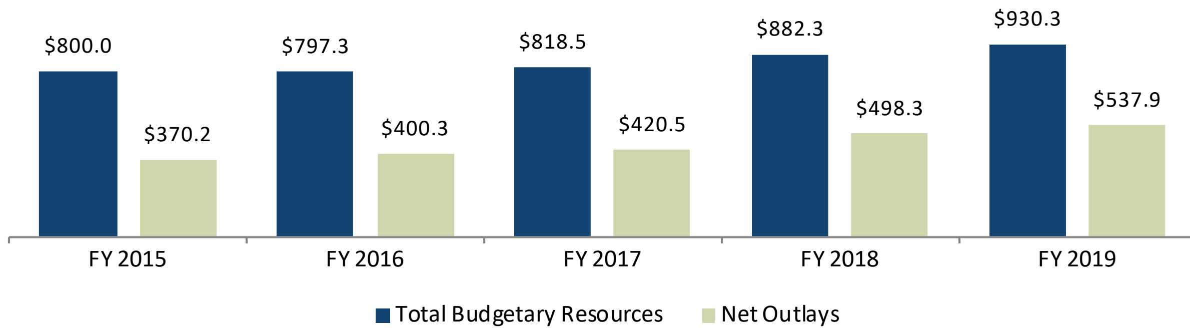


Figure 6 : Total Budgetary Resources and Agency Outlays, Net (*in billions*)

Total Budgetary Resources of $930.3 billion in FY 2019 (Figure 6) increased by $48.0 billion (or 5.4 percent) primarily due to a $51.5 billion increase in appropriations received to pay interest on the public debt.

Agency Outlays, Net of $537.9 billion were higher in FY 2019 (Figure 6) by $39.6 billion (or 7.9 percent) primarily due to a $43.8 billion increase in interest payments on public debt.

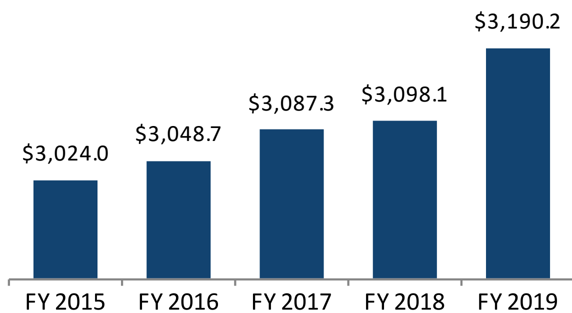


Figure 7 : Net Revenue Received (Custodial) (*in billions*)

Net Revenue Received (Custodial), representing the net revenue we collected on behalf of the U.S. government, includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue (Figure 7). Over 90 percent of these revenues (before refunds) are related to income and social security taxes. Net revenue received was $3.2 trillion for FY 2019, an increase of $92.1 billion (or 3.0 percent) over the prior fiscal year. This increase is attributable mainly to an overall growth in individual and corporate income tax collections, partially offset by reduced deposit of earnings from the Federal Reserve System.

MANAGEMENT ASSURANCES

THE SECRETARY'S ASSURANCE STATEMENT

The Department of the Treasury's management is responsible for managing risks and maintaining effective internal control and financial management systems to meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). We conducted our assessment of risk and internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

Based on our assessment, we can provide reasonable assurance that, in accordance with Section 2 of the FMFIA, Treasury's internal control over operations, reporting, and compliance with laws and regulations were operating effectively as of September 30, 2019. In addition, we can provide reasonable assurance that, as of September 30, 2019, we are in substantial conformance with the federal financial management systems requirements of Section 4 of the FMFIA, with the exception of the significant deficiencies related to the financial management systems at the IRS and Fiscal Service.

As a result of the significant deficiencies at the IRS and Fiscal Service, our financial management systems are not in substantial compliance with the *Federal Financial Management Improvement Act* (FFMIA) as of September 30, 2019. We continue to make progress in remediating these deficiencies, and remain committed to focusing management's attention and resources on appropriate corrective actions. Overall, we continue our efforts to ensure high standards, minimize internal control weaknesses, and meet federal financial management requirements. Additional information on the lack of compliance can be found in Part 3, Section D, of this report.

Steven T. Mnuchin
Secretary of the Treasury
November 15, 2019

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

FMFIA

Background

The FMFIA requires executive branch agencies to establish and maintain internal control and financial systems to provide reasonable assurances that:

- Obligations and costs are in compliance with applicable laws;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.

OMB Circular A-123 provides the implementing guidance for FMFIA and defines management's responsibility for establishing and assessing internal controls. The Circular also requires federal agencies to adhere to the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, and to evaluate and report on the effectiveness of the organization's internal controls to achieve: (1) the objectives of effective and efficient operations, (2) reliable reporting for internal and external use, and (3) compliance with applicable laws and regulations (FMFIA Section 2). Additionally, agencies are required to assess whether financial management systems comply with federal financial management systems requirements (FMFIA Section 4).

Analysis of Controls

The Secretary relies on the annual assurances of Treasury's principal bureaus and offices (components), which are supported by a comprehensive risk-based internal control evaluation plan. This plan includes a methodology that identifies and documents key controls and provides for the assessment and testing of those controls to provide reasonable assurance that the controls are designed, implemented, and operating effectively. As part of the evaluation process, we considered results of this extensive testing and assessment across the Department, as well as independent audits conducted by the OIG and GAO.

Internal Control over Financial Reporting

In accordance with Appendix A to OMB Circular A-123, *Management of Reporting and Data Integrity Risk*, we also conducted an assessment of Treasury's internal controls over financial reporting. Our components completed their testing and assessment of internal controls for material transactions as of September 30, 2019. Based on the results of this assessment we can provide reasonable assurance regarding the effectiveness of our internal control over financial reporting as of September 30, 2019.

FFMIA AND FINANCIAL MANAGEMENT SYSTEMS

FFMIA

The FFMIA requires federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. A financial management system includes an agency's overall financial operation, reflecting the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions.

The FFMIA Section 803(c)(1) requires us to make an annual determination of the agency's substantial compliance with Section 803(a) of the Act based on review of relevant factors. We assess our financial management systems annually for conformance with the requirements of OMB Circular A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*, and other federal financial management system requirements. Our assessment process includes the use of the FFMIA Compliance Determination Framework, (the "Compliance Framework") in OMB Circular A-123, Appendix D, which is a risk and evidence based assessment model that leverages existing audits, evaluations, and reviews that auditors and agency management already perform. The Compliance Framework is an outcome-based approach to assessing FFMIA compliance through a series of financial management goals that are common to all agencies.

In applying the Compliance Framework, we assess available information from audit reports and other relevant and appropriate sources, such as *Federal Information Security Modernization Act* (FISMA) compliance activities, to determine whether our financial management systems substantially comply with FFMIA. We also assess improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance. Based on the results of our overall assessment, we concluded that our financial management systems were not substantially compliant with federal financial management system requirements as of September 30, 2019, due to significant deficiencies at the IRS and Fiscal Service.

The IRS has a significant deficiency in internal control over financial reporting related to its unpaid assessments and financial reporting systems. Specifically, this deficiency relates to the IRS's information system controls, business process application controls, and general controls. The IRS worked diligently during FY 2019 to continue to enhance its Information Technology (IT) security. The IRS implemented a strategy and assessment process to verify the effectiveness of internal controls for the financial systems that affect the financial statements. This assessment supports the IRS's overall internal control framework and helps mitigate deficiencies in the IT environment.

The Fiscal Service has a significant deficiency in internal control related to its cash management and debt management systems. Fiscal Service is fully committed to enhancing its corrective action plans and focusing its efforts to meet federal financial management systems requirements.

Financial Management Systems

Our financial management systems framework consists of two foundational components: (1) financial and mixed systems maintained by Treasury bureau components, and (2) the Treasury-wide Financial Analysis and Reporting System (FARS). Bureaus process and record detailed financial transactions and submit summary-level data to the FARS, which maintains the key financial data necessary for Treasury-wide consolidated financial reporting. This framework satisfies the financial operational and reporting needs of our reporting entities, as well as our internal and external reporting requirements. The FARS framework plays a key role in the Department's efforts to obtain an unmodified audit opinion.

The FARS includes the following financial applications:

- Treasury Information Executive Repository (TIER) — a financial data repository used to consolidate and

validate bureau financial data, and supporting external financial reporting requirements

- TIER Financial Statements (TFS) — a reporting application used to produce monthly and annual financial statements, notes, and other supporting reports

Our bureaus submit summary-level financial data to TIER on a monthly basis. The TFS application uses the bureau data to produce financial statements and report on a Treasury-wide and component-level basis.

Fifteen of our bureaus and offices use centralized financial management, budget formulation and performance management, and IT hosting provided by the Fiscal Service's Administrative Resource Center (ARC). This shared service approach enables bureaus and offices to have access to core financial systems without having to maintain separate technical and system architectures. ARC also provides administrative services in the areas of financial management transaction processing, human resources, procurement, and travel to our bureaus and offices as well as to other federal entities to support core business activities. Using shared services reduces the need for Treasury to maintain duplicative financial management systems, thereby promoting efficiency and cost savings while enhancing the quality, timeliness, and accuracy of financial management processes.

In FY 2019, ARC piloted a Robotic Process Automation effort for 30 of our business processes to improve efficiency, timeliness, and quality in our service operations.

Goals and Supporting Strategies

Our financial system goals and supporting strategies focus on improving, streamlining, and integrating current bureau financial management systems, as well as the current FARS applications, in order to support new financial management requirements and to support data-driven financial decision making by management. In FY 2019, we continued refining TIER and TFS to meet evolving reporting requirements. Additionally, we continued enhancing our business processes related to the reporting of financial and non-financial award data in accordance with the *Digital Accountability and Transparency Act* (P.L. 113–101) (DATA Act). To that end, we developed and implemented a Data Quality Plan for enhancing the accuracy and integrity of our non-financial award data presented on USAspending.gov as stipulated by the recently amended OMB Circular A-123, Appendix A guidelines.

Along with bureau financial systems, the TIER and TFS applications form a unified financial governance solution that focuses on improving financial processes and controls. These systems and applications help to reduce operating costs; enable us to provide assurance over financial data quality; and allow us to ensure that we can provide timely, transparent, and well controlled financial information.

We maintain an information security program for our financial systems consistent with applicable FISMA requirements, OMB policy and guidance, and National Institute of Standards and Technology standards and guidelines. Our systems undergo annual security reviews, and security weaknesses identified through those reviews are remediated by developing and implementing plans of action and milestones. We monitor bureau conformance with government-wide information technology security targets and provide roll-up reports quarterly to OMB. Our compliance with FISMA is evaluated annually by representatives of the OIG.

OTHER LAWS

We made significant progress in improving the quality of Treasury's agency-level reported award data in accordance with the DATA Act. The OIG concluded in its second DATA Act audit report related to our first quarter of FY 2019 data submission, that our implementation and use of the data standards established by Treasury's *DATA Act* Program Management Office and OMB, resulted in: (1) a complete and timely data submission to the *DATA Act* broker for publication on USAspending.gov, and (2) complete and accurate summary-level data. We will continue to improve the overall quality of our award data reported on USAspending.gov in accordance with our Data Quality Plan.

We are not aware of any violations of the Anti-deficiency Act. We have received the U.S. Government Accountability Office's (GAO) Legal Decision (B-1331093) with the subject, *U.S. Department of the Treasury—Tax Return Activities during the Fiscal Year 2019 Lapse in Appropriations*. In the Legal Decision, GAO concluded that Treasury violated the Anti-deficiency Act when, during the lapse in appropriations, the Department incurred obligations to process tax remittances (payments submitted by individuals) and issued tax refunds. The Department obtained approval from the OMB in January 2019 to incur such obligations during a lapse in appropriations. We are currently reviewing GAO's Legal Decision. As of September 30, 2019, and through the date of this report, we have not made a report to Congress and the President, nor provided a copy to the Comptroller General.

IMPROPER PAYMENTS

Background

The *Improper Payments Elimination and Recovery Improvement Act* (IPERIA) of 2012 requires agencies to annually report on all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of their improper payment activities. An improper payment is any payment that should not have been made or that was made in an incorrect amount (including both overpayments and underpayments).

Risk Assessments and Results

In FY 2019, we completed a full program inventory and performed risk assessments to identify programs that have a significant risk of improper payments. We performed our assessment of each program, excluding the Earned Income Tax Credit (EITC), using the seven qualitative risk factors identified in Appendix C. We also performed quantitative risk assessments and assessed risks related to the amounts of payments processed relative to the OMB specified threshold amounts which define payment programs susceptible to significant improper payments. As a result of the risk assessments, we determined that in addition to the EITC, the American Opportunity Tax Credit (AOTC), the Additional Child Tax Credit (ACTC) and the Premium Tax Credit (PTC) were deemed susceptible to significant improper payments.

The EITC, AOTC, and ACTC are refundable tax credits that offset income tax owed by taxpayers. If the credit exceeds the amount of taxes due, the IRS provides a refund payment to those who qualify. The IRS estimates that for FY 2019, 25% ($17.2 billion) of the total EITC payments of $68.7 billion were improper. For the AOTC, the IRS estimates that for FY 2019, 26% ($2 billion) of the total payments of $7.9 billion were improper. For the ACTC, the IRS estimates that for FY 2019, 15% ($7.2 billion) of the total payments of $47.7 billion were improper. The IRS is not reporting an estimate for FY 2019 for PTC, as further analysis of the related data is needed. The IRS has a robust enforcement program for all of its refundable tax credits which consists of examinations and audits, math error notices, and document matching.

We are reporting improper payment estimates for these three refundable tax credits in accordance with OMB Circular A-123, Appendix C: *Requirements for Payment Integrity Improvement*. However, it is our position that refundable tax credit refunds that result in overclaims should not be reported under the improper payments framework. Rather they are more appropriately addressed in the tax gap (see Part 3, Section A: *Tax Gap and Tax Burden*, of this report), which is how we manage noncompliance. Additional information on refundable tax credits and improper payment reporting can be found in Part 3, Section E: Payment Integrity.

Payment Recapture Audits

The *Improper Payments Elimination and Recovery Act of 2010* (IPERA) requires agencies to conduct payment recapture audits (also known as recovery audits) for each program and activity that expends $1 million or more annually, if conducting such audits would be cost-effective. We performed the payment recapture activities in accordance with OMB Circular A-123, Appendix C. Details on our improper payments and payment recapture

program activities and results can be found in Part 3, Section E, of this report.

Do Not Pay Initiative

Our Do Not Pay Working System (hereafter referred to as "Working System") is the legislatively mandated and OMB designated source of centralized data and analytic services to help agencies verify eligibility and to identify and prevent potential fraud, waste, and abuse associated with improper payments. The results of the checks against these data sources provide information that an agency should consider in pre-award or prepayment assessments to help prevent improper payments. Our shared service provider, the Administrative Resource Center (ARC) within Fiscal Service, compares our records in the financial system with payee records in the Working System. We review potential matches on an ongoing basis to prevent improper payments, and incorporate a pre-award check on potential contractors against the Working System. Additional information on the Do Not Pay initiative can be found in Part 3, Section E, of this report.

PART 2:

FINANCIAL SECTION

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MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT AND DEPUTY CHIEF FINANCIAL OFFICER

David F. Eisner
Assistant Secretary
for Management

Carole Y. Banks
Deputy Chief Financial
Officer

In fiscal year 2019, Treasury pursued an aggressive set of initiatives to manage the Department more efficiently and responsibly. Treasury vigorously embraced the President's Management Agenda, taking a leadership role in tackling some of the government's most persistent challenges – eliminating improper payments, modernizing information technology, improving workforce performance, leveraging data as a strategic asset, and delivering excellent financial management services.

In fiscal year 2019, Treasury also demonstrated effective fiscal and management leadership by:

- Treasury refined our cutting-edge strategic planning and performance measurement processes and tools to consistently focus on our highest priorities, including the President's Management Agenda, while identifying ways to meaningfully implement new "good government" legislative requirements under the Evidence Act and the Program Management Improvement Accountability Act;
- The Chief Information Officer strengthened our internal cybersecurity by driving critical reviews of and improvements to our High Value Assets, and expansion of our education and awareness programs.
- Treasury's human capital and information technology communities collaborated to implement the first module of an Integrated Talent Management system that consolidates numerous Treasury human resources systems into a single platform;
- In the wake of an extended lapse in appropriations this past January, Treasury provided ongoing support to federal programs that remained operational during the partial shutdown by ensuring the continuity of their allowable payments and collections without major disruption;
- Management began identifying and implementing ways to improve communications within and across the Department to drive higher levels of employee engagement; and
- For the first time in eight years, Treasury received an A+ rating for small business programs compliance efforts that met all requirements pertaining to the Small Business Act Section 15(k).

The Department received an unmodified audit opinion on its consolidated financial statements for the 20th consecutive year. Despite the complexity of Treasury's financial systems, we continue to make steady progress toward fully resolving all remaining deficiencies associated with our internal controls.

As we lead Treasury's management programs and initiatives, we will continue to ensure that the Department can deliver its mission effectively and efficiently and provide the best value to the American people.

David F. Eisner
Assistant Secretary for Management
November 15, 2019

Carole Y. Banks
Deputy Chief Financial Officer
November 15, 2019

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INSPECTOR GENERAL'S TRANSMITTAL LETTER

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 15, 2019

INFORMATION MEMORANDUM FOR SECRETARY MNUCHIN

FROM: Richard K. Delmar /s/
Acting Inspector General

SUBJECT: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2019 and 2018

INTRODUCTION

The Chief Financial Officer's Act, as amended, requires the Department of the Treasury's (Treasury) Inspector General or an independent auditor, as determined by the Inspector General, to audit Treasury's consolidated financial statements. We contracted with the certified independent public accounting firm of KPMG LLP (KPMG) to audit the consolidated financial statements of Treasury as of September 30, 2019 and 2018, and for the years then ended, to provide a report on internal control over financial reporting, to report instances in which Treasury's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and to report any reportable noncompliance with laws, regulations, contracts, and grant agreements tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*.

RESULTS OF INDEPENDENT AUDIT

In its audit of Treasury, KPMG reported

- the consolidated financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- a significant deficiency in internal control over cash management information systems and a significant deficiency in internal control over Federal debt information systems at the Bureau of the Fiscal Service, collectively representing a significant deficiency for Treasury as a whole;

- a significant deficiency in internal control over unpaid tax assessments and a significant deficiency in internal control over financial reporting systems at the Internal Revenue Service, collectively representing a significant deficiency for Treasury as a whole;
- noncompliance with certain requirements of FFMIA related to federal financial management systems requirements; and
- no instances of reportable noncompliance with laws, regulations, contracts and grant agreements tested.

EVALUATION OF AUDITORS' PERFORMANCE

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Treasury's consolidated financial statements or conclusions about the effectiveness of internal control; whether Treasury's financial management systems substantially complied with FFMIA; and compliance with laws, regulations, contracts, and grant agreements. KPMG is responsible for the attached auditor's report dated November 15, 2019, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

I appreciate the courtesy and cooperation extended to KPMG and my staff during the audit. If you wish to discuss this report, please contact me at (202) 622-1090 or Deborah L. Harker, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

cc: David F. Eisner
Assistant Secretary for Management

Carole Y. Banks
Deputy Chief Financial Officer

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Acting Inspector General
Department of the Treasury:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Department of the Treasury (Department), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources and statements of custodial activity for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the Internal Revenue Service (IRS), a component entity of the Department, which statements reflect total assets of $153.3 and $66.7 billion, net cost of operations of $13.1 and $12.6 billion before applicable eliminating entries, budgetary resources of $13.1 and $13.1 billion, and custodial activity of $3,651 and $3,471 billion, as of and for the years ended September 30, 2019 and September 30, 2018, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for IRS, is based solely on the report of the other auditors.

We also did not audit the financial statements of the Office of Financial Stability (OFS), a component entity of the Department, which statements reflect total assets of $15.8 and $17.2 billion, net cost of operations of $1.4 and $2.2 billion before applicable eliminating entries, and budgetary resources of $262 and $240 million, as of and for the years ended September 30, 2019 and September 30, 2018, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for OFS, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

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preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury as of September 30, 2019 and 2018, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 10, the Department is a participant in transactions with certain entities as part of significant legislation whose purpose is to assist in stabilizing the financial markets. Also as discussed in Note 1AB, the U.S. government's interventions with regards to these entities are not expected to be permanent. Furthermore, as discussed in Notes 1V and 10, the value of certain investments and commitments is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. As such, there will likely be differences between the estimated value of these investments and commitments as of September 30, 2019 and 2018, and the amounts that may ultimately be realized from these investments or may be required to settle these commitments. Such differences may be material and will also affect the ultimate cost of these programs. Our opinion is not modified with respect to these matters.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Management's Discussion and Analysis* and *Required Supplementary Information* sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We, and the other auditors, have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The *Message from the Secretary of the Treasury*, the *Message from the Assistant Secretary for Management and Deputy Chief Financial Officer*, and the *Other Information* sections are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2019, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this reporting, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. We, and the other auditors, did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.

A. Significant Deficiency in Internal Control over Information Systems at the Bureau of the Fiscal Service

Effective information system controls and security programs over financial systems are essential to protecting information resources in accordance with OMB Circular No. A-130, *Managing Information as a Strategic Resource*. The Bureau of the Fiscal Service (Fiscal Service) relies on a number of information systems to manage government-wide cash and the federal debt. Although Fiscal Service made progress towards remediating prior-year information system control deficiencies, Fiscal Service had unresolved and newly identified control deficiencies related to its general information technology controls over the government-wide cash and the federal debt information systems as follows:

1. Cash Management Information Systems

Fiscal Service had unresolved and newly identified control deficiencies related to its general information technology controls over its cash management systems and did not provide reasonable assurance that: (1) the concept of least privilege is employed to prevent significant security exposures; (2) accounts were reviewed for compliance with account management requirements and access to systems is protected against unauthorized modification, loss, or disclosure; (3) separated user accounts are disabled and removed in a timely manner; (4) security events are logged and monitored, and potential vulnerabilities are investigated and resolved; (5)

responsibilities are properly segregated; (6) changes to systems are authorized, properly configured, and secured as intended; and (7) baseline policies and procedures for security configuration controls, including password controls, were adequately documented and fully implemented for all platforms. These deficiencies resulted because Fiscal Service did not effectively verify and validate that its corrective actions remediated control deficiencies; identify and effectively confirm that the controls were properly designed, implemented, and operating effectively; identify all risks and implement controls to address such risks; establish clear responsibilities in its information technology plans, policies, and procedures; and focus sufficient resources to perform the controls for all platforms supporting financial systems. Until these control deficiencies are fully addressed, there is an increased risk of inadequate security controls in financial systems; unauthorized access to, modification of, or disclosure of sensitive financial data and programs; and unauthorized changes to financial systems.

2. Federal Debt Information Systems

Fiscal Service continued to have information system control deficiencies—primarily unresolved control deficiencies from prior audits—related to its federal debt information systems. These continuing control deficiencies relate to information system general controls in the areas of security management, access controls, and configuration management. Fiscal Service's corrective action plans for addressing the prior year deficiencies did not include sufficient detail to facilitate a common understanding of the deficiencies and the root causes or the steps and resources needed to fully resolve them. As a result, Fiscal Service's corrective actions did not consistently resolve the underlying causes of the control deficiencies and many of the deficiencies that contributed to the significant deficiency reported in the prior year—all of which, according to Fiscal Service, had been remediated—remained unresolved as of September 30, 2019. Specifically, Fiscal Service continued to have instances in which known information system vulnerabilities and deviations from baseline security requirements were not being remediated on a timely basis and or adequately tracked for remediation. Additionally, Fiscal Service continued to have instances in which mainframe security controls were not employed in accordance with the concept of least privilege.

Recommendation

Separate reports with additional details and recommendations for corrective action will be provided separately to Fiscal Service management. We recommend that the Assistant Secretary for Management (ASM) and Deputy Chief Financial Officer (DCFO) ensure that Fiscal Service implement requisite corrective actions to resolve control deficiencies over its cash management and debt information systems.

B. Significant Deficiency in Internal Control over Financial Reporting at the Internal Revenue Service

IRS continued to take steps to improve internal control over financial reporting to ensure reliable and timely financial information is obtained, maintained, and reported in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. However, the other auditors reported significant deficiencies in internal control over unpaid tax assessments and internal control over financial reporting systems that we collectively considered as a significant deficiency at the Department level. IRS internal control deficiencies are summarized as follows:

1. Unpaid Tax Assessments

   IRS continued to have limitations in the financial systems it uses to account for federal taxes receivable and other unpaid assessment balances, as well as other control deficiencies that led to errors in the taxpayer accounts. As a result, IRS financial reporting systems did not provide timely, reliable, and complete transaction-level financial information necessary to enable IRS to appropriately classify and report unpaid assessment balances. IRS applied a complex and labor-intensive statistical estimation process to compensate for the effects of its system limitations and other deficiencies on a material portion of its federal taxes receivable balance to help ensure that this balance was free of material misstatement. During FY 2019, IRS recorded multi-billion dollar adjustments to correct the effects of continued errors in its underlying data that IRS identified during its manual estimation process. This estimation process does not provide IRS management with readily available, reliable unpaid assessment information on a daily basis throughout the

year in order to effectively manage unpaid assessment balances. Further, errors in taxpayer accounts create a burden for those taxpayers whose accounts were affected.

2. Financial Reporting Systems

IRS had unresolved and newly identified control deficiencies related to its business process application controls and general controls in its information systems. Specifically, IRS did not correct previously reported control deficiencies concerning (1) unnecessary access rights granted to accounts, (2) inconsistent monitoring of systems and accounts, (3) out-of-date and unsupported hardware and software, (4) change controls over tax and financial management processing on the mainframe, and (5) developing and implementing effective policies and procedures as part of IRS's security management program. In addition, during this year's audit, the other auditors found new control deficiencies in the following areas: (1) implementing automated financial controls of interfaces between key applications, (2) ensuring that authorized personnel reviewed key documents for external systems, (3) enforcing multifactor authentication, (4) enforcing adequate encryption to protect systems and data, and (5) ensuring that patches installed on systems were current to protect against known vulnerabilities.

Recommendation

The other auditors separately provided IRS management a report detailing the conditions identified and their recommendations to address the above significant deficiency. We recommend that the ASM and DCFO ensure that IRS implements corrective actions to resolve the control deficiencies at IRS.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements as of and for the year ended September 30, 2019 are free from material misstatement, we, and the other auditors, performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

We, and the other auditors, also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed instances described below, in which the Department's financial management systems did not substantially comply with the federal financial management systems requirements. The results of our tests and those of the other auditors disclosed no instances in which the Department's financial management systems did not substantially comply with applicable federal accounting standards and the United States Government Standard General Ledger at the transaction level.

C. Noncompliance with *Federal Financial Management Improvement Act of 1996*

The Department's financial management systems did not substantially comply with the federal financial management systems requirements. As discussed in finding A and B, the Department had deficiencies in Fiscal Service's information systems and IRS's financial reporting systems. Specifically, the Department did not consistently design, implement, and operate information system controls and security programs over these systems in accordance with the federal financial management system requirements.

Recommendation

We, and the other auditors, separately provided IRS and Fiscal Service management with recommendations to address the above noncompliance with the federal financial management system requirements. We recommend that the ASM and DCFO ensure that IRS and Fiscal Service develop and implement remediation

plans outlining actions to be taken to resolve noncompliance with the federal financial management system requirements and the resources and responsible organizational units for such planned actions.

Department's Response to Findings

The Department indicated in a separate letter immediately following this report that it concurs with the findings and recommendations presented in our report. Further, the Department responded that it will take necessary corrective actions to address each of the matters presented. The Department's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 15, 2019

MANAGEMENT'S RESPONSE TO INDEPENDENT AUDITORS' REPORT

ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

November 15, 2019

KPMG LLP
1801 K Street, NW
Washington, DC 20006

Ladies and Gentlemen:

On behalf of Secretary Mnuchin, we are responding to your audit report on the Department of the Treasury's fiscal year 2019 consolidated financial statements. Our bureaus and program offices are proud of the Department's success in achieving an unmodified audit opinion on the Department's financial statements for the 20th consecutive year.

The high level of professionalism, technical expertise, and integrity demonstrated by KPMG LLP in conducting this year's audit contributed greatly to Treasury's successful fiscal year 2019 results. We also appreciate the expertise and commitment demonstrated by the other organizations involved in the audit process – the Office of Inspector General, Government Accountability Office, and the firms that audited several of our bureaus.

We acknowledge the two significant deficiencies at the Department level, and the one instance of noncompliance with laws and regulations described in your report. We agree with your recommendations and will focus on necessary corrective actions to address each of the issues.

Overall, we have made strong progress in enhancing our internal control environment. We are very proud of our progress and remain committed to ensuring high standards of integrity and transparency in reporting our financial performance.

David F. Eisner
Assistant Secretary for Management

Carole Y. Banks
Deputy Chief Financial Officer

Consolidated Balance Sheets

As of September 30, 2019 and 2018

(in millions)	2019	2018
ASSETS		
Intra-governmental Assets		
Fund Balance (Note 2)	$ **415,327**	$ 424,868
Loans and Interest Receivable (Note 3)	**1,581,019**	1,524,696
Advances to Federal Supplementary Medical Insurance Trust Fund (Note 4)	**3,152**	5,027
Due From the General Fund (Note 4)	**22,855,331**	21,646,633
Other Intra-governmental Assets	**1,011**	770
Total Intra-governmental Assets	**24,855,840**	23,601,994
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	**441,365**	444,571
Gold and Silver Reserves (Note 6)	**11,062**	11,062
Reserve Position in the International Monetary Fund (Note 7)	**22,955**	15,364
Taxes, Interest, and Other Receivables, Net (Note 8)	**145,878**	59,637
Credit Program Receivables, Net (Note 9)	**4,867**	5,017
Loans and Interest Receivable, Net (Note 7)	**2,525**	4,509
Investments in Government Sponsored Enterprises (GSEs) (Note 10)	**112,070**	113,150
Investments in Multilateral Development Banks (Note 11)	**7,773**	7,741
Other Investments and Related Interest (Note 12)	**6,631**	7,062
Property, Plant, and Equipment, Net (Note 13)	**2,870**	2,947
Other Assets	**700**	701
Total Assets (Note 14)	$ **25,614,536**	$ 24,273,755
Heritage Assets (Note 13)		

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

As of September 30, 2019 and 2018

(in millions)	2019	2018
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 and 15)	$ **5,981,029**	$ 5,821,642
Other Debt and Interest Payable (Note 16)	**8,869**	10,414
Due To the General Fund (Note 4)	**2,213,616**	2,072,917
Other Intra-governmental Liabilities (Note 18)	**632**	631
Total Intra-governmental Liabilities	**8,204,146**	7,905,604
Federal Debt and Interest Payable (Notes 4 and 15)	**16,839,627**	15,789,917
Special Drawing Right Certificates Issued to the Federal Reserve (Note 5)	**5,200**	5,200
Allocation of Special Drawing Rights (Note 5)	**48,146**	49,274
Gold Certificates Issued to the Federal Reserve Banks (Note 6)	**11,037**	11,037
Refunds Payable (Notes 4 and 22)	**2,939**	2,994
D.C. Federal Pension and Judicial Retirement Actuarial Liability (Note 17)	**8,398**	8,372
Other Liabilities (Note 18)	**5,467**	5,544
Total Liabilities (Note 18)	**25,124,960**	23,777,942
Commitments and Contingencies (Note 26)		
NET POSITION		
Unexpended Appropriations:		
Funds from Dedicated Collections (Note 23)	**200**	200
Other Funds	**419,396**	425,792
Subtotal	**419,596**	425,992
Cumulative Results of Operations:		
Funds from Dedicated Collections (Note 23)	**46,351**	46,163
Other Funds	**23,629**	23,658
Subtotal	**69,980**	69,821
Total Net Position - Funds from Dedicated Collections (Combined Totals) (Note 23)	**46,551**	46,363
Total Net Position - Other Funds (Combined Totals)	**443,025**	449,450
Total Net Position (Note 19)	**489,576**	495,813
Total Liabilities and Net Position	$ **25,614,536**	$ 24,273,755

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2019 and 2018

(in millions)	2019	2018
Cost of Treasury Operations:		
Financial Program		
Gross Cost	$ **6,214**	$ 6,984
Less Earned Revenue	**(3,446)**	(2,954)
Net Program Cost	**2,768**	4,030
Economic Program		
Gross Cost	**22,423**	28,402
Less Earned Revenue	**(9,488)**	(11,598)
Net Program Cost	**12,935**	16,804
Security Program		
Gross Cost	**432**	466
Less Earned Revenue	**(5)**	(7)
Net Program Cost	**427**	459
Total Program Gross Costs	**29,069**	35,852
Total Program Gross Earned Revenues	**(12,939)**	(14,559)
Total Net Program Cost before Changes in Actuarial Assumptions	**16,130**	21,293
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	**500**	113
Total Net Cost of Treasury Operations (Note 20)	**16,630**	21,406
Non-Entity Costs:		
Federal Debt Interest	**570,948**	527,144
Restoration of Foregone Federal Debt Interest (Note 15)	**2,371**	804
Less Interest Revenue from Loans	**(44,385)**	(42,948)
Net Federal Debt Interest Costs	**528,934**	485,000
Other Federal Costs, Net (Note 20)	**12,016**	12,940
GSEs Non-Entity Revenue, Net (Note 10)	**(14,199)**	(30,391)
Other, Net	**(761)**	(706)
Total Net Non-Entity Costs	**525,990**	466,843
Total Net Cost of Treasury Operations and Non-Entity Costs	$ **542,620**	$ 488,249

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2019 and 2018

(in millions)	2019	2018
UNEXPENDED APPROPRIATIONS (Notes 19 and 23)		
Beginning Balance	$ **425,992**	$ 427,329
Budgetary Financing Sources		
Appropriations Received (Note 19)	**600,585**	547,756
Appropriations Transferred In/Out	**-**	10
Other Adjustments (Note 19)	**(10,433)**	(5,839)
Appropriations Used	**(596,548)**	(543,264)
Total Budgetary Financing Sources	**(6,396)**	(1,337)
Total Unexpended Appropriations	**419,596**	425,992
CUMULATIVE RESULTS OF OPERATIONS (Notes 19 and 23)		
Beginning Balance	**69,821**	69,996
Budgetary Financing Sources		
Appropriations Used	**596,548**	543,264
Non-Exchange Revenue	**427**	179
Donations and Forfeitures of Cash/Equivalent	**600**	413
Transfers In/Out Without Reimbursement	**(766)**	(86)
Other	**233**	102
Other Financing Sources (Non-Exchange)		
Donation/Forfeiture of Property	**74**	156
Accrued Interest and Discount on Debt	**8,030**	21,395
Accrued Interest on Restoration of Federal Debt Principal (Note 15)	**-**	(660)
Imputed Financing Sources (Note 20)	**807**	779
Transfers to the General Fund and Other (Note 19)	**(63,174)**	(77,468)
Total Financing Sources	**542,779**	488,074
Net Cost of Treasury Operations and Non-Entity Costs	**(542,620)**	(488,249)
Net Change	**159**	(175)
Cumulative Results of Operations	**69,980**	69,821
Net Position	$ **489,576**	$ 495,813

The accompanying notes are an integral part of these financial statements.

Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2019

(in millions)	Budgetary	Non-Budgetary Financing	2019 Total
BUDGETARY RESOURCES			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 314,985	$ 19	$ 315,004
Appropriations (discretionary and mandatory) (Note 19)	606,913	-	606,913
Borrowing authority (discretionary and mandatory) (Note 21)	-	125	125
Spending authority from offsetting collections (discretionary and mandatory)	7,830	425	8,255
Total Budgetary Resources	$ 929,728	$ 569	$ 930,297
STATUS OF BUDGETARY RESOURCES			
New obligations and upward adjustments	$ 614,608	$ 340	$ 614,948
Unobligated balance, end of year:			
Apportioned, unexpired accounts	272,845	12	272,857
Exempt from apportionment, unexpired accounts	1,752	-	1,752
Unapportioned, unexpired accounts	40,148	217	40,365
Unexpired unobligated balance, end of year	314,745	229	314,974
Expired unobligated balance, end of year	375	-	375
Unobligated balance, end of year	315,120	229	315,349
Total Status of Budgetary Resources	$ 929,728	$ 569	$ 930,297
OUTLAYS, NET			
Outlays, net (discretionary and mandatory)	$ 606,826	$ (202)	$ 606,624
Distributed offsetting receipts	(68,686)	-	(68,686)
Agency Outlays, Net (Discretionary and Mandatory)	$ 538,140	$ (202)	$ 537,938

The accompanying notes are an integral part of these financial statements.

Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2018

(in millions)	Budgetary	Non-Budgetary Financing	2018 Total
BUDGETARY RESOURCES			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 317,622	$ 12	$ 317,634
Appropriations (discretionary and mandatory) (Note 19)	555,657	-	555,657
Borrowing authority (discretionary and mandatory) (Note 21)	-	265	265
Spending authority from offsetting collections (discretionary and mandatory)	8,459	297	8,756
Total Budgetary Resources	$ 881,738	$ 574	$ 882,312
STATUS OF BUDGETARY RESOURCES			
New obligations and upward adjustments	$ 568,169	$ 482	$ 568,651
Unobligated balance, end of year:			
Apportioned, unexpired accounts	271,380	9	271,389
Exempt from apportionment, unexpired accounts	1,631	-	1,631
Unapportioned, unexpired accounts	40,139	83	40,222
Unexpired unobligated balance, end of year	313,150	92	313,242
Expired unobligated balance, end of year	419	-	419
Unobligated balance, end of year	313,569	92	313,661
Total Status of Budgetary Resources	$ 881,738	$ 574	$ 882,312
OUTLAYS, NET			
Outlays, net (discretionary and mandatory)	$ 560,008	$ (241)	$ 559,767
Distributed offsetting receipts	(61,467)	-	(61,467)
Agency Outlays, Net (Discretionary and Mandatory)	$ 498,541	$ (241)	$ 498,300

The accompanying notes are an integral part of these financial statements.

Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2019 and 2018

(in millions)	2019	2018
Sources of Custodial Revenue (Note 22)		
Individual Income and FICA Taxes	$ **3,176,406**	$ 3,089,758
Corporate Income Taxes	**277,058**	262,742
Estate and Gift Taxes	**17,565**	23,866
Excise Taxes	**100,566**	94,267
Railroad Retirement Taxes	**6,219**	6,324
Unemployment Taxes	**6,438**	8,807
Deposit of Earnings, Federal Reserve System	**52,793**	70,750
Fines, Penalties, Interest and Other Revenue	**5,591**	5,712
Total Revenue Received	**3,642,636**	3,562,226
Less Refunds and Other Payments	**(452,434)**	(464,167)
Net Revenue Received	**3,190,202**	3,098,059
Non-Cash Accrual Adjustment	**86,298**	6,213
Total Custodial Revenue	**3,276,500**	3,104,272
Disposition of Custodial Revenue (Note 22)		
Amounts Provided to Fund Non-Federal Entities	**454**	455
Amounts Provided to Fund the Federal Government	**3,189,748**	3,097,604
Non-Cash Accrual Adjustment	**86,298**	6,213
Total Disposition of Custodial Revenue	**3,276,500**	3,104,272
Net Custodial Revenue	$ **-**	$ -

The accompanying notes are an integral part of these financial statements.

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1. Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements include the operations of the Department of the Treasury, one of 24 Chief Financial Officers (CFO) Act agencies of the Executive Branch of the United States (U.S.) government, and certain custodial activities the Department manages on behalf of the entire U.S. government. Except where the content clearly indicates otherwise, the use of the terms "Department," "Treasury," "we," "us," or "our" refers to the Department of the Treasury, including its Departmental Offices (DO) and operating bureaus which are further discussed below. The following paragraphs describe the activities of the reporting entity.

We were established by an Act of Congress approved on September 2, 1789. Many subsequent acts affected our development, delegating new duties to our charge and establishing the numerous bureaus and divisions that now comprise the Department. As a major policy advisor to the President, the Secretary of the Treasury (Secretary) has primary responsibility for formulating and managing the domestic and international tax and financial policies of the U.S. government.

Further, the Secretary is responsible for recommending and implementing U.S. domestic and international economic and fiscal policy; governing the fiscal operations of the U.S. government; maintaining foreign assets control; managing the federal debt; collecting income and excise taxes; representing the U.S. on international monetary, trade, and investment issues; overseeing our overseas operations; and directing the manufacture of coins, currency, and other products for customer agencies and the public.

Our reporting entities include DO and seven operating bureaus. For financial reporting purposes, DO is composed of: Community Development Financial Institutions (CDFI) Fund, Office of D.C. Pensions (ODCP), Exchange Stabilization Fund (ESF), Federal Financing Bank (FFB), Government Sponsored Enterprises (GSEs) Program, International Assistance Programs (IAP), Office of Financial Research (OFR), Office of Financial Stability (OFS), Office of Inspector General (OIG), Small Business Lending Fund (SBLF), Special Inspector General for the Troubled Asset Relief Program (SIGTARP), Treasury Forfeiture Fund (TFF), Treasury Inspector General for Tax Administration (TIGTA), and the DO policy offices.

Our seven operating bureaus are: Bureau of Engraving and Printing (BEP), Bureau of the Fiscal Service (Fiscal Service), Financial Crimes Enforcement Network (FinCEN), Internal Revenue Service (IRS), U.S. Mint (Mint), Office of the Comptroller of the Currency (OCC), and Alcohol and Tobacco Tax and Trade Bureau (TTB). Our consolidated financial statements reflect the reporting of our entity activities, comprising both our operating bureaus and DO. This includes appropriations received to conduct our operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions we perform on behalf of the U.S. government and others. Non-entity activities include collecting certain federal revenue, servicing the federal debt, disbursing certain federal funds, and maintaining certain assets and liabilities for the U.S. government (refer to Notes 4 and 14), as well as for other federal entities. Our reporting entity does not include the General Fund of the U.S. Government (General Fund), which maintains receipt, disbursement, and appropriation accounts for all federal agencies.

Following U.S. Generally Accepted Accounting Principles (GAAP) for federal entities, we do not consolidate into our financial statements the assets, liabilities, or results of operations of any financial organization or commercial entity in which we hold either a direct or indirect majority equity investment, unless they meet the principles of inclusion for "consolidation entities" as described in Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity*. Certain of our significant equity investments do not meet the inclusion principles for "consolidation entities." SFFAS No. 47 also provides criteria for reporting "disclosure entities" and "related party" relationships of such significance that it would be misleading to exclude information about them. Refer to the accounting policy below entitled "*Disclosure Entities and Related Parties*" for additional information on Treasury's "disclosure entities" and "related parties" which are material to our consolidated financial statements, of significance to the public, or required by SFFAS No. 47.

B. Basis of Accounting and Presentation

The financial statements have been prepared from our accounting records in conformity with GAAP, and Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements,* as revised. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body for the U.S. government. SFFAS No. 56, *Classified Activities,* allows certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

These financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, the Consolidated Statements of Changes in Net Position, the Combined Statements of Budgetary Resources, and the Statements of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both fiscal year (FY) 2019 and 2018 information.

We have eliminated transactions and balances among our entities from the Consolidated Balance Sheets, Consolidated Statements of Net Cost, and Consolidated Statements of Changes in Net Position. We present the Statements of Budgetary Resources on a combined basis; therefore, intra-departmental transactions and balances have not been eliminated from these statements.

While these financial statements have been prepared from our accounting records in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same accounting records.

Intra-governmental assets and liabilities are those due from or to other federal entities. Intra-governmental earned revenues are collections or accruals of revenue from other federal entities, and intra-governmental costs are payments or accruals of expenditures to other federal entities.

The financial statements should be read with the recognition that we are a component of the U.S. government, a sovereign entity and, accordingly, our liabilities not covered by budgetary resources cannot be liquidated without the legislative enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts, and there is no certainty that the appropriations will be enacted. Liabilities not requiring budgetary resources are liabilities that have not in the past required, nor will in the future, require budgetary resources, e.g., liabilities for clearing accounts, non-fiduciary deposit funds, custodial collections, and unearned revenue.

We have reclassified certain FY 2018 activity and balances presented on the financial statements to conform to the presentation in the current year, the effects of which are immaterial.

There are numerous acronyms used throughout the notes herein as well as other sections of this Agency Financial Report (AFR). Refer to the *"Glossary of Acronyms"* located in the Appendix of this report for a complete listing of these acronyms and their definitions.

C. Fund Balance

"*Fund Balance*" is the aggregate amount of our accounts with the U.S. government's central accounts from which we are authorized to make expenditures and pay liabilities. It is an asset because it represents our claim to the U.S. government's resources. "*Fund Balance*" is not equivalent to unexpended appropriations because it also includes non-appropriated revolving and enterprise funds, suspense accounts, and custodial funds such as deposit funds, special funds, and trust funds.

D. Loans and Interest Receivable

Intra-Governmental

Intra-governmental entity loans and interest receivable from other federal agencies represent the principal and related interest receivable on loans we issue through FFB. We do not record loan loss allowance for credit reform subsidy costs for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers because those agencies guarantee the outstanding balances (interest and principal).

Intra-governmental non-entity loans and interest receivable from other federal agencies represent the principal and related interest receivable on loans we issue, through the Fiscal Service. We act as an intermediary issuing these loans because the agencies receiving these loans lend these funds to third parties to carry out various programs of the U.S. government. Because of our intermediary role in issuing these loans, we do not record a loan loss allowance related to these non-entity intra-governmental loans. Instead, the ultimate lender, the federal agency that issued the loans to the public, recognizes loan loss allowances and subsidy costs. We accrue interest revenue on intra-governmental loans when earned.

Public

Public loans and interest receivable primarily represent a supplemental borrowing arrangement between the U.S. and the International Monetary Fund (IMF) (refer to Note 7). These loans are denominated in Special Drawing Rights (SDRs) and recorded at the equivalent U.S. dollar amount (refer to the accounting policy below entitled "*Special Drawing Rights*"). We periodically adjust the value of these loans, due to fluctuations in the value of the U.S. dollar with respect to the SDR, to maintain the amount of these loans in dollar terms. We do not record a loan loss allowance for these loans as we do not anticipate any defaults on the repayment of these loans.

E. Advances to the Federal Supplementary Medical Insurance Trust Fund

The General Fund issues advances to the Department of Health and Human Services' (HHS) Federal Supplementary Medical Insurance Trust Fund to temporarily replace the reduction in Medicare Part B participants' premiums. The Fiscal Service accounts for the advances issued on behalf of the General Fund. As outlined in 42 USC 1395, *Prohibition Against Any Federal Interference*, these advances do not bear any interest. HHS repays advances over time from amounts collected from certain participants' increase in premiums until the balance due reaches zero.

F. Cash, Foreign Currency, and Other Monetary Assets

Substantially all of our operating cash is non-entity government-wide cash held in depository institutions and Federal Reserve Bank (FRB) accounts. Agencies deposit funds that are submitted to them directly into either a Federal Reserve Treasury General Account (TGA) or a local TGA depositary. We transfer the balances in these TGA accounts into the Federal Reserve Bank of New York's (FRBNY) TGA throughout the day.

Operating cash of the U.S. government represents balances from tax collections, customs duties, other revenue, federal debt receipts, and other various receipts, net of cash outflows for budget outlays and other payments held in the FRBs and in foreign and domestic financial institutions. Outstanding checks net against operating cash until they clear the Federal Reserve System (FR System).

The FRBNY maintains the TGA, which functions as the U.S. government's checking account for deposits and disbursements of public funds. Cash in the TGA is restricted for government-wide operations.

We classify our foreign currency investments having original maturities of three months or less as cash equivalents. SDR holdings comprise most of the other monetary assets (refer to the accounting policy below entitled "*Special Drawing Rights*").

G. Taxes, Interest, and Other Receivables, Net

We do not accrue federal taxes receivable, net, and the corresponding liability due to the General Fund, until related tax returns are filed or assessments are made by the IRS and agreed to by either the taxpayer or the court. Additionally, prepayments are netted against liabilities. We make accruals to reflect penalties and interest on taxes receivable through the balance sheet date.

Taxes receivable consist of unpaid taxes related to Internal Revenue Code (IRC) USC 965 which requires of taxpayers who are shareholders of certain specified foreign corporations to pay a transition tax on foreign earnings as if those earnings had been repatriated to the United States. Taxes receivable also consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of the IRS. We record an allowance for doubtful accounts to reflect an estimate of the portion of total taxes receivable deemed to be uncollectible.

Compliance assessments are unpaid assessments which neither the taxpayer nor a court has affirmed the taxpayer owes to the U.S. government. Examples include assessments resulting from an IRS audit or examination in which the taxpayer does not agree with the results. Write-offs consist of unpaid assessments for which the IRS does not expect further collections due to factors such as taxpayers' bankruptcy, insolvency, or death. We do not report compliance assessments and write-offs on the balance sheet. Statutory provisions require the accounts to be maintained until the statute for collection expires.

H. Credit Program Receivables, Net

We account for all of our credit program receivables under the provisions of credit reform accounting pursuant to the *Federal Credit Reform Act* (FCRA). Credit programs include loans or equity securities associated with our state and local Housing Finance Agency (HFA) initiative programs, SBLF program, CDFI Fund programs, and the Troubled Asset Relief Program (TARP) (refer to Note 9).

To account for our credit program receivables, we apply the accounting provisions of SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, as amended. SFFAS No. 2 requires measurement of the asset or liability at the net present value of the estimated future cash flows. The cash flow estimates for each credit program transaction reflect the actual structure of the instruments. For each of these instruments, we estimate cash inflows and outflows related to the program over the estimated term of the instrument. Further, each cash-flow estimate reflects the specific terms and conditions of the program, technical assumptions regarding the underlying assets, risk of default or other losses, and other factors as appropriate. The measurement of assets within these programs is primarily derived from inputs which generally represent market data and, when such data is not available, management's best estimate of how a market participant would assess the asset's inherent risk.

The primary purpose of the FCRA is to measure the cost of federal credit programs, and to place the cost of such credit programs on a basis equivalent with other federal spending. FCRA requires that the ultimate costs of a credit program be calculated and the budgetary resources be obtained before incurring the direct loan obligations. To accomplish this, we first predict or estimate the future performance of direct and guaranteed loans when preparing our annual budget. We re-estimate the data used for these budgetary estimates at the fiscal year-end to reflect changes in actual loan performance and actual interest rates in effect when the loans were issued. The re-estimated data reflect adjustments for market risks, asset performance, and other key variables and economic factors. We then use the re-estimated data to report the cost of the loans disbursed under the direct or guaranteed loan program as a "*Program Cost*" in our Consolidated Statements of Net Cost.

Cash flows associated with our credit programs generally include disbursements, repayments, repurchases, fees, recoveries, interest, dividends, proceeds from sales of instruments, borrowings from Treasury, negative subsidy, and the subsidy cost received from the program accounts. We draw security-level data and assumptions used as the basis for cash flow model forecasts and program performance from widely available market sources, as well as information published by investees. Key inputs and assumptions to the cash flow forecasts include, but are not limited to:

- Security characteristics such as unpaid principal balance, coupon rate, weighted-average loan age, issued bond balance, credit rating, maturity date, sinking fund schedules, principal and interest payment schedules, and performance of underlying collateral;
- Discount rate and Market Adjusted Discount Rate (MADR);
- Department actions, as well as changes in legislation;
- Forecast dividend payments, late payments, prepayment rates and default rates;
- Expected escrow conversion and return rates;
- Default and recovery reports published by Moody's and Standard and Poor's;
- Other third-party market sources.

The recorded subsidy cost associated with each of our credit programs represents the difference between our projected costs of the program and the future cash flows we anticipate receiving. The subsidy allowance specifically takes into consideration projected repayments and defaults, and the projected cost of borrowings. We amortize the allowance to reflect the difference between projected and actual financing costs.

Our actions, as well as changes in legislation, may impact estimated future cash flows and related subsidy costs. We recognize the cost or cost savings of a modification in subsidy costs when the terms of a program are modified. Workouts are actions taken to maximize repayments of existing credit programs, and the expected effects on cash flows are included in the original estimate and re-estimates of the subsidy cost. Subsidy costs are also impacted by re-estimates which may occur as a result of updates to the original program subsidy cost estimates to reflect actual cash flows experience, as well as changes in forecasts of estimated future cash flows associated with the credit program.

I. INVESTMENTS

Investments in GSEs

We hold senior preferred stock and warrants for the purchase of common stock of two GSEs: the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). We present these non-federal investment holdings at their fair value. We record changes in the valuation of these investments as non-entity exchange transactions on the Consolidated Statements of Net Cost. We also record dividends related to these investments as non-entity exchange transactions, and accrue when declared.

The GSE Senior Preferred Stock Purchase Agreements (SPSPAs), which we entered into with each GSE when the GSEs were placed under conservatorship, require that we increase our investment in the GSEs' senior preferred stock if, at the end of any quarter, the Federal Housing Finance Agency (FHFA), acting as the conservator, determines that the liabilities of either GSE exceed its respective assets. Since funding to the GSEs to pay their excess liabilities is appropriated directly to us, we report such payments, as needed, as entity expenses within the "*Economic Program*" on the Consolidated Statements of Net Cost, and in the line item, "*Cumulative Results of Operations*," on the Consolidated Balance Sheets. These payments also result in an increase to the non-entity investment in the GSEs' senior preferred stock, with a corresponding increase to "*Due To the General Fund*," as we hold the investment on behalf of the General Fund.

Investments in Multilateral Development Banks

On behalf of the U.S., we invest in Multilateral Development Banks (MDBs) to support poverty reduction, private sector development, transitions to market economies, and sustainable economic growth and development, thereby advancing U.S. economic, political, and commercial interests abroad. As a participating member country, we provide a portion of the capital base of the MDBs, through subscriptions to capital, which allows the MDBs to issue loans at market-based rates to middle-income developing countries. These paid-in capital investments are non-marketable equity investments valued at cost on our Consolidated Balance Sheets.

In addition, on behalf of the U.S., we contribute funding to MDBs to finance grants and extend credit to poor countries at below market-based interest rates. We report these U.S. contributions, also referred to as "concessional window" contributions, as an expense within the "*Financial Program*" on our Consolidated Statements of Net Cost.

Other Investments and Related Interest

The ESF holds most of our foreign currency investments. We classify the ESF's other foreign currency denominated assets and investment securities as either available-for-sale or trading securities recorded at fair value. These holdings are normally invested in interest-bearing securities issued or held through foreign governments or monetary authorities. We recognize interest on investments, amortization of premiums, and accretion of discounts on an accrual basis, and amortize or accrete premiums and discounts over the life of the related investment security as an adjustment to yield using the effective interest method.

J. Property, Plant, and Equipment, Net

General

Property, plant, and equipment (PP&E) is composed of capital assets used in providing goods or services. It also includes assets acquired through capital leases, which are initially recorded at the amount recognized as a liability for the capital lease at its inception. PP&E is stated at full cost, including costs related to acquisition, delivery, and installation, less accumulated depreciation. Major alterations and renovations, including leasehold and land improvements, are capitalized, while maintenance and repair costs are charged to expense as incurred. Costs for construction projects are recorded as construction-in-progress until completed, and are valued at actual (direct) cost plus applied overhead and other indirect costs.

Internal-use software encompasses software design, development, and testing of projects adding significant new functionality and long-term benefits. We accumulate costs for developing internal-use software in work-in-development until we place a project into service and testing and final acceptances are successfully completed. Once completed, we transfer the costs to depreciable property.

We lease land and buildings from the General Services Administration (GSA) to conduct most of our operations. We have no material leases that meet capital lease requirements for financial reporting purposes. GSA charges a standard level user fee which approximates commercial rental rates for similar properties.

Our bureaus are diverse both in size and in operating environment. Accordingly, our capitalization policy provides minimum capitalization thresholds, which generally range from $25,000 to $50,000 for all property categories except for internal-use software. Minimum capitalization thresholds for internal-use software generally range from $50,000 to $250,000 (except for the IRS, for which minimum capitalization thresholds generally ranges from $10 million to $50 million). We also use a capitalization threshold for bulk purchases, which generally ranges from $50,000 to $500,000 for non-manufacturing bureaus, and $25,000 to $50,000 for manufacturing bureaus. Bureaus determine the individual items that comprise bulk purchases based on our guidance.

Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements and capital leases. We depreciate leasehold improvements over the term of the lease or the useful life of the improvement, whichever is shorter. We depreciate capital leases over the estimated life of the asset or term of the lease, whichever is shorter. Service life ranges (2 to 50 years) are wide due to the diversity of our PP&E. We do not depreciate land and land improvements, construction-in-progress, and internal-use software in development. We record impairment costs related to a significant and permanent decline in the service utility of general PP&E and construction-in-progress in the period incurred.

Heritage Assets

Heritage assets are of historical significance. Multi-use heritage assets are those heritage assets for which the predominant use is general government operations. We capitalize all acquisition, reconstruction, and betterment costs for our multi-use heritage asset buildings as general PP&E, and depreciate these costs over their service life.

K. Federal Debt and Interest Payable

We issue federal debt in the form of Treasury securities. This debt relates to monies borrowed from the public and certain other federal agencies to fund the operations of the U.S. government. We issue certain federal debt at a discount or premium. We amortize these discounts and premiums over the term of the security using an interest method for all long-term securities and the straight-line method for short-term securities. Interest costs accrue as an expense as incurred and are reported on the Consolidated Statements of Net Cost as non-entity costs.

L. Commitments and Contingencies

Through FFB, we make loan commitments with federal agencies, or private sector borrowers with loans guaranteed by federal agencies, to extend credit for their own use (refer to the accounting policy above entitled "Loans and Interest Receivable, Intra-Governmental"). We establish loan commitments when FFB and other parties fully execute agreements in which we become obligated to issue loans pursuant to the terms and conditions within the agreements. We reduce loan commitments when we issue the loans or when the commitments expire.

On behalf of the U.S., we subscribe to shares of certain MDBs, of which some shares represent capital commitments that are callable under certain limited circumstances to meet the obligations of the respective MDB. The callable capital commitments become binding on the U.S. when we issue instruments of commitment subscribing to the U.S. portion of callable capital.

Additionally, on behalf of the U.S., we have established financial commitments through our participation in the IMF through a quota subscription and a borrowing arrangement that supplements IMF resources. U.S. financial commitments to the IMF become binding when the U.S. consents to an increase in its participation as an IMF member country, and all other conditions to the increase have been met. The outstanding financial commitment in the U.S. quota decreases or increases when the IMF draws upon or repays funding obtained pursuant to a letter of credit established by the U.S. to make domestic currency available to the IMF as needed. The outstanding financial commitment in the supplemental borrowing arrangement decrease or increase when the IMF borrows and repays loans under the related supplemental funding arrangement (refer to Note 7).

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, we recognize material contingent liabilities meeting the following criteria:

- A past event or exchange transaction has occurred;
- A future cash outflow is probable; and
- A future cash outflow is measurable.

The estimated liability we record is either a specific amount or within a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, we recognize the minimum amount in the range, and we disclose the range and a description of the nature of the contingency. We follow this policy in recording a contingent liability, if any, related to the GSE SPSPA program (refer to Note 10), and loss contingencies that may arise from claims, assessments, litigations, fines, penalties, and other sources (refer to Note 26).

If one or more, but not all, of the above criteria for recognition are met, and there is a reasonable possibility of loss, we will disclose, if material, the nature of the contingent liability, along with a range of possible loss, if estimable, and a description of the nature of the contingency.

M. Special Drawing Rights

The SDR is an international reserve asset created by the IMF to supplement its member countries' official reserves. Under its Articles of Agreement, the IMF may allocate SDRs to member countries in proportion to their IMF quotas. Pursuant to the *Special Drawing Rights Act of 1968*, as amended, the ESF holds all SDRs allocated to or otherwise acquired by the U.S.

Allocations and Holdings

We record the SDR holdings as part of "*Cash, Foreign Currency, and Other Monetary Assets*," and we record the SDR allocations as a liability entitled "*Allocation of Special Drawing Rights*" when the IMF allocates SDRs to the U.S. We carry this liability since the SDRs may be withdrawn as needed by the IMF unless the following occurs: a withdrawal by the U.S. from the IMF membership, cancellation of the SDRs, or liquidation of the IMF or SDR Department of the IMF.

SDR holdings increase primarily as a result of IMF SDR allocations. We record SDR transactions as incurred, and include acquisitions and sales of SDRs, interest received on SDR holdings, interest charges on SDRs allocations, and valuation adjustments. The U.S. government also receives remuneration in SDRs from the IMF based on claims on the IMF as represented by the U.S. Reserve Position in the IMF and loans receivable from the supplemental borrowing arrangement. We credit remuneration to the ESF, which transfers to the TGA account an equivalent amount of dollars plus nominal interest. The allocations and holdings are revalued monthly based on the SDR valuation rate as calculated by the IMF, resulting in the recognition of unrealized gains or losses on revaluation that are reported on the Consolidated Statements of Net Cost.

Certificates Issued to the Federal Reserve

The *Special Drawing Rights Act of 1968* authorizes the Secretary to issue certificates, not to exceed the value of SDR holdings, to the FRB in return for dollar amounts equal to the face value of certificates issued. We issue certificates to finance the acquisition of SDRs from other countries or to provide U.S. dollar resources to finance other ESF operations. Certificates issued are redeemed by us at such times and in such amounts as the Secretary may determine, and do not bear interest. We report certificates issued to the FRB at their face value which approximates their carrying value since, under the terms of the agreement, there is no set repayment date and no interest accrued while certificates remain outstanding.

N. Refunds Payable

Refunds payable arise in the normal course of tax administration when it is determined that taxpayers have paid more than the actual taxes they owe. We record amounts concluded to be valid refunds owed to taxpayers as a liability entitled "*Refunds Payable*" on the Consolidated Balance Sheets, with a corresponding receivable from the General Fund included in the line entitled "*Due From the General Fund*."

O. Federal Employee Benefits Payable – FECA Actuarial Liability

The *Federal Employees' Compensation Act* (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. The FECA program is administered by the DOL which pays valid claims and subsequently seeks reimbursements from us for these paid claims. Generally, we reimburse the DOL within two to three years once funds are appropriated. The FECA liability consists of two components. The first component is based on actual claims paid by the DOL but not yet reimbursed by us. The second component is the estimated liability for future workers compensation as a result of past events. We report both components in "*Other Liabilities*" on the Consolidated Balance Sheets. These future workers' compensation estimates are generated by applying actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

P. Annual, Sick, and Other Leave

We report annual and compensatory leave earned by our employees, but not yet used, as an accrued liability. We adjust the accrued balance annually to reflect current pay rates. Any portion of the accrued leave for which funding is not available is recorded as an unfunded liability as reported in "*Other Liabilities*" on the Consolidated Balance Sheets. We expense sick and other leave as taken and do not record a liability for such amounts, because employees do not vest in sick and other leave benefits.

Q. Pension Costs, Other Retirement Benefits, and Other Post-Employment Benefits

Federal Pension Costs, Other Retirement Benefits, and Other Post-Employment Benefits

We recognize the full cost of our employees' pension benefits, including recognizing imputed cost for the difference between the estimated service cost and the sum of participants' pension benefit withholdings and agency contributions. However, the Office of Personnel Management (OPM) rather than the Department recognizes the assets and liabilities associated with these benefits.

Most of our employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS), and employees hired between January 1, 1984 and December 31, 1986 are covered under the CSRS Offset System, to which we contribute 7.0 percent and 7.5 percent of pay for regular and law enforcement employees, respectively. On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to the *Federal Employees' Retirement System Act of 1986,* Public Law (P.L.) 99-335. FERS is a three-tiered retirement system consisting of a Basic Benefit Plan, Thrift Savings Plan (TSP), and Social Security Benefits. For the FERS Basic Benefit Plan, we contribute between 11.9 percent and 13.7 percent for regular employees, and between 28.4 percent and 30.1 percent for law enforcement officers. The TSP under FERS is a 401(k)-type savings plan in which we automatically contribute one percent of base pay and match any employee contributions up to an additional four percent of base pay. For most employees hired after December 31, 1983, we also contribute the employer's matching share for Social Security.

Similar to federal retirement plans, OPM, rather than the Department, reports the assets and liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. We report the full cost of providing other retirement benefits (ORB). We also recognize an expense and a liability for other post-employment benefits (OPEB), which includes all types of benefits, provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Additionally, one of our bureaus, OCC, separately sponsors a postretirement life insurance benefit plan for current and future retired employees, and is the administrator for a private defined benefit retirement plan, the Pentegra Defined Benefit Plan, that provides retirement, disability, and death benefits for certain retired employees who meet eligibility requirements. In addition to the TSP, the OCC, together with OFR, sponsor a 401(k) plan.

District of Columbia Federal Pension and Judicial Retirement Plans

Pursuant to Title XI of the *Balanced Budget Act of 1997*, as amended, we became responsible for benefit payments to certain District of Columbia (D.C.) police officers, firefighters, teachers and judges under D.C. retirement plans (refer to Note 17). The actuarial cost method used to determine costs and actuarial liability for the judges' retirement plan is the Individual Entry Age Normal Funding Method, which approximates the methodology specified by the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial cost method used for the police officers, firefighters, and teachers retirement plan is the Project Unit Credit Method, which recognizes that all service has been fully accrued by participants and does not generate a normal cost. These methodologies base actuarial liabilities on long-term economic assumptions. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

The economic assumptions used for the valuation of the D.C. Federal Pension and Judicial retirement plans differ from those used by the OPM for the following reasons: *(i)* the annual rate of salary increase assumptions are based on different plan member experience; *(ii)* the annual rate of inflation and cost-of-living adjustment assumptions are based on different statutory requirements (applicable Consumer Price Index [CPI] and period of calculation); and *(iii)* for the annual rate of investment return assumption, OPM and the D.C. Federal Pension and Judicial retirement plans use the same underlying yield curve but, unlike the D.C. Federal Pension plan, OPM converts to a single equivalent rate.

R. Revenue and Financing Sources

Our activities are financed either through exchange revenue we receive from others or through non-exchange revenue and financing sources (such as appropriations provided by the Congress and penalties, fines, and certain user fees collected). User fees primarily include collections from the public for the IRS costs to process installment agreements, letter ruling and determinations, and income verification. We recognize exchange revenue when earned, i.e., goods are delivered or services are rendered. We recognize revenue from reimbursable agreements when providing services. We record non-exchange revenues when received or when accrued due to a legal claim. We recognize appropriations used as financing sources when related expenses are incurred or assets are purchased.

We also incur certain costs paid in total or in part by other federal entities, such as pension costs, the FEHBP, and any un-reimbursed payments made from the Treasury Judgment Fund on our behalf. We recognize these subsidized costs on the Consolidated Statements of Net Cost, and we recognize the imputed financing for these costs on the Consolidated Statements of Changes in Net Position. As a result, there is no effect on net position. We also recognize other non-exchange financing sources, such as donations and transfers of assets without reimbursements, for the period in which they occurred on the Consolidated Statements of Changes in Net Position.

We recognize revenue we receive from disposition of forfeited property as non-exchange revenue on the Consolidated Statements of Changes in Net Position. We report costs related to the Forfeiture Fund program on the Consolidated Statements of Net Cost. The TFF is the special fund account for depositing non-tax forfeiture proceeds received pursuant to laws enforced or administered by law enforcement bureaus that participate in the TFF. We report forfeited property balances in "*Other Assets*" on the Consolidated Balance Sheets.

S. Custodial Revenues

Non-entity revenue reported on our Statements of Custodial Activity includes cash we collected, primarily from taxes. It does not include revenue collected by other federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the U.S. government or are dedicated for certain trust funds. We present the Statements of Custodial Activity on the "modified accrual basis." We recognize revenues as cash is collected, and record a "non-cash accrual adjustment" representing the net increase or decrease during the reporting period in net revenue-related assets and liabilities, mainly taxes receivable.

T. Appropriations and Other Budgetary Activity

Combined Statement of Budgetary Resources Activity

We record appropriations when authorized by legislation. Incurred obligations of appropriations are recorded when we place an order or sign a contract for goods and services, award a grant, or take other actions that require us to make payments to the public or another federal entity. Outlays are recorded when disbursements are made.

Permanent and Indefinite Appropriations

We use permanent and indefinite appropriations to disburse tax refunds, income tax credits, and child tax credits. We recognize refund payment funding as appropriations are used. Permanent indefinite authority for refund activity is available for an unlimited period of time in the amount necessary to cover the refund and/or credit. We report tax refunds and credits as a custodial activity of the Department, since they are, in substance, a custodial revenue-related activity resulting from taxpayer overpayments of their tax liabilities.

We have two permanent and indefinite appropriations related to debt activity. One permanent and indefinite appropriation is used to pay interest on the public debt securities, and the other is used to redeem securities that are matured, called, or eligible for early redemption. These accounts are not annual appropriations and do not have refunds. We report debt redemption appropriations related to our liability on our Consolidated Balance Sheets. We record interest appropriations at the beginning of the fiscal year and again at mid-year, if necessary, and we return any unused authority to the General Fund at the end of the fiscal year. Permanent indefinite authority for debt redemptions and related interest is available for an unlimited period of time.

We also have permanent and indefinite appropriations to fund increases in the projected subsidy costs of credit programs as determined by the re-estimation process required by the FCRA, and to also cover our *American Recovery and Reinvestment Tax Act of 2009, Section 1603 program*.

Additionally, we have other permanent and indefinite appropriations to make certain payments on behalf of the U.S. government. We receive these appropriations to make payments to the FRB for fiscal services provided, and to the financial institutions for services provided as financial agents of the U.S. government. They also include appropriations provided to make other disbursements on behalf of the U.S. government, including payments made to various parties as a result of certain claims and judgments rendered against the U.S.

U. Income Taxes

As an agency of the U.S. government, we are exempt from all income taxes imposed by any governing body, whether it is a federal, state, commonwealth, local, or foreign government.

V. Use of Estimates

We have made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare our financial statements. Actual results may differ from these estimates. Adverse changes in the outlook for the key assumptions underlying management's estimates may materially affect the results of our operations, cash flows and/or our financial position in future periods. Transactions subject to estimates principally include loan and credit program receivables, credit reform subsidy costs, investments in GSEs and other non-federal securities and related impairment, tax receivables, loan guarantees, depreciation, actuarial liabilities, cost and earned revenue allocations, as well as contingencies and any related recognized liabilities. The following is a discussion of certain significant transactions subject to estimation.

We account for all of our credit program receivables in accordance with credit reform accounting (refer to the accounting policy above entitled "*Credit Program Receivables, Net*" and Note 9). These receivables are derived using credit reform modeling, which is subject to the use of estimates and forecasts that have inherent uncertainty. We recognize the sensitivity of credit reform modeling to slight changes in certain model assumptions such as general economic conditions, specific stock price volatility of the entities in which we have an equity interest, estimates of expected default, and prepayment rates.

We use regular review of model factors, statistical modeling, and annual re-estimates to reflect the most accurate cost of the credit programs to the U.S. government. The purpose of re-estimates is to update original program subsidy cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. We update forecasts of future cash flows based on actual program performance to date, additional information about the portfolio, additional publicly available relevant historical market data on securities performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods.

We perform annual calculations, as of September 30, to assess our need for recording an estimated liability in accordance with SFFAS No. 5 related to our funding commitment to the GSEs under the SPSPAs. Liability recognition is predicated on the probable future occurrence of an excess of liabilities and minimum capital reserve amounts, as defined, over the assets of either GSE at the end of any reporting quarter. The occurrence of future GSE deficits, which ultimately determines our liability to the GSEs, is most sensitive to future changes in the housing price index and, to a lesser extent, future changes in guarantee fees received by the GSEs on single-family mortgages and interest rates.

The annual valuation as of September 30 of the preferred stock and warrants comprising the "*Investments in Government Sponsored Enterprises*" line item on the Consolidated Balance Sheets incorporates various forecasts, projections and cash flow analyses to develop an estimate of the assets' fair value. The value of the senior preferred stock is estimated by first estimating the fair value of the total equity of each GSE (which, in addition to the senior preferred stock, is comprised of other equity instruments including common stock, common stock warrants, and junior preferred stock). The fair value of the total equity is based on a discounted cash flow valuation methodology, whereby the primary input is the present value of the projected quarterly cash flows to equity holders. The fair value of the GSEs' other equity instruments is then deducted from its total equity, with the remainder representing the fair value of the senior preferred stock. The primary input into the warrants valuation is the market value of the shares of common stock of the GSEs which, along with the junior preferred stock, are traded on the over-the-counter (OTC) Bulletin Board. We evaluate the need for adjusting our OTC market-based valuation of the warrants for the effects, if any, of significant events occurring after the close of the market but before the end of the measurement date. We record any changes in valuation, including impairment, and disclose changes in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as amended. Since the valuation is an annual process, we deem changes in valuation of the preferred stock and warrants as usual and recurring. Note 10 includes a detailed discussion of the results of the asset valuation and estimated liability assessment.

Estimation of such complex and long-duration receivables, investments, and contingencies is subject to uncertainty. It is possible that new developments will adversely impact the value of receivables, investments, and contingencies, as well as ultimate amounts we are required to fund. Except as expressly noted herein, we have not revalued or included in our estimates as of September 30, 2019 the effects of any new developments that may have occurred subsequent to September 30, 2019. Refer to the accounting policy entitled "*Pension Costs, Other Retirement Benefits, and Other Post-Employment Benefits"* above and Note 8 for additional discussion related to the estimation of actuarial liabilities and tax receivables, respectively.

W. Other-Than-Temporary Impairments

A decline in the market value (either due to credit, price or currency) of any investment below cost that is deemed to be other-than-temporary is accounted for as an impairment, and the carrying value is reduced to fair value for financial reporting purposes. To determine whether an impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until a market price recovery, and consider whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary.

X. Credit, Market and Foreign Currency Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or counterparty to perform in accordance with underlying contractual obligations. We take on possible credit risk when we make direct loans or guarantees to non-federal entities, provide credits to foreign entities, or become exposed to institutions which engage in financial transactions with foreign countries (refer to Note 12). Our following programs entail credit risk: monetary assets held; committed but undisbursed direct loans; funding commitment to the GSEs; GSE obligations obtained under the HFA initiative (the New Issue Bond Program); investments, loans, and other credit programs including the CDFI Fund programs, SBLF, and TARP.

Our activities generally focus on the underlying problems in the credit markets. We developed these programs to provide credit where borrowers are not able to get access to credit with reasonable terms and conditions. Because these programs attempt to correct for a market imperfection, it can expose us to potential costs and losses. Additional risk of costs and losses could result from terrorist attacks under the Terrorism Risk Insurance Program. The extent of the risk we assumed is described in more detail in the notes to the financial statements and, where applicable, is factored into credit reform models and reflected in fair value measurements (refer to Notes 9, 10, and 26).

For *Emergency Economic Stabilization Act* programs, the statute requires calculation of budgetary costs of the troubled assets and guarantees of troubled assets by adjusting the discount rate for market risks. We adjust our cost estimates for the TARP programs based on a MADR to reflect the additional return required by the market to compensate for variability around the expected losses reflected in the cash flows. Consistent with SFFAS No. 2, market risk relative to asset type is factored in the cash flow estimates. The inclusion of the MADR is the mechanism for deriving a fair value of the assets.

We face certain risks and uncertainties as a result of holding securities denominated in foreign currency. The price of holdings of such securities may widely fluctuate as a result of volatility in foreign currency markets and changes in real and perceived credit risk of our counterparties.

Y. Funds from Dedicated Collections

We account for revenues and other financing sources for funds from dedicated collections (FDC) separately from other funds. Such funds are financed by specifically identified revenues provided to the U.S. government by non-federal sources, often supplemented by federal and other financing sources, which remain available over time. Statute requires use of these specifically identified revenues and other financing sources for designated activities, benefits, or purposes. We apply the following criteria for purposes of designating funds as dedicated collections: *(i)* a statute committing the U.S. government to use specifically identified revenues and/or other financing sources that are originally provided to the U.S. government by a non-federal source only for designated activities, benefits, or purposes; (*ii*) explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; (*iii*) a requirement to account for and report on the receipt, use, and retention of the revenues and/or other

financing sources that distinguishes the fund from the U.S. government's general revenues; and (*iv*) for funds comprised of both federal and non-federal sources, such funding is predominantly non-federal, or the non-federal funding is material to our financial statements.

Z. Allocation Transfers

We are a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent. Parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. However, OMB guidance requires the child to report the activity when we receive allocation transfers, as the child, from the Executive Office of the President (See Circular No. A-136, II.3.1, *Parent-Child Reporting* for two exceptions).

We allocate funds, as the parent, to the Agency for International Development and HHS. Also, we receive allocation transfers, as the child, from HHS, Department of Transportation, Department of Justice, and the Executive Office of the President.

AA. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the U.S. government of cash or other assets in which non-federal individuals or entities have an ownership interest that the U.S. government must uphold. Fiduciary cash and other assets are not assets of the U.S. government. We do not report these activities in our consolidated financial statements, but instead report them in Note 25.

AB. Disclosure Entities and Related Parties

SFFAS No. 47, *Reporting Entity*, requires that our consolidated financial statements reflect the balances and activities of consolidation entities, or those Treasury bureaus and other reporting entities meeting the following "principles for inclusion" as a whole: (1) the entity is included in the Budget of the United States (also known as the President's Budget); (2) the U.S. government holds "majority ownership interest"; (3) the U.S. government has "control with risk of loss or expectation of benefit"; or (4) it would be misleading to exclude such entity. SFFAS No. 47 also provides guidance for assessing whether an organization meeting the inclusion principles is reported as a disclosure entity or related party.

A disclosure entity exists when we determine that an entity meets any of the following SFFAS No. 47 "inclusion principles" with respect to the U.S. government but does not meet the characteristics of a "consolidation entity." Based on SFFAS No. 47 criteria, the Federal Reserve System is considered to be a disclosure entity. Additionally, entities owned and/or controlled by the U.S. government as a result of regulatory actions—such as organizations in receivership or conservatorship—or other U.S. government intervention actions are generally classified as disclosure entities if the relationship with such entities is not expected to be permanent.

A related party exists when one party to an established relationship has the ability to exercise significant influence over another party in making policy decisions. Related parties generally do not meet the SFFAS No.47 inclusion principles;

however, we report on a relationship that is of such significance that it would be misleading to exclude information about that entity. Disclosure entities and related parties are not considered components of the consolidated Treasury reporting entity and, thus, are only disclosed in the notes to our consolidated financial statements. Using the principles prescribed in SFFAS No. 47, we identified the following disclosure entities and related parties as of September 30, 2019.

Disclosure Entities

Federal Reserve System

Congress, under the *Federal Reserve Act of 1913* (Federal Reserve Act), created the FR System. The FR System includes the Federal Reserve Board of Governors (Board of Governors), Federal Reserve Banks (FRB), and the Federal Open Market Committee (FOMC). Collectively, the FR System serves as the nation's central bank and is responsible for formulating and conducting monetary policy, issuing and distributing currency (Federal Reserve Notes), supervising and regulating financial institutions, providing nationwide payments systems (including large-dollar transfers of funds, automated clearinghouse operations, and check collection), providing certain financial services to federal agencies and fiscal principals, and serving as the U.S. government's bank. Monetary policy includes actions undertaken by the FR System that influence the availability and cost of money and credit as a means of helping to promote national economic goals. The FR System also conducts operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC to carry out its central bank responsibilities.

While we consult with the FR System on matters affecting the economy and certain financial stabilization activities it is considered an independent central bank, and the executive branch of the U.S. government does not ratify its decisions. In accordance with SFFAS No. 47 criteria, the FR Systems' assets, liabilities, and operations are not consolidated into our consolidated financial statements; however, we account for and disclose our financial activities with the FR System within our consolidated financial statements.

Federal Reserve System Structure

Board of Governors of the Federal Reserve System

The Board of Governors is an independent regulatory organization governed by seven members appointed by the President and confirmed by the Senate. The full term of a Board of Governors member is 14 years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year. The Board of Governors has a number of supervisory and regulatory responsibilities for institutions including, among others, state-chartered banks that are members of the FR System, bank holding companies, and savings and loan holding companies. In addition, the Board of Governors has general supervisory responsibilities for the 12 FRBs, and issues currency (Federal Reserve Notes) to the FRBs for distribution. No government appropriation is required to support the operation of the Board of Governors. The Board of Governor's budget transactions are not included in the President's Budget, nor are they subject to the President's review because of its unique role in conducting monetary policy.

Federal Reserve Banks

The 12 FRBs are chartered under the Federal Reserve Act, which requires each member bank to own the capital stock of its FRB. Each FRB has a board of directors that exercises supervision and control of each FRB, with three members appointed by the Board of Governors, and six board members elected by their member banks. The FRBs participate in formulating and conducting monetary policy, distributing currency and coin, and serving as the government's fiscal agent, as well as the fiscal agent for other fiscal principals (i.e. banks, credit unions, saving and loan institutions). Additionally, the FRBs provide

short-term loans to depository institutions and loans to participants in programs or facilities with broad-based eligibility in unusual and crucial circumstances when approved by the Board of Governors and the Secretary of the Treasury.

We utilize the services of the FRBs to execute a variety of transactions on behalf of the Fiscal Service and the ESF. The following are examples of our interaction with the FRBs:

- The FRBs serve as our fiscal agent and depositary, executing banking and other financial transactions on our behalf (refer to Note 5). We reimburse the FRBs for these services, the cost of which is included on the Consolidated Statements of Net Costs.
- The FRBs hold Treasury and other federal securities in the FRBs' System Open Market Account (SOMA) for the purpose of conducting monetary policy.
- The FRBs hold gold certificates issued by the Department in which the certificates are collateralized by gold (refer to Note 6).
- The FRBs hold SDR certificates issued by the Department which are collateralized by SDRs (refer to Notes 5 and 7).
- The FRBs are required by Board of Governors policy to transfer their excess earnings to us on behalf of the U.S. government (refer to Notes 8 and 22).

Federal Open Market Committee

The FOMC is comprised of the seven Board of Governors members and five of the 12 FRB presidents. FOMC formulates and conducts monetary policy primarily through open market operations (the purchase and sale of certain securities in the open market), the principal tool of national monetary policy. These operations affect the amount of reserve balances available to depository institutions, thereby influencing overall monetary and credit conditions.

Federal Reserve System Assets and Liabilities

The FRBs hold Treasury and other securities in the SOMA for the purpose of conducting monetary policy. These assets are generally subject to the same market conditions as other financial instruments. In the open market, the FR System purchases and sells Treasury securities as a mechanism for controlling the money supply.

The FRBs have deposit liabilities with Treasury and depository institutions. The FRBs issue Federal Reserve Notes, the circulating currency of the U.S., which are collateralized by the Treasury securities and other assets held by the FRBs.

Financial and other information concerning the FR System may be obtained from the FR System website.

FRB Residual Earnings Transferred to the Department

FRBs generate income from interest earned on securities, reimbursable services provided to federal agencies, and the provision of priced services to depository institutions as specified by the *Monetary Control Act of 1980*. Although the FRBs generate earnings from carrying out open market operations, via the earnings on securities held in the SOMA account, their execution of these operations is for the purpose of accomplishing monetary policy rather than generating earnings. Each FRB is required by Board of Governors policy to transfer to us its residual (or excess) earnings after providing for the cost of operations, payment of dividends, and surplus funds not to exceed an FRB's allocated portion of an aggregate of $7.5 billion for all FRBs, in accordance with the provisions of *Bipartisan Budget Act of 2018* (P.L. 115-123).

FRBs' residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. Under P.L. 115-123, if an FRB's earnings for the year are not sufficient to provide for the cost of

operations, payment of dividends, or allocated portion of the $7.5 billion aggregate surplus funds limitation, an FRB will suspend its payments to us until such earnings become sufficient. The FRB residual earnings of $52.8 billion and $70.8 billion for fiscal years ended September 30, 2019 and 2018, respectively, are reported as custodial revenues on our Statements of Custodial Activity. They constituted 1.4 percent and 2.0 percent of our total custodial revenues collected in FY 2019 and 2018, respectively. "*Taxes, Interest and Other Receivables, Net*" includes a receivable for FRB's residual earnings which represents the earnings due to us as of September 30, but not collected by us until after the end of the month (refer to Note 8).

Government Sponsored Enterprises – Fannie Mae and Freddie Mac

During the FY 2008 financial crisis, the U.S. government placed Fannie Mae and Freddie Mac under conservatorship to help ensure their financial stability. These entities meet the SFFAS No. 47 criteria for disclosure entities as organizations owned or controlled by the U.S. government as the result of regulatory actions ("such as conservatorship"). Additionally, the U.S. government's intervention actions with regards to these GSEs are not expected to be permanent. Accordingly, these entities are not consolidated as part of our consolidated financial statements; however, the value of our investments in these entities is presented as equity investments on our Consolidated Balance Sheets (refer to Note 10).

Related Parties

In accordance with SFFAS No. 47 determination principles, we currently maintain related party relationships with the IMF and the MDBs. The IMF is an international organization of 189 member countries that works to foster global monetary cooperation, secure financial stability, sustain economic growth, and reduce poverty around the world. The U.S. government holds the largest quota subscription of any member. The U.S. quota subscription serves as the key determinant for our 16.5 percent share of voting rights in various IMF decisions for which the U.S. government has a substantial voice. The Secretary serves as the U.S. Governor to the IMF, and the U.S. Governor nominates and elects the U.S. Executive Director of the IMF, who is one of 24 directors responsible for exercising voting rights over the strategic direction of the institution.

The U.S. commitment to the IMF is in the form of cash and interest-bearing instruments. Historically, the U.S. has not experienced a loss to its commitment in the IMF (refer to accounting policies above entitled "*Loans and Interest Receivable*," "*Commitments and Contingencies*," "*Special Drawing Rights*," and Notes 5, 7 and 26 for a further description of our relationship, financial risk, and activities with the IMF).

Additionally, on behalf of the U.S., we invest in and provide funding to the MDBs to support poverty reduction and promote sustainable economic growth in developing countries. The MDBs provide financial and technical support by means of strengthening institutions, providing assistance that addresses the root causes of instability in fragile and conflict-affected states, responding to global crises, and fostering economic growth and entrepreneurship. U.S. participation in the MDBs is in the form of financial contributions used to ensure the effectiveness and impact of the MDBs' global development agenda. The U.S. has voting power in each of the MDBs to which we contribute, ranging from approximately 6 percent to 50 percent (refer to accounting policies above entitled "*Investments*," "*Commitments and Contingencies*," and Notes 11 and 26 for a further description of our relationship, financial risk, and activities with the MDBs).

2. Fund Balance

Status of Fund Balance

As of September 30, 2019 and 2018, the status of the fund balance consisted of the following:

(in millions)		2019		2018
Unobligated Balance - Available	$	**274,609**	$	273,020
Unobligated Balance - Not Available		**40,740**		40,641
Obligated Balance Not Yet Disbursed		**62,132**		64,694
Subtotal		**377,481**		378,355
Adjustment for ESF		**(93,195)**		(94,050)
Adjustment for Intra-Treasury Investments		**(8,697)**		(8,618)
Adjustment for Borrowing Authority		**(6,248)**		(6,523)
Adjustment for IMF		**127,304**		138,131
Adjustment for Authority Unavailable for Obligations		**16,442**		16,119
Other Adjustments		**2,240**		1,454
Total Status of Fund Balance	$	**415,327**	$	424,868

Portions of the Unobligated Balance Not Available, as shown on the Combined Statement of Budgetary Resources, include amounts appropriated in prior fiscal years that are not available to fund new obligations. However, we may use such amounts for upward and downward adjustments for existing obligations in future years. The Obligated Balance Not Yet Disbursed represent amounts designated for payment of goods and services ordered but not received, or goods and services received but for which payment has not yet been made.

Since the following line items are either a component of Fund Balance or post to budgetary status accounts, the following adjustments are required to reconcile the budgetary status to the non-budgetary Fund Balance as reported on the Consolidated Balance Sheets:

- Adjustments for ESF – ESF investments in Treasury securities (which are eliminated on the Consolidated Balance Sheets), foreign investments, SDR holdings, and related balances that meet the criteria for reporting as part of budgetary resources are reported on the Combined Statements of Budgetary Resources; however, they are not a component of the Fund Balance as they represent invested funds;
- Adjustments for Intra-Treasury Investments – Budgetary resources include Treasury security investments; however, we have moved the money from the Fund Balance to Investments, which we eliminate on the Consolidated Balance Sheets;
- Adjustments for Borrowing Authority – Borrowing authority is in budgetary status reported on the Combined Statements of Budgetary Resources but not in the Fund Balance because we have not received the amounts;
- Adjustments for IMF – The funding received through appropriation warrants for IMF is reported as a component of Fund Balance; however, the IMF transactions are not reported as budgetary resources and uses on the Combined Statements of Budgetary Resources (refer to Note 7); and
- Adjustment for Authority Unavailable for Obligations – Resources unavailable for obligations reduced the budgetary resources reported on the Combined Statements of Budgetary Resources; however, they do not impact the Fund Balance.

As of September 30, 2019 and 2018, we had no budgetary authority in the Fund Balance that was specifically withheld from apportionment by the OMB. We hold balances in non-entity funds, such as certain deposit funds (e.g., seized cash), for the public or for another federal entity, such as the General Fund. Such funds have an offsetting liability equal to the Fund Balance. Refer to Note 7 regarding restrictions related to the letter of credit held for a portion of the U.S. quota in the IMF.

3. Loans and Interest Receivable – Intra-Governmental

Entity Intra-governmental

Through FFB, we issue loans to federal agencies for the agencies' own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. FFB is a wholly-owned Government corporation that operates under the general supervision of the Secretary, and has its own broad statutory authority to finance any obligations that are issued, sold, or guaranteed by federal agencies. For agencies that have the statutory authority to borrow in the market, but not from Treasury through the Fiscal Service (refer to the Non-Entity Intra-Governmental section below), FFB uses its statutory authority to make these loans directly to federal agencies.

FFB also uses its statutory authority to finance direct or indirect federally-guaranteed obligations which, as a matter of long-standing federal credit policy, is the least expensive and most efficient method of financing these credit-risk obligations when compared to private sector lender financing. When a federal agency has to honor its guarantee because a private-sector borrower defaults, the federal agency that guaranteed the loan must obtain an appropriation or use other resources to repay FFB.

All principal and interest on FFB loans to federal agencies and private-sector borrowers are, or have a commitment to be, backed by the full faith and credit of the U.S. government. Accordingly, we have not recognized any credit-related losses on its loans, nor have we recorded an allowance for uncollectible intra-governmental loans.

As of September 30, 2019 and 2018, entity intra-governmental loans (issued by FFB) and interest receivable consisted of the following:

(in millions)	Loans Receivable	Interest Receivable	2019 Total	Loans Receivable	Interest Receivable	2018 Total
Department of Agriculture	**$ 46,289**	**$ 525**	**$ 46,814**	$ 46,288	$ 359	$ 46,647
Department of Energy	**14,817**	**76**	**14,893**	13,593	68	13,661
United States Postal Service[(1)]	**11,000**	**43**	**11,043**	13,200	41	13,241
Department of Housing & Urban Development	**1,969**	**7**	**1,976**	1,665	6	1,671
Department of Education	**1,482**	**13**	**1,495**	1,452	13	1,465
Other Agencies	**4**	**-**	**4**	4	-	4
Total Entity Intra-governmental	**$ 75,561**	**$ 664**	**$ 76,225**	$ 76,202	$ 487	$ 76,689

(1) The United States Postal Service (USPS) experienced an operating deficit in both FY 2019 and FY 2018. We, along with Congress and other stakeholders, are aware of the current and long-term financial issues of the USPS. Congress is considering legislative solutions for returning the USPS to financial stability.

NON-ENTITY INTRA-GOVERNMENTAL

Through the Fiscal Service, we account for and report on the principal borrowings from and repayments to the General Fund for various funds managed by other federal agencies, as well as the related interest due to the General Fund. These federal agencies are statutorily authorized to borrow from the General Fund, through the Fiscal Service, to make loans for a broad range of purposes, such as education, housing, farming, and small business support. The information below reflect amounts borrowed under the federal agency's statutory authorization, and does not include unused available borrowing authority.

As of September 30, 2019 and 2018, non-entity intra-governmental loans (issued by the Fiscal Service) and interest receivable that were due to the General Fund consisted of the following:

(in millions)	Loans Receivable	Interest Receivable	2019 Total	Loans Receivable	Interest Receivable	2018 Total
Department of Education	**$ 1,287,511**	**$ -**	**$ 1,287,511**	$ 1,258,499	$ -	$ 1,258,499
Department of Agriculture	**90,753**	**-**	**90,753**	70,164	1	70,165
Department of Housing and Urban Development	**30,409**	**-**	**30,409**	24,843	-	24,843
Department of Transportation	**20,756**	**-**	**20,756**	16,710	-	16,710
Department of Homeland Security	**20,596**	**-**	**20,596**	20,541	-	20,541
Export Import Bank of the U.S.	**16,946**	**-**	**16,946**	20,213	-	20,213
Small Business Administration	**11,810**	**-**	**11,810**	11,213	-	11,213
Department of Energy	**6,104**	**32**	**6,136**	6,142	32	6,174
Department of Labor	**5,958**	**-**	**5,958**	5,991	-	5,991
Railroad Retirement Board	**3,934**	**48**	**3,982**	3,725	45	3,770
Overseas Private Investment Corporation	**3,829**	**-**	**3,829**	3,475	-	3,475
Executive Office of the President/ Security Assistance Accounts	**3,114**	**-**	**3,114**	3,112	-	3,112
Department of Defense	**1,714**	**-**	**1,714**	1,686	-	1,686
Other Agencies	**1,280**	**-**	**1,280**	1,615	-	1,615
Total Non-Entity Intra-governmental	**$ 1,504,714**	**$ 80**	**$ 1,504,794**	$ 1,447,929	$ 78	$ 1,448,007
Total Intra-governmental Loans and Interest Receivable (Entity and Non-Entity)	**$ 1,580,275**	**$ 744**	**$ 1,581,019**	$ 1,524,131	$ 565	$ 1,524,696

4. DUE FROM THE GENERAL FUND AND DUE TO THE GENERAL FUND

The General Fund consists of assets and liabilities used to finance the daily and long-term operations of the U.S government, as a whole. It also includes accounts used in the management of the Budget of the U.S. Government.

We hold and manage General Fund assets, such as loans and interest receivable, cash, and investments in the GSEs on behalf of the U.S. government. General Fund assets constitute resources available to meet the operating needs of the U.S. government. We report these managed assets separately on the Consolidated Balance Sheets, with a corresponding amount reported as Due To the General Fund that represents a liability to reflect assets we owed to the General Fund.

General Fund liabilities, primarily federal debt and interest payable and liability for restoration of federal debt principal and interest, are obligations of the U.S. government. We report these Department-managed liabilities separately on the Consolidated Balance Sheets, with a corresponding amount reported as Due From the General Fund that represents a receivable, or future funds required of the General Fund to repay borrowings from the public and other federal agencies.

As of September 30, 2019 and 2018, the General Fund liabilities we owed exceeded the assets held on behalf of the General Fund by $20.6 trillion and $19.6 trillion, respectively. This represents the amount needed by the U.S. government, through a combination of future tax collections and/or continued borrowing from the public and federal agencies to meet its obligations.

As of September 30, 2019 and 2018, Due From the General Fund included the following non-entity liabilities:

Liabilities Requiring Funding from the General Fund (in millions)	2019	2018
Federal Debt and Interest Payable - Held by the Public (Note 15)	**$ 16,839,627**	$ 15,789,917
Federal Debt and Interest Payable - Intra-governmental (Note 15)	**5,981,029**	5,821,642
Refunds Payable (Note 22)	**2,939**	2,994
Adjustment for Eliminated Liabilities	**31,736**	32,080
Total Due From the General Fund	**$ 22,855,331**	$ 21,646,633

The Adjustment for Eliminated Liabilities principally represents investments in U.S. government securities held by our reporting entities that were eliminated against Federal Debt and Interest Payable Intra-governmental.

As of September 30, 2019 and 2018, Due To the General Fund included the following non-entity assets:

Assets to be Distributed to the General Fund (in millions)	2019	2018
Fund Balance	**$ 1,875**	$ 1,097
Loans and Interest Receivable - Intra-governmental (Note 3)	**1,504,794**	1,448,007
Advances to Federal Supplementary Medical Insurance Trust Fund	**3,152**	5,027
Cash Due To the General Fund (Held by the Department) (Note 5)	**376,136**	378,617
Taxes and Other Non-Entity Receivables Due To the General Fund	**145,717**	59,475
Investments in Government Sponsored Enterprises (Note 10)	**112,070**	113,150
Adjustment for Eliminated Assets	**68,646**	66,638
Other	**1,226**	906
Total Due To the General Fund	**$ 2,213,616**	$ 2,072,917

The assets to be distributed to the General Fund do not represent all of the non-entity assets we manage. Refer to Note 14 for all of our non-entity assets held.

The Fund Balance reported above represents the non-entity funds we hold on behalf of the General Fund. It is used to administer programs such as the Presidential Election Campaign and payments for Legal Services Corporation and thus not available for our general use.

Advances to the Federal Supplementary Medical Insurance Trust Fund represents transfers from the General Fund to HHS's Federal Supplementary Medical Insurance Trust Fund to temporarily replace the reduction in Medicare Part B participants' premiums as authorized by the *Bipartisan Budget Act of 2015* (P.L. 114-74). We transfer HHS's repayment of these advances to the General Fund.

Taxes and Other Non-Entity Receivables Due To the General Fund primarily represents IRS-related federal taxes receivable (refer to Note 8).

The Adjustment for Eliminated Assets principally represents loans and interest payable owed by our Treasury reporting entities, which were eliminated against Loans and Interest Receivable Intra-governmental held by the Fiscal Service.

5. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

Cash, Foreign Currency, and Other Monetary Assets held as of September 30, 2019 and 2018 were as follows:

(in millions)	2019	2018
Entity:		
Cash	$ **74**	$ 52
Foreign Currency and Foreign Currency Denominated Assets	**14,032**	13,834
Other Monetary Assets:		
Special Drawing Right Holdings	**50,054**	51,000
U.S. Dollars Held in Cash by the IMF	**304**	305
Total Entity	**64,464**	65,191
Non-Entity:		
Operating Cash of the U.S. government	**376,070**	378,468
Foreign Currency	**100**	100
Miscellaneous Cash Held by All Treasury Reporting Entities	**731**	812
Total Non-Entity	**376,901**	379,380
Total Cash, Foreign Currency, and Other Monetary Assets	$ **441,365**	$ 444,571

We hold non-entity operating and other miscellaneous cash due to the General Fund which consisted of the following as of September 30, 2019 and 2018:

(in millions)	2019	2018
Operating Cash - FRB Account	$ **382,483**	$ 384,712
Outstanding Checks	**(6,413)**	(6,244)
Total Operating Cash of the U.S. government	**376,070**	378,468
Miscellaneous Cash	**70**	152
Subtotal	**376,140**	378,620
Amounts Due to the Public	**(4)**	(3)
Total Cash Due to the General Fund (Note 4)	$ **376,136**	$ 378,617

ENTITY

Entity cash, foreign currency, and other monetary assets principally include foreign currency, foreign currency denominated assets (FCDAs), and SDRs. These assets are valued as of September 30, 2019 and 2018 using current exchange rates plus accrued interest.

Foreign Currency and Foreign Currency Denominated Assets

Foreign currency and FCDAs represent foreign deposit accounts and securities with original maturities of three months or less which were valued at $14.0 billion and $13.8 billion as of September 30, 2019 and 2018, respectively.

Special Drawing Rights

The SDR is an international reserve asset created by the IMF to supplement existing reserve assets. The IMF has allocated new SDRs on several occasions to members participating in the IMF's SDR department. The SDR derives its value as a reserve asset essentially from the commitments of participants to hold and accept SDRs and to honor various obligations connected with their proper functioning as a reserve asset. Pursuant to the *Special Drawing Rights Act of 1968*, as amended, we issued certificates to the Federal Reserve, valued at $5.2 billion which were reported as a liability on the

Consolidated Balance Sheets as of September 30, 2019 and 2018. The certificates were issued to finance the ESF's acquisition of SDRs from other countries or to provide U.S. dollar resources for financing other ESF operations.

On a daily basis, the IMF calculates the value of the SDR using the currency exchange rate in terms of the U.S. dollar from weighted amounts of each of five freely usable currencies, as defined by the IMF. These currencies are the U.S. dollar, the European euro, the Japanese yen, the British pound sterling, and the Chinese renminbi. We revalue the U.S. SDR holdings and allocations from the IMF monthly based on the SDR valuation rate calculated by the IMF.

Pursuant to the IMF Articles of Agreement, SDR holdings and allocations acquired by the U.S. are permanent resources or liabilities unless:

- cancelled by the Board of Governors pursuant to an 85.0 percent majority decision of the total voting power of IMF members;
- the SDR department of the IMF is liquidated;
- the IMF is liquidated; or
- the U.S. chooses to withdraw from the IMF or terminate its participation in the SDR department.

Except for the payment of interest and charges on SDR allocations to the U.S., the payment of the U.S. commitment related to SDR allocations is conditional on events listed above, in which the U.S. has a substantial or controlling voice. The U.S. has received no SDR allocations since 2009.

As of September 30, 2019 and 2018, the total amount of SDR holdings of the U.S. (including interest receivable) was the equivalent of $50.1 billion and $51.0 billion, respectively. As of September 30, 2019 and 2018, the total value of SDR allocations to the U.S. was the equivalent of $48.1 billion and $49.3 billion, respectively.

NON-ENTITY

We manage the non-entity cash, foreign currency, and other monetary assets which principally included Operating Cash of the U.S. government. Also included is foreign currency maintained by various U.S. disbursing offices, miscellaneous cash such as seized monetary instruments, undistributed cash, and offers in compromises which are maintained as a result of our tax collecting responsibilities. The Operating Cash of the U.S. government represents balances from tax collections, other revenues, federal debt receipts, and other receipts, net of checks outstanding, which are held in the FRBNY.

6. Gold and Silver Reserves, and Gold Certificates Issued to the Federal Reserve Banks

Through the Mint, we are responsible for safeguarding most of the U.S. government's gold and all of the silver reserves in accordance with 31 USC 5117; a smaller portion of the gold is in the custody of the FRBs.

The gold reserves we hold are partially offset by a liability for gold certificates issued by the Secretary to the FRBs at the statutory rate, as provided in 31 USC 5117. Since 1934, Gold Certificates have been issued in non-definitive or book-entry form to the FRBs. Our liability incurred by issuing the Gold Certificates, as reported on the Consolidated Balance Sheets, is limited to the gold we hold at the statutory value. Upon issuance of Gold Certificates to the FRBs, we deposit the proceeds from the certificates into the operating cash of the U.S. government. All of our certificates issued are payable to the FRBs. The Mint also holds 100,000 fine troy ounces (FTO) ($4 million at the statutory carrying value) of gold reserves without certificates.

The gold and silver bullion reserve (deep storage and working stock) are reported on the consolidated financial statements at the values stated in 31 USC 5116 – 5117 (statutory rates) which are $ 42.2222 per FTO of gold and no less than $1.292929292 per FTO of silver. Accordingly, the silver is valued at $1.292929292 per FTO. The market values of the gold and silver reserves disclosed below are based on the London Gold Fixing. As of September 30, 2019 and 2018, the values of gold and silver reserves consisted of the following:

	FTOs	Statutory Rate	2019 Statutory Carrying Value (in millions)	Market Rate Per FTO	2019 Market Value (in millions)
Gold	248,046,116	$ 42.2222	$ 10,473	$ 1,485.30	$ 368,423
Gold Held by Federal Reserve Banks	13,452,811	$ 42.2222	568	$ 1,485.30	19,982
Total Gold	**261,498,927**		**11,041**		**388,405**
Silver	16,000,000	$ 1.2929	21	$ 17.26	276
Total Gold and Silver Reserves			**$ 11,062**		**$ 388,681**

	FTOs	Statutory Rate	2018 Statutory Carrying Value (in millions)	Market Rate Per FTO	2018 Market Value (in millions)
Gold	248,046,116	$ 42.2222	$ 10,473	$ 1,187.25	$ 294,493
Gold Held by Federal Reserve Banks	13,452,811	$ 42.2222	568	$ 1,187.25	15,971
Total Gold	261,498,927		11,041		310,464
Silver	16,000,000	$ 1.2929	21	$ 14.31	229
Total Gold and Silver Reserves			$ 11,062		$ 310,693

7. Reserve Position in the International Monetary Fund and Related Loans and Interest Receivable

The U.S. participates in the IMF through a quota subscription and a borrowing arrangement—the New Arrangements to Borrow (NAB)—that supplements IMF resources.

As a result of the *Consolidated Appropriations Act, 2016* (P.L. 114-113) we obtained appropriation warrants to cover the full amount of the commitment made to the IMF and received current indefinite authority to maintain the U.S. dollar equivalent of the SDR funding commitment levels. The IMF transactions—other than related interest earnings and cost estimates for U.S. quota and NAB adjustments—are not reported as budgetary resources and uses on our Combined Statement of Budgetary Resources.

Reserve Position in the International Monetary Fund

We pay quota subscriptions partly through the transfer of reserve assets, such as foreign currencies or SDRs, which are international reserve assets created by the IMF, and partly by making domestic currency available as needed through a non-interest-bearing letter of credit. This letter of credit, issued by us and maintained by the FRBNY, represents our available commitment to the IMF which may be drawn upon by the IMF.

Transfers to the IMF under the U.S. quota do not result in net budgetary outlays as they constitute an exchange of monetary assets in which the U.S. receives an equal offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF. Similarly, when the IMF repays dollars to the U.S., no net budgetary receipt results because the U.S. reserve position declines concurrently in an equal amount. The U.S. reserve position is an interest-bearing asset like other international reserve assets held by the U.S., and is available at any time to meet U.S. funding needs.

The U.S. quota is denominated in SDRs. As of September 30, 2019 and 2018, the U.S. quota in the IMF was SDR 83.0 billion. The equivalent U.S. dollar value of the U.S. quota consisted of the following:

(in millions)	2019	2018
Letter of Credit (1)	**$ 90,033**	$ 100,275
Reserve Position (2)	**22,955**	15,364
Total U.S. Quota in the IMF	**$ 112,988**	$ 115,639

(1) Letter of Credit amounts are included as part of the "Fund Balance" as reported on the Consolidated Balance Sheets. Amounts also include approximately 0.25 percent of the U.S. quota held in cash in an IMF account at the FRBNY.
(2) The Reserve Position amounts are reported as "Reserve Position in the IMF" on the Consolidated Balance Sheets.

Fluctuations in the value of the U.S. dollar with respect to the SDR result in valuation changes in dollar terms for the U.S. quota. We periodically adjust this balance to maintain the SDR value of the U.S. quota as required by the IMF Articles of Agreement. As of September 30, 2019 and 2018, the U.S. quota reflects a net downward adjustment in value of $2.7 billion and $1.5 billion, respectively, due to the appreciation of the U.S. dollar against the SDR.

Loans and Interest Receivable

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in order to forestall or cope with an impairment of the international monetary system when IMF liquidity is low. The U.S. has the authority to participate in two such arrangements – the NAB and the General Arrangements to Borrow (GAB). However, GAB donors unanimously allowed the GAB to lapse when its term ended on December 25, 2018, making the NAB the only

borrowing arrangement active as of September 30, 2019. When the U.S. transfers funds to the IMF under the NAB, the U.S. receives in exchange a liquid and interest-bearing claim on the IMF.

In accordance with P.L. 114-113, U.S. participation in the NAB as of September 30, 2019 and 2018 was SDR 28.2 billion, which was equivalent to $38.4 billion and $39.3 billion respectively. As of September 30, 2019 and 2018, under the U.S. NAB arrangement with the IMF, there was $2.5 billion and $4.5 billion, respectively, of U.S. loans outstanding which were reported as "*Loans and Interest Receivable*" on the Consolidated Balance Sheets.

8. TAXES, INTEREST, AND OTHER RECEIVABLES, NET

As of September 30, 2019 and 2018, Taxes, Interest, and Other Receivables, Net consisted of the following:

(in millions)	2019	2018
Non-Entity		
Federal Taxes Receivable, Gross	**$ 369,257**	$ 218,205
Less Allowance on Taxes Receivable	**(225,251)**	(160,192)
Receivable on FRB Deposits of Earnings	**603**	414
Other Receivables	**1,247**	1,182
Less Allowance on Other Receivables	**(127)**	(121)
Total Non-Entity (Note 14)	**145,729**	59,488
Entity		
Miscellaneous Entity Receivables and Related Interest	**149**	149
Total Taxes, Interest, and Other Receivables, Net	**$ 145,878**	$ 59,637

Federal taxes receivable constitutes the largest portion of these receivables, with IRS-related taxes receivable representing the majority of the balance. The growth in the IRS's taxes receivable is largely due to the inclusion of non-delinquent IRC 965(h) amounts. IRC 965 allows taxpayers to elect to pay their 965(h) tax on an installment schedule. IRS federal taxes receivable also consists of delinquent tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. Federal taxes receivable is reduced by an allowance for doubtful accounts which we established to represent an estimate for uncollectible amounts. The portion of taxes receivable estimated to be collectible and the allowance for doubtful accounts are based on projections of collectability from a statistical sample of taxes receivable (refer to the section entitled *Required Supplementary Information (unaudited)* for additional discussion on IRS Federal Taxes Receivable, Net).

Federal taxes receivable also includes amounts related to criminal restitution owed to the U.S. government. As of September 30, 2019 and 2018, respectively, gross receivables related to criminal restitution orders we monitored were $3.1 billion and $3.6 billion, of which we determined $0.4 billion and $0.5 billion were collectible.

In addition to amounts attributed to taxes, these receivables also include accrued interest income due on funds deposited in FRBs. We do not establish an allowance for the receivable on deposits of FRB earnings because weekly deposits are required by the Federal Reserve Act, as amended, and there has been no history of uncollectible accounts.

9. CREDIT PROGRAM RECEIVABLES, NET

We administer a number of programs designed to stabilize the nation's financial system and restore the flow of credit to consumers, businesses, and homeowners. As of September 30, 2019 and 2018, Credit Program Receivables, Net consisted of the following:

(in millions)		2019		2018
State and Local Housing Finance Agency Program (GSE sponsored)	**$**	**3,684**	$	3,994
Other [(1)]		**1,183**		1,023
Total	**$**	**4,867**	$	5,017

(1) Includes CDFI, SBLF, and TARP credit program receivables valued at $1.1 billion, $48 million and $23 million, respectively, as of September 30, 2019, and $783 million, $186 million, and $54 million, respectively, as of September 30, 2018.

STATE AND LOCAL HOUSING FINANCE AGENCY PROGRAM (GSE SPONSORED)

Under the *Housing and Economic Recovery Act of 2008* (HERA), (P.L. 110-289), we, together with the FHFA, Fannie Mae, and Freddie Mac, created a program in October 2009 to provide support to HFAs. The HFA Program is comprised of the New Issue Bond Program (NIBP) that is designed to support low mortgage rates and expand resources for low- and middle-income borrowers to purchase or rent homes, making them more affordable over the long term. Under the terms of the NIBP, we purchased securities of Fannie Mae and Freddie Mac backed by new mortgage revenue bonds issued by HFAs. As of September 30, 2019 and 2018, the HFA net credit program receivable of $3.7 billion and $4.0 billion, respectively, included a positive subsidy allowance of $582 million and $630 million, respectively, which reflects our projection that the HFA program will result in a net cost to us after accounting for repayments, interest, and fees.

We performed a financial statement re-estimate of the NIBP program's cost as of September 30, 2019 and 2018. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of $17 million and $7 million as of September 30, 2019 and 2018, respectively. The downward re-estimates in FY 2019 and 2018 were primarily driven by higher than estimated principal collections, and a higher prepayment curve used in the projection of future years' cash flows as a result of improved economic conditions.

SUMMARY TABLES

The following tables provide the net composition, subsidy cost, re-estimates, a reconciliation of subsidy cost allowances, and the components of the subsidy for each of our credit programs for the fiscal years ended September 30, 2019 and 2018. The tables also include budget subsidy rates pertaining only to the cohorts for the fiscal year presented. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in FY 2019 and 2018 could result from disbursements of loans from both current year cohorts and prior year(s) cohorts, and also includes re-estimates. Amounts reported in the line item "*Net Credit Program Receivables*" are not necessarily the same as the proceeds that we would expect to receive from selling these assets.

(in millions)	HFA	Other [2]	2019 TOTAL
Credit Program Receivables, Net:			
Credit Program Receivables, Gross	$ 4,266	$ 1,201	$ 5,467
Subsidy Cost Allowance	(582)	(18)	(600)
Net Credit Program Receivables	$ 3,684	$ 1,183	$ 4,867
New Credit Program Loans Disbursed	$ -	$ 353	$ 353
Obligations for Loans Not Yet Disbursed	$ -	$ 537	$ 537
Reconciliation of Subsidy Cost Allowance:			
Balance, Beginning	$ 630	$ 18	$ 648
Subsidy Cost for Disbursements	-	(10)	(10)
Fees, Interest and Dividend Revenue Received	118	38	156
Net Proceeds from Sales and Repurchases of Assets in Excess of Cost	-	72	72
Subsidy Allowance Amortized [1]	(149)	(34)	(183)
Balance, Ending, Before Re-estimates	599	84	683
Subsidy Re-estimates	(17)	(66)	(83)
Balance, Ending	$ 582	$ 18	$ 600
Re-estimates			
Interest on Re-estimate	$ (5)	$ 8	$ 3
Technical/Default Re-estimate	(12)	(74)	(86)
Total Re-estimates – Increase (Decrease) in Subsidy Cost	$ (17)	$ (66)	$ (83)
Reconciliation of Subsidy Costs:			
Subsidy Cost for Disbursements	$ -	$ (10)	$ (10)
Subsidy Re-estimates	(17)	(66)	(83)
Total Credit Program Receivables Subsidy Costs	$ (17)	$ (76)	$ (93)
Administrative Expense	$ 1	$ 5	$ 6

(in millions)	HFA	Other [3]	2018 TOTAL
Credit Program Receivables, Net:			
Credit Program Receivables, Gross	$ 4,624	$ 1,041	$ 5,665
Subsidy Cost Allowance	(630)	(18)	(648)
Net Credit Program Receivables	$ 3,994	$ 1,023	$ 5,017
New Credit Program Loans Disbursed	$ -	$ 231	$ 231
Obligations for Loans Not Yet Disbursed	$ -	$ 788	$ 788
Reconciliation of Subsidy Cost Allowance:			
Balance, Beginning	$ 669	$ 43	$ 712
Subsidy Cost for Disbursements	-	(5)	(5)
Fees, Interest, and Dividend Revenue Received	128	34	162
Net Proceeds from Sales and Repurchases of Assets Less than Cost	-	23	23
Loans Written Off	-	(24)	(24)
Subsidy Allowance Amortized [1]	(160)	(29)	(189)
Balance, Ending, Before Re-estimates	637	42	679
Subsidy Re-estimates	(7)	(24)	(31)
Balance, Ending	$ 630	$ 18	$ 648
Re-estimates			
Interest on Re-estimate	$ (2)	$ 7	$ 5
Technical/Default Re-estimate	(5)	(31)	(36)
Total Re-estimates – Increase (Decrease) in Subsidy Cost	$ (7)	$ (24)	$ (31)
Reconciliation of Subsidy Costs:			
Subsidy Cost for Disbursements	$ -	$ (5)	$ (5)
Subsidy Re-estimates	(7)	(24)	(31)
Total Credit Program Receivables Subsidy Costs	$ (7)	$ (29)	$ (36)
Administrative Expense	$ 2	$ 5	$ 7

(1) Amount includes net interest income (expense) on borrowings from the Fiscal Service and financing account balance.
(2) CDFI Financial Assistance Direct Loan Program budget subsidy rates for Interest Differential and for Defaults were 1.00% and 9.11%, respectively.
(3) CDFI Financial Assistance Direct Loan Program budget subsidy rates for Interest Differential and for Defaults were 1.29%, and 9.43%, respectively.

10. Investments in Government Sponsored Enterprises

Congress established Fannie Mae and Freddie Mac as GSEs to support mortgage lending. A key function of the GSEs is to purchase mortgages, package those mortgages into securities, which are subsequently sold to investors, and guarantee the timely payment of principal and interest on these securities.

Leading up to the financial crisis, increasingly difficult conditions in the housing market challenged the soundness and profitability of the GSEs, thereby threatening to undermine the entire housing market. In response, Congress passed HERA (P.L. 110-289) in July 2008. This act created FHFA, with enhanced regulatory authority over the GSEs, and provided the Secretary with certain authorities intended to ensure the financial stability of the GSEs, if necessary. In September 2008, FHFA placed the GSEs under conservatorship, and we invested in the GSEs by entering into a SPSPA with each GSE. We took these actions to preserve the GSEs' assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to market instability. The purpose of such actions is to maintain the solvency of the GSEs so they can continue to fulfill their vital roles in the home mortgage market while the Administration and Congress determine what structural changes should be made to the housing finance system. Draws under the SPSPAs result in an increased investment in the GSEs as further discussed below.

Under the SPSPAs, we initially received from each GSE: *(i)* 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share, and *(ii)* a non-transferable warrant for the purchase, at a nominal cost, of 79.9 percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. Under the amended SPSPAs, the quarterly dividend payment changed from a 10.0 percent per annum fixed rate dividend on the total liquidation preference (as discussed below) to an amount equivalent to the GSEs' positive net worth above a capital reserve amount. The capital reserve amount, which was initially set at $3.0 billion for calendar year 2013, declined by $600 million at the beginning of each calendar year thereafter, and was scheduled to reach zero by calendar year 2018.

On December 21, 2017, the Department and the FHFA modified the SPSPAs between Treasury and the GSEs to increase the capital reserve amount for each GSE back to $3 billion, effective with the December 2017 dividend payment. In exchange for the increase in the capital reserve, Treasury's liquidation preference in each GSE increased by $3 billion on December 31, 2017. On September 27, 2019, the Department and the FHFA agreed to increase the capital reserve amounts of Fannie Mae and Freddie Mac to $25 billion and $20 billion, representing an increase of $22 billion and $17 billion, respectively, over the prior reserve amount of $3 billion. In exchange, our liquidation preference in each GSE will gradually increase up to the adjusted capital reserve amounts based on the quarterly earnings of each GSE. As of September 30, 2019, Treasury's liquidation preference in Fannie Mae and Freddie Mac increased by $3.4 billion and $1.8 billion, respectively. The GSEs will not pay a quarterly dividend if their positive net worth is below their capital reserve threshold. We received cash dividends of $15.3 billion and $9.9 billion during fiscal years ended September 30, 2019 and 2018, respectively.

The SPSPAs, which have no expiration date, require us to disburse funds to the GSEs if, at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. Draws from the Department under the SPSPAs are designed to ensure that the GSEs maintain positive net worth, with a fixed maximum amount available to each GSE under this agreement, established as of December 31, 2012 (refer to the "*Contingent Liability to GSEs*" section below). Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead, they increase the liquidation preference of the initial 1,000,000 shares by the amount of the draw. The combined cumulative liquidation preference totaled $204 billion and $199 billion as of September 30, 2019 and 2018, respectively. There were no payments to the GSEs for the fiscal year ended September 30, 2019. Actual payments of $4.0 billion were made to the GSEs for the fiscal year ended September 30, 2018.

Accounting Treatment

Entity Transactions— If we estimate a probable contingent liability to the GSEs, we will accrue and report this liability on our Consolidated Balance Sheets, and fund the liability through our direct appropriations. We will report the liability accrual, if any, at its gross amount as an "entity" cost on our Consolidated Statements of Net Cost, and within the line item, "*Cumulative Results of Operations*" on our Consolidated Balance Sheets, without considering the increase in senior preferred stock liquidation preference/fair value adjustments, and future dividend receipts from the GSEs.

Non-Entity Transactions— If we make actual payments to the GSEs, they will result in increases to the U.S. government's liquidation preference in the GSEs' senior preferred stock, and thus represent General Fund exchange revenue reported on our Consolidated Statements of Net Cost as "*GSEs Non-Entity Revenue, Net.*" Changes in the fair valuation of the GSE preferred stock and common stock warrants, and related dividends received, are General Fund-related costs and revenues which we report as "*GSEs Non-Entity Revenue, Net.*"

Investments in GSEs

As of September 30, 2019 and 2018, our investments in the GSEs consisted of the following:

GSEs Investments (in millions)	Gross Investments As of 9/30/19	Cumulative Valuation Gain/(Loss)	9/30/19 Fair Value
Fannie Mae Senior Preferred Stock	$ 127,041	$ (78,341)	$ 48,700
Freddie Mac Senior Preferred Stock	77,298	(38,498)	38,800
Fannie Mae Warrants Common Stock	3,104	12,896	16,000
Freddie Mac Warrants Common Stock	2,264	6,306	8,570
Total GSEs Investments	$ 209,707	$ (97,637)	$ 112,070

GSEs Investments (in millions)	Gross Investments As of 9/30/18	Cumulative Valuation Gain/(Loss)	9/30/18 Fair Value
Fannie Mae Senior Preferred Stock	$ 123,676	$ (64,476)	$ 59,200
Freddie Mac Senior Preferred Stock	75,472	(31,272)	44,200
Fannie Mae Warrants Common Stock	3,104	3,186	6,290
Freddie Mac Warrants Common Stock	2,264	1,196	3,460
Total GSEs Investments	$ 204,516	$ (91,366)	$ 113,150

SENIOR PREFERRED STOCK AND WARRANTS FOR COMMON STOCK

In determining the fair value of the senior preferred stock and warrants for common stock, we relied on the GSEs' public filings and press releases concerning their financial statements, as well as non-public, long-term financial forecasts, monthly summaries, quarterly credit supplements, independent research regarding preferred stock trading, independent research regarding the GSEs' common stock trading on the OTC Bulletin Board, discussions with each of the GSEs and FHFA, and other information pertinent to the valuations. Because the instruments are not publicly traded, there is no comparable trading information available. The fair valuations rely on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing.

The fair value of the senior preferred stock considers the amount of forecasted cash flows to equity. The fair valuations assume that a hypothetical buyer would acquire the discounted dividend stream as of the transaction date. The fair value of the senior preferred stock decreased as of September 30, 2019 when compared to September 30, 2018, mainly driven by the increase in the market value of the GSEs' other equity securities that comprise the GSEs' total equity value. The effect of the market value increase was partially offset by a lower discount rate, driven by a lower risk-free rate and reduced volatility among comparable companies (refer to Note 1V).

Factors impacting the fair value of the warrants include the nominal exercise price and the large number of potential exercise shares, the market trading of the common stock that underlies the warrants as of September 30, the principal market, and the market participants. Other factors impacting the fair value include, among other things, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. The fair value of the warrants increased at the end of FY 2019, when compared to 2018, primarily due to increases in the market price of the underlying common stock of each GSE.

CONTINGENT LIABILITY TO GSEs

As part of the annual process undertaken by the Department, we prepare a series of long-term financial forecasts to assess, as of September 30, the likelihood and magnitude of future draws to be required by the GSEs under the SPSPAs within the forecast time horizon. We used 25-year financial forecasts prepared through years 2044 and 2043 in assessing if a contingent liability was required as of September 30, 2019 and 2018, respectively. If future payments under the SPSPAs are deemed to be probable within the forecast horizon, and we can reasonably estimate such payment, we will accrue a contingent liability to the GSEs to reflect the forecasted equity deficits of the GSEs. We do not discount this accrued contingent liability, nor do we take into account any of the offsetting dividends that we could receive, as the dividends, if any, would be owed directly to the General Fund. We will adjust such recorded accruals in subsequent years as new information develops or circumstances change.

Based on our annual assessment, we estimated there was no probable future funding draws as of September 30, 2019 and 2018, and thereby accrued no contingent liability. However, as of September 30, 2019, it is reasonably possible that market volatility or non-recurring events—for instance, changes to accounting policies that impact credit loss provisions—could potentially cause the GSEs to generate quarterly losses and, therefore, result in future funding draws against our funding commitment. Due to challenges quantifying future market volatility or the timing, magnitude, and likelihood of non-recurring events, we could not estimate the total amount of this reasonably possible future funding liability as of September 30, 2019. There were no payments to the GSEs for the fiscal year ended September 30, 2019. At September 30, 2019 and 2018, the maximum remaining contractual commitment to the GSEs for the remaining life of the SPSPAs was $254.1 billion.

In assessing the need for an estimated contingent liability, we rely on the GSEs' public filings and press releases concerning their financial statements, monthly summaries, and quarterly credit supplements, as well as non-public, long-term financial forecasts, the FHFA House Price Index, discussions with each of the GSEs and FHFA, and other information pertinent to the liability estimates. The forecasts prepared in assessing the need for an estimated contingent liability as of September 30, 2019 include three potential wind-down scenarios, with varying assumptions regarding the timing as to when the GSEs would cease new business activities, including purchasing mortgage loans and issuing new guaranteed mortgage-backed securities. The forecasts as of September 30, 2019, also assumed the maintenance of the GSEs' retained mortgage portfolios (and corresponding net interest income) below the $250 billion maximum permitted under the SPSPAs. The maximum balance of the GSEs' retained mortgage portfolio was initially set at $650 billion as of December 31, 2012, and the amended SPSPAs required that the GSEs reduce this maximum balance to $250 billion by December 31, 2018, which was accomplished by both GSEs.

ESTIMATION FACTORS

Our forecasts concerning the GSEs may differ from actual experience. Estimated senior preferred values and future draw amounts will depend on numerous factors that are difficult to predict including, but not limited to, changes in government policy with respect to the GSEs, the business cycle, inflation, home prices, unemployment rates, interest rates, changes in housing preferences, home financing alternatives, availability of debt financing, market rates of guarantee fees, outcomes of loan refinancings and modifications, new housing programs, and other applicable factors.

FINANCIAL PERFORMANCE OF THE GSES

The summarized unaudited aggregated financial condition of the GSEs as of September 30, 2019 and 2018, along with their summarized unaudited aggregated financial operating results for the nine months ended September 30, 2019 and 2018 were as follows:

(in millions)	2019	2018
Combined Assets		
Investment Securities	**$ 119,878**	$ 123,368
Mortgage Loans	**5,311,626**	5,135,562
Other	**233,178**	205,632
Total Combined Assets	**5,664,682**	5,464,562
Combined Liabilities		
Long-Term Debt	**5,480,961**	5,319,340
Other	**166,705**	132,688
Total Combined Liabilities	**5,647,666**	5,452,028
Combined Net Equity	**$ 17,016**	$ 12,534
For the Nine Months Ended September 30		
Combined Net Interest Income	**$ 23,602**	$ 25,256
Combined Benefit for Loan Losses	**4,206**	2,606
Combined Net Interest Income After Benefit for Loan Losses	**$ 27,808**	$ 27,862
Combined Total Comprehensive Income	**$ 15,042**	$ 19,516

We obtained this financial information from the GSEs' quarterly financial reports filed with the Securities and Exchange Commission. The financial information above excludes certain financial guarantees not directly reflected on the GSEs' balance sheets.

GSEs Non-Entity Revenue

For the fiscal years ended September 30, 2019 and 2018, GSEs Non-Entity Revenue, Net consisted of the following:

Summary of GSEs Non-Entity Revenue (in millions)	2019	2018
General Fund Revenue from Increase in Liquidation Preference of GSEs Preferred Stock	**$ (5,191)**	$ (9,999)
Fair Value Loss/(Gain) on GSEs Warrants/Preferred Stock	**6,271**	(10,511)
GSEs Preferred Stock Dividends	**(15,279)**	(9,881)
Total GSEs Non-Entity Revenue, Net	**$ (14,199)**	$ (30,391)

Regulatory Environment

To date, Congress has not passed legislation nor has FHFA taken actions to end the conservatorships to address the future of the GSEs. The GSEs continue to operate under the direction of FHFA as conservator. On March 27, 2019, the President issued a Memorandum that directed the Secretary of the Treasury to develop a plan for administrative and legislative reforms to achieve the following housing finance reform goals: *(i)* ending the conservatorships of the GSEs upon completion of specified reforms; *(ii)* facilitating competition in the housing finance market; *(iii)* establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the U.S.; and *(iv)* providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market. On September 5, 2019, we released our Housing Reform Plan, which included recommended legislative and administrative reforms to achieve each of these goals.

The *Temporary Payroll Tax Cut Continuation Act of 2011* (P.L. 112-78) was funded by an increase of ten basis points in the GSEs' guarantee fees (referred to as "the incremental fees") which began in April 2012, and is effective through September 30, 2021. The incremental fees are remitted to us and not retained by the GSEs and, thus, do not affect the profitability of the GSEs. For FY 2019 and 2018, the GSEs remitted to us the incremental fees totaling $3.9 billion and $3.6 billion, respectively, which are reported within the line item entitled "*Fines, Penalties, Interest and Other Revenue*" on our Statements of Custodial Activity.

11. INVESTMENTS IN MULTILATERAL DEVELOPMENT BANKS

As of September 30, 2019 and 2018, Investments in Multilateral Development Banks consisted of the following:

(in millions)	2019	2018
International Bank for Reconstruction and Development	$ **2,850**	$ 2,850
Inter-American Development Bank [1]	**2,023**	2,023
Asian Development Bank	**991**	991
European Bank for Reconstruction and Development	**636**	636
International Finance Corporation	**569**	569
African Development Bank	**434**	402
North American Development Bank	**225**	225
Multilateral Investment Guarantee Agency	**45**	45
Total	$ **7,773**	$ 7,741

Refer to Note 26 for a description of the additional commitments related to these institutions.
(1) Includes Inter-American Investment Corporation

12. OTHER INVESTMENTS AND RELATED INTEREST

Other investments and related interest include foreign currency holdings that we typically invest in interest-bearing securities issued or held through foreign governments or monetary authorities (refer to Note 5). The ESF holds most of our foreign currency investments. Of the total $6.6 billion fair value of foreign investments (excluding interest receivable) held at September 30, 2019, $1.2 billion will mature within one year, $3.2 billion will mature after one year but before five years, and $2.2 billion will mature after five years but before ten years.

As of September 30, 2019 and 2018, Other Investments and Related Interest consisted of the following:

Type of Investment (in millions)	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Interest Receivable	9/30/19 Net Investment	Unrealized Gain/(Loss)	9/30/19 Fair Value
Foreign Investments:						
Euro Bonds & Notes	**$ 5,039**	**$ 370**	**$ 53**	**$ 5,462**	**$ 100**	**$ 5,562**
Japanese Government Bonds	**941**	**-**	**-**	**941**	**111**	**1,052**
Other Investments	**29**	**(1)**	**-**	**28**	**(11)**	**17**
Total Non-Federal	**$ 6,009**	**$ 369**	**$ 53**	**$ 6,431**	**$ 200**	**$ 6,631**

Type of Investment (in millions)	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Interest Receivable	9/30/18 Net Investment	Unrealized Gain/(Loss)	9/30/18 Fair Value
Foreign Investments:						
Euro Bonds & Notes	$ 4,990	$ 468	$ 61	$ 5,519	$ 257	$ 5,776
Japanese Government Bonds	1,207	1	1	1,209	60	1,269
Other Investments	29	(1)	-	28	(11)	17
Total Non-Federal	$ 6,226	$ 468	$ 62	$ 6,756	$ 306	$ 7,062

13. PROPERTY, PLANT, AND EQUIPMENT, NET

As of September 30, 2019 and 2018, Property, Plant, and Equipment, Net consisted of the following:

(in millions)	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2019 Net Book Value
Buildings, Structures and Facilities	**S/L**	**3 - 50 years**	**$ 811**	**$ (510)**	**$ 301**
Furniture, Fixtures and Equipment	**S/L**	**2 - 20 years**	**2,951**	**(2,133)**	**818**
Construction-in-Progress	**N/A**	**N/A**	**180**	**-**	**180**
Land and Land Improvements	**N/A**	**N/A**	**20**	**(3)**	**17**
Internal-Use Software in Use	**S/L**	**2 - 15 years**	**3,646**	**(2,525)**	**1,121**
Internal-Use Software in Development	**N/A**	**N/A**	**276**	**-**	**276**
Assets Under Capital Lease	**S/L**	**2 - 25 years**	**33**	**(14)**	**19**
Leasehold Improvements	**S/L**	**2 - 25 years**	**407**	**(269)**	**138**
Total			**$ 8,324**	**$ (5,454)**	**$ 2,870**

(in millions)	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2018 Net Book Value
Buildings, Structures and Facilities	S/L	3 - 50 years	$ 781	$ (485)	$ 296
Furniture, Fixtures and Equipment	S/L	2 - 20 years	2,865	(2,107)	758
Construction-in-Progress	N/A	N/A	171	-	171
Land and Land Improvements	N/A	N/A	18	(3)	15
Internal-Use Software in Use	S/L	2 - 15 years	3,584	(2,263)	1,321
Internal-Use Software in Development	N/A	N/A	210	-	210
Assets Under Capital Lease	S/L	2 - 25 years	29	(12)	17
Leasehold Improvements	S/L	2 - 25 years	417	(258)	159
Total			$ 8,075	$ (5,128)	$ 2,947

The service life ranges vary significantly due to the diverse nature of PP&E we hold.

HERITAGE ASSETS

We have 15 heritage assets, of which five are considered multi-use, for FY 2019 and 2018. The Treasury Complex (Main Treasury Building and Annex), declared a national historical landmark in 1972, is treated as a multi-use heritage asset, along with the collection of artifacts within, and is expected to be preserved indefinitely. The buildings that house the Mint in Denver, San Francisco, Fort Knox, and West Point are also multi-use heritage assets and included on the National Register of Historic Places. Additionally, the Mint maintains heritage assets consisting of four coin collections and six collections of historical artifacts.

14. NON-ENTITY VS. ENTITY ASSETS

Non-entity assets are those that we hold and manage on behalf of the General Fund but are not available for our use. The table below shows our total assets, segregated between non-entity and entity, as of September 30, 2019 and 2018:

		2019	
(in millions)	**Non-Entity**	**Entity**	**Total**
Intra-governmental Assets:			
Fund Balance [a]	**$ 3,294**	**$ 412,033**	**$ 415,327**
Loans and Interest Receivable (Note 3)	**1,504,794**	**76,225**	**1,581,019**
Advances to Federal Supplementary Medical Insurance Trust Fund (Note 4)	**3,152**	**-**	**3,152**
Due From the General Fund (Note 4)	**22,855,331**	**-**	**22,855,331**
Other Intra-governmental Assets	**989**	**22**	**1,011**
Total Intra-governmental Assets	**24,367,560**	**488,280**	**24,855,840**
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	**376,901**	**64,464**	**441,365**
Gold and Silver Reserves (Note 6)	**11,062**	**-**	**11,062**
Taxes, Interest, and Other Receivables, Net (Note 8)	**145,729**	**149**	**145,878**
Investments in GSEs (Note 10)	**112,070**	**-**	**112,070**
Other Assets [b]	**7**	**48,314**	**48,321**
Total Assets	**$ 25,013,329**	**$ 601,207**	**$ 25,614,536**

[a] *$1.9 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
[b] *Other Assets (Entity) include loans and interest receivable, other investments and related interest, reserve position in the IMF, and other various assets on the Consolidated Balance Sheets not separately presented in this table.*

		2018	
(in millions)	**Non-Entity**	**Entity**	**Total**
Intra-governmental Assets:			
Fund Balance [c]	$ 1,884	$ 422,984	$ 424,868
Loans and Interest Receivable (Note 3)	1,448,007	76,689	1,524,696
Advances to Federal Supplementary Medical Insurance Trust Fund (Note 4)	5,027	-	5,027
Due From the General Fund (Note 4)	21,646,633	-	21,646,633
Other Intra-governmental Assets	729	41	770
Total Intra-governmental Assets	23,102,280	499,714	23,601,994
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	379,380	65,191	444,571
Gold and Silver Reserves (Note 6)	11,062	-	11,062
Taxes, Interest, and Other Receivables, Net (Note 8)	59,488	149	59,637
Investments in GSEs (Note 10)	113,150	-	113,150
Other Assets [d]	8	43,333	43,341
Total Assets	$ 23,665,368	$ 608,387	$ 24,273,755

[c] *$1.1 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
[d] *Other Assets (Entity) include loans and interest receivable, other investments and related interest, reserve position in the IMF, and other various assets on the Consolidated Balance Sheets not separately presented in this table.*

15. Federal Debt and Interest Payable

Treasury is responsible for administering the federal debt on behalf of the U.S. government. The federal debt includes borrowings from the public as well as borrowings from federal agencies. The federal debt does not include debt issued by other governmental agencies, such as the Tennessee Valley Authority or Department of Housing and Urban Development.

Debt held by the public primarily represents the amount the U.S. government has borrowed to finance cumulative cash deficits. In contrast, debt held by other federal agencies, primarily trust funds, represents balances of Treasury securities held by individual federal agencies with either the authority or the requirement to invest excess receipts in Treasury securities, with the principal and interest guaranteed by the full faith and credit of the U.S. government.

Federal Debt and Interest Payable as of September 30, 2019 and 2018 was as follows:

Held by Other Federal Agencies (Intra-governmental) (in millions)	2019	2018
Beginning Balance	$ **5,712,537**	$ 5,527,721
New Borrowings/(Repayments) - Net	**156,558**	184,816
Subtotal at Par Value	**5,869,095**	5,712,537
Premium/(Discount)	**73,111**	69,843
Debt Principal Not Covered by Budgetary Resources (Note 18)	**5,942,206**	5,782,380
Interest Payable Covered by Budgetary Resources	**38,823**	39,262
Total	$ **5,981,029**	$ 5,821,642

Held by the Public (in millions)	2019	2018
Beginning Balance	$ **15,761,155**	$ 14,673,429
New Borrowings - Net of Repayments	**1,047,937**	1,087,726
Subtotal at Par Value	**16,809,092**	15,761,155
Premium/(Discount)	**(42,688)**	(44,766)
Debt Principal Not Covered by Budgetary Resources (Note 18)	**16,766,404**	15,716,389
Interest Payable Covered by Budgetary Resources	**73,223**	73,528
Total	$ **16,839,627**	$ 15,789,917

Federal Debt Held by Other Federal Agencies

Certain federal agencies are allowed to invest excess funds in debt securities we issue on behalf of the U.S. government. The terms and the conditions of debt securities issued allow the U.S. government to meet its cash needs. The vast majority of debt securities are non-marketable securities issued at par value, but others are issued at market prices and interest rates that reflect market terms. The average intra-governmental interest rate for debt held by the federal entities, excluding Treasury Inflation-Protected Securities (TIPS) and Floating Rate Notes (FRNs), for FY 2019 and 2018 was 2.7 percent and 2.8 percent, respectively. The average intra-governmental interest rate on TIPS for both FY 2019 and 2018 was 1.3 percent. The average interest rate on FRNs for FY 2019 and 2018 was 1.9 percent and 2.3 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding at the end of the fiscal year.

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt held by federal agencies at par value (not including premium/discount or interest payable) as of September 30, 2019 and 2018 was as follows:

(in millions)		2019		2018
Social Security Administration	$	**2,900,916**	$	2,894,654
Office of Personnel Management		**1,051,505**		1,033,785
Department of Defense Agencies		**1,093,955**		995,540
Department of Health and Human Services		**307,225**		304,789
All Other Federal Entities — Consolidated		**515,494**		483,769
Total Federal Debt Held by Other Federal Agencies	$	**5,869,095**	$	5,712,537

These amounts do not include intra-departmental debt and related interest that are eliminated from our financial statements.

FEDERAL DEBT HELD BY THE PUBLIC

Federal Debt Held by the Public at par value (not including premium/discount or interest payable) as of September 30, 2019 and 2018 consisted of the following:

(at par value in millions)	Term	Average Interest Rates		2019
Marketable:				
Treasury Bills	**1 Year or Less**	**2.1%**	**$**	**2,376,370**
Treasury Notes	**Over 1 Year - 10 Years**	**2.2%**		**9,755,985**
Treasury Bonds	**Over 10 Years**	**3.9%**		**2,311,517**
Treasury Inflation-Protected Securities (TIPS)	**5 Years or More**	**0.8%**		**1,454,698**
Treasury Floating Rate Notes (FRN)	**2 Years**	**2.0%**		**424,067**
Total Marketable				**16,322,637**
Non-Marketable	**On Demand to Over 40 Years**	**2.2%**		**486,455**
Total Federal Debt Held by the Public			**$**	**16,809,092**

(at par value in millions)	Term	Average Interest Rates		2018
Marketable:				
Treasury Bills	1 Year or Less	2.1%	$	2,239,473
Treasury Notes	Over 1 Year - 10 Years	2.0%		9,150,301
Treasury Bonds	Over 10 Years	4.1%		2,114,982
Treasury Inflation-Protected Securities (TIPS)	5 Years or More	0.8%		1,376,180
Treasury Floating Rate Notes (FRN)	2 Years	2.2%		369,142
Total Marketable				15,250,078
Non-Marketable	On Demand to Over 40 Years	2.8%		511,077
Total Federal Debt Held by the Public			$	15,761,155

We generally issue Treasury bills, notes, bonds, and TIPS to meet the borrowing needs of the U.S. government. We issue marketable bills at a discount or at par, and pay the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding at year end.

We issue marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. We issue these securities at either par value or at an amount that reflects a discount or premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding at year-end. We also issue TIPS that have interest and redemption payments tied to the CPI for all Urban Consumers, a widely used measurement of inflation. We adjust the principal for TIPS daily over the life of the security based on the CPI for all Urban Consumers. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. The average interest rate on TIPS represents the stated interest rate on principal plus inflation, adjusted by any discount or premium on securities outstanding as of the end of the fiscal year. The inflation-adjusted TIPS principal balance of federal debt held by the public included inflation of $150.6 billion and $134.1 billion as of September 30, 2019 and 2018, respectively.

We also issue marketable FRNs which pay interest quarterly based on the interest rate at the time of payment. The interest rate of FRNs can change over time and is indexed to the highest acceptable discount rate of the most recent 13-week marketable bill auction. Similar to marketable notes and bonds, we issue these securities at either par value or at an amount that reflects a discount or premium. The average interest rate on marketable FRNs represents the highest accepted discount rate of the most recent 13-week marketable auction as of September 30, adjusted by any discount or premium on securities outstanding as of that date.

Federal Debt Held by the Public includes federal debt held outside of the U.S. government by individuals, corporations, FRBs, state and local governments, foreign governments, and central banks. As of September 30, 2019, the FRBs had total holdings of $1.6 trillion which: *(i)* excluded $475.0 billion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* included a negligible amount lent to dealers and not collateralized by other Treasury securities. As of September 30, 2018, the FRBs had total holdings of $1.8 trillion which: *(i)* excluded $531.8 billion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* included a net of $1.0 billion in Treasury securities held by the FRB as collateral for securities lending activities. For the years ended September 30, 2019 and 2018, we incurred interest expense of $59.0 billion and $64.1 billion, respectively, related to Treasury securities held by the FRBs.

STATUTORY DEBT LIMIT

The statutory debt limit is the total amount of money that the U.S. government is authorized to borrow to meet its existing legal obligations, with certain adjustments. Outstanding debt obligations subject to the statutory limit were $22.7 trillion and $21.5 trillion as of September 30, 2019 and 2018, respectively. Congress has provided us with statutory authority to take certain extraordinary measures in the event that the public debt nears the statutory debt limit and a delay in raising the statutory debt limit occurs. These measures authorize us to deviate from our normal debt management operations – which include the investment (or non-investment) of trust fund balances in Treasury securities – to avoid exceeding the statutory debt limit.

During a period of delay in raising the statutory debt limit, we may undertake the following extraordinary measures: *(i)* suspend new issuances of Treasury securities to the Government Securities Investment Fund (G Fund) of the FERS TSP, the Civil Service Retirement and Disability Fund (Civil Service Fund), the Postal Service Retiree Health Benefits Fund (Postal Benefits Fund), and the ESF; *(ii)* redeem early a certain amount of Treasury securities held by the Civil Service Fund and Postal Benefit Fund; (*iii*) suspend new issuances of State and Local Government Series (SLGS) securities; *(iv)* utilize FFB to exchange outstanding Treasury securities held by the Civil Service Fund for non-Treasury securities (refer to Note 16); and (*v*) issue cash management bills to manage short-term financing needs.

When the period of delay in raising the statutory debt limit ends, we discontinue our use of extraordinary measures and resume our normal debt management operations. Furthermore, we are required by the relevant statutes to issue to the G Fund, along with the OPM-administered Civil Service Fund and Postal Benefits Fund (the OPM funds), Treasury securities that bears such interest rates and maturity dates necessary to replicate the investments the funds would have held had the delay not occurred (the unissued securities). In addition, relevant statutes require us to pay these funds the related lost interest (foregone interest) on the unissued securities. While we may restore the ESF, relevant statutes do not permit us to pay the ESF interest lost during a period of delay.

A delay in raising the statutory debt limit occurred from December 9, 2017 until February 9, 2018. On February 9, 2018, Congress enacted the *Bipartisan Budget Act of 2018* (P.L. 115-123) which temporarily suspended the debt limit through March 1, 2019. Another delay in raising the statutory debt limit occurred from March 2, 2019 until August 1, 2019. On August 2, 2019, Congress enacted the *Bipartisan Budget Act of 2019* (P.L. 116-37) which temporarily suspended the debt limit through July 31, 2021.

During the period from December 11, 2017 through February 8, 2018, we departed from our normal debt management operations and undertook extraordinary measures to avoid exceeding the statutory debt limit. On February 9, 2018, when Congress temporarily suspended the debt limit, we discontinued the use of extraordinary measures and resumed normal debt management operations. On this date, we restored unissued securities totaling $175.6 billion, of which $156.7 billion was restored to the G Fund and $18.9 billion was restored to the two OPM Funds. We also restored foregone interest of $485 million owed to the G Fund for the period of December 11, 2017 through February 8, 2018 on February 12, 2018. We restored foregone interest related to the unissued securities owed to the two OPM funds for the period of December 11, 2017 through February 8, 2018, which totaled $247 million, on the semi-annual interest payable date of June 29, 2018. In FY 2018, we also accrued and restored $72 million of foregone interest related to the period of delay in raising the statutory debt limit that occurred from March 16, 2017 through September 7, 2017. The foregone interest was reported in FY 2018 as a then current year, non-entity expense on the Consolidated Statements of Net Costs within the line item "*Restoration of Foregone Federal Debt Interest*." In FY 2018, we reversed $660 million of foregone interest accrued in FY 2017 as part of other financing sources on the Consolidated Statement of Changes in Net Position in connection with the actual payment of interest.

During the period from March 4, 2019 through August 1, 2019, we again departed from our normal debt management operations and undertook extraordinary measures to avoid exceeding the statutory debt limit. On August 2, 2019 when Congress temporarily suspended the debt limit, we discontinued the use of extraordinary measures and resumed normal debt management operations. On this date, we restored unissued securities totaling $263.4 billion, of which $159.4 billion and $104.0 billion was restored to the G Fund and the two OPM Funds, respectively. We also restored foregone interest of $1.7 billion to the G Fund on August 5, 2019. Foregone interest totaling $696 million related to the unissued securities owed to the two OPM funds for the period from March 4, 2019 through August 1, 2019, will be restored on the next semi-annual interest payable date of December 31, 2019. The foregone interest was reported in FY 2019 as a current year, non-entity expense on the Consolidated Statements of Net Costs within the line item "*Restoration of Foregone Federal Debt Interest*."

16. OTHER DEBT AND INTEREST PAYABLE

Through FFB, we have outstanding borrowings and related accrued interest owed to the Civil Service Fund. At September 30, 2019 and 2018, FFB had outstanding borrowings of $8.9 billion and $10.4 billion, inclusive of $60 million and $75 million of accrued interest payable, respectively. The outstanding borrowings at September 30, 2019 had stated interest rates that ranged from 2.25 percent to 2.88 percent per annum, and an effective interest rate of 2.69 percent. The outstanding borrowings at September 30, 2018 had stated interest rates that ranged from 2.25 percent to 4.63 percent per annum, and an effective interest rate of 2.86 percent. Maturity dates ranged from June 30, 2020 to June 30, 2029 for outstanding borrowings at September 30, 2019, and from June 30, 2019 to June 30, 2029 for outstanding borrowings at September 30, 2018.

17. D.C. FEDERAL PENSION AND JUDICIAL RETIREMENT ACTUARIAL LIABILITY

Title XI of the *Balanced Budget Act of 1997*, as amended, intended to relieve the D.C. government of the burden of unfunded pension liabilities transferred to the District by the U.S. government in 1979. To fulfill our responsibility, we manage two funds — the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund). We are required to make annual amortized payments from the General Fund to the D.C. Federal Pension Fund and the Judicial Retirement Fund. The D.C. Federal Pension Fund benefit payments relate to creditable service performed on or before June 30, 1997, while the Judicial Retirement Fund benefit payments relate to all creditable service.

A reconciliation of the combined actuarial pension liability for the D.C. Federal Pension Fund and the Judicial Retirement Fund as of September 30, 2019 and 2018 is as follows:

(in millions)	2019	2018
Beginning Liability Balance	**$ 8,372**	$ 8,682
Pension Expense:		
Normal Cost	**6**	6
Interest on Pension Liability During the Year	**55**	66
Actuarial (Gains) Losses During the Year:		
From Experience	**34**	55
From Discount Rate Assumption Change	**290**	377
From Other Assumption Changes	**133**	(177)
From Non-Economic Changes	**64**	(84)
Total Pension Expense	**582**	243
Less Amounts Paid	**(556)**	(553)
Ending Liability Balance	**$ 8,398**	$ 8,372

Additional Information ($ in millions):		D.C. Federal Pension Fund	Judicial Retirement Fund	2019 Total
Amount Received from the General Fund	$	**498 $**	**17 $**	**515**
Annual Rate of Investment Return Assumption		**0.74% - 3.84%**	**0.74% - 3.84%**	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:				
Police Officers		**1.80%**	**N/A**	
Firefighters		**1.80%**	**N/A**	
Teachers		**1.82%**	**N/A**	
Judicial		**N/A**	**1.36%**	
Future Annual Rate of Salary Increases:				
Police Officers		**1.95%**	**N/A**	
Firefighters		**2.00%**	**N/A**	
Teachers		**2.30%**	**N/A**	
Judicial		**N/A**	**0.83%**	

Additional Information ($ in millions):		D.C. Federal Pension Fund	Judicial Retirement Fund	2018 Total
Amount Received from the General Fund	$	467 $	16 $	483
Annual Rate of Investment Return Assumption		0.59% - 3.89%	0.59% - 3.89%	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:				
Police Officers		1.62%	N/A	
Firefighters		1.62%	N/A	
Teachers		1.64%	N/A	
Judicial		N/A	1.66%	
Future Annual Rate of Salary Increases:				
Police Officers		1.80%	N/A	
Firefighters		2.20%	N/A	
Teachers		2.36%	N/A	
Judicial		N/A	0.97%	

18. LIABILITIES

LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30, 2019 and 2018, liabilities not covered by budgetary resources consisted of the following:

(in millions)	2019	2018
Intra-governmental Liabilities Not Covered by Budgetary Resources		
Federal Debt Principal, Premium/Discount (Note 15)	$ **5,942,206**	$ 5,782,380
Other Intra-governmental Liabilities	**90**	125
Total Intra-governmental Liabilities Not Covered by Budgetary Resources	**5,942,296**	5,782,505
Federal Debt Principal, Premium/Discount (Note 15)	**16,766,404**	15,716,389
Other Liabilities	**1,049**	1,025
Total Liabilities Not Covered by Budgetary Resources	**22,709,749**	21,499,919
Total Liabilities Covered by or Not Requiring Budgetary Resources	**2,415,211**	2,278,023
Total Liabilities	$ **25,124,960**	$ 23,777,942

OTHER LIABILITIES

Total "*Other Liabilities*" displayed on the Consolidated Balance Sheets consists of liabilities that are covered by, not covered by, and not requiring budgetary resources. "*Other Liabilities*" at September 30, 2019 and 2018, consisted of the following:

(in millions)	Current	Non-Current	2019 Total	Current	Non-Current	2018 Total
Intra-governmental						
Accounts Payable	$ **76**	$ **-**	$ **76**	$ 86	$ -	$ 86
Unfunded Federal Workers Compensation Program Liability (FECA)	**41**	**48**	**89**	41	51	92
Other Accrued Liabilities	**446**	**21**	**467**	452	1	453
Total Intra-governmental	$ **563**	$ **69**	$ **632**	$ 579	$ 52	$ 631
With the Public						
Liability for Deposit Funds (Held by the U.S. government for Others) and Suspense Accounts	$ **1,437**	$ **-**	$ **1,437**	$ 1,398	$ -	$ 1,398
Actuarial Federal Workers Compensation Program Liability (FECA)	**-**	**576**	**576**	-	584	584
Accrued Funded Payroll and Benefits	**462**	**-**	**462**	428	-	428
Accounts Payable and Other Accrued Liabilities	**2,902**	**90**	**2,992**	3,047	87	3,134
Total With the Public	$ **4,801**	$ **666**	$ **5,467**	$ 4,873	$ 671	$ 5,544

19. NET POSITION

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until canceled. We report adjustments related to unexpended appropriations, such as cancellations of expired funds or rescissions, as "*Other Adjustments*" on the Consolidated Statements of Changes in Net Position.

Cumulative Results of Operations represents the net results of operations since inception, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others: (a) accumulated annual leave earned but not taken; (b) accrued FECA; (c) credit reform cost re-estimates; (d) unfunded D.C. Federal pension; and (e) expenses for contingent liabilities.

APPROPRIATIONS RECEIVED

Congress appropriates the amount reported as "*Appropriations Received*" from the General Fund receipts, such as income taxes, that are not dedicated by law for a specific purpose. This amount will not necessarily agree with the "*Appropriations (discretionary and mandatory)*" amount reported on the Combined Statements of Budgetary Resources because of differences between proprietary and budgetary accounting concepts and reporting requirements. For example, certain dedicated receipts are recorded as "*Appropriations (discretionary and mandatory)*" on the Combined Statements of Budgetary Resources, but are recognized as exchange or non-exchange revenue (i.e., typically in revolving, special, and non-revolving trust funds) and reported on the Consolidated Statements of Changes in Net Position in accordance with SFFAS No. 7.

TRANSFERS TO THE GENERAL FUND AND OTHER

The amount reported as "*Transfers to the General Fund and Other*" on the Consolidated Statements of Changes in Net Position under "*Other Financing Sources*" includes the following for the years ended September 30, 2019 and 2018:

(in millions)		2019		2018
Categories of Transfers to the General Fund and Other				
Interest Revenue	**$**	**(46,616)**	$	(44,835)
Increase in Liquidation Preference of GSEs Preferred Stock, GSEs Preferred Stock Dividends and Valuation Changes (Note 10)		**(14,199)**		(30,391)
Other		**(2,359)**		(2,242)
Total	**$**	**(63,174)**	$	(77,468)

Included in "*Transfers to the General Fund and Other*" is the annual valuation adjustment on the GSE Senior Preferred Stock investments and related dividends. These transfers also include distribution of interest revenue to the General Fund. We accrue interest revenue on inter-agency loans held on behalf of the U.S. government. We report a corresponding amount on the Consolidated Statements of Net Cost under "*Non-Entity Costs: Less Interest Revenue from Loans*." Eliminations between our bureaus reduce the amount reported on the Consolidated Statements of Net Cost.

The "*Other"* line generally includes collections from other federal agencies for reimbursement of costs we incurred for our administration of trust funds established within the Social Security Act. We execute these administrative services as directed by statute. Seigniorage and numismatic profits also are included in the "*Other*" line. Seigniorage is the face value of newly minted circulating coins less the cost of production. Numismatic profit is any profit on the sale of proof coins, uncirculated coins, commemorative coins, and related products and accessories. The Mint is required to distribute seigniorage and numismatic profits in excess of operating expenses to the General Fund (refer to Note 21). In any given year, the amount recognized as seigniorage may differ from the amount distributed to the General Fund by an insignificant amount due to timing differences. The "*Other*" line also includes the credit reform downward re-estimate subsidies transferred to the General Fund resulting from a change in forecasts of future cash flows.

20. CONSOLIDATED STATEMENTS OF NET COST AND NET COSTS OF TREASURY SUB-ORGANIZATIONS

Our Consolidated Statements of Net Cost display information on a consolidated basis. We consist of DO and seven operating bureaus that we provide supporting schedules for Net Cost in the notes to the financial statements (refer to Note 1). These supporting schedules provide consolidating information, which fully displays the costs, revenues, and net cost of DO and each operating bureau.

The classification of sub-organizations has been determined in accordance with SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts* which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

Each sub-organization is responsible for accumulating costs. The assignment of the costs to Department-wide programs is the result of using the following cost assignment methods: (1) direct costs, (2) cause and effect, and (3) cost allocation.

INTRA-DEPARTMENTAL COSTS/REVENUES

We report intra-departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among our sub-organizations as costs by providing sub-organizations and as revenues by receiving sub-organizations. We recognized intra-departmental imputed costs, such as un-reimbursed payments made from the Treasury Judgment Fund on our behalf, on the Consolidated Statements of Net Cost of $912 million and $931 million during FY 2019 and 2018, respectively. Accordingly, we eliminated such costs or revenues in the consolidation process.

INTRA-GOVERNMENTAL COSTS

Intra-governmental costs relate to the source of goods and services we purchased and not to the classification of the related intra-governmental revenue.

In certain cases, other federal agencies incur costs that are directly identifiable to our operations. In accordance with SFFAS No. 4, as amended, we recognize identified costs paid on our behalf by other agencies. The imputed intra-governmental financing sources we currently recognize include the actual cost of future benefits for the federal pension plans, and the Federal Employees Health Benefits Program that other federal entities pay on our behalf. We reflect the funding for these costs as costs on the Consolidated Statements of Net Cost, and as imputed financing sources on the Consolidated Statements

of Changes in Net Position. Costs paid by other agencies on our behalf were $807 million and $779 million for the fiscal years ended September 30, 2019 and 2018, respectively.

CONSOLIDATED STATEMENTS OF NET COST PRESENTATION

OMB Circular No. A-136, as revised, requires that the Consolidated Statements of Net Cost present the net cost of operations by major programs, which may describe an agency's mission, strategic goals, functions, or other meaningful grouping. We have presented the gross costs and earned revenues by major program categories aligned with our strategic goals identified in Treasury's FY 2018 – 2022 Strategic Plan. The majority of our bureaus' and reporting entities' gross costs and earned revenues falls within a single program category in the Consolidated Statements of Net Cost. DO allocates gross costs and earned revenues to multiple programs using a net cost percentage calculation. All of our management offices coordinate, on a Treasury-wide basis, their efforts to achieve the Management program-related strategic goals. For financial statement presentation purposes, we combine the gross costs and earned revenues associated with our Management program-related goals with those costs and revenues associated with our Financial program-related strategic goals.

Our Consolidated Statements of Net Cost also present interest expense on the federal debt and other federal costs incurred on behalf of the U.S. government. We do not reflect these costs as program costs related to our strategic plan missions. We eliminate these costs in the consolidation process to the extent that they involve transactions with our sub-organizations.

Non-entity other federal costs shown on the Consolidated Statements of Net Cost for the fiscal years ended September 30, 2019 and 2018 consisted of the following:

(in millions)	2019	2018
Credit Reform Interest on Uninvested Funds (Intra-governmental)	$ **7,109**	$ 7,879
Resolution Funding Corporation	**2,628**	2,628
Judgment Claims and Contract Disputes	**1,299**	1,418
Corporation for Public Broadcasting	**465**	465
All Other Payments	**515**	550
Total	$ **12,016**	$ 12,940

20. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-Organizations (in millions)

For Fiscal Year Ended September 30, 2019

Program Costs	Bureau of Engraving & Printing	Bureau of the Fiscal Service	Depart-mental Office[a]	Financial Crimes Enforcement Network	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM						
Gross Cost	$ -	$ 2,246	$ 6,478	$ -	$ -	$ -
Less Earned Revenue	-	(401)	(3,858)	-	-	-
Net Program Cost	-	1,845	2,620	-	-	-
ECONOMIC PROGRAM						
Gross Cost	730	-	6,727	-	13,591	1,548
Less Earned Revenue	(802)	-	(6,147)	-	(517)	(1,503)
Net Program Cost	(72)	-	580	-	13,074	45
SECURITY PROGRAM						
Gross Cost	-	-	424	125	-	-
Less Earned Revenue	-	-	(12)	(2)	-	-
Net Program Cost	-	-	412	123	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(72)	1,845	3,612	123	13,074	45
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	487	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$ (72)	$ 1,845	$ 4,099	$ 123	$ 13,074	$ 45

(a) The total $2.6 billion of the Financial Program net costs reported by DO consisted of $1.5 billion of net costs from OAS and $1.4 billion of net costs from OFS. The remaining net costs consisted of net costs from other DO programs or offices.

20. CONSOLIDATED STATEMENT OF NET COST AND NET COSTS OF TREASURY SUB-ORGANIZATIONS (IN MILLIONS) (CON'T):

For Fiscal Year Ended September 30, 2019

Program Costs	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2019 Consolidated
FINANCIAL PROGRAM					
Gross Cost	$ -	$ -	$ 8,724	$ 2,510	$ 6,214
Less Earned Revenue	-	-	(4,259)	(813)	(3,446)
Net Program Cost	-	-	4,465	1,697	2,768
ECONOMIC PROGRAM					
Gross Cost	1,081	128	23,805	1,382	22,423
Less Earned Revenue	(1,196)	(6)	(10,171)	(683)	(9,488)
Net Program Cost	(115)	122	13,634	699	12,935
SECURITY PROGRAM					
Gross Cost	-	-	549	117	432
Less Earned Revenue	-	-	(14)	(9)	(5)
Net Program Cost	-	-	535	108	427
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(115)	122	18,634	2,504	16,130
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	13	-	500	-	500
Total Net Cost of (Revenue From) Treasury Operations	$ (102)	$ 122	$ 19,134	$ 2,504	$ 16,630

20. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-Organizations (in millions) (con't):

For Fiscal Year Ended September 30, 2018

Program Costs	Bureau of Engraving & Printing	Bureau of the Fiscal Service	Depart-mental Office[(a)]	Financial Crimes Enforcement Network	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM						
Gross Cost	$ -	$ 2,216	$ 6,909	$ -	$ -	$ -
Less Earned Revenue	-	(363)	(3,290)	-	-	-
Net Program Cost	-	1,853	3,619	-	-	-
ECONOMIC PROGRAM						
Gross Cost	774	-	12,693	-	13,214	1,711
Less Earned Revenue	(772)	-	(7,860)	-	(566)	(1,652)
Net Program Cost	2	-	4,833	-	12,648	59
SECURITY PROGRAM						
Gross Cost	-	-	408	124	-	-
Less Earned Revenue	-	-	(32)	(3)	-	-
Net Program Cost	-	-	376	121	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	2	1,853	8,828	121	12,648	59
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	116	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$ 2	$ 1,853	$ 8,944	$ 121	$ 12,648	$ 59

(a) The total $4.8 billion of net cost reported by DO for the Economic Program consisted of $4.0 billion from GSEs. The remaining net costs consisted of net costs from other DO programs or offices.

20. CONSOLIDATED STATEMENT OF NET COST AND NET COSTS OF TREASURY SUB-ORGANIZATIONS (IN MILLIONS) (CON'T):

For Fiscal Year Ended September 30, 2018

Program Costs	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2018 Consolidated
FINANCIAL PROGRAM					
Gross Cost	$ -	$ -	$ 9,125	$ 2,141	$ 6,984
Less Earned Revenue	-	-	(3,653)	(699)	(2,954)
Net Program Cost	-	-	5,472	1,442	4,030
ECONOMIC PROGRAM					
Gross Cost	1,282	123	29,797	1,395	28,402
Less Earned Revenue	(1,247)	(6)	(12,103)	(505)	(11,598)
Net Program Cost	35	117	17,694	890	16,804
SECURITY PROGRAM					
Gross Cost	-	-	532	66	466
Less Earned Revenue	-	-	(35)	(28)	(7)
Net Program Cost	-	-	497	38	459
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	35	117	23,663	2,370	21,293
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	(3)	-	113	-	113
Total Net Cost of (Revenue From) Treasury Operations	$ 32	$ 117	$ 23,776	$ 2,370	$ 21,406

21. Additional Information Related to the Combined Statements of Budgetary Resources

Undelivered Orders

Undelivered orders represent goods and services ordered and obligated which have not been received. This includes any orders for which we have paid in advance, but for which delivery or performance has not yet occurred. Undelivered orders as of September 30, 2019 and 2018 consisted of the following:

		2019			2018		
(in millions)		**Federal**	**Non-Federal**	**Total**	**Federal**	**Non-Federal**	**Total**
Paid	$	**4 $**	**9 $**	**13** $	4 $	10 $	14
Unpaid		**471**	**6,478**	**6,949**	436	8,443	8,879
Undelivered Orders at the End of the Year	**$**	**475 $**	**6,487 $**	**6,962** $	440 $	8,453 $	8,893

Contributed Capital

Contributed capital represents the current year authority and prior year balances of amounts actually transferred through non-expenditure transfers to miscellaneous receipt accounts of the General Fund to repay a portion of a capital investment or transfer seigniorage and numismatic profits (refer to Note 19). Contributed capital for the fiscal years ended September 30, 2019 and 2018 was $9 million and $48 million, respectively.

Terms of Borrowing Authority Used

Several of our programs have authority to borrow under the FCRA, as amended. The FCRA provides indefinite borrowing authority to financing accounts to fund the unsubsidized portion of direct loans and to satisfy obligations in the event the financing account's resources are insufficient. OMB Circular No. A-11 defines repayment requirements. Interest expense due is calculated based on the beginning balance of borrowings outstanding and the borrowings/repayments activity that occurred during the fiscal year. Undisbursed Departmental borrowings earn interest at the same rate as the financing account pays on its debt owed to the Fiscal Service. In the event that principal and interest collections exceed the interest expense due, we receive the excess payment. If principal and interest do not exceed interest expense due, we will borrow the difference. We make periodic principal repayments based on the analysis of cash balances and future disbursement needs. All interest on borrowings is due on September 30. Interest rates on FCRA borrowings range from 1.92 percent to 6.36 percent.

Available Borrowing

The available borrowing authority and related changes in available borrowing authority as of and for the fiscal years ended September 30, 2019 and 2018 are shown below:

(in millions)		2019	2018
Beginning Balance	**$**	**6,523** $	6,600
Current Authority		**125**	265
Borrowing Authority Withdrawn		**(20)**	-
Borrowing Authority Converted to Cash		**(380)**	(342)
Ending Balance	**$**	**6,248** $	6,523

RECONCILIATION OF THE PRESIDENT'S BUDGET

The Budget of the United States (also known as the President's Budget), with actual numbers for FY 2019, was not published at the time that these financial statements were issued. The FY 2021 President's Budget is expected to be published in February 2020, will be located on the OMB website, and will be available from the U.S. Government Publishing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the FY 2018 AFR and the actual FY 2018 balances included in the FY 2020 President's Budget.

Reconciliation of FY 2018 Combined Statement of Budgetary Resources to the FY 2020 President's Budget

(in millions)	Budgetary Resources	New Obligations and Upward Adjustments	Outlays (net of offsetting collections)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources (SBR) Amounts	$ 882,312	$ 568,651	$ 559,767	$ (61,467)	$ 498,300
IRS non-entity tax credit payments and other outlays not in SBR [1]	142,217	142,217	133,829	-	133,829
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico not in SBR	446	446	446	-	446
Expired funds in SBR	(481)	-	-	-	-
Non-Treasury offsetting receipts	-	-	-	(258)	(258)
Other	(314)	(313)	(2)	-	(2)
President's Budget Amounts	**$ 1,024,180**	**$ 711,001**	**$ 694,040**	**$ (61,725)**	**$ 632,315**

[1] *These are primarily refundable Earned Income Tax Credit, Refundable Premium Tax Credit and Child Tax Credit, reported with refunds as custodial activities in our financial statements and thus are not reported as budgetary resources.*

LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

The use of unobligated balances is restricted based on annual legislation requirements or enabling authorities. Funds are presumed to be available for only one fiscal year unless otherwise noted in the annual appropriation language. Unobligated balances in unexpired Treasury account fund symbols are available in the next fiscal year for new obligations unless some restrictions have been placed on those funds by law. In those situations, the restricted funding will be temporarily unavailable until such time as the reasons for the restriction have been satisfied or legislation has been enacted to remove the restriction.

Amounts in expired Treasury account fund symbols are not available for new obligations, but may be used to make adjustments to reflect, and make disbursements to liquidate, obligations that were created before the budgetary authority expired.

22. Sources and Disposition of Custodial Revenue

We collect the majority of federal revenue from income and excise taxes. The table below shows collection activity, by revenue type and tax year, for the fiscal years ended September 30, 2019 and 2018:

(in millions)	Tax Year 2019	2018	2017	Pre-2017	2019 Collections
Individual Income and FICA Taxes	**$ 2,022,987**	**$ 1,087,931**	**$ 37,286**	**$ 28,202**	**$ 3,176,406**
Corporate Income Taxes	**181,559**	**85,323**	**4,116**	**6,060**	**277,058**
Estate and Gift Taxes	**809**	**13,683**	**1,483**	**1,590**	**17,565**
Excise Taxes	**65,221**	**34,960**	**63**	**322**	**100,566**
Railroad Retirement Taxes	**4,850**	**1,368**	**-**	**1**	**6,219**
Unemployment Taxes	**4,479**	**1,800**	**43**	**116**	**6,438**
Fines, Penalties, Interest & Other Revenue - Tax Related	**144**	**-**	**-**	**1**	**145**
Tax Related Revenue Received	**2,280,049**	**1,225,065**	**42,991**	**36,292**	**3,584,397**
Deposit of Earnings, Federal Reserve System	**39,373**	**13,420**	**-**	**-**	**52,793**
Fines, Penalties, Interest & Other Revenue - Non-Tax Related	**4,394**	**1,052**	**-**	**-**	**5,446**
Non-Tax Related Revenue Received	**43,767**	**14,472**	**-**	**-**	**58,239**
Total Revenue Received	**$ 2,323,816**	**$ 1,239,537**	**$ 42,991**	**$ 36,292**	**$ 3,642,636**
Less Amounts Collected for Non-Federal Entities					**454**
Total					**$ 3,642,182**

(in millions)	Tax Year 2018	2017	2016	Pre-2016	2018 Collections
Individual Income and FICA Taxes	$ 1,932,522	$ 1,096,726	$ 33,528	$ 26,982	$ 3,089,758
Corporate Income Taxes	150,279	99,699	1,725	11,039	262,742
Estate and Gift Taxes	82	20,874	1,146	1,764	23,866
Excise Taxes	69,071	24,917	64	215	94,267
Railroad Retirement Taxes	4,929	1,390	1	4	6,324
Unemployment Taxes	4,554	4,103	40	110	8,807
Fines, Penalties, Interest & Other Revenue - Tax Related	255	1	-	-	256
Tax Related Revenue Received	2,161,692	1,247,710	36,504	40,114	3,486,020
Deposit of Earnings, Federal Reserve System	52,639	18,111	-	-	70,750
Fines, Penalties, Interest & Other Revenue - Non-Tax Related	4,555	901	-	-	5,456
Non-Tax Related Revenue Received	57,194	19,012	-	-	76,206
Total Revenue Received	$ 2,218,886	$ 1,266,722	$ 36,504	$ 40,114	$ 3,562,226
Less Amounts Collected for Non-Federal Entities					455
Total					$ 3,561,771

AMOUNTS PROVIDED TO FUND THE U.S. GOVERNMENT

For the fiscal years ended September 30, 2019 and 2018, collections of custodial revenue transferred to other federal entities were as follows:

(in millions)	2019	2018
General Fund	$ **3,188,795**	$ 3,096,941
Other Federal Agencies	**953**	663
Total	$ **3,189,748**	$ 3,097,604

FEDERAL TAX REFUNDS AND OTHER PAYMENTS

Federal tax refunds and other payments include amounts paid to taxpayers who have paid more than the actual taxes they owe, as well as payments for various refundable tax credits. Refunds and other payments, by revenue type and tax year, were as follows for the years ended September 30, 2019 and 2018:

	Tax Year				
(in millions)	2019	2018	2017	Pre-2017	2019 Refunds/ Payments
Individual Income and FICA Taxes	$ **58,150**	$ **301,039**	$ **30,051**	$ **8,580**	$ **397,820**
Corporate Income Taxes	**3,919**	**14,769**	**10,737**	**21,867**	**51,292**
Estate and Gift Taxes	**-**	**218**	**441**	**269**	**928**
Excise Taxes	**617**	**850**	**250**	**244**	**1,961**
Railroad Retirement Taxes	**-**	**2**	**10**	**154**	**166**
Unemployment Taxes	**-**	**230**	**13**	**24**	**267**
Total	$ **62,686**	$ **317,108**	$ **41,502**	$ **31,138**	$ **452,434**

	Tax Year				
(in millions)	2018	2017	2016	Pre-2016	2018 Refunds/ Payments
Individual Income and FICA Taxes	$ 54,368	$ 307,878	$ 29,831	$ 9,314	$ 401,391
Corporate Income Taxes	4,827	25,870	9,197	20,195	60,089
Estate and Gift Taxes	-	279	353	290	922
Excise Taxes	410	642	140	443	1,635
Railroad Retirement Taxes	-	4	(1)	1	4
Unemployment Taxes	-	84	17	24	125
Fines, Penalties, Interest & Other Revenue	-	-	-	1	1
Total	$ 59,605	$ 334,757	$ 39,537	$ 30,268	$ 464,167

FEDERAL TAX REFUNDS AND OTHER AMOUNTS PAYABLE

As of September 30, 2019 and 2018, refunds and other amounts payable consisted of the following:

(in millions)	2019	2018
Internal Revenue Service	$ **2,923**	$ 2,975
Alcohol and Tobacco Tax and Trade Bureau	**16**	19
Total	$ **2,939**	$ 2,994

23. Funds From Dedicated Collections

The ESF represents the majority of our FDC activities. In addition, such funds managed by BEP, Mint, and OCC (our non-appropriated bureaus) and certain funds managed by the IRS are public enterprise (or revolving) funds and receive no appropriations from the Congress. Fiscal Service, DO, IRS, OFR, TFF, and the CDFI Fund manage other miscellaneous FDCs.

The following is a list of FDCs and a brief description of the purpose, accounting, and uses of these funds.

Bureau	Fund Code	Fund Title/Description
Exchange Stabilization Fund (ESF)		
ESF	020X4444	Exchange Stabilization Fund
Public Enterprise/Revolving Funds		
BEP	020X4502	Bureau of Engraving and Printing Fund
Mint	020X4159	United States Mint Public Enterprise Fund
OCC	020X8413	Assessment Funds
IRS	020X4413	Federal Tax Lien Revolving Fund
Other FDC Funds		
Fiscal Service	020X5080	Gifts to Reduce Public Debt
Fiscal Service	020X5081	Presidential Election Campaign
Fiscal Service	020X8625	Gulf Coast Restoration Trust Fund
Fiscal Service	020X8902	Esther Cattell Schmitt Gift Fund
Fiscal Service	5805585	Travel Promotion Fund, Corp for Travel Promotion
Fiscal Service	580X5585	Travel Promotion Fund, Corp for Travel Promotion
Fiscal Service	020X5581	HOPE Reserve Fund
Fiscal Service	0205445002	Debt Collection Special Fund
Fiscal Service	0205445003	Debt Collection Special Fund
Fiscal Service	0203/45445	Debt Collection Special Fund
Fiscal Service	0204/55445	Debt Collection Special Fund
Fiscal Service	0205/65445	Debt Collection Special Fund
Fiscal Service	0206/75445	Debt Collection Special Fund
Fiscal Service	0207/85445	Debt Collection Special Fund
Fiscal Service	0208/95445	Debt Collection Special Fund
Fiscal Service	0209/05445	Debt Collection Special Fund
Fiscal Service	0205680001	Taxes, Duties and Fees, Guam World War II Claims Fund
DO	020X8790	Gifts and Bequests Trust Fund
IRS	020X5510	Private Collection Agency Program
IRS	020X5433	Informant Reimbursement
IRS	020X5622	Special Compliance Personnel Program Account
OFR	020X5590	Financial Research Fund
TFF	020X5697	Treasury Forfeiture Fund
CDFI	020X8524	Capital Magnet Fund

Pursuant to the legal authority found in Section 10 of the *Gold Reserve Act of 1934*, as amended, the Secretary, through the ESF, may purchase or sell foreign currencies, hold foreign exchange investments and SDR assets, and may provide financing to foreign governments and foreign entities. The ESF accounts for and reports its holdings to the Fiscal Service on the Standard Form 224, "*Statement of Transactions*," and provides other reports to Congress. Interest on SDRs in the IMF, investments in Treasury securities, and investments in foreign currency assets are the ESF's primary sources of revenue. The ESF's earnings and realized gains on foreign currency assets represent inflows of resources to the government, and the interest revenues earned from Treasury securities are the result of intra-departmental flows.

The BEP, Mint, OCC, and IRS operate "public enterprise/revolving funds" to account for all or some of their respective revenues and expenses. 31 USC 5142 established the Bureau of Engraving and Printing Fund for BEP to account for revenue and expenses related to the currency printing activities. P.L. 104-52 (31 USC 5136) established the Public Enterprise Fund for the Mint to account for all revenue and expenses related to the production and sale of numismatic products and circulating coinage. Revenues and other financing sources at the Mint are mainly from the sale of numismatic and bullion products and the sale of circulating coins to the FRB system. These revenues represent inflows of resources to the government. 12 USC 481 established the Assessment Funds for OCC. Revenue and financing sources are from the bank assessments for the oversight of the national banks, federal savings associations, and federal branches and agencies of foreign banks. These non-appropriated funds contribute to the inflows of resources to the government to specifically fund these entities' operations. 26 USC 7810 established the Federal Tax Lien Revolving Fund to account for revenue and expenses from the sale of property foreclosed upon by a holder of a lien. Such revenue represents inflows of resources to the U.S. government. There are minimal transactions with other government agencies.

There are other FDCs at several of our bureaus, such as donations to the Presidential Election Campaign Fund, gifts to reduce the public debt, and other enforcement related activities. Public laws and the U.S. Code established and authorized the use of these funds. Sources of revenues and other financing sources include contributions, cash and property forfeited in enforcement activities, public donations, and other allocations, all which represent inflows to the government.

Intra-governmental Investments in Treasury Securities

The U.S. government does not set aside assets to pay future benefits or other expenditures associated with FDCs. Our bureaus and other federal agencies invest some of the funds that they collect from the public, if they have the statutory authority to do so, in Treasury securities. The Fiscal Service collects cash and makes deposits in the General Fund, which is then available for general government purposes.

When our bureaus or other federal agencies redeem these securities to make expenditures, the government finances those redemptions out of accumulated cash balances, by collecting taxes or other receipts, by borrowing from the public, or by curtailing expenditures. This is the same way that the government finances all other expenditures.

The securities are an asset to our bureaus and other federal agencies and a liability of the General Fund. Because our bureaus and other federal agencies are parts of the U.S. government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Our financial statements do not display the balances related to the investments made by our bureaus because the bureaus are subcomponents of the Department. However, the General Fund remains liable to the Fiscal Service for the invested balances and the Fiscal Service remains liable to the investing bureaus (refer to Note 4).

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2019

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving Funds	Other FDC Funds	Combined FDC Funds
ASSETS				
Fund Balance	$ -	$ 1,141	$ 1,274	$ 2,415
Investments and Related Interest - Intra-governmental	22,622	1,967	2,749	27,338
Cash, Foreign Currency and Other Monetary Assets	64,086	-	61	64,147
Investments and Related Interest	6,614	-	-	6,614
Other Assets	-	1,363	200	1,563
Total Assets	$ 93,322	$ 4,471	$ 4,284	$ 102,077
LIABILITIES				
Intra-governmental Liabilities	$ -	$ 28	$ 1,243	$ 1,271
Certificates Issued to the Federal Reserve	5,200	-	-	5,200
Allocation of Special Drawing Rights	48,146	-	-	48,146
Other Liabilities	75	698	136	909
Total Liabilities	53,421	726	1,379	55,526
Net Position				
Unexpended Appropriations	200	-	-	200
Cumulative Results of Operations	39,701	3,745	2,905	46,351
Total Liabilities and Net Position	$ 93,322	$ 4,471	$ 4,284	$ 102,077
Statement of Net Cost				
Gross Cost	$ 5,670	$ 3,359	$ 816	$ 9,845
Less: Earned Revenue	(5,932)	(3,501)	(376)	(9,809)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes	-	13	-	13
Total Net Cost of (Revenue From) Operations	$ (262)	$ (129)	$ 440	$ 49
Statement of Changes in Net Position				
Cumulative Results of Operations:				
Beginning Balance	$ 39,439	$ 3,756	$ 2,968	$ 46,163
Budgetary Financing Sources	-	-	157	157
Other Financing Sources	-	(140)	220	80
Total Financing Sources	-	(140)	377	237
Revenue From (Net Cost of) Operations	262	129	(440)	(49)
Change in Net Position	262	(11)	(63)	188
Ending Balance	$ 39,701	$ 3,745	$ 2,905	$ 46,351

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2018

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving Funds	Other FDC Funds	Combined FDC Funds
ASSETS				
Fund Balance	$ -	$ 1,328	$ 1,175	$ 2,503
Investments and Related Interest - Intra-governmental	22,314	1,834	2,899	27,047
Cash, Foreign Currency and Other Monetary Assets	64,834	-	39	64,873
Investments and Related Interest	7,045	-	-	7,045
Other Assets	-	1,351	194	1,545
Total Assets	$ 94,193	$ 4,513	$ 4,307	$ 103,013
LIABILITIES				
Intra-governmental Liabilities	$ -	$ 30	$ 1,205	$ 1,235
Certificates Issued to the Federal Reserve	5,200	-	-	5,200
Allocation of Special Drawing Rights	49,274	-	-	49,274
Other Liabilities	80	727	134	941
Total Liabilities	54,554	757	1,339	56,650
Net Position				
Unexpended Appropriations	200	-	-	200
Cumulative Results of Operations	39,439	3,756	2,968	46,163
Total Liabilities and Net Position	$ 94,193	$ 4,513	$ 4,307	$ 103,013
Statement of Net Cost				
Gross Cost	$ 7,596	$ 3,767	$ 772	$ 12,135
Less: Earned Revenue	(7,619)	(3,671)	(325)	(11,615)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes	-	(3)	-	(3)
Total Net Cost of (Revenue From) Operations	$ (23)	$ 93	$ 447	$ 517
Statement of Changes in Net Position				
Cumulative Results of Operations:				
Beginning Balance	$ 39,416	$ 3,717	$ 3,718	$ 46,851
Budgetary Financing Sources	-	-	(594)	(594)
Other Financing Sources	-	132	291	423
Total Financing Sources	-	132	(303)	(171)
Revenue From (Net Cost of) Operations	23	(93)	(447)	(517)
Change in Net Position	23	39	(750)	(688)
Ending Balance	$ 39,439	$ 3,756	$ 2,968	$ 46,163

24. Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs to Agency Outlays, Net

The Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs (referred to as "Net Cost" for purposes of this note) to Agency Outlays, Net (referred to as "Net Outlays" for purposes of this note) depicts the difference between proprietary information and budgetary accounting information. Proprietary financial accounting information is intended to depict the U.S. government's financial operations and financial position presented on an accrual basis in accordance with GAAP, which includes the recognition of assets and liabilities for which collections and payments, respectively, have or have not been made. In contrast, budgetary accounting information is used for planning and control purposes, and includes net outlays that reflect both the receipt and use of cash, as well as reporting of the federal deficit. "*Agency Outlays, Net*" also includes $73.2 billion of interest accrued on outstanding public debt and $61.4 billion of net amortization of discounts on outstanding public debt. These amounts represent non-cash outlays that have not yet been disbursed. The reconciliation of Net Cost (presented on an accrual basis) and Net Outlays (presented on a budgetary basis) reflects the relationship between proprietary accounting and budgetary information. The reconciliation serves not only to identify costs paid in the past and those that will be paid in the future, but also to assure integrity between financial and budgetary accounting. The following is a description of principal transactions that result in differences between the Department's proprietary net costs and budgetary net outlays:

- Net unrealized loss on investments in GSEs – cost related to unrealized loss from the valuation adjustment of the preferred and common stock investments in the GSEs, partially offset by gains from increase in liquidation preference in GSE preferred stock. They represent cost as a component of Net Cost which is not part of Net Outlays.

- GSEs guarantee fee collections – fees collected on behalf of the U.S. government in accordance with P.L. 112-78 (refer to Note 10). They represent custodial collections recognized as a component of Net Outlays but not a component of Net Cost.

For the fiscal year ended September 30, 2019, the Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs to Agency Outlays, Net consisted of the following:

(in millions)	Intra-governmental	With the Public	FY 2019 Total
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 133,093**	**$ 409,527**	**$ 542,620**
Components of Net Cost Not Part of Net Outlays			
Net Unrealized Loss on Investments in GSEs	**-**	**(1,080)**	**(1,080)**
Property, Plant, and Equipment Depreciation	**-**	**(551)**	**(551)**
Other	**56**	**514**	**570**
Increase/(Decrease) in Assets Not Affecting Net Outlays:			
Accounts Receivable	**486**	**(14)**	**472**
Loans Receivable	**-**	**(113)**	**(113)**
Other Assets	**(9)**	**27**	**18**
(Increase)/Decrease in Liabilities Not Affecting Net Outlays:			
Interest Payable	**440**	**-**	**440**
Other Liabilities	**(327)**	**(461)**	**(788)**
Other Financing Sources:			
Imputed Financing Sources	**(807)**	**-**	**(807)**
Transfers Out (In) Without Reimbursement	**766**	**-**	**766**
Other Financing Sources	**(217)**	**-**	**(217)**
Total Components of Net Cost Not Part of Net Outlays	**388**	**(1,678)**	**(1,290)**
Components of Net Outlays That Are Not Part of Net Cost			
Acquisition of Capital Assets	**1**	**259**	**260**
GSEs Guarantee Fee Collections	**-**	**(3,903)**	**(3,903)**
Other	**200**	**51**	**251**
Total Components of Net Outlays That Are Not Part of Net Cost	**201**	**(3,593)**	**(3,392)**
Agency Outlays, Net	**$ 133,682**	**$ 404,256**	**$ 537,938**

25. Schedule of Fiduciary Activity

We have identified the following 22 funds as meeting the criteria for fiduciary activity. Details of the funds are provided below.

Bureau	Fund Code	Authority	Fund Title/Description
Fiscal Service	020X6133	31 USC 1322	Payment of Unclaimed Monies
BEP	020X6513.013	31 USC 5119	Mutilated Currency Claims Funds
Fiscal Service	020X6045	31 USC 3328	Proceeds, Payments of Unpaid Checks
Fiscal Service	020X6048	31 USC 3329, 3330	Proceeds of Withheld Foreign Checks
Fiscal Service	020015X6078	50 APP. USC 2012	War Claims Fund, Foreign Claims Settlement Commission
Fiscal Service	020X6092	31 USC 1321	Debt Management Operations
Fiscal Service	020X6104	22 USC 1627	Albanian Claims Fund, Treasury
Fiscal Service	020X6210	22 USC 1623	Iraq Claims Settlement Fund
Fiscal Service	020X6309	22 USC 1627(a)	Libyan Claims Settlement Fund
Fiscal Service	020X6310	22 USC 1627(a)	Libyan Claims Settlement Fund
Fiscal Service	020X6312	22 USC 1627	Iranian Claims Settlement Fund
Fiscal Service	020X6314	22 USC 1644g	German Democrat Settlement Fund
Fiscal Service	020X6315	22 USC 1645h	Vietnam Claims Settlement Fund
Fiscal Service	020X6501.018	31 USC 3513	Small Escrow Amounts
Fiscal Service	020X6720	31 USC 3513	Small Difference Account for Deposit and Check Adjustments
Fiscal Service	020X6830	104 Stat. 1061	Net Interest Payments to/from State
Fiscal Service	020X6999	31 USC 3513	Accounts Payable, Check Issue Underdrafts
Fiscal Service	020X6317.001	22 USC 2431	Belize Escrow, Debt Reduction
IRS	020X6737	90 Stat. 269-270	Internal Revenue Collections for Northern Mariana Island
IRS	020X6738	31 USC 3513	Coverover Withholdings-U.S. Virgin Islands
IRS	020X6740	31 USC 3515	Coverover Withholdings-Guam
IRS	020X6741	31 USC 3513	Coverover Withholdings-American Samoa

"Payment of Unclaimed Monies" is a fund authorized by 31 USC 1322, permitting the Fiscal Service to collect unclaimed monies on behalf of the public. Our other fiduciary activities as listed above are included in All Other Fiduciary Funds.

Schedule of Fiduciary Activity

(in millions)	2019 Payment of Unclaimed Monies Fund	2019 All Other Fiduciary Funds	2019 Total Fiduciary Funds	2018 Payment of Unclaimed Monies Fund	2018 All Other Fiduciary Funds	2018 Total Fiduciary Funds
Fiduciary Net Assets, Beginning of the Year	**$ 749**	**$ 55**	**$ 804**	$ 696	$ 98	$ 794
Increases:						
Contributions to Fiduciary Net Assets	**54**	**609**	**663**	54	448	502
Investment earnings	-	-	-	-	1	1
Total Increases	**54**	**609**	**663**	54	449	503
Decreases:						
Disbursements to and on behalf of beneficiaries	-	**(498)**	**(498)**	(1)	(492)	(493)
Total Decreases	-	**(498)**	**(498)**	(1)	(492)	(493)
Net Increase (Decrease) in Fiduciary Assets	**54**	**111**	**165**	53	(43)	10
Fiduciary Net Assets, End of Year	**$ 803**	**$ 166**	**$ 969**	$ 749	$ 55	$ 804

Schedule of Fiduciary Net Assets

(in millions)	2019 Payment of Unclaimed Monies Fund	2019 All Other Fiduciary Funds	2019 Total Fiduciary Funds	2018 Payment of Unclaimed Monies Fund	2018 All Other Fiduciary Funds	2018 Total Fiduciary Funds
Fiduciary Net Assets						
Cash and Cash Equivalents						
Fund Balance with Treasury	$ **803**	$ **54**	$ **857**	$ 749	$ 46	$ 795
Investments						
Investments in Treasury Securities	**-**	**112**	**112**	-	14	14
Total Fiduciary Assets	**803**	**166**	**969**	749	60	809
Less: Fiduciary Liabilities	-	-	-	-	(5)	(5)
Total Fiduciary Net Assets	$ **803**	$ **166**	$ **969**	$ 749	$ 55	$ 804

26. COMMITMENTS AND CONTINGENCIES

LEGAL CONTINGENCIES

We are a party in various administrative proceedings, legal actions, and claims, which may ultimately result in settlements or decisions adverse to the U.S. government. These contingent liabilities arise in the normal course of operations, and their ultimate disposition is unknown. We disclose contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. We do not accrue for possible losses related to cases where we cannot estimate the potential loss or the likelihood of an unfavorable outcome is less than probable.

In some cases, a portion of any loss that may occur may be paid by our Judgment Fund, which is separate from our operating resources. For cases related to the *Contract Disputes Act of 1978* (P.L. 95-563) and awards under federal anti-discrimination and whistle-blower protection acts, we must reimburse the Judgment Fund from future appropriations.

In the opinion of our management and legal counsel, based on information available as of the date of this report, the expected outcome of other legal actions, individually or in the aggregate, will not have a materially adverse effect on our consolidated financial statements, except for the pending legal actions described below which may have a materially adverse impact on our consolidated financial statements depending on the outcomes of the cases.

Pending Legal Actions

- *Tribal Trust Fund Cases:* Native American tribes have filed numerous cases in the U.S. District Courts seeking a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds, and also seeking an order requiring the U.S. government to provide such an accounting. In addition, there are a number of other related cases seeking damages in the U.S. Court of Federal Claims, which do not name us as a defendant. The U.S. government is currently in discussion with counsel representing most of the remaining plaintiff tribes with tribal trust fund cases pending against the U. S. about the feasibility of an out-of-court settlement. Plaintiff tribes in several of the pending cases have chosen to pursue active litigation, rather than settlement discussion, and the U.S. government is

litigating those cases vigorously. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *GSE Related Cases:* A number of cases were filed in the U.S. Court of Federal Claims and U.S. District Courts in which the plaintiffs allege, among other things, that the U.S. government took their property, breached contractual rights of preferred and common stockholders, and breached fiduciary duties when the third amendments to the SPSPAs between us and each GSE were executed in August 2012 (refer to Note 10). One case also alleges that the U.S. government took plaintiffs' property and contractual rights when the GSEs were placed into conservatorship and entered into the SPSPAs with us in September 2008. In the U.S. Court of Federal Claims, the plaintiffs seek just compensation and other damages from the U.S. government. In the U.S. District Courts, the plaintiffs seek to set aside the third amendments to the SPSPAs as well as damages, and in some cases a declaration that the FHFA's structure violates the separation of powers. Cases in the U.S. District Court for the District of Delaware and the U.S. District Court for the Northern District of Iowa have been dismissed by those District Courts, and the Third and Eighth Circuit Courts of Appeals affirmed the dismissals. A case in the U.S. District Court for the Southern District of Texas was dismissed by that District Court; and the Fifth Circuit Court of Appeals affirmed dismissal of all claims against the Department but allowed one claim against the FHFA to proceed. The plaintiffs have sought review in the Supreme Court of their claim that the FHFA's structure violates the separation of powers, and the Solicitor General is considering whether to seek further review in the Supreme Court of the claim the court of appeals allowed to proceed. A case in the U.S. District Court for the District of Minnesota was dismissed by that District Court, and an appeal is pending. Cases in the Western District of Michigan and Eastern District of Pennsylvania remain in litigation, and motions to dismiss are pending. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss in these cases at this time.

- *Unredeemed Savings Bonds Related Cases:* A number of plaintiffs filed claims in the U.S. Court of Federal Claims requesting that we redeem matured savings bonds not possessed by the applicable states, but which have registered owners with last known addresses in those states. We informed the applicable states we would not redeem these savings bonds since those states were not the registered owners of the bonds. On August 20, 2015, the U.S. Court of Federal Claims partially dismissed one claim and denied the U.S. government's motion to dismiss with respect to other claims. On August 8, 2017, the court ruled in favor of two states, and the U.S. government appealed. On August 13, 2019, the Court of Appeals for the Federal Circuit reversed the August 8, 2017 ruling, and the two states filed a petition for a rehearing on September 27, 2019. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *Adam Steele, Brittany Montrois, and Joseph Henchman v. United States:* The plaintiffs filed a class claim in the U.S. District Court for the District of Columbia seeking refunds of all user fees paid, plus interest, to obtain a preparer tax identification number (PTIN). Additionally, the plaintiffs seek to force us to cease charging a user fee to obtain a PTIN and asking for more information than is necessary to issue a PTIN. On June 1, 2017, the U.S. District Court for the District of Columbia found for the plaintiffs in the previously mentioned matters, and the U.S. government appealed. In March 2019, the U.S. Court of Appeals for the District of Columbia Circuit reversed the lower court's opinion and determined that we are entitled to charge a PTIN user fee. The case was remanded back to the lower court to determine

the appropriate amount of the fee. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *Anonymous Whistleblower Cases:* A number of whistleblower cases were filed in the U.S. Tax Court under seal, appealing the denial of an award by the IRS Whistleblower Office. The anonymous claimants allegedly provided confidential information about tax fraud committed by multiple taxpayers to the IRS. The U.S. Tax Court is currently holding these cases in abeyance until it determines the scope and standard of review it will follow. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.
- *American Recovery and Reinvestment Tax Act of 2009 (ARRA) Related Cases:* A number of cases were filed in the U.S. Court of Federal Claims alleging that the U.S. government violated statutory and regulatory mandates to make proper payments to plaintiffs under ARRA, Section 1603, for having placed certain energy properties into service. As of September 30, 2019 and 2018, we have determined there is a reasonably possible likelihood of an unfavorable outcome in some of the cases totaling $460 million and $489 million, respectively. On October 28, 2016, the U.S. Court of Federal Claims entered judgment against the U. S. in the amount of $207 million in one of the cases. The U.S. government appealed the judgment, and on July 27, 2018, the Federal Circuit reversed the trial court's decision, vacated judgment, and remanded the case to the U.S. Court of Federal Claims for reassignment to a new judge. The case remains in litigation. Additional related cases with alleged damages of approximately $58 million have been filed. Two additional unrelated cases with alleged damages totaling $195 million remain in litigation.
- *Other Legal Actions:* We are also involved in employment related legal actions (e.g., matters alleging discrimination and other claims before federal courts, the Equal Employment Opportunity Commission, and the Merit Systems Protection Board) for which an unfavorable outcome is reasonably possible, but for which an estimate of potential loss cannot be determined at this time. We do not expect that these cases will have a material adverse effect on our consolidated financial position or results.

OTHER COMMITMENTS AND CONTINGENCIES

Loan Commitments

Through the FFB, we make loan commitments with federal agencies, or private sector borrowers with loans guaranteed by federal agencies, to extend them credit for their own use (refer to Notes 1L and 3). As of September 30, 2019 and 2018, we had remaining loan commitments totaling $17.8 billion and $14.4 billion, respectively.

In addition to the loan commitments, the FFB has agreements with agencies that permit FFB to issue loans up to amounts authorized in those agencies' annual program appropriations. The FFB also has agreements with the Federal Deposit Insurance Corporation (FDIC) and the Farm Credit System Insurance Corporation that permit FFB to issue loans up to a specified amount of $100 billion and $10 billion, respectively.

Multilateral Development Banks

On behalf of the U.S., we have subscribed to shares of certain MDBs, of which some shares represent capital commitments that are callable under certain limited circumstances to meet the obligations of the respective MDB. There has never been, nor is there anticipated, a call on the U.S. commitment for these subscriptions. As of September 30, 2019 and 2018, U.S. callable capital in MDBs was as follows:

(in millions)		2019	2018
Inter-American Development Bank	$	**49,181** $	49,181
International Bank for Reconstruction and Development		**43,521**	43,521
Asian Development Bank		**18,702**	18,702
African Development Bank		**5,608**	5,100
European Bank for Reconstruction and Development		**3,055**	3,055
North American Development Bank		**1,275**	1,275
Multilateral Investment Guarantee Agency[(1)]		**315**	315
Total	**$**	**121,657** $	121,149

(1) Both FY 2019 and 2018 include commitments of $22 million for the undisbursed portion of the subscription to paid-in capital investments.

Terrorism Risk Insurance Program

Congress originally enacted the *Terrorism Risk Insurance Act* in November 2002, to address market disruptions resulting from terrorist attacks on September 11, 2001. Most recently, the *Terrorism Risk Insurance Program Reauthorization Act of 2015* (P.L. 114-1) extended the Terrorism Risk Insurance Program (TRIP) until December 31, 2020. The TRIP helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The authority to pay claims under the TRIP is activated when the Secretary (in consultation with the Secretary of the Department of Homeland Security and the Attorney General of the United States) certifies an "act of terrorism." In the event of certification of an "act of terrorism," insurers may be eligible to receive reimbursement from the U.S. government for associated insured losses – assuming an aggregate insured loss threshold ("program trigger") has been reached – once a particular insurer has satisfied its designated deductible amount. For calendar years 2019 and 2018, the program trigger amount was $180 million and $160 million, respectively. This amount will increase by $20 million annually through calendar year 2020. Insured losses above insurer deductibles will be shared between insurance companies and the U.S. government. The TRIP includes both mandatory and discretionary authority for Treasury to recoup federal payments made under the TRIP through policyholder surcharges under certain circumstances, and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under the TRIP as of September 30, 2019 or 2018.

Exchange Stabilization Agreement

The North American Framework Agreement (NAFA), which we signed in 1994 and renew annually, is implemented by Treasury through the Exchange Stabilization Agreement (ESA) with Mexico. Treasury, through the ESF, offers Mexico a swap line with drawings contingent on certain conditions being met. Effective November 30, 2018, an amended and restated ESA increased the potential size of the swap line from $3.0 billion to $9.0 billion. The amounts and terms (including the assured source of repayment) of any swap arrangement under the NAFA and/or the ESA will have to be negotiated and agreed to before any actual drawing can occur. There were no drawings outstanding on the ESF swap line as of September 30, 2019 and 2018.

IMF Commitments

The U.S. participates in the IMF through a quota subscription and the NAB which is a borrowing arrangement that supplements IMF resources. As of September 30, 2019 and 2018, the U. S. financial commitment under the U.S. quota was SDR 83.0 billion, which was equivalent to $113.0 billion and $115.6 billion, respectively. Its financial commitment under the

NAB was SDR 28.2 billion as of September 30, 2019 and 2018, which was equivalent to $38.4 billion and $39.3 billion, respectively. Refer to Note 7 for further information.

Housing Programs Under TARP

We design housing programs under TARP to provide stability for both the housing market and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes until their financial position improves or they relocate to a more sustainable living situation, and to obtain other assistance designed to prevent foreclosures. As of September 30, 2019 and 2018, we had committed up to $33.1 billion and $33.4 billion, respectively, for these programs. Outstanding commitments totaled $3.0 billion and $4.7 billion as of September 30, 2019 and 2018, respectively. For FY 2019 and 2018, payments made on behalf of the housing programs under TARP totaled $1.5 billion and $2.2 billion, respectively, reported within the Financial Program on our Consolidated Statements of Net Cost.

Commitment to GSEs

The SPSPAs between us and each GSE, which have no expiration date, provide for us to disburse funds to the GSEs if, at the end of any quarter, the FHFA determines that the liabilities exceed the GSE's assets. At September 30, 2019 and 2018, our maximum remaining potential commitment to the GSEs was $254.1 billion. Refer to Note 10 for further information.

27. Reclassification of Agency Financial Statements to Financial Report of the U.S. Government Format

To prepare the *Financial Report of the U.S. Government* (FR), federal agencies submit to Fiscal Service a trial balance containing financial statement account ending balances and activity. Fiscal Service uses this trial balance information to reclassify agencies' account balances and activity in a manner that conforms to the format of the financial statement presentation in the FR. Our reclassified financial statements—including the Reclassified Balance Sheet, Reclassified Statement of Net Cost, and Reclassified Statement of Operations and Changes in Net Position—are accessed using the Government-wide Treasury Account Symbol Adjusted Trial Balance System. Fiscal Service eliminates all intragovernmental balances and activity between federal agencies in generating the FR consolidated financial statements. This note depicts how our AFR consolidated financial statements are adjusted to derive the FR reclassified financial statements prior to the elimination of intragovernmental balances and prior to the aggregation of repeated FR line items. A copy of the FY 2018 FR can be found on the Fiscal Service website and a copy of the FY 2019 FR will be posted to the site as soon as it is released.

Consolidated Balance Sheet As of September 30, 2019			
AFR Financial Statement Line	Amounts (in millions)	Amounts (in millions)	Reclassified Financial Statement Line
ASSETS			
Intra-governmental Assets			
Fund Balance	$ 415,327	$ 415,327	Fund Balance with Treasury
Loans and Interest Receivable	1,581,019	1,580,275	Loans Receivable
		744	Interest Receivable - Loans and Not Otherwise Classified
Total Loans and Interest Receivable	1,581,019	1,581,019	*Total*
Advances to Federal Supplementary Medical Insurance Trust Fund	3,152	3,152	Loans Receivable
Due From the General Fund	22,855,331	22,855,331	Other Assets
Other Intra-governmental Assets	1,011	1,008	Accounts Receivable
		3	Advances to Others and Prepayments
Total Other Intra-governmental Assets	1,011	1,011	*Total*
Total Intra-governmental Assets	**24,855,840**	**24,855,840**	**Total Intra-governmental Assets**
Cash, Foreign Currency, and Other Monetary Assets	441,365	441,365	Cash and Other Monetary Assets
Gold and Silver Reserves	11,062	11,062	Cash and Other Monetary Assets
Reserve Position in the International Monetary Fund	22,955	22,955	Cash and Other Monetary Assets
Taxes, Interest, and Other Receivables, Net	145,878	145,878	Accounts and Taxes Receivable
Credit Program Receivables, Net	4,867	4,867	Loans Receivable
Loans and Interest Receivable, Net	2,525	2,525	Loans Receivable
Investments in Government Sponsored Enterprises (GSEs)	112,070	112,070	Investment in GSEs
Investments in Multilateral Development Banks	7,773	7,773	Other Assets
Other Investments and Related Interest	6,631	6,631	Debt and Equity Securities
Property, Plant, and Equipment, Net	2,870	2,870	Property, Plant and Equipment
Other Assets	700	691	Inventory and Related Property
		9	Other Assets
Total Other Assets	700	700	*Total*
Total Assets	**$ 25,614,536**	**$ 25,614,536**	**Total Assets**
LIABILITIES			
Intra-governmental Liabilities			
Federal Debt and Interest Payable	$ 5,981,029	$ 5,942,206	Federal Debt
		38,823	Interest Payable - Debt
Total Federal Debt and Interest Payable	5,981,029	5,981,029	*Total*
Other Debt and Interest Payable	8,869	8,809	Federal Debt
		60	Interest Payable - Debt
Total Other Debt and Interest Payable	8,869	8,869	*Total*
Due To the General Fund	2,213,616	2,213,616	Liability to the General Fund for Custodial and Other Non-Entity Assets

Consolidated Balance Sheet As of September 30, 2019			
AFR Financial Statement Line	Amounts (in millions)	Amounts (in millions)	Reclassified Financial Statement Line
Other Intra-governmental Liabilities	632	102	Accounts Payable
		289	Transfers Payable
		180	Benefit Program Contributions Payable
		35	Advances from Others and Deferred Credits
		6	Liability to Agency Other Than the General Fund for Custodial and Other Non-Entity Assets
		20	Other Liabilities (without Reciprocals)
Total Other Intra-governmental Liabilities	632	632	*Total*
Total Intra-governmental Liabilities	**8,204,146**	**8,204,146**	**Total Intra-governmental Liabilities**
Federal Debt and Interest Payable	16,839,627	16,839,627	Federal Debt Securities Held by the Public and Accrued Interest
Special Drawing Right Certificates Issued to the Federal Reserve	5,200	5,200	Other Liabilities
Allocation of Special Drawing Rights	48,146	48,146	Other Liabilities
Gold Certificates Issued to the Federal Reserve Banks	11,037	11,037	Other Liabilities
Refunds Payable	2,939	2,939	Accounts Payable
D.C. Federal Pension and Judicial Retirement Actuarial Liability	8,398	8,398	Other Liabilities
Other Liabilities	5,467	621	Accounts Payable
		684	Federal Employee and Veteran Benefits Payable
		1	Loan Guarantee Liabilities
		4,161	Other Liabilities
Total Other Liabilities	5,467	5,467	*Total*
Total Liabilities	**25,124,960**	**25,124,960**	**Total Liabilities**
NET POSITION			
Unexpended Appropriations:			
Funds from Dedicated Collections	200	200	Net Position - Funds from Dedicated Collections
Other Funds	419,396	419,396	Net Position - Funds Other than Those from Dedicated Collections
Cumulative Results of Operations:			
Funds from Dedicated Collections	46,351	46,351	Net Position - Funds from Dedicated Collections
Other Funds	23,629	23,629	Net Position - Funds Other than Those from Dedicated Collections
Total Net Position (Combined Totals)	**489,576**	**489,576**	**Total Net Position**
Total Liabilities and Net Position	**$ 25,614,536**	**$ 25,614,536**	**Total Liabilities and Net Position**

AFR Financial Statement Line		Amounts (in millions)	Amounts (in millions)	Reclassified Financial Statement Line
Consolidated Statement of Net Cost For the Fiscal Year Ended September 30, 2019				
Cost of Treasury Operations:				
Total Program Gross Costs	$	29,069	$ 24,219	Non-Federal Gross Costs
				Intra-governmental Costs
			1,860	Benefit Program Costs
			807	Imputed Costs
			1,416	Buy/Sell Cost
			1	Purchase of Assets
			281	Federal Securities Interest Expense
			486	Other Expenses (without Reciprocals)
			(1)	Purchase of Assets Offset
			4,850	*Total Intra-governmental Costs*
Total Program Gross Costs		**29,069**	**29,069**	**Total**
Total Program Gross Earned Revenues		(12,939)	(9,865)	Non-Federal Earned Revenue
				Intra-governmental Revenue
			(279)	Buy/Sell Revenue
			(2,257)	Borrowing and Other Interest Revenue
			(538)	Borrowing Gains
			(3,074)	*Total Intra-governmental Earned Revenue*
Total Program Gross Earned Revenues		**(12,939)**	**(12,939)**	**Total**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes		500	500	Non-Federal Gross Costs
Total Net Cost of Treasury Operations	**$**	**16,630**	**$ 16,630**	**Total**

Consolidated Statement of Net Cost For the Fiscal Year Ended September 30, 2019			
AFR Financial Statement Line	Amounts (in millions)	Amounts (in millions)	Reclassified Financial Statement Line
Non-Entity Costs:			
Federal Debt Interest	$ 570,948	$ 401,887	Interest on Debt Held by the Public (Non-Federal)
		169,061	Federal Securities Interest Expense (Federal)
Total Federal Debt Interest	570,948	570,948	*Total*
Restoration of Foregone Federal Debt Interest	2,371	1,675	Interest on Debt Held by the Public (Non-Federal)
		696	Federal Securities Interest Expense (Federal)
Total Restoration of Foregone Federal Debt Interest	2,371	2,371	*Total*
Less Interest Revenue from Loans	(44,385)	(44,385)	Borrowing and Other Interest Revenue (Federal)
Other Federal Costs, Net	12,016	5,441	Non-Federal Gross Costs
			Intra-governmental Costs
		93	Buy/Sell Cost
		7,109	Borrowing and Other Interest Expenses
		7,202	*Total Intra-governmental Costs*
		(152)	Non-Federal Earned Revenue
		(475)	Buy/Sell Revenue (Federal)
Total Other Federal Costs, Net	12,016	12,016	*Total*
GSEs Non-Entity Revenue, Net	(14,199)	(14,199)	Non-Federal Earned Revenue
Other, Net	(761)	23	Non-Federal Gross Costs
		(2)	Non-Federal Earned Revenue
		(782)	Buy/Sell Revenue (Federal)
Total Other, Net	(761)	(761)	*Total*
Total Net Non-Entity Costs	**525,990**	**525,990**	**Total**
		154,252	Non-Federal Gross Costs [1]
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 542,620**	**$ 696,872**	**Total Net Cost** [1]

(1) Includes income tax credits of $154.3 billion, which are reported on the Treasury Statement of Custodial Activity within the "Less Refunds and Other Payments" line item. These costs are reported as part of net cost on the reclassified financial statements for the purpose of presenting these costs in the manner presented in the FR.

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity For the Fiscal Year Ended September 30, 2019			
AFR Financial Statement Line	**Amounts (in millions)**	**Amounts (in millions)**	**Reclassified Financial Statement Line**
STATEMENT OF CHANGES IN NET POSITION			
UNEXPENDED APPROPRIATIONS			
Beginning Balance	$ 425,992	$ 425,992	Net Position, Beginning of Period
Budgetary Financing Sources			
Appropriations Received	600,585	600,585	Appropriations Received as adjusted
Other Adjustments	(10,433)	(10,433)	Appropriations Received as adjusted
Appropriations Used	(596,548)	(596,548)	Appropriations Used
Total Unexpended Appropriations	**419,596**	**419,596**	**Total**
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balance	69,821	69,821	Net Position, Beginning of Period
Budgetary Financing Sources			
Appropriations Used	596,548	596,548	Appropriations Expended
Non-Exchange Revenue	427	401	Collections Transferred into Another TAS other than the General Fund of the U.S. Government
		26	Individual Income Tax and Tax Withholdings
Total Non-Exchange Revenue	427	427	*Total*
Donations and Forfeitures of Cash/Equivalent	600	600	Other Taxes and Receipts
Transfers In/Out Without Reimbursement	(766)	(770)	Expenditure Transfers-Out of Financing Sources
		4	Expenditure Transfers-in of Financing Sources
Total Transfers In/Out Without Reimbursement	(766)	(766)	*Total*
Other	233	233	Other Budgetary Financing Sources
Other Financing Sources (Non-Exchange)			
Donation/Forfeiture of Property	74	74	Other Taxes and Receipts
Accrued Interest and Discount on Debt	8,030	8,030	Other Non-Budgetary Financing Sources for Debt Accruals/Amortization
Imputed Financing Sources	807	807	Imputed Financing Sources
Transfers to the General Fund and Other	(63,174)	(696)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		(62,511)	Non-Entity Collections Transferred to the General Fund
		(5)	Other Non-Budgetary Financing Sources
		38	Other Taxes and Receipts
Total Transfers to the General Fund and Other	(63,174)	(63,174)	*Total*
Net Cost of Treasury Operations and Non-Entity Costs	(542,620)	(696,872)	Net Cost of Operations[2]
Total Cumulative Results of Operations	**69,980**	**(84,272)**	**Total**

(2) Includes income tax credits of $154.3 billion, which are reported on the Treasury Statement of Custodial Activity within the "Less Refunds and Other Payments" line item. These tax credits are reported as part of net cost on the reclassified financial statements for the purpose of presenting these costs in the manner presented in the FR.

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity For the Fiscal Year Ended September 30, 2019			
AFR Financial Statement Line	Amounts (in millions)	Amounts (in millions)	Reclassified Financial Statement Line
STATEMENT OF CUSTODIAL ACTIVITY			
Sources of Custodial Revenue			
Individual Income and FICA Taxes	$ 3,176,406	$ 3,176,406	Individual Income Tax and Tax Withholdings
Corporate Income Taxes	277,058	277,058	Corporation Income Taxes
Estate and Gift Taxes	17,565	17,565	Estate and Gift Taxes
Excise Taxes	100,566	100,566	Excise Taxes
Railroad Retirement Taxes	6,219	6,219	Other Taxes and Receipts
Unemployment Taxes	6,438	6,438	Unemployment Taxes
Deposit of Earnings, Federal Reserve System	52,793	52,793	Other Taxes and Receipts
Fines, Penalties, Interest and Other Revenue	5,591	5,589	Other Taxes and Receipts
		2	Borrowing and Other Interest Revenue
Total Fines, Penalties, Interest and Other Revenue	5,591	5,591	*Total*
Less Refunds and Other Payments	(452,434)	(256,957)	Individual Income Tax and Tax Withholdings
		(37,990)	Corporation Income Taxes
		(264)	Unemployment Taxes
		(1,942)	Excise Taxes
		(893)	Estate and Gift Taxes
		(136)	Other Taxes and Receipts
Total Less Refunds and Other Payments	(452,434)	(298,182)	*Total* [3]
Non-Cash Accrual Adjustment	86,298	86,250	Other Taxes and Receipts
		(7)	Excise Taxes
		55	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Gov't
Total Non-Cash Accrual Adjustment	86,298	86,298	*Total*
Disposition of Custodial Revenue			
Amounts Provided to Fund Non-Federal Entities	(454)	(454)	Other Taxes and Receipts
Amounts Provided to Fund the Federal Government	(3,189,748)	(3,188,795)	Non-Entity Collections Transferred to the General Fund
		(953)	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government
Total Amounts Provided to Fund the Federal Government	(3,189,748)	(3,189,748)	*Total*
Non-Cash Accrual Adjustment	(86,298)	(86,298)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Gov't
Total Statement of Changes in Net Position and Statement of Custodial Activity	**$ 489,576**	**$ 489,576**	**Total Reclassified Statement of Changes in Operations and Net Position**

(3) Income tax credits totaling $154.3 billion are excluded from the line items that sum to this Total amount. These tax credits which are reported on the Treasury Statement of Custodial Activity within the "Less Refunds and Other Payments" line item, are reported as a net cost on the reclassified financial statements for the purpose of presenting these costs in the manner presented in the FR.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED – SEE ACCOMPANYING AUDITORS' REPORT)

INTRODUCTION

This section provides the Required Supplementary Information as prescribed by accounting standards.

OTHER CLAIMS FOR REFUNDS

We estimated that $10.1 billion and $12.9 billion as of September 30, 2019 and 2018, respectively, may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that we may pay for claims pending judicial review by the federal courts or internally, by Appeals. In FY 2019, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts is $7.8 billion and $2.3 billion, respectively. In FY 2018, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts was $11.1 billion and $1.8 billion, respectively. To the extent judgments against the government in these cases prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

IRS FEDERAL TAXES RECEIVABLE, NET

In accordance with SFFAS No. 7, some unpaid tax assessments do not meet the criteria for financial statement recognition. Internal Revenue Code (IRC) 6201 authorizes and requires us to make inquiries, determinations, and assessments of all taxes which taxpayers have not duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. We also have authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

Under federal accounting standards, we consider unpaid assessments which require taxpayer or court agreement federal taxes receivable. We consider assessments not agreed to by taxpayers or the courts compliance assessments and not federal taxes receivable. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that we consider federal taxes receivable.

We call assessments with little or no future collection potential write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt, or defunct taxpayers, including many failed financial institutions liquidated by the FDIC and the former Resolution Trust Corporation. Write-offs have little or no future collection potential, but statutory provisions require that we maintain these assessments until the statute for collection expires.

Although we do not consider compliance assessments and write-offs receivables under federal accounting standards, they represent legally enforceable claims of the U.S. government.

The components of the total unpaid assessments at September 30, 2019 and 2018, were as follows:

(in millions)		2019	2018
Total Unpaid Assessments	$	**550,000** $	398,000
Less Compliance Assessments		**(75,000)**	(65,000)
Write Offs		**(106,000)**	(115,000)
Gross Federal Taxes Receivable		**369,000**	218,000
Less Allowance for Doubtful Accounts		**(225,000)**	(160,000)
Federal Taxes Receivables, Net	$	**144,000** $	58,000

Total unpaid assessments include $160 billion of non-delinquent IRC 965(h) tax of which $97.5 billion is collectible based on the collection history and the type of taxpayer. The non-delinquent IRC 965 (h) component refers to taxpayers who elected to pay their IRC 965(h) tax on an eight year installment schedule.

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties assessed against officers and directors of businesses involved in the non-remittance of federal taxes withheld from their employees. The penalties totaled $1.5 billion and $1.4 billion as of September 30, 2019 and 2018, respectively. We report the related unpaid assessments of those businesses as taxes receivable or write-offs, but we may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom we assess a trust fund recovery penalty.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

As an agent of the U.S. government and as authorized by 26 USC, the TTB collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, the TTB collects special occupational taxes from certain tobacco businesses. During FY 2019 and 2018, TTB collected approximately $19.8 billion and $20.6 billion in taxes, interest, and other revenues, respectively. TTB also collects Federal excise taxes on certain articles produced in Puerto Rico and the Virgin Islands, and imported into the U.S. In accordance with 26 USC 7652, such taxes collected on rum imported into the U.S. are "covered over" or paid into the treasuries of Puerto Rico and the Virgin Islands.

TTB remits substantially all of the taxes collected, net of related refund disbursements, to the General Fund. We further distribute this revenue to Federal agencies in accordance with various laws and regulations. The firearms and ammunition excise taxes are an exception. TTB remits those revenues to the Fish and Wildlife Restoration Fund under provisions of the *Pittman-Robertson Act of 1937*.

DEFERRED MAINTENANCE AND REPAIRS

In FY 2019 and 2018, we had no material amounts of deferred maintenance and repair costs to report on vehicles, buildings, and structures we owned.

Deferred maintenance and repairs applies to owned PP&E. Deferred maintenance and repairs are maintenance and repair activity that we had not performed when it should have been, or scheduled to be, and put off or delayed for a future period. We define maintenance and repairs as the act of keeping capitalized assets in an "acceptable condition" to serve their required mission. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected useful life. Deferred maintenance and repairs excludes activities aimed at expanding the capacity or significantly upgrading the assets to a different form than it was originally intended (i.e., activities related to capitalized improvements, modernization, and/or restoration).

Logistic personnel use condition assessment surveys and/or the total life-cycle cost methods to determine if there are any deferred maintenance and repairs needed to keep an asset in acceptable operating condition. We use periodic condition assessments, physical inspections, and review of manufacturing and engineering specifications, work orders, and building and other structure logistics reports under these methodologies.

STATEMENT OF BUDGETARY RESOURCES DISAGGREGATED BY TREASURY REPORTING ENTITY

The following tables provide the Statement of Budgetary Resources for the fiscal years ended September 30, 2019 and 2018 disaggregated by Treasury reporting entity rather than by Treasury major budget account, since we manage our budget at the reporting entity level.

Fiscal Year 2019 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):	Bureau of Engraving & Printing	Bureau of the Fiscal Service	Departmental Offices (a)	Fin. Crimes Enforcement Network	Internal Revenue Service
BUDGETARY RESOURCES					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 650	$ 1,598	$ 309,219	$ 44	$ 1,212
Appropriations (discretionary and mandatory)	-	590,315	4,571	118	11,789
Borrowing authority (discretionary and mandatory)	-	-	125	-	-
Spending authority from offsetting collections (discretionary and mandatory)	879	259	4,510	2	135
Total Budgetary Resources	$ 1,529	$ 592,172	$ 318,425	$ 164	$ 13,136
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 955	$ 590,586	$ 8,429	$ 132	$ 12,110
Unobligated balance, end of year:					
Apportioned, unexpired accounts	574	1,477	269,740	27	566
Exempt from apportionment, unexpired accounts	-	6	78	-	8
Unapportioned, unexpired accounts	-	91	40,017	-	257
Unexpired unobligated balance, end of year	574	1,574	309,835	27	831
Expired unobligated balance, end of year	-	12	161	5	195
Unobligated balance, end of year	574	1,586	309,996	32	1,026
Total Status of Budgetary Resources	$ 1,529	$ 592,172	$ 318,425	$ 164	$ 13,136
OUTLAYS, NET					
Outlays, net (discretionary and mandatory)	$ (55)	$ 589,472	$ 5,157	$ 119	$ 11,707
Distributed offsetting receipts	-	(47,671)	(20,388)	-	(627)
Agency Outlays, Net (Discretionary and Mandatory)	$ (55)	$ 541,801	$ (15,231)	$ 119	$ 11,080

(a) Of the $318 billion of Total Budgetary Resources for DO, GSE, ESF, and OAS had $254 billion, $40 billion, and $14 billion, respectively. The remainder is spread throughout other offices.

Fiscal Year 2019 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):	U. S. Mint	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Budgetary	Non-Budgetary
BUDGETARY RESOURCES					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 731	$ 1,542	$ 8	$ 314,985	$ 19
Appropriations (discretionary and mandatory)	-	-	120	606,913	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	125
Spending authority from offsetting collections (discretionary and mandatory)	1,292	1,171	7	7,830	425
Total Budgetary Resources	$ 2,023	$ 2,713	$ 135	$ 929,728	$ 569
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 1,555	$ 1,053	$ 128	$ 614,608	$ 340
Unobligated balance, end of year:					
Apportioned, unexpired accounts	468	-	5	272,845	12
Exempt from apportionment, unexpired accounts	-	1,660	-	1,752	-
Unapportioned, unexpired accounts	-	-	-	40,148	217
Unexpired unobligated balance, end of year	468	1,660	5	314,745	229
Expired unobligated balance, end of year	-	-	2	375	-
Unobligated balance, end of year	468	1,660	7	315,120	229
Total Status of Budgetary Resources	$ 2,023	$ 2,713	$ 135	$ 929,728	$ 569
OUTLAYS, NET					
Outlays, net (discretionary and mandatory)	$ 241	$ (131)	$ 114	$ 606,826	$ (202)
Distributed offsetting receipts	-	-	-	(68,686)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ 241	$ (131)	$ 114	$ 538,140	$ (202)

Fiscal Year 2018 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):	Bureau of Engraving & Printing	Bureau of the Fiscal Service	Departmental Offices (a)	Fin. Crimes Enforcement Network	Internal Revenue Service
BUDGETARY RESOURCES					
Unobligated balance from prior year budget authority, net	$ 83	$ 1,473	$ 312,806	$ 51	$ 1,061
Appropriations (discretionary and mandatory)	-	538,475	5,101	115	11,854
Borrowing authority (discretionary and mandatory)	-	-	265	-	-
Spending authority from offsetting collections (discretionary and mandatory)	1,474	256	3,859	2	196
Total Budgetary Resources	$ 1,557	$ 540,204	$ 322,031	$ 168	$ 13,111
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 1,039	$ 538,694	$ 13,845	$ 123	$ 11,981
Unobligated balance, end of year:					
Apportioned, unexpired accounts	518	1,396	267,982	39	726
Exempt from apportionment, unexpired accounts	-	9	73	-	7
Unapportioned, unexpired accounts	-	89	39,966	-	167
Unexpired unobligated balance, end of year	518	1,494	308,021	39	900
Expired unobligated balance, end of year	-	16	165	6	230
Unobligated balance, end of year	518	1,510	308,186	45	1,130
Total Status of Budgetary Resources	$ 1,557	$ 540,204	$ 322,031	$ 168	$ 13,111
OUTLAYS, NET					
Outlays, net (discretionary and mandatory)	$ 24	$ 538,442	$ 10,038	$ 116	$ 11,381
Distributed offsetting receipts	-	(45,983)	(14,584)	-	(878)
Agency Outlays, Net (Discretionary and Mandatory)	$ 24	$ 492,459	$ (4,546)	$ 116	$ 10,503

(a) Of the $322 billion of Total Budgetary Resources for DO, GSE, ESF, and OAS had $258 billion, $41 billion, and $14 billion, respectively. The remainder is spread throughout other offices.

Fiscal Year 2018 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):	U. S. Mint	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Budgetary	Non-Budgetary
BUDGETARY RESOURCES					
Unobligated balance from prior year budget authority, net	$ 631	$ 1,522	$ 7	$ 317,622	$ 12
Appropriations (discretionary and mandatory)	-	-	112	555,657	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	265
Spending authority from offsetting collections (discretionary and mandatory)	1,706	1,256	7	8,459	297
Total Budgetary Resources	$ 2,337	$ 2,778	$ 126	$ 881,738	$ 574
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 1,614	$ 1,236	$ 119	$ 568,169	$ 482
Unobligated balance, end of year:					
Apportioned, unexpired accounts	723	-	5	271,380	9
Exempt from apportionment, unexpired accounts	-	1,542	-	1,631	-
Unapportioned, unexpired accounts	-	-	-	40,139	83
Unexpired unobligated balance, end of year	723	1,542	5	313,150	92
Expired unobligated balance, end of year	-	-	2	419	-
Unobligated balance, end of year	723	1,542	7	313,569	92
Total Status of Budgetary Resources	$ 2,337	$ 2,778	$ 126	$ 881,738	$ 574
OUTLAYS, NET					
Outlays, net (discretionary and mandatory)	$ (302)	$ (43)	$ 111	$ 560,008	$ (241)
Distributed offsetting receipts	-	(22)	-	(61,467)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ (302)	$ (65)	$ 111	$ 498,541	$ (241)

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PART 3:

OTHER INFORMATION

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SECTION A: TAX GAP AND TAX BURDEN

TAX GAP

The gross tax gap is the difference between the amount of tax imposed by law and what taxpayers actually pay on time. The tax gap provides an estimate of the level of overall noncompliance and voluntary compliance during the relevant tax periods and under the Internal Revenue Code (IRC) provisions in effect at the time. Tax gap estimates provide the Internal Revenue Service (IRS) with periodic appraisals about the nature and extent of noncompliance for use in formulating tax administration strategies.

Measuring and reporting on taxpayer compliance related to various tax provisions is inherently complex and challenging. To measure overall compliance with the current tax system, the IRS develops estimates of the tax gap. The IRS also undertakes analyses of compliance behavior with respect to specific tax provisions, such as refundable and non-refundable tax credits. The IRS enforcement strategies and legislative proposals are influenced by its National Research Program (NRP), which involves conducting detailed audits of a statistically representative sample of taxpayers to estimate compliance with individual income tax provisions, and provides data on misreporting on voluntarily filed returns. To provide greater reliability and precision of the compliance estimates, the IRS groups multiple years of data together. This results in a timing difference between the time period from which the reported data is generated and the report issuance date. Misreporting can be in favor of the taxpayer or the government, although estimates indicate that the majority of misreporting is due to tax underreporting. This can manifest as either underpayments of the liability due at the time the return is filed, claiming and receiving an excessive refund, or a combination of both.

New Tax Gap Estimates

The tax gap estimates are prepared on a periodic basis, depending on the availability of the NRP data to produce such estimates. In Fiscal Year (FY) 2019, the IRS released new estimates covering the Tax Year (TY) 2011 – 2013 timeframe. The following is a brief overview of these estimates. A more in-depth discussion of the tax gap can be found on the IRS website at:

- Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011 – 2013 (https://www.irs.gov/pub/irs-pdf/p1415.pdf); and
- Understanding the Latest Tax Gap Estimates and Overall Taxpayer Compliance (https://www.irs.gov/newsroom/understanding-the-latest-tax-gap-estimates-and-overall-taxpayer-compliance).

The gross tax gap is the amount of tax liability that is not paid voluntarily and on time. The average annual estimated gross tax gap for the TY 2011 – 2013 timeframe is $441 billion. The net tax gap is the gross tax gap less tax that will be subsequently paid, either paid voluntarily but late, or collected as a result of IRS administrative and enforcement activities. In effect, the net tax gap is the portion of the gross tax gap that will not be paid. It is estimated that $60 billion of the gross tax gap will eventually be paid, resulting in a net tax gap of $381 billion.

The tax gap structure separates noncompliance into components by the type of tax and source of noncompliance. The three primary sources of noncompliance that result in payment of less than the tax owed are: (1) the non-filing tax gap (the tax not paid on time by those who do not file required returns on time); (2) the underreporting tax gap (the net understatement of tax on timely filed returns); and (3) the underpayment tax gap (the amount of tax reported on timely filed returns that is not paid on time). These components comprise $39 billion, $352 billion, and $50 billion, respectively, of the $441 billion estimated annual average gross tax gap. The gross tax gap estimates can also be grouped by type of tax. The estimated gross tax gap for individual income tax, corporate income tax, employment tax, and estate and excise tax is $314 billion, $42 billion, $81 billion, and $3 billion, respectively. These estimates are displayed below in an excerpt from the schematic representation of the estimates, known as the tax gap "map" from the FY 2011 – 2013 tax gap estimates document.

TAX GAP MAP: TAX GAP ESTIMATES FOR TAX YEARS 2011 – 2013 (EXCERPT) ($ IN BILLIONS)

Gross Tax Gap	Nonfiling	Underreporting	Under-payment	Gross Tax Gap	Enforced & Other Late Payments	Net Tax Gap (Tax Not Collected)
Total	$39	+ $352	+ $50	= $441	– $60	= $381
Individual Income Tax	$31	+ $245	+ $38	= $314	– $43 (14%)	= $271
Corporation Income Tax	#	+ $37	+ $5	= $42	– $10 (24%)	= $32
Employment Tax [4]	$6	+ $69	+ $6	= $81	– $5 (6%)	= $77
Estate Tax	$2	+ $1	+ $<0.5	= $3	– $2 (55%)	= $1

Individual Income Tax underreporting:

Business Income	Non-Business Income	Credits	Income Offsets [1]	Filing Status	Other Taxes [2]	Unallocated Marginal Effects [3]
$110	$57	$42	$20	$5	$1	$10

Corporation Income Tax underreporting:

Large Corporations	Small Corporations
$26	$11

Employment Tax underreporting:

Self-Employment Tax	FICA & Uncollected FICA TAX	Unemployment
$45	$24	$1

Source: Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011 - 2013

- No estimate.

The percentage reported is the share of enforced and other late payments from the four different types of taxes.

The estimates are the annual averages for the TY 2011 – 2013 timeframe.

[1] Includes adjustments, deductions, and exemptions.

[2] Includes the Alternative Minimum Tax and taxes reported in the "Other Taxes" section of the Form 1040 except for self-employment tax and unreported Social Security and Medicare tax (which are included in the employment tax gap estimates).

[3] Is the difference between (1) the estimate of the individual income tax underreporting tax gap where underreported tax is calculated based on all misreporting combined and (2) the estimate of the individual income tax underreporting tax gap based on the sum of the tax gaps associated with each line item where the line item tax gap is calculated based on the misreporting of that item only. There may be differences if the marginal tax rates are different in these two situations.

[4] Self-employment tax only.

Note: Individual amounts may not add to totals due to rounding.

Tax Gap Estimation Methodology

Estimating the tax gap is inherently challenging and requires assessing alternative methods, assumptions, and data sources. There is no single approach for estimating all the components of the tax gap. Each approach to estimating the tax gap is subject to non-sampling error. The component estimates that are based on statistical samples are further subject to sampling error. The uncertainty of the estimates is not readily captured by standard errors that typically accompany estimates based on sample data. For that reason, standard errors, confidence intervals, and statistical comparisons across years are not reported.

These estimates reflect an estimated average compliance rate and associated average annual tax gap for the TY 2011 – 2013 timeframe. The IRS estimates tax gap using a three year timeframe to provide greater reliability and precision on the estimates. For individual income tax compliance, the tax gap is estimated using pooled data from several tax years because the aggregated data provides more information upon which to base estimates of individual income tax underreporting, categorized by sources of noncompliance. The individual income tax NRP reporting compliance studies are the foundation for the individual income tax underreporting tax gap estimates. The methodology incorporates additional data and analytical techniques designed to account for income that is not detected by the NRP audits. The IRS audits tax returns to produce the compliance estimates for the individual income tax underreporting tax gap estimate. The timeframe needed to audit tax returns to obtain actual compliance data on which to base the tax gap estimates results in estimates that are not contemporaneous with the tax year being estimated.

Individual Income Tax Underreporting Tax Gap Estimates for Tax Years 2011 – 2013

The estimates in the table below provide a breakout of the components of the individual income tax underreporting tax gap, the largest single contributor to the gross tax gap. For each income component, the table shows the component's share of the individual income tax underreporting tax gap. The table also shows each component's share of the gross tax gap. Business income accounts for 45 percent of the total individual income tax underreporting tax gap for TY 2011 – 2013. This primarily consists of nonfarm proprietor income which accounts for 28 percent, flow-through income (partnerships, S corporations, and estates and trusts) which accounts for eight percent, rent and royalty income which accounts for seven percent, and farm income which accounts for two percent.

INDIVIDUAL INCOME TAX UNDERREPORTING TAX GAP BY SOURCE: TAX YEARS 2011–2013 [1] ($ IN BILLIONS)

Tax Return Line Items	Tax			Line Item Amount
	Tax Gap	Share of Gross Tax Gap	Share of Individual Income Tax Underreporting Tax Gap	Net Misreporting Percentage [2]
Gross Tax Gap	**$ 441**	**100%**	**N/A**	**N/A**
Individual Income Tax Underreporting Tax Gap	**$ 245**	**56%**	**100%**	**18%**
Items Subject to Substantial Information Reporting and Withholding	**$ 9**	**2%**	**4%**	**1%**
Wages, salaries, tips	$ 9	2%	4%	1%
Items Subject to Substantial Information Reporting	**$ 12**	**3%**	**5%**	**5%**
Interest income	[3]	[3]	[3]	1%
Dividend income	$ 1	[3]	1%	5%
State income tax refunds	$ 1	[3]	[3]	12%
Pension & annuities	$ 5	1%	2%	3%
Unemployment Compensation	[3]	[3]	[3]	7%
Taxable Social Security benefits	$ 4	1%	2%	11%
Items Subject to Some Information Reporting	**$ 36**	**8%**	**15%**	**17%**
Partnership, S-Corp, Estate & Trust, etc.	$ 19	4%	8%	11%
Alimony income	[4]	[4]	[4]	[4]
Capital Gains [5]	$ 17	4%	7%	23%
Short-term Capital Gains	$ 7	2%	3%	24%
Long-Term Capital Gains	$ 10	2%	4%	15%
Items Subject to Little or No Information Reporting	**$ 109**	**25%**	**45%**	**55%**
Form 4797 income	$ 2	1%	1%	36%
Other income	$ 16	4%	6%	42%
Nonfarm proprietor income	$ 68	15%	28%	56%
Farm income	$ 6	1%	2%	62%
Rents and royalties	$ 17	4%	7%	51%
Other Taxes	**$ 1**	**[3]**	**1%**	**3%**
Unallocated Marginal Effects	**$ 10**	**2%**	**4%**	**N/A**
Income Offsets (Adjustments, Deductions, Exemptions)	**$ 20**	**4%**	**8%**	**5%**
Total Tax Credits	**$ 42**	**10%**	**17%**	**38%**
Filing Status	**$ 5**	**1%**	**2%**	**N/A**

[1] The estimates are the annual averages for the TY 2011 – 2013 timeframe.

[2] The net misreporting percentage is the net misreported amount divided by the sum of the absolute values of the amounts that should have been reported, expressed as a percentage.

[3] Less than 0.5 percent or $0.5 billion.

[4] Estimate is based on very small sample size. Estimated tax gap is less than $0.5 billion and Net Misreporting Percentage is less than 0.5%.

[5] The TY 2008 – 2010 Net Misreporting Percentage for capital gains was incorrectly reported as 27%. The correct Net Misreporting Percentage for TY 2008 – 2010 was 21%.

Note: Individual amounts may not add to total due to rounding.

Individual Income Tax Credits

The IRS is responsible for administering 21 refundable and non-refundable individual income tax credits. Total tax credits account for 17 percent of the individual income tax underreporting tax gap. The Earned Income Tax Credit (EITC), American Opportunity Tax Credit (AOTC), and Additional Child Tax Credit (ACTC) are three of the most widely claimed

refundable tax credits. EITC accounts for 11 percent of the individual income tax underreporting tax gap, followed by the refundable and non-refundable Child Tax Credit (CTC) (three percent), and the refundable and non-refundable education credits which includes AOTC (two percent).

INDIVIDUAL INCOME TAX UNDERREPORTING TAX GAP ESTIMATES FOR TAX CREDITS: TY 2011 – 2013 ($ IN BILLIONS) [1]

Tax Return Line Items	Tax Gap	Share of Gross Tax Gap	Share of Individual Income Tax Underreporting Tax Gap
Gross Tax Gap	**$441**	**100%**	**N/A**
Individual Income Tax Underreporting Tax Gap	**$245**	**56%**	**100%**
Total Credits	**$42**	**10%**	**17%**
Child Tax Credit and Additional Child Tax Credit	$9	2%	3%
Earned Income Tax Credit	$27	6%	11%
Education Credits (Including AOTC)	$5	1%	2%
All Other Credits	$1	[2]	1%

[1] The estimates are the annual averages for the TY 2011 – 2013 timeframe.

[2] Less than 0.5 percent.

Note: Individual amounts may not add to total due to rounding.

Earned Income Tax Credit

Congress enacted the EITC in 1975 through the *Tax Reduction Act* (Public Law (P.L.) 94-12) as a temporary anti-poverty measure to offset inflation and rising Social Security payroll taxes. In addition to encouraging work and reducing dependence on cash welfare, the credit was also viewed as a means to encourage economic growth in the face of the 1974 recession and rising food and energy prices.[1] Since then, the EITC has undergone numerous legislative changes, most notably by the *Revenue Act of 1978*, which made the EITC a permanent refundable tax credit. Congress believed the EITC would be an effective way to provide financial assistance to working families, with or without children, who might otherwise rely on government subsidized welfare payments. For TY 2017, over 26 million taxpayers received more than $64 billion in EITCs, making the EITC one of the largest anti-poverty programs in America.

American Opportunity Tax Credit

Education tax credits have generally been intended to provide federal financial assistance to students from middle-income families who may not benefit from other forms of traditional student aid.[2] Congress enacted the AOTC as part of P.L. 111-5 in 2009 to replace the Hope Credit and to expand the education tax credit to lower and upper-income students. The AOTC is a partially refundable tax credit that provides financial assistance to taxpayers (or their children) with qualified educational expenses who are pursuing a higher education. Like other education tax credits, the AOTC was enacted with the goal of making higher education more affordable.

[1] Congressional Research Report, *The Earned Income Tax Credit (EITC): A Brief Legislative History*, March 20, 2018.

[2] Congressional Research Report, *The American Opportunity Tax Credit: Overview, Analysis, and Policy Options*, Updated June 4, 2018.

Additional Child Tax Credit

Congress enacted the CTC to help ease the financial burdens for families with children as part of P.L. 105-34, the *Taxpayer Relief Act of 1997*. If the CTC exceeds the tax liability, taxpayers may receive some or all of the credit as a refund, known as the Additional Child Tax Credit. Various legislative changes over the past 20 years have made significant changes to the CTC, which have expanded it from a generally nonrefundable credit available only to the middle and upper-middle class, to a partially refundable credit that more low-income families are eligible to claim. Notably, the *Tax Cuts and Jobs Act of 2017* (P.L. 115-97) doubled the CTC, increased the amount that could be claimed as a refund, and allowed it to include more upper-middle class families.

Relationship of Tax Compliance Estimation to Improper Payments

The *Improper Payments Elimination and Recovery Act* of 2010 (IPERA) requires certain reporting for payment programs determined to be susceptible to significant improper payments. The focus of IPERA, as amended, as well as related guidance issued by the Office of Management and Budget (OMB), is on implementing internal controls to prevent and detect improper payments. IPERA does not take into consideration all aspects of administering tax provisions in a system that relies heavily on voluntary reporting. In keeping with IPERA requirements, the IRS reports risk assessments for refundable tax credits, as well as improper payment estimates for the EITC, AOTC, and ACTC (refer to Part 3, Section E: *Payment Integrity*, of this report).

The IRS has followed this practice largely because refundable tax credits may result in a payment to the taxpayer in excess of tax liability. However, the distinction between the portion of a credit that offsets tax liability and the portion that is refundable is governed by multiple variables, including other return elements and information provided by the taxpayer, some of which are unrelated to the refundable tax credit in question.

The same features of the tax system and taxpayer behaviors that create the compliance problems with refundable tax credits also create the risk of noncompliance with other tax provisions. Several credits passed into law by Congress to promote social and economic objectives (e.g., assisting particular groups of individuals or businesses) have eligibility rules that are often complex and lead to high overclaim rates.

Tax refunds, which constitute a transfer of cash from the federal government to a taxpayer, are an integral part of the tax system as a whole. The IRS tax gap estimation measures compliance with the current tax system and always includes noncompliance with refundable and non-refundable tax credits. Whether a tax credit results in a refund instead of a reduction in tax liability depends on all of the taxpayers' characteristics, such as income, deductions, and other credits claimed, and is not simply driven by the credit itself.

The IRS's risk assessments on refundable tax credits have consistently concluded that improper payments are not rooted in internal control deficiencies, but instead are due to the complexities of verifying eligibility, including unavailability of relevant third-party data, for refundable tax credits within the time periods prescribed by the tax system. Therefore, as explained further in Part 3, Section E, it is Treasury's position that refundable tax credit overclaims resulting in payment errors should not be reported under the improper payments framework. Rather, errors in taxpayer claims for credits are more appropriately included in analyses of tax compliance.

Refundable Tax Credits and the Challenges of Compliance

Refundable tax credits generally have different eligibility rules, often relating to personal family and living arrangements, which determine eligibility. Complexity in the form of differing rules is a contributor to tax credit errors. Additionally, these credits are difficult for the IRS to verify due to the lack of available, relevant third-party data.

Eligibility rules for refundable tax credits contribute to the compliance burden for taxpayers and administrative costs for the IRS. These rules differ by credit and are often complex because they must address complicated family relationships and residency arrangements to determine eligibility. The relatively high overclaim error rates for these credits are a result, in part, of this complexity. The lack of third-party data to verify eligibility requirements for these refundable credits also complicates the ability of the IRS to administer these credits. Such data may not exist, may be unreliable or inaccurate, or may be reported to the IRS too late to be useful during tax return processing. The IRS also has limited authority to correct mismatches at filing and must use audits to correct errors, which increases taxpayer burden. The IRS continually looks for complete and accurate data sources to verify eligibility for claimed refundable credits in order to reduce the burden on compliant taxpayers.

Faced with the complexities of claiming certain refundable credits, many potential credit recipients seek help filing their tax returns from paid preparers. Over 50 percent of taxpayers claiming refundable credits use paid preparers. Unenrolled return preparers, who prepare a significant number of EITC returns, are not subject to the same level of training and certification requirements as other tax professionals and have higher error rates for EITC returns than taxpayers who prepare their own returns or who hire enrolled return preparers.

The IRS has a responsibility to detect and address errors and misreporting on tax returns, including those claiming the refundable credits. Filters and other detection tools are frequently being enhanced to improve the accuracy of the tax return and reduce taxpayer burden, but in some instances, enforcement activities must take place. The IRS rejects millions of electronically filed returns claiming refundable credits for a variety of reasons, such as missing forms, incorrect Social Security Numbers (SSNs), or if another taxpayer has claimed the same child. Most taxpayers can correct their electronic returns and successfully re-file with little burden. In some cases, a taxpayer must print and submit a paper return, resulting in refund delays and possible audits with the associated costs. Despite the compliance burden and costs to the government associated with these refundable tax credits, the burden to taxpayers may be lower than with other payment or benefit programs. For example, tax credit recipients can self-certify eligibility; they do not need to meet with caseworkers, nor submit upfront documentation as is required with some direct service anti-poverty programs, such as Supplemental Security Income or Temporary Assistance for Needy Families.

The IRS may initiate a correspondence audit if it identifies, through its scoring and selection process, potential noncompliance with eligibility requirements. Most refundable credit audits are conducted pre-refund, meaning the IRS holds the credit refund until the taxpayer substantiates eligibility. The IRS sends a letter to the taxpayer requesting documentation showing that the taxpayer meets credit eligibility requirements. In addition to the refund delay, taxpayers face the burden of gathering and sending in the requested information. In FY 2019, the IRS conducted approximately 256,768 EITC exams, the majority through correspondence audits.

Sustained annual budget reductions at the IRS have heightened the importance of determining how best to allocate finite, declining resources to ensure the IRS can still meet agency-wide strategic goals of increasing taxpayer compliance, using resources more efficiently, and minimizing taxpayer burden.

TAX BURDEN

The IRC creates the basis for a progressive tax system that applies higher rates of taxation to progressively higher levels of income. For TY 2019, individual income tax rates ranged from 10.0 percent for the lowest income filers to 37.0 percent for the highest income brackets. The amount of taxable income can be adjusted through the application of exemptions and deductions, which will influence the amount of taxes owed. In addition, many taxpayers qualify for one or more refundable tax credits, which collectively have a significant impact on tax administration and federal tax revenues and refund payments.

The IRS measures tax liability by income level for individuals and by revenue and assets for corporations. Using these data, it is possible to illustrate how tax liability rises with increases in Adjusted Gross Income (AGI) for individuals (Figures 1.1 and 1.2 and Table 1). Similar data for corporations shows the tax burden based on the percentage of taxable income (Figure 2 and Table 2). This information is the most recent data available for individuals (TY 2017) and corporations (TY 2016).

Individual Income Tax Liability

FIGURE 1.1: AVERAGE AGI REPORTED AND AVERAGE INDIVIDUAL INCOME TAX LIABILITY FOR TY 2017

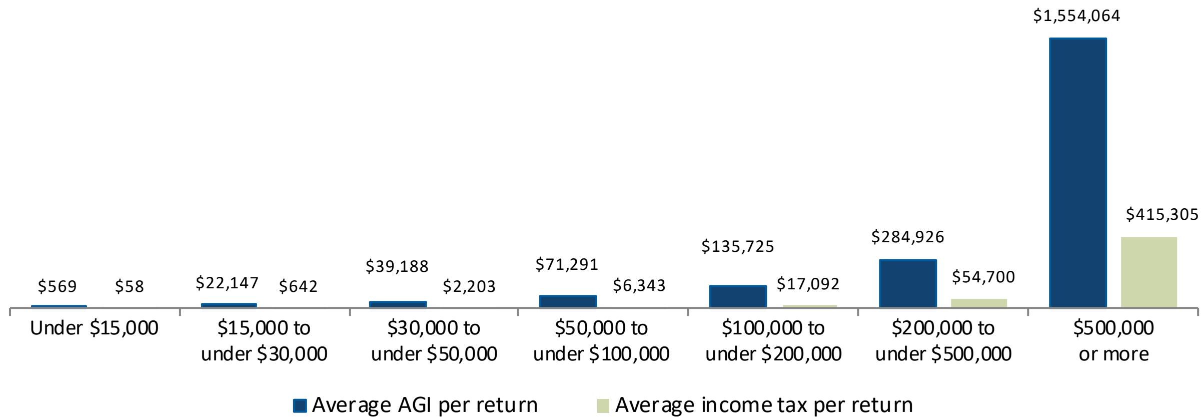

FIGURE 1.2: INDIVIDUAL INCOME TAX LIABILITY AS A PERCENTAGE OF AGI FOR TY 2017

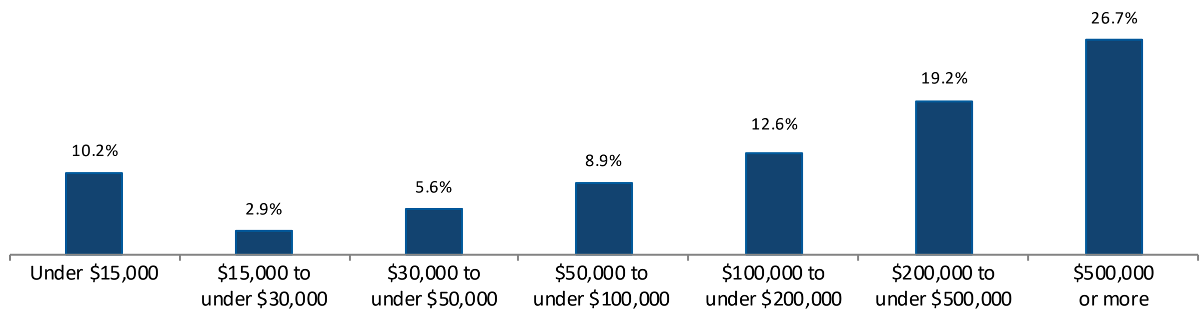

TABLE 1: INDIVIDUAL INCOME TAX DATA BY AGI FOR TY 2017

Adjusted Gross Income (AGI)	Number of taxable returns (in thousands)	AGI (in millions)	Total income tax (in millions)	Average AGI per return (in whole dollars)	Average Income tax per return (in whole) dollars)	Income tax as a percentage of AGI
Under $15,000	34,167 $	19,440 $	1,990 $	569 $	58	10.2%
$15,000 under $30,000	29,474	652,767	18,925	22,147	642	2.9%
$30,000 under $50,000	27,125	1,062,968	59,757	39,188	2,203	5.6%
$50,000 under $100,000	34,467	2,457,203	218,619	71,291	6,343	8.9%
$100,000 under $200,000	19,951	2,707,841	340,993	135,725	17,092	12.6%
$200,000 under $500,000	6,215	1,770,816	339,963	284,926	54,700	19.2%
$500,000 or more	1,505	2,338,866	625,034	1,554,064	415,305	26.7%
Total	**152,904 $**	**11,009,901 $**	**1,605,281**			

Corporation Tax Liability

FIGURE 2: CORPORATION TAX LIABILITY AS A PERCENTAGE OF TAXABLE INCOME FOR TY 2016

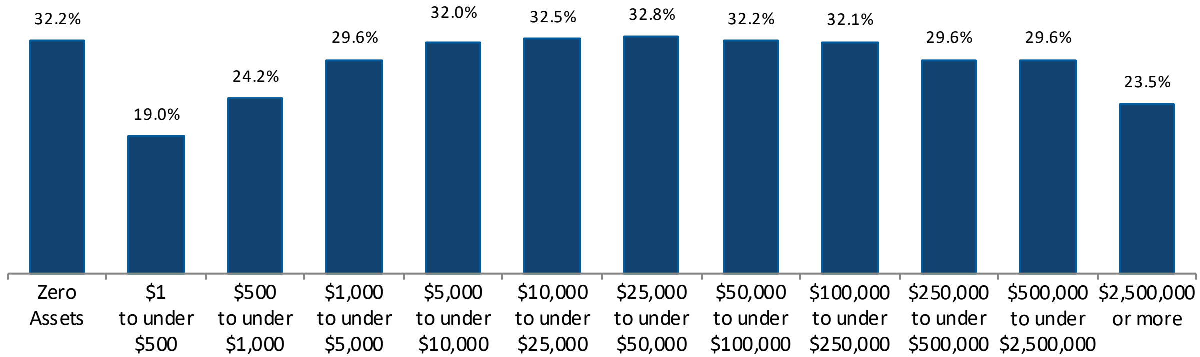

TABLE 2: CORPORATION TAX DATA BY TOTAL ASSETS FOR TY 2016

Total Assets (in thousands)	Income subject to tax (in millions)	Total income tax after credits (in millions)	Percentage of income tax after credits to taxable income
Zero Assets	$ 32,008	$ 10,314	32.2%
$1 under $500	7,032	1,337	19.0%
$500 under $1,000	3,716	901	24.2%
$1,000 under $5,000	13,109	3,879	29.6%
$5,000 under $10,000	8,362	2,678	32.0%
$10,000 under $25,000	13,270	4,309	32.5%
$25,000 under $50,000	12,686	4,163	32.8%
$50,000 under $100,000	14,401	4,630	32.2%
$100,000 under $250,000	24,546	7,883	32.1%
$250,000 under $500,000	26,100	7,715	29.6%
$500,000 under $2,500,000	105,577	31,259	29.6%
$2,500,000 or more	1,010,414	237,291	23.5%
Total	**$ 1,271,221**	**$ 316,359**	

SECTION B: REDUCE THE FOOTPRINT

One of our key goals is the efficient and effective acquisition, utilization, management, and disposal of our real property assets. The Assistant Secretary for Management (ASM) is responsible for ensuring that we develop and maintain appropriate procedures, reviews, and reporting requirements in accordance with Treasury directives, and applicable OMB (Office of Management and Budget) and General Services Administration (GSA) regulations that pertain to the acquisition, utilization and disposal of real property.

The ASM is responsible for tracking our real property square footage footprint and developing the annual agency evaluation of compliance for the implementation of the *Reduce the Footprint Policy*. To ensure the optimal utilization of our existing space inventory, and to achieve real property cost saving and footprint reductions, we direct our components to pursue consolidation or co-location opportunities into existing inventory before pursuing any new space acquisitions.

Additionally, we are taking other actions to reduce overall square footage and reduce the related costs associated with real property, including:

- Better utilizing real property by undertaking space realignment;
- Encouraging responsible teleworking, hoteling, and workspace sharing; and
- Maximizing utilization through improved work station standards.

Our total square footage and related operation and maintenance costs associated with real property assets subject to the *Reduce the Footprint Policy* (from the latest available reporting year of FY 2018 compared to the FY 2015 Reduce the Footprint baseline, as assigned by GSA) are shown in the table below. We did not have excess domestic office or warehouse assets, as reflected in the below table:

(in millions)	2015 (Baseline)	2018	Change
Square Footage	26.9	25.1	(1.8)
Operation and Maintenance Costs	$ 93.0	$ 96.3	$ 3.3

SECTION C: MANAGEMENT CHALLENGES AND TREASURY RESPONSE

In accordance with the *Reports Consolidation Act* of 2000, the Inspectors General are required to identify specific management and performance challenges facing the Department. At the end of each fiscal year, the Treasury Office of Inspector General (OIG) and Treasury Inspector General for Tax Administration (TIGTA) send an update of these management challenges to the Secretary of the Treasury (hereafter referred to as "Secretary") and cite any new challenges for the upcoming fiscal year. The Special Inspector General for the Troubled Asset Relief Program (SIGTARP) identifies their management or performance challenges for the Office of Financial Stability (OFS) separately in their quarterly report to Congress. This section contains the OIG and TIGTA identified management and performance challenges and management's response.

TREASURY INSPECTOR GENERAL MANAGEMENT CHALLENGES

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 15, 2019

INFORMATION MEMORANDUM FOR SECRETARY MNUCHIN

FROM: Richard K. Delmar /s/
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury (OIG-CA-20-005)

In accordance with the Reports Consolidation Act of 2000, we are providing you with our perspective on the most serious management and performance challenges facing the Department of the Treasury (hereinafter Treasury or the Department). In this year's memorandum, my office is reporting five challenges of which one is new and four are repeated and updated from last year.

- Operating in an Uncertain Environment (Repeat)
- Cyber Threats (Repeat)
- Anti-Money Laundering/ Terrorist Financing and Bank Secrecy Act Enforcement (Repeat)
- Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments (Repeat)
- Information Technology Acquisition and Project Management (New)

We identified challenges based on the threat they pose to Treasury's mission and stakeholders' interests. That said, we acknowledge the Department's accomplishments and efforts over the past year to address the most critical matters as noted within each challenge discussed. In addition to the above challenges, we are reporting our elevated concerns about the following matters: (1) the coin redemption program at the United States Mint (Mint) and (2) managerial cost accounting.

2020 Management and Performance Challenges

Challenge 1: Operating in an Uncertain Environment (Repeat)

As reported in the prior year's memorandum, we remain mindful of external factors and future uncertainties that affect the Department's programs and operations. Among the most notable was the 35-day partial Federal government shutdown from December 22, 2018 through January 25, 2019 that affected all of government including Treasury. Like other components of Treasury subject to a lapse in appropriation, the Bureau of the Fiscal Service (Fiscal Service) developed its 2019 Lapse Plan as directed by the Office of Management and Budget (OMB). According to Fiscal Service officials, its 2019 Lapse Plan was based on assumptions that the shutdown would be of a short duration consistent with OMB's guidelines. Assumptions included a shutdown that would (1) last one week at most including weekend operations because 7 of the last 10 shutdowns were 5 days or less; and (2) be a full operational shutdown and not a partial one. Fiscal Service's 2019 Lapse Plan did not contemplate a shutdown of the nature and duration as that of the fiscal year 2019 shutdown. Given the central role that Fiscal Service serves in providing financial

and administrative services government-wide and to the American public, management had to make adjustments to meet the bureau's obligations.

Fiscal Service only avoided impacts to its services through proactive and decisive management and the support of the Department. Since the fiscal year 2019 shutdown was partial, many Federal agencies required ongoing support. According to Fiscal Service officials, this increased the workload for Fiscal Service's government-wide operations above those planned in the approved Lapse Plan and required modifications to the plan during the appropriation lapse. Fiscal Service officials stated that they revised the 2019 Lapse Plan to provide critical government-wide support services under different scenarios (e.g. short vs. long-term shutdown, partial vs. full shutdown).

Also reported in prior years, the Department continues to await discussions with OMB and Congress on the proposed changes included in OMB's comprehensive "Government–wide Reform Plan and Reorganization Recommendations" (Government–wide Reform Plan) to reorganize the Executive Branch.[1] In the plan, OMB made agency-specific recommendations that would merge functions with similar missions across agencies. Specific to Treasury, OMB proposed the transfer of alcohol and tobacco responsibilities from the Bureau of Alcohol, Tobacco, Firearms and Explosives within the Department of Justice to the Alcohol and Tobacco Tax and Trade Bureau (TTB) in order to leverage the expertise and resources of TTB. Other potential impacts on Treasury include OMB's recommendations to increase coordination between agencies and avoid duplication of roles in the areas of small business programs, the housing finance market, and financial literacy and education. Furthermore, the plan also includes a proposal to privatize the United States Postal Service, which is estimated to be insolvent, yet continues to hold a $15 billion unfunded liability to the Treasury's Federal Financing Bank. Although no decisions have been made, Treasury started to prepare for the potential long-term restructuring of certain functions of offices/bureaus and expected budget cuts.

Tackling OMB's proposed reformations and other critical matters at hand could be more challenging as Senate confirmed leadership positions and other key senior level positions within the Department remain vacant. As of this writing, there are several vacant positions. Even though some positions in the nomination process have been confirmed, other key positions such as the Chief Financial Officer (vacant since July 2013) and the Under Secretary for Domestic Finance (vacant since September 2014) remain unfilled. Although progress was made in filling other positions, it is important that any remaining vacancies and new ones across Treasury be filled as quickly as possible to avoid potential skill gaps. This could pose risks to Treasury meeting key program missions and impact succession planning. Human capital management overall remains a high risk area as the lengthy security clearance process and backlog of background investigations cause significant delays onboarding highly-skilled individuals to fill critical positions across Treasury. Due to substantial increases in appropriation and staffing levels, the two offices most impacted are the Office of International Affairs, which is working to increase its staffing level from 22 to 65 employees by the end of calendar year 2019 and to 90 employees by the end of calendar year 2020; and the Office of Terrorism and Financial Intelligence (TFI), which requested approximately 50 new positions for fiscal year 2020. These positions could be difficult to fill if approved because of the expertise required for these positions and length of time to process required security clearances.

Most recently, Treasury has had to manage the increasing demands placed on the Committee on Foreign Investments in the United States[2] (CFIUS), which is charged with reviewing transactions involving foreign investments in the United States to determine national security risks. There is an anticipated increase in both volume and complexity of transactions. The Office of International Affairs carries out the Secretary's role

[1] OMB, *Delivering Government Solutions in the 21st Century, Reform Plan and Reorganization Recommendations* (June 2018)
[2] CFIUS is an interagency committee comprised of the departments of Commerce, Defense, Energy, Homeland Security, Justice, State, Treasury and the Office of the U.S. Trade Representative and the Office of Science and Technology.

as Chair of CFIUS and coordinates the interagency review process. While the Foreign Investment Risk Review Modernization Act of 2018[3] modernized the review process, it also expanded CFIUS's jurisdiction to address growing concerns over certain investment structures that were not within CFIUS's jurisdiction such as investments involving U.S. businesses in close proximity to U.S. military bases and investments with impacts to critical infrastructure and personally identifiable information (PII). Treasury estimated that the number of transactions for review will increase from 200 to over 1,000 transactions per calendar year. It will be a challenge onboarding personnel with the specialized skills to review complex investment structures as the security clearance process continues to be a contributing factor in recruiting highly skilled personnel that require access to programs and information systems dealing with national security. As the office builds staff capacity, it plans to utilize contractor support.

The lengthy security clearance process continues to hamper the recruitment of cybersecurity personnel government-wide. Our previous audits of select Treasury bureaus found that the cause for many of our findings related to information systems' security measures involved a lack of resources and/or management oversight, which echoed the Government Accountability Office's (GAO) observations of agencies' impairments. In its April 3, 2019 letter to the Department regarding its top open recommendations, GAO included a recommendation from 2016 that emphasized the need for Treasury to address shortfalls in information technology (IT) workforce planning. While GAO acknowledged that some progress was made, Treasury had yet to develop an IT workforce plan that contained the key actions to address workforce skill gaps.[4] The security clearance process is still a culprit in the recruiting process and remained on GAO's 2019 high-risk list.[5]

Effective June 24, 2019, the responsibility for conducting background investigations was transferred from OPM's National Background Investigations Bureau to the Department of Defense's (DOD) Defense Counterintelligence and Security Agency. Although the intent of this transfer was to develop a unified approach for the security clearance process, there is uncertainty as to whether the transfer will reduce the delays in the clearance process for Treasury. In an effort to reduce the wait time for onboarding new personnel to fill special- sensitive and critical-sensitive positions, the Department implemented an investigative waiver request. If approved on a case by case basis, the Department may grant secret level clearance with the conditions that the employee has access to information at the secret level only. Employment is also conditioned on the favorable completion of an investigation and issuance of an approved clearance. While this may bring staff on faster, it will not address the delay in the clearance process and meet the mission critical need to fill positions dealing with programs and materials of the highest sensitivity.

To further complicate matters, Treasury must also operate in the repeated cycle of budget and debt ceiling stopgaps. Legislation was passed in February 2018 to suspend the statutory debt limit through March 1, 2019.[6] Because no long-term solution had been found, the U.S. debt limit was reinstated at $22 trillion on March 2, 2019. When the statutory debt limit was reinstated, Treasury immediately implemented extraordinary measures to prevent the United States from defaulting on its obligations. Measures included (1) suspending State and Local Government Series securities sales, (2) declaring a "debt issuance suspension period" which suspended additional investments in the Civil Service Retirement and Disability Fund and Postal Retiree Health Benefits Fund, and (3) suspending investment in the Government Securities Investment Fund of the Federal Employees' Retirement System Thrift Savings Plan. In July 2019, Treasury informed Congress that these extraordinary measures would be exhausted before September 2019.

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[3] Public Law 115-232 (August 13, 2018).
[4] GAO, *Treasury Priority Recommendations* (GAO-19-325SP; April 3, 2019),
[5] GAO, *High-Risk Series, Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas* (GAO-19-157SP: March 2019).
[6] Public Law 115-123 (February 8, 2018).

Consequently, legislation was passed to suspend the statutory debt limit through July 31, 2021.[7] While the debt ceiling has been lifted, it is only temporary as Congress has yet to resolve unfinished business when it comes to the Nation's debt, and the long-term sustainability of the large programs. Although not included as a top open recommendation in its April 2019 letter to the Department, GAO raised the same concerns to Congress in its July 2015 report[8] with the approach to managing the federal debt limit and its impact on Treasury's borrowing costs and the need for alternative approaches.

The impact of this challenge and the uncertainties require the Department to focus its resources on programs that are in the highest need to citizens and/or where there is a unique federal role. It is essential that new programs and reforms be managed and communicated effectively for achieving performance and accountability.

Challenge 2: Cyber Threats (Repeat)

Cybersecurity remains a long-standing and serious challenge facing the Nation. A reliable critical infrastructure, including information systems and networks, is vital to our national security and economic stability. Cyber threats are a persistent concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure. As cyber threats continue to evolve and become more sophisticated and subtle, they pose ongoing challenges for Treasury to fortify and safeguard its internal systems and operations along with the financial sector it oversees. Attackers frequently exploit vulnerable networks or systems in a string of trusted connections to gain access to government systems. Attempted cyber-attacks against Federal agencies, including Treasury, and financial institutions continue to increase in frequency and severity, in addition to continuously evolving. Organized hacking groups leverage published and unpublished vulnerabilities and vary their methods to make attacks hard to detect and even harder to prevent. Criminal groups and nation-states are constantly seeking to steal information; commit fraud; disrupt, degrade, or deny access to information systems; or infiltrate information systems and maintain a presence to enable future actions. Through cyber information sharing, Federal agencies are better prepared to thwart potential attacks to the cyber infrastructure of the Federal government and the financial sector that it serves. Ensuring the nations' cybersecurity continues to be reported as a government-wide issue on GAO's 2019 high-risk list.

As the tools used to perpetrate cyber-attacks become easier to use and more widespread, the less technological knowledge and fewer resources that are needed to launch successful attacks of increasing sophistication. Such attacks include distributed denial of service attacks, phishing or whaling attacks, fraudulent wire payments, malicious spam (malspam), ransomware, and compromise of supply chains. There has been growing concern with foreign adversaries creating and exploiting vulnerabilities in information and communication technology and services. To secure the supply technology and services chain, an Executive Order was issued on May 15, 2019 that bans the import, use, or sale of technology or services designed, developed, manufactured, or supplied from persons or companies that are owned or controlled by governments defined as hostile to the United States.[9] There are risks that Treasury's systems and resources already in use, including critical infrastructure, contain components from sources that have yet to be designated as threats. Once a source is designated as such, repairs and/or upgrades of key system components may no longer be available. Therefore, there is risk of disruption of critical operations. The Department will need to monitor developments in this area closely and plan for the possibility that its current supply chain may no longer be available in the near future.

[7] Public Law 116-37 (August 2, 2019).
[8] GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches* (GAO-15-476; July 9, 2015).
[9] *Executive Order on Securing the Information and Communications Technology and Services Supply Chain* (May 15, 2019).

In addition to Treasury's own networks and systems, management must be cognizant of, and mitigate, the risks posed by attacks made against other agencies and Treasury contractors and subcontractors. Treasury frequently enters into interconnection agreements with other Federal, State, and local agencies, and service providers, to conduct its business. Treasury management must exercise due care when authorizing such internetwork connections and verify that third parties comply with Federal policies and standards. Management is also challenged with ensuring that critical data and information maintained by third-party cloud service providers are properly protected. Issues related to management of cloud systems have been reported in four consecutive *Federal Information Security Modernization Act of 2014* [10] audits (fiscal years 2015, 2016, 2017, and 2018).

Additionally, effective public-private coordination continues to be required to address the cyber threat against the Nation's critical infrastructure. In this regard, Treasury is looked upon to provide effective leadership to financial institutions in particular, and the financial sector in general, to strengthen awareness and preparedness against cyber threats. The Office of Critical Infrastructure Protection and Compliance Policy coordinates Treasury's efforts to enhance the security and resilience of the financial services sector critical infrastructure and reduce operational risk including risks associated with cybersecurity. The National Institute of Standards and Technology (NIST) updated its guidance to assist Federal agencies in managing cybersecurity risks.[11] In its 2018 report on adoption of the NIST framework by critical infrastructure sectors, GAO reported that the extent of adoption was unknown since agencies were not measuring framework implementation. With respect to Treasury, GAO recommended that steps be taken to consult with respective sector partners to develop methods for determining the level and type of adoption by entities across the financial services sector. In its April 2019 letter regarding its top open recommendations, GAO noted that Treasury had begun discussion with NIST to identify and develop methods for determining the level and type of framework adoption; however the recommendation remained open.

The Department reported steady progress over the past year to implement higher security settings for websites, web services, and e-mail. The Department also reported that it completed the first phase of implementing the Federal government-wide Continuous Diagnostics and Mitigation program aimed at providing agencies with the capabilities and tools needed to identify and prioritize cybersecurity risks on an ongoing basis and mitigate the most significant risks first. While progress was reported, resource constraints were noted. For example, the Department reported that evaluating and prioritizing remediation activities related to cybersecurity assessments of High Value Assets [12] had funding constraints. In response to our prior year memorandum, the Department acknowledged that six of its High Value Assets reside at Fiscal Service which is an inherent concentrated risk of cyber-attacks for Treasury. As discussed in challenge 1, we reported in prior audits that the cause for many of our information systems' findings involved a lack of resources and/or management oversight.

As an ongoing challenge, Treasury will need to balance cybersecurity demands while modernizing and maintaining IT systems. To this end, Treasury must ensure that cyber security is fully integrated into to its IT investment decisions as discussed in challenge 5.

Challenge 3: Anti-Money Laundering/ Terrorist Financing and Bank Secrecy Act Enforcement (Repeat)

[10] Public Law 113-283 (December 18, 2014).
[11] NIST, *Framework for Improving Critical Infrastructure Cybersecurity* (Version 1.0, February 12, 2014; superseded by Version 1.1; April 16, 2018).
[12] High Value Assets are assets, information systems information, and data for which an unauthorized access, use, disclosure, disruption, modification, or destruction could cause a significant impact to the U S.' national security interests, foreign relations, economy, or to the public confidence, civil liberties, or public health and safety.

Over the past year, TFI has remained dedicated to countering the ability of the financial networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to international security through intelligence analysis, sanctions, and international private-sector cooperation. As previously reported, identifying, disrupting, and dismantling the financial networks that support rogue regimes, terrorist organizations, transnational criminal organizations, and other threats to the national security of the United States and our allies continues to be challenging as TFI's role to counter these financial networks and threats has grown because its economic authorities are key tools to carry out U.S. policy. In 2018, the Office of Foreign Assets Control (OFAC) designated approximately 1,500 persons to the list of Specially Designated Nationals and Blocked Persons (SDN)[13] which is approximately 50 percent more than it has ever added to the list in any single year. Additionally, criminals and other bad actors evolve and continue to develop more sophisticated money laundering methods in an attempt to avoid detection. As noted in challenge 1, TFI requested approximately 50 new positions for fiscal year 2020 to address this growing demand.

TFI's authorities are key tools in implementing U.S. policy to pressure foreign countries and regimes, such as North Korea, Russia, and Iran, and terrorist groups, such as the Islamic State of Iraq and Syria (ISIS) through the use of designations and economic sanctions. TFI has significantly increased sanctions against North Korea for missile testing and it serves a critical role in the U.S.'s maximum economic pressure campaign. TFI also increased sanctions against Russia related to malign activities, such as interfering with the 2016 U.S. election, and support of the Government of Syria. As a result of the U.S. decision to withdraw from the Joint Comprehensive Plan of Action (JCPOA),[14] TFI re-imposed nuclear related primary and secondary sanctions, subject to certain 90 and 180 day wind-down periods for activities involving Iran. TFI continues to designate Iranian individuals and entities related to its ballistic missile program, terrorist activities, and human rights violations.

TFI's counter-terrorism designations disrupt the financial networks that support terrorist organizations. Disrupting terrorist financing depends on a whole-of-government approach and requires collaboration and coordination within Treasury and with other Federal agencies. Collaboration and coordination are key to successfully identifying and disrupting all of these financial networks and meeting TFI's mission. This effort requires effective and efficient working relationships among components within TFI and the Intelligence Community. In an effort to effectively implement U.S. policy and disrupt these financial networks, officials stated that TFI is moving towards a more collaborative approach to achieve its mission.

Effective coordination and collaboration and TFI's ability to effectively gather and analyze intelligence information requires a stable cadre of experienced staff. As of this writing, TFI management stated that 81 of the 100 positions approved in fiscal year 2019 were filled. The office requested another 50 new positions for fiscal year 2020. The security clearance process has significantly impacted Treasury's human capital management as noted in our first challenge and is a systemic issue government-wide. If approved, the additional TFI positions may be difficult to fill because of the expertise needed and length of time to process

[13] SDN list includes individuals and entities designated in connection with activity involving sanctioned countries. It also lists individuals, groups, and entities such as terrorists and narcotics traffickers designated under sanctions programs that are not country-specific. Unless an exemption from regulation applies or OFAC authorizes a transaction under a license, all transactions by U.S. persons, including U.S. depository institutions, or transactions in or involving the United States are prohibited if they involve an individual or entity on the SDN list. U.S. persons must also block designated persons' property and interests in property within their possession or control.

[14] In July 2015, an international coalition, comprised of China, France, Germany, Russia, the United Kingdom, and the United States, reached the JCPOA to ensure that Iran's nuclear program would be exclusively peaceful. The JCPOA provides a long-term, multiphase commitment that deters Iran's path to build a nuclear weapon and imposes rigorous inspections and transparency measures to verify that Iran cannot pursue a nuclear weapon. In May 2018, it was announced that the United States would cease participation in the JCPOA.

required security clearances. As of this writing, it remains unknown if the transfer of background investigations from OPM to DOD's Defense Counterintelligence and Security Agency will decrease Treasury's wait time for onboarding skilled personnel to fill special- sensitive and critical-sensitive positions.

Data security and information sharing are challenges for the Financial Crimes Enforcement Network (FinCEN), which has experienced unauthorized disclosures of Bank Secrecy Act information. FinCEN is required to maintain a highly secure database for financial institutions to report suspicious activity. FinCEN has previously identified that the success of that system depends on the financial sector's confidence that those reports are adequately protected, but recent data breaches threaten to undermine that confidence. FinCEN is also required to maintain a government-wide data access service to make information available and useful to Federal, State, local, and foreign law enforcement agencies and appropriate regulators and to support intelligence and counterintelligence activities and anti-money laundering initiatives. The challenge for FinCEN is to ensure the Bank Secrecy Act data remains secure in order to maintain the confidence of the financial sector while meeting the access needs of law enforcement, regulatory, and intelligence partners.

Given the criticality of Treasury's mission and its role to carry out U.S. policy, we continue to consider anti-money laundering and combating terrorist financing programs and operations as inherently high-risk.

Challenge 4: Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments (Repeat)

Given the broad implications and critical roles assigned to Treasury by the Digital Accountability and Transparency Act of 2014 (DATA Act), we consider this project a management challenge. Since last year's memorandum, the Department continued to align its systems and execute a comprehensive governance framework to meet the submission and certification requirements of the DATA Act. Treasury's DATA Act Project Management Office continued to refine its processes to address Government-wide implementation challenges through corrective actions to improve data quality for Federal spending transparency.

In its efforts to promote spending transparency and use of federal financial data in order to strengthen government-wide decision-making, Treasury launched the Data Lab. The Data Lab is designed to increase the public understanding of Federal spending using interactive data visualizations and analyses on USASpending.gov. Further, Treasury's Office of the Deputy Chief Financial Officer, working together with the Office of the Procurement Executive, developed and executed remediation efforts focused on training and other related activities, including the development of a more comprehensive remediation plan. In May 2019, the Department released its Data Quality Plan which outlines the control environment for DATA Act reporting, provides a framework for remediating data quality issues, and documents initial remediation strategies and targeted timeframes for implementing such strategies to improve its reporting of Federal spending and award data.

Since 2014, we have engaged in a series of ongoing audits of Treasury's efforts to meet its responsibilities under the DATA Act. As of this writing, we are performing an audit focusing on the Department's

continued efforts to report financial and award data and address data quality concerns we identified in our November 2017 report.[15]

Within the next fiscal year, the Department must implement government-wide reforms for making data accessible and useful for decision-making as authorized by the *Foundations for Evidence-Based Policymaking Act of 2018* [16] (Evidence Act). Among several requirements, departments and agencies must submit annually to Congress and OMB, an evidence-building plan for identifying and addressing policy questions relevant to programs, policies, and regulations. In addition, agencies must develop a plan to evaluate the activities pursuant to their evidence-based plans. Under Title II of the Evidence Act, also known as the *Open, Public, Electronic, and Necessary Government Data Act* or the "*OPEN Government Data Act,*" Federal agencies must develop a strategic information resources management plan that includes, among other things, an open data plan that requires agencies to develop processes and procedures making data collection mechanisms created on or after enactment to be available in an open format. The strategic information resources management plan and open data plan must be updated annually and made publicly available on agency websites. Federal agencies must also develop and maintain a data inventory to be included in the Federal Data Catalogue[17] (www.Data.gov) developed and maintained by the General Services Administration.

The Evidence Act is a comprehensive government-wide undertaking with several moving parts to implementation that requires Treasury to work closely with OMB.

Detect Improper Payments

In light of the continuing government-wide problem with improper payments (estimated at $151 billion or 3.7 percent of all program outlays for fiscal year 2018),[18] the Federal Government intensified efforts to reduce improper payments in major Federal programs. The Do Not Pay (DNP) Initiative and the Fiscal Service's DNP Business Center are chief components of efforts designed to prevent and detect improper payments to individuals and entities.

The DNP Business Center provides two services to agencies: the DNP Portal and the DNP Data Analytics Service. The DNP Portal is intended to provide users with a single entry point to search data sources such as the Social Security Administration's (SSA) publicly available Death Master File, the Department of Health and Human Service Office of Inspector General's List of Excluded Individuals/Entities, the General Services Administration's System for Award Management, and Treasury's Debt Check Database. However, as we reported in November 2014, the effectiveness of the DNP Business Center as a tool to prevent and detect improper payments is hindered because the center does not have access to, among other things, SSA's full death data.[19] Since our May 2016 report, that challenge continues to exist in obtaining better

[15] OIG, *Treasury Continues to Make Progress in Meeting DATA Act Reporting Requirements, But Data Quality Concerns Remain* (OIG-18-010R; November 8, 2017).
[16] Public Law 115-435; (January 14, 2019).
[17] A single public interface on-line as a point of entry for sharing data assets with the public.
[18] GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future* (GAO-19-314SP; April 10, 2019); percentage based on total Government outlays of 4.1 billion (https://www.fiscal.treasury.gov/files/reports-statements/mts/mts0918.pdf).
[19] OIG, *Fiscal Service Successfully Established the Do Not Pay Business Center But Challenges Remain* (OIG-15-006; November 6, 2014).

death information.[20] In October 2016, GAO reported that restrictions on the center's access to SSA's full death data remained in place.[21]

In response to the *Federal Improper Payments Coordination Act of 2015*,[22] Fiscal Service entered into agreements with DOD and the Department of State in 2016 to incorporate death data collected by these agencies into the DNP Business Center Working System, which began receiving data in September 2017. In November 2017, OMB designated six additional databases for inclusion in the DNP Business Center Working System to help agencies address a broader range of improper payments beyond what can be detected through DNP Business Center's previously existing data sources.[23] There have been legislative proposals in January 2017, February 2017, February 2018, and May 2019 to obtain authorization to use both the SSA's full death file as well as the National Directory of New Hires. [24]

The DNP Data Analytics Service supports agencies' efforts to identify and prevent improper payments by identifying trends and patterns in agency payment and other information that may be indicative of improper payments. The results of these analyses are provided to agencies at no cost for further study so they can prevent future improper payments. We have an audit in progress to assess the services provided to agencies by the DNP Data Analytics Service.

With its potential to reduce improper payments, the DNP Business Center is a major and important undertaking by Treasury. As part of our ongoing audit work in this area, we will continue to monitor the steps taken by Fiscal Service to improve the effectiveness of the DNP Business Center.

Challenge 5: Information Technology Acquisition and Project Management (New)

The *Federal Information Technology Acquisition Reform Act* (FITARA), enacted in December 2014, was the first major overhaul of Federal IT management since the passage of the *Clinger-Cohen Act of 1996* [25] which was designed to improve the Federal Government's acquisition and management of its resources to include IT investment. Among other things, it expanded the involvement of Chief Information Officers (CIO) of Federal agencies in IT decision making, including annual and multi-year planning, programming, budgeting, execution, reporting, management, governance, and oversight functions.[26] FITARA was intended to improve how Federal agencies acquire and manage IT, as well as, enable Congress to monitor progress and hold Federal agencies accountable for reducing duplication and achieving cost savings. FITARA includes specific requirements related to seven areas: (1) the Federal data center consolidation initiative, (2) enhanced transparency and improved risk management, (3) agency CIO authority enhancements, (4) portfolio review, (5) expansion of training and use of IT acquisition cadres,

[20] OIG, *Fiscal Service Faces Challenges in Obtaining Better Death Information for the Do Not Pay Business Center, but Alternatives Exist* (OIG-16-042; May 18, 2016)
[21] GAO, *Improper Payments, Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended* (GAO-17-15; October 14, 2016).
[22] Public Law 114-109 (December 18, 2015).
[23] The following databases were added: (1) Treasury's Office of Foreign Assets Control's SDN list (OFAC List), (2) the General Services Administration's System for Award Management (SAM), (3) the Internal Revenue Service's (IRS) Automatic Revocation of Exemption List, (4) the IRS's Exempt Organizations Select Check, (5) the IRS's e-Postcard database, and (6) the commercial database American InfoSource (AIS) Deceased Data.
[24] The National Directory of New Hires (NDNH) is a national database of wage and employment information operated by the Federal Office of Child Support Enforcement (OCSE). OCSE uses the NDNH primarily to assist states administering programs that improve States' abilities to locate parents, establish paternity, and collect child support. The information in this database is only available to authorized persons or entities for authorized purposes.
[25] Public Law 104-106 (February 10, 1996).
[26] Public Law 113-291 (December 19, 2014).

(6) government-wide software purchasing, and (7) maximizing the benefit of the Federal strategic sourcing initiative.

While FITARA was intended for agencies to better manage their IT investments, implementation continues to be a government-wide challenge. Since February 2015, GAO has included the management of IT acquisitions and operations on its high-risk list as cost overruns and schedule delays impact mission related outcomes government-wide.[27] In its March 2019 high risk report, GAO acknowledged that the executive branch has undertaken numerous initiatives to better manage the more than $90 billion that is invested annually in IT. However, GAO reported that more needed to be done to improve overall management of IT acquisitions and operations and recommended that, in general, agencies needed to improve CIO's authorities, establish action plans to modernize and replace obsolete IT investment, and address weaknesses in IT Dashboard[28] reporting of IT investment risk and incremental development implementation. [29] For example, none of the 24 major Federal agencies, including Treasury, had IT management policies that fully addressed the role of their CIOs. Further, the majority of the agencies did not assess the CIO role in assessing agency IT workforce needs, and developing strategies and plans for meeting those needs.

The House Oversight and Reform Committee worked with GAO to develop a biannual scorecard to assess Federal agencies' efforts in implementing FITARA by assigning a grade from A to F based on self-reported data at the agency level. Agencies are scored on areas of CIO authority enhancements, transparency and risk management, portfolio review, data optimization, software licensing and modernizing government technology. Since the first scorecard was issued in November 2015 Treasury's overall FITARA score has wavered between a D- and C-. Areas needing most improvement were enhanced transparency and risk management (i.e. IT investment risk) and improved cybersecurity. The *FITARA Enhancement Act of 2017* [30] extended the sunset date for full implementation of the data center optimization requirements of FITARA from October 1, 2018 to October 1, 2020. As of the end of fiscal year 2018, Treasury met its data center closure target, but did not achieve its other targets in the data center optimization initiative.

In fiscal year 2019, Treasury reported $1.8 billion in non-Internal Revenue Service (IRS) IT investment, which is expected to increase in fiscal year 2020. Given this sizable investment, we are reporting the Department's IT acquisition and project management as a new management and performance challenge distinct from challenge 2 that addresses cybersecurity concerns.

A more recent initiative to manage and monitor IT investments includes the government-wide adoption of the Technology Business Management (TBM) framework as reported in the fiscal year 2018 *President's Management Agenda: Modernizing Government for the 21st Century* (March 20, 2018). The goal is to improve outcomes through Federal IT spending transparency with the adoption of TBM government-wide by fiscal year 2022. TBM is expected to improve IT spending data accountability and transparency, empowering agency executive suite leadership from across the enterprise to drive mission value and improve customer experience through technology. This initiative will be led by OMB with General Services Administration's Office of Government-Wide Policy team and with Executive Councils.

[27] GAO, *High- Risk Series*, *An Update* (GAO-15-290; February 11, 2015).
[28] IT Dashboard was launched in June 2009 to provide agencies and the public the ability to view details of Federal IT investments and track progress over time.
[29] GAO, *High-Risk Series, Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas* (GAO-19-157SP: March 2019).
[30] Public Law 115-88 (November 21, 2017).

In fiscal year 2019, Treasury's non-IRS bureaus reported 23 major IT projects. Treasury's CIO assessed 20 projects as having moderately low or low risk to accomplishing their goals. The remaining three IT projects, which reside at Fiscal Service, were assessed as having medium risk[31] to accomplishing their goals:

- Electronic Federal Tax Payment System (EFTPS),
- Post Payment Services (PPS), and
- Wholesale Securities Services (WSS).

Select projects within EFTPS and PPS were behind schedule and over budget, while WSS had select projects that were behind schedule. Although projects identified with medium overall risk in cost and scheduling require special attention from the highest level of agency management, they are not necessarily at risk for failure. We plan to initiate an audit of these IT acquisitions. Overall, 80 percent of Treasury's total IT projects were on schedule and 56 percent were on budget. During fiscal year 2019, Treasury spent 33 percent of its total IT spending on 41 major investments.

Non-IT related acquisitions also require attention to ensure timely delivery and minimize cost overruns for achieving cost savings. The *Program Management Improvement Accountability Act*[32] was intended to improve program and project management practices across the Federal Government. Similar to IT projects, other major acquisitions need to be monitored so that the project goals are met in a timely manner and costs are not allowed to significantly exceed established budgets. In prior years, we have reported our ongoing concern over the Bureau of Engraving and Printing's (BEP) outdated Washington D.C. facility with limited capabilities to produce $100 notes and the need for a new facility to ensure continuity of operations at the bureau. With recent passage of the Agriculture Act of 2018, the Secretary of Agriculture will transfer to the Secretary of the Treasury administrative jurisdiction over a parcel of real property in Beltsville, Maryland, for a new BEP facility. The Secretary of Agriculture entered into a binding memorandum of agreement with the Secretary of the Treasury regarding the responsibilities, including financial responsibilities, of each party for evaluating and, if necessary, remediating or otherwise addressing hazardous substances, pollutants, or contaminants found at the parcel. BEP has requested $30 million in its FY 2020 budget to begin preparation of the site for BEP's new facility. This money is for BEP to provide to the General Services Administration for surveys, environmental studies, transportation, and employment of construction and management contractors. BEP will need to ensure it employs effective contract and project oversight for preparation of the land, construction of the building, purchase of equipment and machinery, and employment of a workforce to ensure continuity of operations at the bureau. We have included an audit of BEP's management of this large construction project in our Annual Plan for Fiscal Year 2020.

Other Matters of Concern

Although we are not reporting these as management and performance challenges, we are highlighting two areas of concern: (1) coin redemption and (2) managerial cost accounting.

Coin Redemption

[31] IT Dashboard, "the Agency CIO rates each investment based on his/her judgment using a set of pre-established criteria. As a rule the evaluation should reflect the CIO's assessment of risk and the investment's ability to accomplish goals." Evaluation ratings are based on five-point risk scale as follows: 5-low risk, 4= moderately low risk, 3= medium risk, 2= moderately high risk, and 1=high risk.
[32] Public Law 114-264 (December 14, 2016).

On January 19, 2018, the Mint recommenced its mutilated coin redemption program, which was suspended in 2016, with procedures to enhance the validation of the sources of these coins. However, as of April 24, 2019, the Mint temporarily ceased processing applications and material submitted to its mutilated coin redemption program pending the development of additional program safeguards to mitigate risks identified in our current audit. The Mint's internal control related to safeguarding and ensuring the integrity of U.S. coinage is a concern. As of this writing, the Director of the Mint confirmed that plans are being implemented to address this concern.

Managerial Cost Accounting

Managerial cost accounting is a fundamental part of a financial performance management system. It involves the accumulation and analysis of financial and nonfinancial data, resulting in the allocation of costs to organizational pursuits, such as performance goals, programs, activities, and outputs. As of this writing, we are auditing Departmental Offices' (DO) Office of Budget and Travel's (OBT) controls over its overhead [33] process and compliance with the *Economy Act*.[34] Early in our audit, we communicated with OBT management our concerns related to internal control weaknesses identified within OBT's overhead process used to charge reimbursable customers. That is, OBT's methodology to accumulate, allocate, and charge overhead costs to reimbursable customers was not appropriate or consistently followed. Therefore, we expressed concern of a potential *Economy Act* violation in fiscal year 2015 by OBT not recovering actual costs from reimbursable customers. Further, OBT potentially augmented its fiscal year 2015 appropriation by recovering indirect costs in excess of actual costs from reimbursable customers. OBT followed the same overhead process for fiscal years 2015 through 2018, which was recently changed in fiscal year 2019. Our office has an ongoing audit that is reviewing this new process.

We are available to discuss our views on the management and performance challenges and the other matters expressed in this memorandum in more detail.

cc: David Eisner

Assistant Secretary for Management

[33] Overhead, also known as indirect costs, are items which are commonly recognized as elements of cost that may not have resulted in direct expenditures. It covers the cost of administrative expenses associated with financial management, human resources, information technology, general counsel and other support related to providing reimbursable services to customers.
[34] Public Law 73-2 (March 20, 1933)

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION MANAGEMENT CHALLENGES

INSPECTOR GENERAL
FOR TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20005

October 15, 2019

MEMORANDUM FOR SECRETARY MNUCHIN

FROM: J. Russell George
Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2020

The Reports Consolidation Act of 2000[1] requires that the Treasury Inspector General for Tax Administration (TIGTA) summarize, for inclusion in the annual *Department of the Treasury Agency Financial Report*, its perspective on the most serious management and performance challenges confronting the Internal Revenue Service (IRS).

Each year, TIGTA evaluates IRS programs, operations, and management functions to identify the areas of highest vulnerability to the Nation's tax system. For Fiscal Year (FY) 2020, the IRS's top management and performance challenges, in order of priority, are:

1. Security Over Taxpayer Data and Protection of IRS Resources;
2. Implementing Tax Law Changes;
3. Addressing Emerging Threats to Tax Administration;
4. Supporting an Enhanced Taxpayer Experience;
5. Modernizing IRS Operations;
6. Improving Tax Reporting and Payment Compliance;
7. Reducing Fraudulent Claims and Improper Payments;
8. Impact of Global Economies;
9. Protecting Taxpayer Rights; and
10. Achieving Operational Efficiencies.

TIGTA's assessment of the major IRS management challenge areas for FY 2020 is similar to the prior fiscal year. Where we have made changes, it is to reflect the broader scope of certain challenges. For example, last year's challenge of "Identity Theft and Impersonation Fraud" was changed to "Addressing Emerging Threats to Tax Administration" to more fully encompass the issues that have wide-ranging implications for both the IRS and taxpayers.

[1] 31 U.S.C. § 3516(d) (2006).

Human capital remains a serious underlying issue that impacts all 10 of the Major Management Challenges. Between Fiscal Years 2014 and 2018, the IRS budget increased slightly from $11.2 billion to $11.4 billion. However, cost increases over this time period have resulted in a significant reduction in the number of full-time employees, with a corresponding impact on institutional knowledge and technical expertise. TIGTA has reported how this trend of reduced staffing has affected the IRS's ability to deliver its priority program areas, including customer service and enforcement activities. In FY 2020, it is likely that the IRS will continue to face these staffing issues.

The following information detailing these management and performance challenges is being provided to promote economy, efficiency, and effectiveness in the IRS's administration of the Nation's tax laws.

SECURITY OVER TAXPAYER DATA AND PROTECTION OF IRS RESOURCES

Taxpayers have the right to expect that information they provide to the IRS will not be disclosed unless authorized by law. To achieve its mission, the IRS has developed Internet-accessible, public-facing applications to interact with taxpayers for various tax administrative purposes. These applications collect, process, and store large amounts of Personally Identifiable Information and tax data. Because this information is considered extremely valuable, the IRS is a target of criminals and identity thieves. As such, the IRS must ensure that its applications are secure against threats on the Internet.

Attacks against IRS online portals can have wide-ranging negative ramifications. This was clearly demonstrated in recent years through high-profile attacks against the IRS eAuthentication web portal and the IRS Data Retrieval Tool within the U.S. Department of Education Free Application for Federal Student Aid website, which caused both applications to be taken offline. The absence of these resources affected taxpayers' ability to timely file annual tax returns and, in the case of the latter application, negatively affected the spring college enrollment process nationwide.

TIGTA works continually with the IRS to identify, investigate, and combat threats to the IRS's cyberinfrastructure, both through internal threat vectors and through external manipulations and attacks against online IRS applications. Of particular concern is how the IRS ensures that only authorized taxpayers can access their information on these public-facing applications. Strong electronic authentication controls are needed to prevent identity thieves from succeeding at impersonating taxpayers and gaining improper access to tax records.

TIGTA reported that the IRS is making progress at improving electronic authentication controls on its public-facing applications.[2] However, the IRS's 52 public-facing applications are not yet compliant with the National Institute of Standards and Technology guidelines issued in June 2017,[3] even though the Office of Management and Budget required compliance within one year of publication. Without full compliance with the new guidelines, the IRS increases the risk of using inappropriate authentication controls, which could allow unauthorized access and activities, compromise taxpayer records, and cause revenue to be lost due to identity theft refund fraud.

The IRS must also ensure that contractors or other third parties adequately protect taxpayer data to prevent its unauthorized disclosure. Administration of the U.S. tax system has become increasingly reliant on the use of information returns provided by third parties. For example, the IRS uses the data from information returns to ensure compliance with Federal tax withholding

[2] TIGTA, Ref. No. 2019-20-017, *Electronic Authentication Security Controls Have Improved, but Continued Progress Is Needed to Ensure the Protection of Public-Facing Applications* (Apr. 2019).
[3] NIST SP 800-63-3, Digital Identity Guidelines (June 2017).

requirements, to identify unreported income or overstated credits and deductions, and to identify potentially fraudulent returns.

TIGTA found[4] that processes and procedures to authenticate users of the Filing Information Returns Electronically (FIRE) system[5] do not comply with Federal Government information security standards. For example, our review identified that the IRS currently does not perform any type of identity proofing prior to providing users with access to the FIRE system. It is important that the IRS has strong authentication controls to ensure the validity of each payer's identity prior to submission of information returns that are then used for return validation, compliance matching, and fraud detection purposes.

TIGTA also reported significant vulnerabilities within the IRS Bring Your Own Device (BYOD) program, which allows its employees to access work resources using their personal mobile devices.[6] For example, the risk of data leakage with personally owned iPhones® is increased because iPhones enable the screen capture functionality. In addition, the BYOD servers also contain critical and high-risk vulnerabilities. Of the 68 critical and high-risk vulnerabilities identified in one month, 18 (26 percent) were classified as easily exploitable.

In addition to external threats, the IRS must ensure that its systems and data are protected against internal threats. It is particularly troubling when IRS employees, who are entrusted with the sensitive personal and financial information of taxpayers, misuse their positions to commit identity theft and other fraud. This breach of trust negatively affects our Nation's voluntary tax system and erodes confidence in the IRS. TIGTA proactively reviews the activities of IRS employees who access taxpayer accounts for any indication of unauthorized accesses that may be part of a larger fraud scheme.

In February 2019, an IRS employee was indicted for the unauthorized disclosure of Suspicious Activity Reports (SARs), misuse of a Government computer, and misuse of a Social Security Number in violation of the law. By virtue of his position, the IRS employee intentionally exceeded authorized access to a computer, obtained information regarding SARs that was not necessary to fulfill his official duties, and then knowingly disclosed the SARs. If convicted, the employee could face a maximum of five years' imprisonment for each violation.[7]

TIGTA also plays the key role of protecting IRS employees. Threats and assaults directed at IRS employees, facilities, and infrastructure impede the effective and safe administration of the Federal tax system and the IRS's ability to collect tax revenue. In the last several years, threats directed at the IRS have remained the second largest component of TIGTA's Office of Investigations work. Recent incidents involving taxpayers who threatened or assaulted IRS employees underscore the dangers that these employees face each day.

IMPLEMENTING TAX LAW CHANGES

Implementation of tax law changes will continue to present challenges for the IRS. For example, the Taxpayer First Act,[8] enacted on July 1, 2019, requires the IRS to propose an organizational redesign, with the goals of improving efficiency, modernizing systems and business processes and finding ways to better serve taxpayers.

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[4] TIGTA, Ref. No. 2019-40-071, *Strengthened Validation Controls Are Needed to Protect Against Unauthorized Filing and Input of Fraudulent Information Returns* (Sept. 2019).
[5] The IRS developed the FIRE system to allow payers (*e.g.*, corporations, partnerships, trusts, individuals, or government entities) to submit various information returns electronically to the IRS.
[6] TIGTA, Ref. No. 2019-20-046, *The Bring Your Own Device Program's Security Controls Need Improvement* (Sept. 2019).
[7] N.D. Cal. Crim. Compl. filed Feb. 4, 2019; N.D. Cal. Indict. filed Feb. 28, 2019.
[8] Pub. L. No. 116-25.

In addition, the Tax Cuts and Jobs Act of 2017[9] also made substantial changes to the tax code that affect individuals, businesses, and tax-exempt organizations. TIGTA has continued to assess the IRS's efforts to implement the provisions of this legislation. Specifically, TIGTA reported that the IRS had to create 48 new tax products, revise 494 existing tax products, and perform computer programming changes affecting 128 information technology systems, including addressing changes in the location of data fields in its fraud detection systems.[10] In addition, the IRS developed an overarching communication outreach strategy that informs stakeholders of tax law changes related to various tax provisions of the Tax Cuts and Jobs Act and also developed a hiring and training plan to support its customer service initiatives.

In addition to the Tax Cuts and Jobs Act, the IRS must administer other tax law provisions such as those in the Protecting Americans from Tax Hikes Act of 2015 (PATH Act).[11] The PATH Act contains a number of provisions referred to as program integrity provisions intended to reduce fraudulent and improper Earned Income Tax Credit (EITC), Child Tax Credit, Additional Child Tax Credit (ACTC), and American Opportunity Tax Credit (AOTC) payments. Specifically, the PATH Act modified the AOTC to require individuals claiming the credit to provide the Employer Identification Number of the educational institution. In December 2018,[12] TIGTA identified approximately 234,000 tax returns with claims of $209 million in refundable AOTCs that did not include an educational institution Employer Identification Number as required.

ADDRESSING EMERGING THREATS TO TAX ADMINISTRATION

TIGTA has issued a number of reports over the years assessing the IRS's efforts to detect and prevent the filing of fraudulent individual and business tax returns by identity thieves. Identity theft tax fraud occurs when an individual uses another person's or business' name and Taxpayer Identification Number (TIN) to file a fraudulent tax return for the purpose of obtaining a tax refund. This type of fraudulent activity is constantly evolving and continues to have a significant impact on tax administration. As such, the IRS must continually adapt its detection and prevention processes to reject fraudulent electronically filed tax returns and prevent fraudulent paper tax returns from posting. For the 2019 Filing Season, the IRS is using 193 identity theft filters to identify potentially fraudulent individual tax returns and prevent the issuance of fraudulent tax refunds. As of April 30, 2018, the IRS reported that it had identified 2.8 million tax returns with refunds totaling $16.6 billion for additional review because of identity theft filters.

The IRS continues to work with the Security Summit[13] to explore programs and processes to improve the extent of sharing identity theft information in an effort to further improve the detection and prevention of tax-related identity theft through the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (ISAC).[14] According to the April 2018 Identity Theft Tax Refund Fraud ISAC Annual Report, participation in the ISAC has increased from 18 participating organizations in Calendar Year 2017 to 60 participating organizations and more than 400 registered users in Calendar Year 2018. The Taxpayer First Act expanded the information the ISAC can use to detect and prevent tax-related identity theft. This Act modified the IRS's authority to allow it to share information on identity theft tax returns the IRS identifies with the ISAC.

[9] Pub. L. No. 115-97.
[10] TIGTA, Ref. No. 2019-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Efforts* (Apr. 2019).
[11] Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242 (2015).
[12] TIGTA, Ref. No. 2019-40-013, *Results of the 2018 Filing Season* (Dec. 2018).
[13] Partnership between the IRS, State tax agencies, and the private-sector tax industry to form a united and coordinated front against identity theft tax refund fraud.
[14] TIGTA, Ref. No. 2019-40-012, *Partnership With State and Industry Leaders Is a Key Focus in Further Reducing Tax-Related Identity Theft* (Dec. 2018).

In addition, the IRS developed additional filters in response to TIGTA recommendations to improve the detection of fraudulent tax returns that use Schedule C, *Profit or Loss From Business (Sole Proprietorship)*, income and foreign addresses. However, because of programming errors and the use of a dollar tolerance, TIGTA reported that 28,092 potentially fraudulent tax returns with refunds totaling more than $4.4 million were not identified.

In addition to identity theft, telephone calls from criminals impersonating IRS agents also land near the top of the IRS's "Dirty Dozen"[15] tax scams and remain an ongoing threat to taxpayers as con artists threaten taxpayers with arrest, deportation, and license revocation if the victim does not pay a bogus tax bill. Since the fall of 2013, a significant amount of TIGTA's Office of Investigations workload has consisted of investigating these scams in which more than 2.5 million intended victims have received unsolicited telephone calls from individuals falsely claiming to be IRS or Department of the Treasury employees. To date, more than 15,700 victims reported that they have paid approximately $79 million to these criminals. The number of complaints TIGTA has received about this scam has cemented its status as the largest, most pervasive impersonation scam in the history of the IRS.

SUPPORTING AN ENHANCED TAXPAYER EXPERIENCE

The *President's Management Agenda* outlines a goal of improving customer experience with Federal services. Improving the experience citizens and businesses have with Federal services, whether online, in-person, or via telephone, will increase trust in the Federal Government. Providing taxpayers with quality customer service is a key component in the IRS's mission. Resolving questions before tax returns are filed helps taxpayers avoid unintentional errors and noncompliance and also reduces the burden on both taxpayers and the IRS that results from the issuance of notices and correspondence. Successfully addressing and resolving taxpayer inquiries through a quality customer service process allows the IRS to direct its limited resources more efficiently.

Taxpayers have multiple options to choose from when they need assistance from the IRS. These include toll-free telephone lines, face-to-face assistance at Taxpayer Assistance Centers or Volunteer Program sites, and self-assistance using IRS.gov and other social media channels (*e.g.*, Twitter, Facebook, YouTube). To address declining budgets, the IRS continues to increase its dependence on technology-based services and external partners in an effort to direct taxpayers to the most cost-effective method to provide the needed service. The IRS notes that this approach allows it to focus limited telephone and walk-in resources on customer issues that can be best resolved with person-to-person interaction.

The IRS provides taxpayers with face-to-face tax assistance throughout the Nation at 359 Taxpayer Assistance Centers, 38 Virtual Service Delivery sites, and five Social Security Administration offices, as of December 31, 2018. The IRS should place these sites in optimal locations to service taxpayers who are likely to seek face-to-face assistance. However, TIGTA reported that the IRS did not use its data-driven Geographic Coverage Model to expand face-to-face assistance to new locations. TIGTA's analysis of this model identified 28 underserved areas with a high number of taxpayers who are likely to seek face-to-face assistance.[16] These taxpayers have low income or received an IRS letter or notice and live more than 30 miles from a Taxpayer Assistance Center.

[15] Compiled annually, the "Dirty Dozen" lists a variety of common scams that taxpayers may encounter.
[16] TIGTA, Ref. No. 2019-40-029, *The Internal Revenue Service Did Not Follow Congressional Directives Before Closing Taxpayer Assistance Centers; a Data-Driven Model Should Be Used to Optimize Locations* (May 2019).

In addition, the IRS did not comply with the congressional directives accompanying the Consolidated Appropriations Act of 2018[17] prior to closing Taxpayer Assistance Centers in Calendar Year 2018. For example, the IRS did not timely provide a report to congressional committees on the steps being taken to prevent Taxpayer Assistance Center closures. In addition, the IRS did not conduct a study on the taxpayer impact of closing four Taxpayer Assistance Centers that the IRS closed after Congress passed the Consolidated Appropriations Act of 2018.

Each year, millions of taxpayers call the IRS toll-free telephone assistance lines seeking help to understand the tax laws and meet their tax obligations. However, TIGTA reported that the IRS's telephone performance measures do not reflect overall call demand or performance for IRS telephone assistance.[18] The Level of Service[19] as calculated by the IRS does not account for total taxpayer demand, the cost of providing telephone service, the time it takes taxpayers to talk to an assistor, or the level of resources the IRS is able to devote to telephone service. Further, TIGTA identified that, in some instances, IRS management does not clearly disclose in congressional testimony and in reports to external stakeholders that the Level of Service only includes the 30 Accounts Management function's telephone lines. For FY 2018, the IRS had 110 toll-free telephone lines but calculated the Level of Service based on taxpayer contacts on only its Accounts Management function's 30 (27 percent) telephone lines.

MODERNIZING IRS OPERATIONS

In April 2019, the IRS issued its Integrated Modernization Business Plan, which is a six-year road map to improve the taxpayer experience by modernizing core tax administration systems, IRS operations, and cybersecurity. Successful modernization of systems and the development and implementation of new information technology applications are critical to meeting the IRS's evolving business needs and enhancing services provided to taxpayers. The IRS's reliance on legacy (*i.e.,* older) systems and aged hardware and software, and its use of outdated programming languages, pose significant risks to the IRS's ability to deliver its mission. Modernizing the IRS's computer systems has been a persistent challenge for many years and will likely remain a challenge for the foreseeable future.

The IRS's Information Technology (IT) organization provides and maintains the information technology products and services needed by the IRS to meet its mission to deliver tax administration. TIGTA evaluated the effectiveness of IRS efforts to prioritize computer programming requests to support effective tax administration and identified areas for improvement.[20] Specifically, the allocation of information technology resources is primarily set by the IT organization with minimal involvement from the IRS's business operating divisions. The operating divisions are concerned that their lack of participation limits their input when establishing agency priorities for determining how to allocate IT organization resources.

In addition, due to insufficient IT resources, projects are not started that would reduce taxpayer burden, protect revenue, and save significant IRS resources. For example, there were 82 programming requests denied in Calendar Year 2016. IRS executives informed us that this had negative impacts on tax administration, such as the potential for billions of dollars in lost revenue,

[17] Consolidated Appropriations Act, 2018, Pub. L. No. 115-141, 132 Stat. 348.
[18] TIGTA, Ref. No. 2019-40-041, *Telephone Performance Measures Do Not Provide an Accurate Assessment of Service to Taxpayers* (June 2019).
[19] The Level of Service measure represents the relative success rate of taxpayers who call the IRS's telephone lines seeking assistance from a customer service representative.
[20] TIGTA, Ref. No. 2019-40-043, *Unmet Needs for Information Technology Support Result in Inefficiencies and Higher Tax Administration Costs* (July 2019).

taxpayers not receiving proper credits, and the IRS having to pay a large amount of interest due to withholding that was not credited to taxpayer accounts.

IMPROVING TAX REPORTING AND PAYMENT COMPLIANCE

One of the IRS's key responsibilities is to ensure that taxpayers comply with the tax law. As such, the IRS should ensure that taxpayers understand their filing requirements so that the rate of voluntary compliance does not decline.

As required by the 2015 Fixing America's Surface Transportation Act,[21] the IRS implemented the Private Debt Collection (PDC) program to begin using private collection agencies (PCA) to collect inactive tax receivables that the IRS previously could not collect. The Joint Committee on Taxation estimated that the current PDC program would yield approximately $2.4 billion in additional revenue through FY 2025. As of September 2018, the IRS had assigned more than 700,000 taxpayer accounts to private collectors. The PCAs collected approximately $88.8 million (2 percent) from the balance owed on these accounts. They also established more than 21,000 payment arrangements, but taxpayers later failed to make payments on more than half of them.[22] Both the IRS and the PCAs monitor performance using various attributes such as procedural accuracy and professionalism. All of the PCAs performed well under these attributes. However, the performance attributes focus almost entirely on the PCAs' telephone conversations with the taxpayers and do not measure other important aspects of case management, such as returning cases to the IRS when required and the accuracy of payment arrangements. TIGTA also reported that PCA payment calculators do not calculate interest and penalties accurately.[23]

Another area of concern is collecting the tax owed by self-employed individuals. Studies based on IRS National Research Program data have found that sole proprietors underreported their net income by 64 percent (based on the average for Tax Years (TY) 2008 through 2010), which is up from 57 percent in the TY 2001 estimate. With the growth of online platform companies in recent years, which allow people easy and convenient ways to obtain needed services and others to work as self-employed individuals providing those services (also known as the "gig economy"), it is likely that self-employment tax underreporting will continue to be a growing problem if not addressed. The gig economy is comprised of online platform companies such as Uber, Lyft, Etsy, Handy, and TaskRabbit.

TIGTA recently reported that billions of dollars in potential tax discrepancies involving taxpayers who earn income in the gig economy are not worked by the IRS.[24] Many cases were not selected to be worked by IRS programming due to the large volume of discrepancies that were identified. In addition, IRS employees removed thousands of cases from inventory without justification or with justification that was inaccurate. Further, Treasury Regulations do not require certain gig economy businesses to issue Form 1099-K, *Payment Card and Third Party Network Transactions*, unless workers earn at least $20,000 and engage in at least 200 transactions annually. Consequently, many taxpayers who earn income in the gig economy do not receive a Form 1099-K; therefore, their income is not reported to the IRS. When income is not reported to the IRS, taxpayers are more likely to be noncompliant.

TIGTA also reported that billions of dollars in non-payroll tax withholding discrepancies are not being addressed.[25] A business entity (payer), such as a bank or financial institution, is often

[21] Pub. L. No. 114-94.
[22] TIGTA, Ref. No. 2019-30-018, *Fiscal Year 2019 Biannual Independent Assessment of Private Collection Agency Performance* (Dec. 2018).
[23] *Ibid.*
[24] TIGTA, Ref. No. 2019-30-016, *Expansion of the Gig Economy Warrants Focus on Improving Self-Employment Tax Compliance* (Feb. 2019).
[25] TIGTA, Ref. No. 2019-40-028, *Billions of Dollars in Non-Payroll Tax Withholding Discrepancies Are Not Being Addressed* (May 2019).

required to withhold backup withholding or Federal income tax when making payments involving non-payroll compensation to recipients. The payer of these reportable transactions is required to provide income and withholding documents to the IRS and recipients. Payers report total backup and Federal income tax withheld during the tax year on Form 945, *Annual Return of Withheld Federal Income Tax.*

However, TIGTA's analysis identified instances in which payers did not report backup and Federal income tax withholding amounts on Form 945 or reported a lesser amount on Form 945 than reported on the Forms 1099 or Forms W-2G, *Certain Gambling Winnings*, issued to recipients. For example, TIGTA identified 7,265 payers that provided to the IRS TY 2016 Forms 1099 or W-2G reporting almost $923 million in withholding but did not file the required TY 2016 Form 945. TIGTA also identified 3,163 payers that reported on Form 945 approximately $760 million less in withholdings than what they reported on associated Forms 1099 and W-2G.

The IRS also needs to improve its processes to address the discrepancies between alimony deductions claimed and income reported. An alimony income reporting discrepancy occurs when individuals claim deductions for alimony that they did not pay or individuals do not report alimony income they received. Apart from examining a small number of tax returns, TIGTA reported in August 2019 that the IRS still has not developed processes and procedures to address the substantial compliance gap that results from alimony income reporting discrepancies.[26] TIGTA analyzed TY 2016 tax returns with an alimony deduction processed as of February 8, 2018, and found that the amount associated with alimony income reporting discrepancies increased 38 percent from $2.3 billion in TY 2010 when we first reported[27] this concern to more than $3.2 billion in TY 2016. Based on TIGTA's analysis, alimony reporting discrepancies could result in more than $1.1 billion in unreported tax over the next five years.

REDUCING FRAUDULENT CLAIMS AND IMPROPER PAYMENTS

The Office of Management and Budget describes an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. Improper payment legislation[28] required Federal agencies, including the IRS, to estimate the amount of their improper payments and report to Congress annually on the causes of and the steps taken to reduce such improper payments. The EITC has been identified as a high-risk program, and as such, the IRS must include the rate and amount of improper payments in the Department of the Treasury's annual Agency Financial Report. The IRS estimates that approximately 25 percent ($18.4 billion) of EITC payments were issued improperly in FY 2018.

While refundable credits such as the EITC, ACTC, and AOTC provide benefits to individuals, the unintended consequence of these credits is that they can be the targets of unscrupulous individuals who file erroneous claims. Refundable credits can result in tax refunds when no income tax is paid or withheld because these credits are allowed even if they exceed the amount of the individual's tax liability. Consequently, they pose a significant risk as an avenue for those seeking to defraud the Government. Congress passed the PATH Act with a number of integrity provisions intended to reduce improper refundable credit claims. These provisions are projected to save approximately $7 billion over 10 years by reducing fraud, abuse, and improper payments in refundable tax credit programs.

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[26] TIGTA, Ref. No. 2019-40-048, *Additional Actions Are Needed to Reduce Alimony Reporting Discrepancies on Income Tax Returns* (Aug. 2019).
[27] TIGTA Ref. No. 2014-40-022, *Significant Discrepancies Exist Between Alimony Deductions Claimed by Payers and Income Reported by Recipients* (March 2014).
[28] Improper Payment Information Act of 2002 (Pub. L. No. 107-300, 116 Stat. 2350), Improper Payment Elimination and Recovery Act of 2010 (Pub. L. No. 111-204, 124 Stat. 2224), and Improper Payments Elimination and Recovery Improvement Act of 2012 (Pub. L. No. 112-248, 126 Stat. 2390).

TIGTA believes that the IRS is significantly understating its estimate of improper payments associated with refundable tax credits in its reports to the Office of Management and Budget and Congress. TIGTA reported[29] that the IRS continues to incorrectly rate the improper payment risk associated with the ACTC, the AOTC, and the Premium Tax Credit (PTC). As a result, the incorrect rating allows the IRS to continue to avoid the reporting of required information for these programs to the Department of the Treasury for inclusion in the Agency Financial Report. The IRS estimates that nearly 33 percent ($8.7 billion) of ACTC payments made during TYs 2009 through 2011 were likely improper and that over 31 percent ($5.3 billion) of AOTC payments made during TY 2012 were likely improper.

In addition, the IRS's own analysis of its compliance data indicates that the estimated error rate for Net PTC payments was 41 percent ($440 million). This analysis confirmed that Net PTC improper payments, as defined by the Office of Management and Budget, would likely exceed the improper payment reporting thresholds used for classification as a high risk.

IMPACT OF GLOBAL ECONOMIES

Complexity and change in the international tax environment require that the IRS collaborate with tax administrations of foreign countries to enforce compliance. The IRS must continue to focus significant efforts on global tax cooperation and tax administration practices that can prevent and resolve disputes among countries to increase certainty for taxpayers. As of February 2018, the IRS has 43 active or pending reporting agreements with other countries to cooperate through a reciprocal approach to sharing information and enforcing international tax law.[30] Virtual currencies[31] also continue to present a significant risk to tax administration, particularly since one of the attractions to their use is the anonymity of transactions.

Among its many provisions, the Tax Cuts and Jobs Act provides for a tax (subject to special tax rates) on U.S. shareholders of specified foreign corporations (and U.S. persons that own interests through domestic pass-through entities that are U.S. shareholders of specified foreign corporations) through a one-time deemed repatriation of foreign accumulated earnings set forth under Section 965 of the Internal Revenue Code.

TIGTA reported that the retroactive components of Section 965 presented significant challenges for the IRS in implementing the provision.[32] The IRS made reasonable efforts informing external stakeholders of Section 965 requirements and the process for filing a tax return reporting a Section 965 inclusion amount. However, in issuing guidance, the IRS initially did not specifically address excess payments of the Section 965 portion of their income liability immediately due and did not clearly inform taxpayers of the implications of making these excess remittances. This resulted in at least 115 taxpayers making $2.8 billion in payments on their Section 965 liability that they did not intend to make.

To further address taxpayer noncompliance and audit selection, the IRS implemented a new approach described as "campaigns." The Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*, Nonfiler Campaign was one of the first campaigns rolled out by the Large Business and International Division. Form 1120-F nonfilers are foreign entities that are legally required to

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[29] TIGTA, Ref. No. 2019-40-039, *Some Refundable Credits Are Still Not Classified and Reported Correctly as a High-Risk for Improper Payment by the Internal Revenue Service* (May 2019).
[30] *Internal Revenue Service Strategic Plan – FY 2018 – 2022*, IRS Pub. 3744 (Rev. Apr. 2018).
[31] Also known as cryptocurrency.
[32] TIGTA, Ref. No. 2019-34-033, *Implementation of the Tax Cuts and Jobs Act Deemed Repatriation Tax Presented Significant Challenges* (May 2019).

file but fail to do so. The IRS considers nonfiling an egregious problem because it contributes to the Tax Gap and undermines tax compliance.

However, TIGTA reported that the Form 1120-F campaign was initiated without establishing evidence of a significant compliance risk pertaining to Form 1120-F nonfilers.[33] Moreover, a coordinated strategy was not established to ensure that critical campaign case actions were performed timely. Furthermore, the Large Business and International Division did not properly plan for unresponsive taxpayers, and consequently, it was unable to follow up appropriately with those that failed to respond. Overall, initial campaign case results show low examination referral and proposed assessment rates.

PROTECTING TAXPAYER RIGHTS

The IRS must balance tax compliance activities against the rights of taxpayers to receive fair and equitable treatment. The IRS continues to dedicate significant resources and attention to complying with the taxpayer rights provisions of the IRS Restructuring and Reform Act of 1998.[34] The IRS provides taxpayers with the Taxpayer Bill of Rights[35] in many notices and in-person interviews to inform taxpayers about their rights with respect to examinations, appeals, collections, and refunds.

Over the years, TIGTA has audited certain taxpayer rights provisions and reported that, in general, the IRS has improved its compliance with these statutory provisions and is documenting its protection of taxpayer rights. However, during the review of the IRS's process to notify taxpayers of their rights when requesting an extension of the statute of limitations for assessing additional taxes and penalties, TIGTA found[36] that some taxpayer audit files lacked documentation to support that employees followed the IRS's internal procedures for further explaining the taxpayers' rights to the taxpayers. In addition, TIGTA's review found instances in which the audit files lacked documentation to support that the IRS complied with procedures requiring the notification of a taxpayer's representative when an authorization for third-party representation existed.

During the review of the IRS Office of Appeals Collection Due Process Program, TIGTA determined from a statistical sample that the IRS did not always classify taxpayer requests properly, and as a result, some taxpayers received the wrong type of hearing.[37] The IRS also did not timely process the hearing requests for some taxpayers and made errors relating to the determination of the Collection Statute Expiration Date (CSED) on taxpayer accounts. The CSED is the expiration of the time period established by law to collect taxes. From a statistically valid sample, TIGTA identified instances in which the IRS incorrectly extended the CSED, allowing the IRS additional time it should not have had to collect the delinquent taxes.

TIGTA also evaluated the IRS's compliance with legal seizure provisions.[38] TIGTA reviewed a judgmental sample of 52 of the 260 seizures conducted from July 1, 2017, through June 30, 2018, to determine whether the IRS complied with legal and internal guidelines related to each seizure. TIGTA identified instances in which the IRS did not comply with a particular Internal Revenue

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[33] TIGTA, Ref. No. 2019-30-067, *The Internal Revenue Service Should Revise the Approach Used to Identify Foreign Corporations That Do Not File Required U.S. Income Tax Returns* (Sept. 2019).
[34] Pub. L. No. 105-206, 112 Stat. 685.
[35] IRS Publication 1, *Your Rights as a Taxpayer* (Rev. 9-2017).
[36] TIGTA, Ref. No. 2019-30-054, *Fiscal Year 2019 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2019).
[37] TIGTA, Ref. No. 2019-10-058, *Review of the Office of Appeals Collection Due Process Program* (Sept. 2019).
[38] TIGTA, Ref. No. 2019-30-075, *Fiscal Year 2019 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property* (Sept. 2019).

Code section or an internal procedure or there was no guidance present.

ACHIEVING OPERATIONAL EFFICIENCIES

Achieving efficiencies within Federal tax administration requires the IRS to continuously monitor and effectively manage a wide range of risks that are inherent within a fast-paced, changing operational environment. For example, efficient and cost-effective management and implementation of the IRS's software assets is crucial to ensure that information technology services continue to support the IRS's business operations and help provide services to taxpayers efficiently. However, TIGTA reported that the IRS did not effectively manage software tools acquired to address its software asset management and software development needs.[39] In addition, the IRS did not actively monitor the costs associated with purchasing the software licenses and software subscription and support. As a result, the IRS purchased software licenses that it never deployed and purchased software subscription and support for licenses it did not use.

Due to potential cost-saving benefits, the IRS made a decision to consolidate platforms and migrate applications to Linux-based operating systems from Oracle-based proprietary hardware. However, TIGTA reported that the IRS did not develop an initial project plan or conduct upfront assessments and technical analysis on the applications and databases that were to be migrated to a new operating system.[40] As a result, the pilot project took 22 months to complete. In addition, only eight of the 141 applications in the Linux Migration Project inventory in February 2018 had completed migration. Further, the hardware and support purchased in September 2016 for $6.8 million has been underutilized.

TIGTA also reported that Criminal Investigation (CI) could improve identification and investigation of tax-related identity theft cases.[41] Many incidents initiated by taxpayers were not placed in CI's Scheme Tracking Referral System for consideration in CI's scheme development process. Specifically, 98,773 taxpayer-initiated identity theft returns processed in Calendar Year 2016 were not placed in CI's referral system, which is the master list of all schemes developed for the IRS. By not including these returns, CI may limit its ability to identify fraud characteristics for returns that bypass IRS filters for possible investigation.

Improvement can also be made in the processing of amended tax returns. When taxpayers make an error on an originally filed Form 1040, *U.S. Individual Tax Return*, they can file an amended tax return. However, TIGTA's analysis found that processing errors by IRS employees continue to result in erroneous refunds associated with amended returns.[42] As a result, we forecast that the IRS could issue nearly $1.4 billion in potentially erroneous tax refunds claimed on amended tax returns over the next five years.

CONCLUSION

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2020. TIGTA's *Fiscal Year 2020 Annual Audit Plan* contains our proposed reviews. If you have any questions or wish to discuss our views on the challenges in greater detail, please contact me at (202) 622-6500.

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[39] TIGTA, Ref. No. 2019-20-005, *Management and Implementation of Information Technology Software Tools Needs Improvement* (Feb. 2019).
[40] TIGTA, Ref. No. 2019-20-008, *The Solaris to Linux Migration Project Was Delayed and Needs Improved Governance* (Dec. 2018).
[41] TIGTA, Ref. No. 2019-30-047, *Criminal Investigation Should Increase Its Role in Enforcement Efforts Against Identity Theft* (Aug. 2019).
[42] TIGTA, Ref. No. 2019-40-042, *Actions Have Not Been Taken to Improve Amended Tax Return Review Procedures to Reduce Erroneous and Fraudulent Refunds* (July 2019).

cc: Assistant Secretary for Management
Deputy Chief Financial Officer
Commissioner of Internal Revenue

RESPONSES TO INSPECTORS GENERAL IDENTIFIED CHALLENGES

Treasury Management Response to OIG Identified Challenges

OIG Challenge 1: Operating in an Uncertain Environment

As previously reported, external factors and future uncertainties affect the Department's programs and operations. The most notable was the 35-day partial federal government shutdown in FY 2019 that highlighted Fiscal Service's need for more comprehensive lapse planning. Additionally, the Office of Management and Budget's (OMB) government-wide Reform Plan may significantly affect the administration of certain of the Department's programs and operations. Other uncertainties facing the Department are the recurring cycle of budget and debt ceiling stopgaps, vacant leadership positions, and delays in onboarding highly-skilled individuals to fill critical positions across the Department.

We recognize the many risks and uncertainties we face each day in accomplishing our mission and providing services to the American public. Our Office of Risk Management (ORM) plays a significant role in assisting the Department's leadership to identify, assess, and manage these risks. We concur with the Office of Inspector General's (OIG) assessment of the Fiscal Service's need for a more comprehensive lapse plan as reflected in its revised 2019 Lapse Plan to provide critical government-wide support services under a variety of different scenarios. In fact, we would support such scenario planning across Treasury and the rest of government. In addition, we strongly support OMB's government-wide Reform Plan, although we recognize the potential uncertainties and risks to Treasury's programs and operations inherent in certain of the reforms. To address these risks, we have begun planning for certain aspects of the Reform Plan. Specifically, the Alcohol and Tobacco Tax and Trade Bureau (TTB) is developing an implementation and staffing plan to administer and enforce the additional jurisdiction it would be granted under the plan. This plan will help ensure that the bureau can quickly establish the needed enforcement program and related support functions without detracting from other enforcement and regulatory priorities. We remain committed to our priority initiatives for fulfilling our mission and achieving our reform goals as set forth by OMB.

We agree with the OIG that it is important to fill open vacancies and key leadership positions in order to avoid potential mission impact. The Office of Terrorism and Financial Intelligence (TFI) set a target for hiring 132 employees by 2020. By the end of FY 2019, 128 employees were on board with an additional 18 selections in the pre-employment process. The Office of International Affairs, which carries out the Secretary's role as Chair of the Committee on Foreign Investments in the United States (CFIUS), set a target for hiring up to 59 employees in FY 2019, and on boarded 33 new employees with 11 selections in the pre-employment process at the end of FY 2019.

In addition to these hiring initiatives, Treasury is addressing workforce skill gaps by focusing on employee development in data literacy, which will enhance workforce agility by giving employees enhanced skills that are transferable between assignments. For example, we are providing training in data science to include data visualization, Big Data, data-driven decision making, and data and analytics literacy during FY 2020.

OIG Challenge 2: Cyber Threats

As cyber threats continue to evolve and become more sophisticated and subtle, they pose ongoing challenges for Treasury to fortify and safeguard its internal systems and operations along with the financial sector it oversees.

Treasury employs a risk-based approach to cybersecurity, which includes: (a) assessing the likelihood of exploitation; (b) examining the number of dependencies required to exploit a given vulnerability; and (c) calculating the impact to the public if a system or data is compromised. In accordance with federal-wide guidance, the Department focused efforts on impact calculation, identifying High Value Assets (HVAs) that would be of likely interest to an adversary seeking to maximize impact to the public, and examining dependencies by completing Security Architecture Reviews (SAR) and Risk and Vulnerability Assessments (RVA) with the Department of Homeland Security (DHS).

Six of Treasury's HVAs reside in Fiscal Service, resulting in an inherently concentrated risk of cyber-attacks for Treasury. Over the last two years, we (and particularly the Fiscal Service) have increased the cybersecurity assessments on the HVAs, and is further evaluating and prioritizing remediation activities associated with findings and risks identified through the assessment process, within funding constraints. In coordination with DHS, we completed six RVAs and five SARs on eight of Treasury's 15 HVA systems.

Additionally, Treasury is leveraging the Continuous Diagnostics and Mitigation Program to enable automated monitoring of information technology vulnerabilities and leveraged new investments in Cybersecurity Enhancement capabilities to improve outward-facing protections of Treasury data. We deployed Data Loss Prevention (DLP) hardware to reduce the likelihood of data breaches. DLP tools are deployed within an Information Technology (IT) environment to reduce data breaches by detecting and blocking attempts (by agency users or malicious actors) to send sensitive data outside of the organization's boundary. Furthermore, we have kicked off the Continuous Diagnostics and Mitigation (CDM) Dynamic and Evolving Federal Enterprise Network Defense (DEFEND) activities across the Department, to include the automated detection of IT devices connected to Treasury networks as well as capability gap fills for the IT device management and user authentication management components of the CDM program.

In coordination with DHS, we also made additional investments to improve security for IT users. We are near completion with the implementation of the default use of Hyper Text Transfer Protocol (HTTP) Secure with HTTP Strict Transport Security to improve security of websites and web services. We enabled Domain-based Message Authentication, Reporting & Conformance on 99.4 percent of our external network domains to provide the strongest protection against spoofed email, and are working to address the remaining domains early in the first quarter of FY 2020.

Treasury solely uses National Institute of Science and Technology (NIST)-approved encryption solutions on Internet-facing email servers to best protect sensitive data. By implementing these email and web security standards, Treasury increased the integrity and confidentiality of Internet-delivered data, reduced the volume of spam, and better protected IT users.

Lastly, in FY 2019, Fiscal Service established the Cybersecurity Strategy Center to maintain its cybersecurity strategy, drive execution of the cybersecurity programs, facilitate risk-based decision making for cybersecurity initiatives, and to monitor progress of its cybersecurity portfolio. In FY 2020, Fiscal Service plans to implement 90 percent of identified cybersecurity program initiatives.

OIG Challenge 3: Anti-Money Laundering/Terrorist Financing and Bank Secrecy Act Enforcement

Identifying, disrupting, and dismantling the financial networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to international security, continue to be challenging for Treasury. In addition, maintaining a highly secure database for financial institutions to report suspicious activity is critical to maintaining the confidence of the financial sector while meeting the access needs of law enforcement, regulatory, and intelligence partners.

While Treasury has taken significant action to identify, disrupt, and dismantle the financial networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to international

security, the nature of these threats is ongoing. Maintaining a highly secure database for financial institutions to report suspicious activity is a key component of this effort. TFI will continue to proactively apply its financial tools and authorities to counter the malign and illicit activity that underlay these threats. Likewise, TFI continues to address critical systemic issues in order to combat money laundering and terrorist financing. In FY 2019, we established a new Global Investigations Division to focus on implementing targeted investigation strategies and initiating actions rooted in FinCEN's unique authorities under the Bank Secrecy Act (BSA) and federal laws to combat global and systemic finance threats. Maintaining a highly secure database for financial institutions to report suspicious activity is a key component of this effort. In addition, we also issued a series of important advisories addressing critical issues to combat money laundering and terrorist financing, which included alerting financial institutions on schemes related to fentanyl trafficking, reporting suspicious activity that may be indicative of political corruption, expanding supervision of non-bank financial institutions, and piloting a project to collect virtual currency sector data for identifying activity of illicit concern. Regarding the protection of BSA data, we have several measures in place to safeguard the BSA information we collect. These measures include specific security and other requirements in Memorandums of Understanding with authorized system users, and required annual training and recertification to emphasize protection and proper dissemination of BSA information. In addition, FinCEN monitors user queries in an effort to protect BSA information from unauthorized access and downloads and through a review of query audit logs by FinCEN's Office of Special Investigations.

OIG Challenge 4: Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments

The Department faces the continuing challenge related to its critical role in implementing the DATA Act. Within the next fiscal year, the Department must implement the Evidence Act to make data accessible and useful government-wide, which will require close collaboration with OMB. Additionally, the Department must continue improvements to its Do Not Pay (DNP) Business Center to further prevent and reduce improper payments across the federal government.

Treasury's agency-level DATA Act reporting reflects significant improvements in data quality which were driven by our remediation efforts, coupled with refinements in the audit methodology used by the OIG to assess our data accuracy. The OIG assessed in its November 8, 2019 audit report that Treasury's consolidated reported spending data for the first quarter of FY 2019 was complete and accurate. We continue to encourage improvements in the audit methodology employed by the Inspector General community, particularly with regards to deriving overall data quality, to ensure that the assessment approach is useful. In May 2019, the Department released its agency Data Quality Plan to drive remediation efforts related to agency information submitted pursuant to the Data Act. We will adapt the plan to address any gaps identified through the audit process, while continuing our execution of a strong governance and certification framework. Treasury also continues to work with its government-wide counterparts to influence refinement and clarification of guidance over DATA Act standards and reporting, as necessary.

On a government-wide basis, Treasury took several steps to promote spending transparency and USAspending.gov data quality. Treasury worked with the Data Act Working Group of the Chief Financial Officer's Council to make improvements to policy and the DATA Act Information Model Schema (DAIMS). Treasury has also taken steps to better disclose known data limitations on USAspending.gov data over the past year, and released DAIMS version 1.4 in September 2019, which includes updates based on audit findings, clarifications to aggregate record reporting, and alignment with the federal hierarchy and integrated data sources.

The Data Lab, which was designed to increase the public's understanding of federal spending, published "Your Guide to America's Finances" (formerly known as the Citizen's Guide). The goal of this new guide is to translate the complicated aspects of the federal government's revenue, spending, deficit, and debt into a simple, straightforward, and engaging customer experience. In addition, Fiscal Service provides data to the public through multiple websites, and will launch a

beta site to the public in FY 2020 which consolidates the websites into a single point of entry. This will make all data readily accessible and useful through a user-centered experience with machine-readable data. Finally, Fiscal Service also established the Payment Integrity Center of Excellence (PICoE), a community of experts from various programs within the bureau that provide business insight and solutions to assist federal agencies in identifying, preventing, and recovering improper payments. PICoE partnered with the IRS to prescreen 1.5 million tax refunds and identified 85,000 accounts for additional IRS review to reduce the risk of improper payments.

OIG Challenge 5: Information Technology Acquisition and Project Management: *While the Federal Information Technology Acquisition Reform Act (FITARA), enacted in December 2014, was intended for agencies to better manage their IT investments, implementation continues to be a government-wide challenge. Specifically, Treasury faces challenges in the areas of IT acquisition and project management.*

While the FITARA scorecard is a helpful tool in measuring agencies' progress in implementing FITARA, we believe we have achieved successes that, while not always captured by the scorecard, are in furtherance of the goals of FITARA. In some areas of the FITARA scorecard Treasury has scored well, including data center consolidation, portfolio review, and software asset management.

While the Department recognizes the challenges it faces in implementing FITARA, we have made progress with several ongoing initiatives. As part of the Department's strategy to improve IT investment management, we are implementing a plan to aggregate software assets to provide a more comprehensive, enterprise-wide view. To address the roles of our CIO, Treasury has issued TO-102-10 "Designation of Chief Information Officer for the Department of the Treasury" providing the Treasury CIO with direct reporting line to the Secretary as required by FITARA. In addition, we issued a policy memo "Treasury Chief Information Officer Review and Approval of Information Technology Acquisitions," effective March 15, 2019, which establishes a process for reviewing and approving acquisition plans. Finally, in addition to establishing commodity benchmarking in FY 2019, Treasury has implemented Technology Business Management (TBM) IT Tower and Cost Pool reporting for all bureaus, and requested funding for FY 2021 to support the procurement of a TBM tool to automate the collection of financial data and the allocation of IT costs.

Matters of Concern

OIG Concern 1: Coin Redemption: *The Mint's internal control related to safeguarding and ensuring the integrity of the U.S. coinage is a concern.*

The Mint concurs with the need for improved internal controls related to the integrity of the mutilated coin redemption program. The Mint plans to address this concern through: 1) identifying and addressing any vulnerabilities in the current distribution channel and, 2) identifying any features that can be implemented into circulating coins for authentication purposes. The Mint is committed to ensuring the integrity of the nation's coins, and is currently engaged in testing materials and assessing cost effective ways to improve the security of coinage.

OIG Concern 2: Managerial Cost Accounting: *Managerial cost accounting is a fundamental part of a financial performance management system. It involves the accumulation and analysis of financial and nonfinancial data, resulting in the allocation of costs to organizational results. The OIG has concerns related to internal control weaknesses identified within Departmental Offices' overhead allocation process used to charge reimbursable customers.*

Departmental Offices implemented new overhead allocation procedures for FY 2019 that allow reconciliation against actual costs at the end of the fiscal year consistent with the procedures used to estimate the costs at the beginning of the fiscal year, and provides customers additional transparency into the overhead calculation. The Office of Budget and Travel further refined its methodology in FY 2020, and developed standard operating procedures and desk guides for use in applying the methodology.

IRS Management Response to TIGTA Identified Challenges

TIGTA Challenge 1: Security Over Taxpayer Data and Protection of IRS Resources

Protecting the confidentiality of taxpayer information from internal and external threats continues to be a top concern for the IRS.

Protecting the confidentiality of taxpayer information from internal and external threats continues to be a priority for the IRS. As such, the IRS continues to improve electronic authentication controls on its public-facing applications. In addition, the IRS plans to align public-facing legacy applications with the NIST digital identity guidelines through its Digital Identity Risk Assessment (DIRA) process. The DIRA process is a data-driven approach to comprehensively assess IRS public-facing application risk; however, the IRS may determine alternatives to the NIST recommended guidance. As part of the DIRA process, the IRS will document both the justification for any departure from the requirements and detail the compensating control(s) employed, as well as develop a plan to mitigate this issue in 2023.

The IRS has several initiatives planned to strengthen validation controls to help protect against unauthorized filing and input of fraudulent information returns. For example, IRS plans to conduct a Digital Identity Risk Assessment for the Filing Information Returns Electronically (FIRE) system and develop an implementation plan for identity-proofing the FIRE system's web-based users. The IRS also plans to complete an analysis on returns being filed where the associated non-Form W-2, *Wage and Tax Statement* information return reports Federal income tax withholding and the payer appears to be fabricated.

Finally, the IRS plans to improve security controls in the Bring Your Own Device Program (BYOD) that include: 1) identifying solutions to prevent data leakage, 2) ensuring management considers employee personally identifiable information and internal violations prior to approving participation, 3) ensuring that IRM requirements are met and vulnerabilities found on BYOD servers are remediated timely, 4) ensuring all audit logs for retention program applications are accurate, and 5) updating procedures for training, documentation development, and lost or stolen devices. The IRS will develop a plan to complete these improvements in January 2020.

TIGTA Challenge 2: Implementing Tax Law Changes

Implementation of tax law changes such as the Taxpayer First Act, Tax Cuts and Jobs Act of 2017 (TCJA), and the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) will continue to present challenges for the IRS.

The IRS continues numerous initiatives to implement the TCJA in FY 2020. For example, the IRS will make necessary revisions to Form 1040, Schedule 1, *Additional Income and Adjustments to Income*, and plans to prepare programming requirements to permit systemic identification of potentially improper deductions. This programming is expected to be completed by January 2020; however, due to budgetary constraints and competing priorities for programming resources, an implementation date cannot be provided.

In FY 2019, the IRS also continued to implement the program integrity provisions of the *PATH Act*. Some of the provisions addressed include implementation in January 2019 of programming to require the education institution's Employer

Identification Number (EIN) to validate eligibility for the AOTC, and creation of a business rule to reject Tax Year 2018 electronically filed returns claiming the AOTC when the education institution's EIN is not provided on Form 8863, *Education Credits*. In addition, the IRS created a new Taxpayer Notice Code with specific math error notice language to notify the taxpayer that the education credit claimed on their return was not allowed because the education institution's EIN was not provided. In FY 2020, the IRS will continue implementing the program integrity provisions by expanding the Identity Protection Personal Identification Number to allow Individual Taxpayer Identification Number holders whose identities have been compromised to participate. While it is anticipated that these changes will be implemented by January 2020, information technology resources are limited and are subject to competing priorities that could affect the implementation timeline.

TIGTA Challenge 3: Addressing Emerging Threats to Tax Administration

As fraudulent activity continues to evolve, the IRS must continually adapt its detection and prevention processes to detect and prevent fraudulent paper and electronically filed tax returns.

In FY 2019, the IRS continued its focus on reducing tax-related identity theft. Because the *PATH Act* mitigates the tax-related identity theft risk that the Form W-2 Verification Code Program was intended to address, in July 2019 the IRS completed an analysis to determine whether the reduction of the risk of tax-related identity theft resulting from the use of the Form W-2 verification code justifies the cost to fully implement the program. The analysis took into consideration the reduced benefit of the program as a result of the accelerated receipt of Forms W-2 mandated by the Path Act, which requires employers to file third party income information to the IRS by January 31, and the IRS to delay the issuance of refunds on returns claiming EITC and/or ACTC until February 15. These changes allow the IRS additional time to perform document matching.

TIGTA Challenge 4: Supporting an Enhanced Taxpayer Experience

Providing taxpayers with quality customer service is a key component in the IRS's mission. Successfully addressing and resolving taxpayer inquiries through a quality customer service process allows the IRS to direct its limited resources more efficiently.

In an effort to improve customer experience, the IRS used a data-driven model to optimize Taxpayer Assistance Centers and Virtual Service Delivery sites. The IRS redesigned its Geographic Coverage Model to support business decisions on the locations of existing Taxpayer Assistance Centers, Virtual Service Delivery sites, and Social Security Administration offices to identify under or unserved locations. Currently underserved taxpayers are within a 51 to 120-minute radius of a Taxpayer Assistance Center or Virtual Service Delivery site, and unserved taxpayers are in a radius greater than 120 minutes from a Taxpayer Assistance Center or Virtual Service Delivery site.

TIGTA Challenge 5: Modernizing IRS Operations

Successful modernization of systems and the development and implementation of new information technology applications are critical to meeting the IRS's evolving business needs and enhancing services provided to taxpayers.

As TIGTA noted, in April 2019 the IRS established an Integrated Modernization Business Plan, which is a six-year plan designed to improve the taxpayer experience by modernizing core tax administration systems, IRS operations, and Cybersecurity. As part of its systems modernization efforts, the IRS plans to establish procedures for the allocation of information technology resources to ensure that IT support aligns with the priorities of the functional areas responsible for delivering tax administration. IRS also plans to revise the service request process to enable the entry of all work requests before submission and ensure documentation of pre-coordination outcomes. In addition, IRS will verify that the Work

Request Management System accurately reflects work request status and all internal guidelines are updated. Finally, IRS will work with suppliers to evaluate and assess the benefits versus costs/burden of establishing processes to further track estimated and actual resources by systems or applications.

TIGTA Challenge 6: Improving Tax Reporting and Payment Compliance

Ensuring taxpayers understand their filing requirements and comply with tax laws is a key responsibility for the IRS.

The IRS continues to monitor the Private Debt Collection (PDC) program and improve Private Collection Agencies' (PCA) performance. As of September 2019, the IRS has assigned over 2.4 million cases to PCAs and the PDC program generated nearly $302 million in revenue compared to under $132 million in costs. The PCAs have assisted more than 224,000 taxpayers with either paying their tax debt in full or establishing a payment arrangement. As part of the PDC program, the IRS: 1) conducted a "PCA letters consistency review" to ensure that all PCA initial contact letters incorporated the required language, 2) implemented and reviewed a new payment arrangement estimator tool for PCAs' use to ensure consistency with the IRS Integrated Automation Technologies tool, 3) updated the PCA operational plans to ensure minimization of telephone background noise, and 4) updated the Program and Procedures Guide to require that cellular phone disclosures be given prior to taxpayer authentication. In addition, under the IRS's guidance, each of the PCAs trained their employees to ensure hold times are minimized while assistors calculate monthly payment options. The IRS will continue to monitor the PCAs' performance in all areas to ensure consistency and compliance with the Program and Procedures Guide and will conduct annual and ad hoc operational reviews of all PCAs.

Also, in response to the growth of online platform companies who offer services and allow others to work as self-employed individuals to provide those services, also known as the "gig economy," the IRS developed and is implementing a compliance strategy that includes examination and outreach strategies to address noncompliance of these self-employed individuals. The IRS revised its Internal Revenue Manual to include information and examples of notes that can be entered in the Automated Underreporter system to document closing these cases during screening. The IRS also implemented new business rules specifically focusing on when income is subject to self-employment tax.

TIGTA Challenge 7: Reducing Fraudulent Claims and Improper Payments

Refundable credits can result in the issuance of tax refunds even if no income tax is withheld or paid and can be the target of unscrupulous individuals who file erroneous claims.

In FY 2019, the IRS continued its assessment to determine the improper payment risk associated with the Additional Child Tax Credit, the American Opportunity Tax Credit, and the Premium Tax Credit and will continue the nonwork social security number pilot to identify and evaluate tax returns for potential inclusion in our annual compliance plan where nonwork social security numbers are used.

TIGTA Challenge 8: Impact of Global Economies

Complexity and change in the international tax environment requires that the IRS collaborate with tax administrations of foreign countries to enforce compliance. The IRS must continue to focus on significant efforts on global tax cooperation and tax administration practice that can prevent and resolve disputes.

The IRS faced several challenges in the implementation of the retroactive tax provision on U.S. shareholders of specified foreign corporations (Section 965). Among these challenges was the need to make significant changes to its information technology systems and processing, developing formal and informal guidance, updating and creating tax forms, instructions and educational materials, preparing and delivering training for IRS employees, and ensuring stakeholder outreach. In

FY 2019, the IRS trained employees who will be conducting post filing compliance activities and continued to develop its compliance strategy. In FY 2020, after the compliance plan is approved, the IRS will deploy a variety of treatment streams and will monitor compliance and make revisions, as appropriate.

For the 2019 filing season, the IRS automated the process of issuing notices to inform taxpayers of how their payments in excess of liabilities were applied to their Section 965 balance due. In March 2019 the IRS began issuing installment payment reminder notices to reach taxpayers before the mid-April payment due date. The IRS will continue to issue those notices annually until the taxpayer's Section 965 balance is paid or the balance is accelerated, making payment due immediately. The IRS will develop a methodology to accurately recognize Section 965 liabilities, total Section 965 credits, and remaining Section 965 taxes deferred. Programming resources will be required to implement the reporting methodology. We anticipate reports will be available by January 2020; however, budgetary limitations and competing priorities for Information Technology resources prevent us from specifying an implementation date.

TIGTA Challenge 9: Protecting Taxpayer Rights

The IRS must balance its tax compliance activities against the rights of taxpayers to receive fair and equitable treatment.

In an effort to protect taxpayer's rights and ensure equitable treatment, the IRS identified a systemic programming issue whereby its Integrated Data Retrieval System does not properly update the collection statute expiration date. The collection expiration date is the expiration of the time period established by law to collect taxes. The IRS corrected all inaccurate suspension start and stop dates that were identified with collection statute expiration date errors and will continue to correct these errors as they are identified.

TIGTA Challenge 10: Achieving Operational Efficiencies

Monitoring and effectively managing a wide range of inherent risks, within a fast-paced, changing operational environment, is imperative for the IRS to achieve efficiencies.

The IRS took steps in FY 2019 to improve the management and implementation of IT software tools. In April, the IRS developed a Rational Collaborative Lifecycle Management (CLM) Directive. The directive states that all new and existing IRS Tier II development programs and projects are expected to use the CLM Tool Suite to define a target timeframe for CLM migration. IRS plans to continue such improvements in FY 2020 and anticipates improvements including the use of Software Asset Management (SAM) to implement processes and tools to support increased use of available licenses and enhanced license compliance. As a part of its SAM role, the IRS will establish policy for the review of software license, subscription and maintenance purchases. The IRS will also implement control processes and tools to improve license management and support compliance with licensing agreements.

The IRS defined, documented, and implemented a process for acquisitions using software and service credits. To ensure future procurements include well developed plans and processes, and are executed timely, the IRS procurement team will work with IRS-IT's Delivery Management and Quality Assurance for continued support on acquisition policy, best practices, and work with governance to determine next steps and/or identify any operational changes that may be needed.

In FY 2019, the IRS Criminal Investigation (CI) requested an assessment of the costs, impact, and time it would take to create a process to transfer identity theft returns into a holding scheme. Currently, there are systemic limitations that do not allow for the input of Identity Theft Victim Assistance returns into the Scheme Tracking Referral System database where they would be considered a part of the scheme identification process. The IRS plans to complete an assessment by October 2020 that will measure cost, impact, and level of effort needed to ensure all taxpayer-initiated identity theft returns

from Identity Theft Victim Assistance are transferred into the Scheme Tracking Referral System database and made available to the IRS-CI during their scheme-development process.

The IRS is taking steps to improve its amended tax return processing procedures to reduce erroneous and fraudulent refunds. The IRS plans to evaluate training material and procedural guidance and revise it to address errors identified in amended return processing, as necessary. In addition, the IRS submitted a funding request on March 29, 2019, to enhance the Modernized e-File system with the capability to accept electronically filed amended personal income tax returns. If approved as a FY 2020 expenditure, it is expected the programming and related system modifications will be in place to permit acceptance of electronically filed amended income tax returns upon the start of the 2021 filing season. The completion of this work is contingent on both the timely passage of the IRS's FY 2020 funding appropriations and the availability of limited Information Technology resources, which are subject to competing priorities that could affect the implementation timeline.

SECTION D: SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables summarize the results of Treasury's financial statement audit, as well as management's assurances regarding conformance with the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) and compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA).

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unmodified
Restatement: No

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

SUMMARY OF MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA SECTION 2)

Statement of Assurance: Unmodified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA SECTION 2)

Statement of Assurance: Unmodified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

CONFORMANCE WITH FMFIA SECTION 4

Statement of Assurance: Federal systems conform, except for instances of non-conformance, to financial management system requirements

Non-Conformances	Beginning Balance	New [1]	Resolved	Consolidated	Reassessed	Ending Balance
Fiscal Service's Cash Management Information Systems [2]	0	1	0	0	0	1
Fiscal Service's Federal Debt Information Systems [2]	0	1	0	0	0	1
IRS's Unpaid Tax Assessments [2]	0	1	0	0	0	1
IRS's Financial Reporting Systems [2]	0	1	0	0	0	1
Total non-conformances	0	4	0	0	0	4

[1] The significant deficiencies have been re-evaluated and determined to be non-conformances with Section 4 of FMFIA this year. Refer to the section on *Systems, Controls and Legal Compliance* in Part 1 for additional information on the non-conformances.
[2] Refer to Independent Auditors' Report in Part 2 of this report.

COMPLIANCE WITH FFMIA SECTION 803(a)

	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. U.S. Standard General Ledger (USSGL) at Transaction Level	No lack of compliance noted	No lack of compliance noted

FMFIA AND FFMIA REQUIREMENTS

The FMFIA requires agencies to establish and maintain internal control to ensure that federal programs operate efficiently, effectively, and in compliance with laws and regulations. The Secretary must evaluate and report annually on (a) whether there is reasonable assurance that the Agency's controls are achieving their intended objectives, and (b) material weaknesses in the Agency's controls (FMFIA Section 2). Additionally, the Secretary must evaluate and report separately on whether the Agency's financial management systems comply with government-wide requirements (FMFIA Section 4). The FFMIA requires agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements. The requirements of the FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, reporting, and compliance with laws and regulations.

As of September 30, 2019, we had no material weaknesses under Section 2 or Section 4 of the FMFIA. However, we re-evaluated the two significant deficiencies reported in the Management Assurances section of this AFR, which have been repeated from the prior year, and determined that they constitute four instances of non-conformance with federal financial management systems requirements of Section 4 of the FMFIA. We are therefore reporting these four non-conformances in Section 4 of the Management Assurances table above. These non-conformances also constitute a lack of compliance with federal financial management system requirements, as reported above under FFMIA Section 803(a).

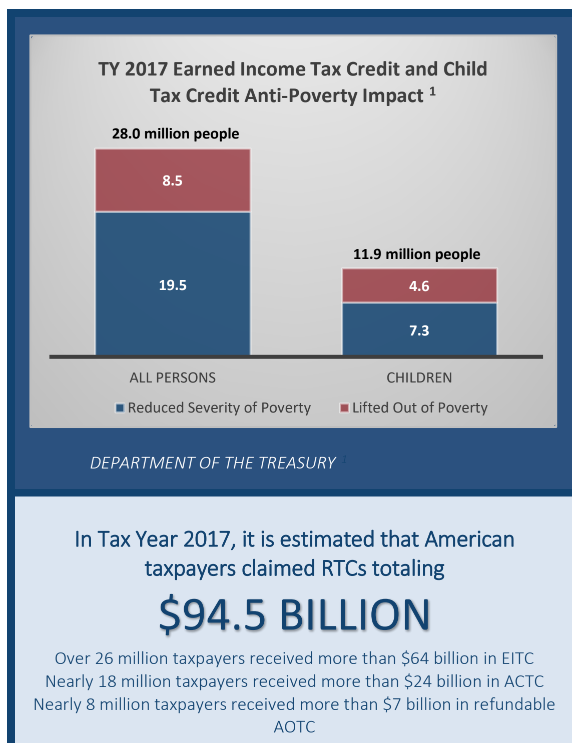
Fiscal Service has two non-conformances related to the deficiencies in its cash management and federal debt management information systems. The IRS has two non-conformances related to the deficiencies in unpaid tax assessments and financial reporting systems. Refer to the section in Part 1 entitled *Systems, Controls and Legal Compliance* and the section in Part 2 entitled *Independent Auditors' Report* for additional information on the non-conformances.

SECTION E: PAYMENT INTEGRITY

Our FY 2019 Payment Integrity reporting includes information required by the *Improper Payments Information Act* of 2002 (IPIA), as amended by the *Improper Payments Elimination and Recovery Act* of 2010 and *Improper Payments Elimination and Recovery Improvement Act* of 2012 (IPERIA); Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in the Federal Government;* Appendix C to OMB Circular A-123, *Requirements for Payment Integrity Improvement;* and OMB Circular A-136. Additional information on current and prior year reported improper payments can be found at https://paymentaccuracy.gov/.

For FY 2019, in compliance with OMB Circular A-123, Appendix C, we are reporting improper payment estimates for three refundable tax credits – the EITC, AOTC, and ACTC – which are "susceptible to significant improper payments." We have long held that these refundable tax credits are not "payments" as intended under the improper payments legislation. Furthermore, any refunds that result from overclaims are not the result of weaknesses in internal controls. As such, it is our position that refundable tax credit refunds that result in overclaims should not be reported under the improper payments framework. Rather they are more appropriately addressed in the tax gap (see Part 3, Section A: *Tax Gap and Tax Burden*, of this report), which is how we manage noncompliance.

As discussed in the following sections, we do not consider refundable tax credit overclaims to be "payments" as defined under IPERA as the tax system is a collection system rather than a payment system. Whereas a payment system is generally designed to implement internal controls that provide for appropriate verification and validation prior to payments being made, the statutory structure and design for administering refundable tax credit refunds prevents the IRS from verifying or validating such amounts prior to making the refund payment. Consequently, refundable tax credit overclaims are not the result of internal control weaknesses that we can remediate internally but are, in fact, the result of factors beyond our control under current law and existing authority. Even if we could obtain legislative changes and invest in additional resources and verification solutions that would ultimately reduce overclaims, the benefits derived would be marginal relative to the cost of doing so.



REFUNDABLE TAX CREDITS PROVIDE RELIEF TO TAXPAYERS

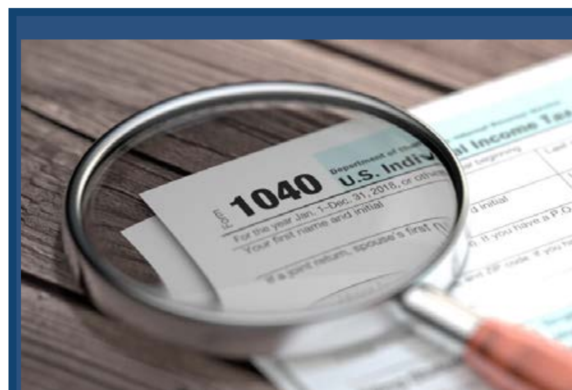
Tax credits reduce a taxpayer's tax liability dollar-for-dollar. Nonrefundable tax credits can only reduce a taxpayer's liability to zero, whereas refundable tax credits can reduce a taxpayer's tax liability below zero, and thus result in a refund to the taxpayer. Over the years, refundable tax credits have been used by Congress to achieve certain economic and social objectives, from reducing poverty to increasing higher education affordability. Refundable tax credits provide meaningful benefits to the low-income population, because many low-income families are ineligible for other tax-based assistance due to their lack of tax liability. The EITC, AOTC, and ACTC (hereafter referred to collectively as "RTCs") are three of the most widely claimed refundable tax credits (refer to Part 3, Section A for a brief description of each refundable tax credit).

[1] The data for 'Reduced Severity of Poverty' is from Center on Budget and Policy Priorities, Policy Basics: The Earned Income Tax Credit, June 21, 2019. The data for 'Lifted Out of Poverty' is from IRS.

While refundable tax credits, like many other tax deductions and credits, are used to achieve certain economic and social objectives, they differ from other social benefit programs in a number of significant ways. Unlike most benefit programs, which have heavy pre-clearance certification and high administrative costs, RTCs are an integral part of the tax system in which the IRS relies on taxpayers to self-certify eligibility for the credit claimed and generally have significantly lower administrative costs. Conversely, other social benefit programs generally require upfront validation of recipient eligibility, thereby incurring higher administrative costs.

RTC OVERCLAIMS ARE CAUSED BY FACTORS INHERENT TO THE TAX SYSTEM

The IRS reported that in TY 2017, there were approximately 51.6 million claims for RTCs, totaling more than $94.5 billion. For the same year, the EITC was credited with lifting approximately 5.7 million people out of poverty, including approximately 3 million children; while the ACTC was credited with lifting approximately 2.8 million people out of poverty, including roughly 1.6 million children. Although a noteworthy outcome, RTCs, like other items taxpayers declare on their tax returns, such as income and deductions, are subject to self-reporting errors, giving rise to overclaims of tax refunds.



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Primary Causes of RTC Overclaims

- Complex statutory eligibility rules
- Inability to verify taxpayer-provided information prior to refunding due to lack of independent data sources
- Lack of correctable error authority
- Statutory requirement to pay tax refunds within 45 days of the filing deadline without paying interest

As noted below, RTC overclaims are caused by factors associated with how the tax system operates (such as the limited ability to correct tax returns after filing, and statutory requirement to pay tax refunds within the prescribed timeframe) and are often beyond our control under current law and existing authority. RTCs are administered through the tax system and refunds of credits are provided through the tax refund process. As such, the disbursement of these credits is inherently tied to and constrained by the statutory requirements of tax administration. Accordingly, the administration of RTCs relies on taxpayer self-assessment of eligibility during the tax filing process. However, the eligibility rules for many of these credits are often complex and difficult to understand by taxpayers and tax practitioners. Taxpayer self-assessments include information about eligible dependents, residency, custodial arrangements, income, and other variables. For many of these variables, the IRS does not have access to independent information to validate taxpayer submissions, if that information exists at all. For example, “qualifying child” errors account for the most significant EITC overclaims in terms of dollars; failure to meet the “residency test” and the “relationship test” are the two primary factors that result in these overclaims. There are no comprehensive data bases showing where Americans live and how they are related that IRS can use to automatically verify taxpayer claims. Complicating matters, the IRS is implicitly required by statute and directly required by regulation and policy to make tax refunds on the basis of tax returns as filed, subject only to certain basic verifications. In addition, the IRS is required by statute to pay interest on refunded amounts if those refunds are not issued within 45 days of the return filing deadline. As a result, the IRS does not have the time or resources needed to verify all of the variables on a return. In many instances, the IRS lacks the statutory authority to address return deficiencies immediately at the point of filing and instead addresses overclaims through a potentially lengthy audit process after the RTC is claimed and paid (refer to Part 3, Section A subsection on *Refundable Tax Credits and the Challenges of Compliance*).

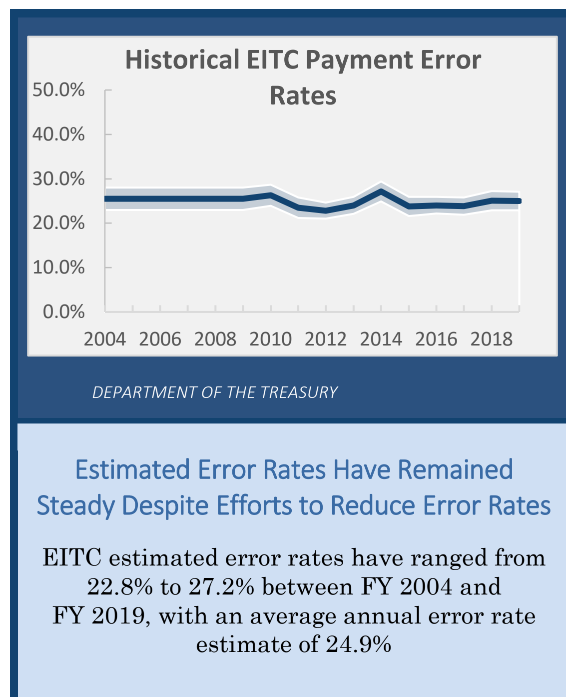
RTC Claims Should Not Be Considered Payments

RTC refunds are a fundamental part of the U.S. income tax system, and only result when a taxpayer's liability is reduced below zero. We believe that RTC refunds are not true "payments" as intended by improper payment statutes. IPERA defines a payment as "any transfer or commitment for future transfer of federal funds, such as cash, securities, loans, loan guarantees, and insurance subsidies to any non-federal person or entity, that is made by a federal agency, a federal contractor, a federal grantee, or a governmental or other organization administering a federal program or activity." [2] Tax refunds are reimbursements of amounts overpaid by the taxpayer, and are not considered "payments" as intended by improper payment statutes. Similarly, the IRC also considers RTC refunds to be amounts overpaid, stating that if the RTC amount allowed exceeds the tax imposed, the excess amount of RTC should be considered an overpayment. As such, since there is no basis to distinguish between tax refunds from RTC refunds, our position is that RTC refunds should also not be considered a "payment" and accordingly, we do not consider RTC overclaims to be improper payments as intended by IPERA.

RTCs are an inherent part of the tax system which relies heavily on voluntary reporting. Payment systems are generally designed to provide for appropriate verification and validation that payments are authorized, paid to the right entity, and paid in the correct amount. Inherent in these payment systems is the reliance on this verification and validation before payment is made. By contrast, the U.S. income tax system is fundamentally different from a payment program in numerous ways. The tax system is a collection system in which the individual taxpayer self-certifies information used to calculate income tax withholdings. Tax filers then voluntarily declare the amount of tax liability due and pay any remaining balances or request that any excess amounts withheld be refunded. The IRS issues refunds primarily on the basis of the tax return as submitted.

Internal Control Issues are not the Root Cause of RTC Overclaims

IPIA's enactment was intended to reduce the U.S. Government's wasteful spending by increasing accountability of agencies for preventing and recovering improper payments. Improper payment reporting requirements link the reduction of improper payment rates with agency efforts to establish or enhance internal controls for ensuring payments are accurately calculated and made to the correct recipient. Appendix C to OMB's Circular A-123 states that agencies should approach improper payments with an internal control framework that is integrated with enterprise risk management for purposes of managing payment integrity risk and reducing improper payment rates.[3] However, as we have determined repeatedly through qualitative risk assessments, RTC overclaims are not primarily rooted in internal control deficiencies, but instead are the result of factors beyond Treasury's control (e.g. statutory design and limitations). Audits by the Government Accountability Office (GAO) and TIGTA have concluded that RTC overclaims are largely due to the statutory design and complexity of the RTCs, not internal control weaknesses, financial management deficiencies, or reporting failures.



[2] Pub. L. No. 111-204, 124 Stat. 2224.

[3] OMB, M-18-20, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, Part 3(B)(1).

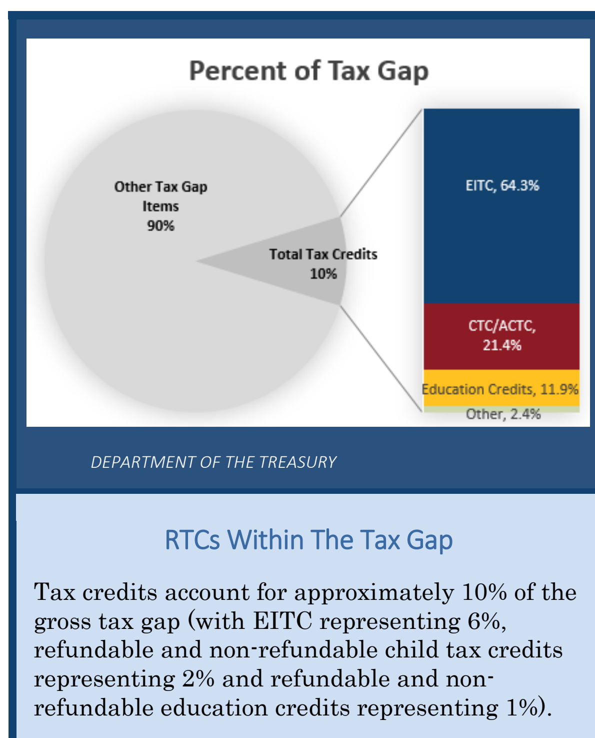
The IRS utilizes a variety of compliance tools and activities in an attempt to reduce identified RTC errors rates (e.g., two and 10-year bans from claiming the EITC under certain circumstances, imposing return preparer penalties). However, without statutory or structural changes to the design of these programs, the IRS is unlikely to significantly resolve refund related issues and reduce error rates. As evidenced in the chart above, EITC reported estimated error rates have remained within the same range since we began reporting them in accordance with improper payment guidelines.

Overclaims generally stem from (1) the inherent difficulties of verifying eligibility for RTC benefits through the tax system, (2) the statutory structure of RTCs, and (3) the lack of available resources and tools to verify data or correct identified issues. Based on the root cause analyses performed by the IRS on RTC overclaims, for FY 2019 reporting, an estimated $23.9 billion (or 90 percent) of the RTC overclaims were due to the inability to authenticate eligibility because the data needed do not exist, and an estimated $2.8 billion (or 10 percent), of the RTC overclaims were due to program design or structural issues.

Improving the integrity of refundable credit programs will take actions beyond our control. We have proposed various legislative changes aimed at providing more effective tools for managing RTCs. For example, we have proposed: (1) granting the IRS statutory authority to increase oversight to ensure paid preparers effectively assist taxpayers in complying with their obligations under tax laws; (2) expanding correctible error authority which would give the IRS the ability to deny erroneous or fraudulent claims prior to issuing refunds under certain specified circumstances; and (3) improving worker classifications and information reporting by reducing the reporting threshold for third-party settlement organizations and requiring Form 1099-K, *Payment Card and Third Party Network Transactions* to be filed with the IRS by January 31st, as well as eliminating automatic 30-day extensions for the filing of these forms. While these statutory changes would help reduce RTC overclaims to some degree, without independent data sources through which the IRS can verify taxpayer-provided information and additional time and resources for the IRS to address any issues identified, a meaningful reduction in the estimated error rate is unlikely.

REDUCING RTC ERRORS DIVERTS VALUABLE RESOURCES FROM OTHER TAX GAP ELEMENTS

In the case of RTCs, much of the information necessary to validate the accuracy of a refund prior to issuance is not available. Other than the IRS's ability to run various automated checks of certain data on the tax return prior to payment of a refund, the IRS does not have the ability to validate that the refund is in the proper amount. Rather, the IRS must deploy a variety of enforcement tools, including audits, to verify the information on the tax return and then collect any additional tax due. As a result, the IRS allocates a disproportionate amount of its enforcement resources to audit returns that claim one or more RTCs, which can create several problems. By allocating a significant amount of resources to auditing these returns, the IRS runs the risk of being prevented from providing an appropriate level of enforcement in other less compliant (higher potential revenue) areas, thus reducing its overall effectiveness in maximizing collections. Second, because lower-income taxpayers make up the majority of those claiming RTCs, they are subjected to a disproportionate number of audits as compared with other individual taxpayers (RTC claimants are audited at twice the rate of other individual taxpayers). This creates a burden on people with little time or money to comply with potentially expensive audits. Additionally, the IRS does



not have the resources to audit every return claiming RTCs, and the adjustments that could feasibly be attained through this process would be small relative to the amount of improper payments estimated for the RTCs.

As such, we have long held that focusing enforcement resources on the larger tax gap is a more efficient and cost effective way to minimize the tax gap and maximize tax collections. We further support the reporting of RTC overclaims within the Tax Gap Analysis to reflect better how the IRS approaches taxpayer compliance relative to the U.S. tax system.

Risk Assessments

Each year, bureaus and offices (hereafter referred to as "components") are required to conduct risk assessments on all material programs (i.e., programs with total non-federal disbursement amounts equal to or greater than $10 million) to identify the risk of susceptibility to significant improper payments. OMB defines susceptibility to significant improper payments as gross annual improper payments exceeding both 1.5 percent and $10 million in total program outlays, or $100 million at any rate. Components are required to perform a quantitative risk assessment for all programs with a total non-federal disbursement amount equal to or greater than $5 billion. Components may perform a quantitative or qualitative risk assessment for all other programs. The quantitative risk assessment consists of a review of a sample of disbursements to formulate the overall estimated improper payment rate for the program. The qualitative risk assessment is a questionnaire used to assess a program's internal control risks, which could lead to susceptibility to significant improper payments.

Our risk assessment process incorporates the seven risk factors outlined in OMB Circular A-123, Appendix C. The factors considered in the determination of risk levels include:

- Whether the program or activity reviewed is new to the agency;
- The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
- The volume of payments made annually;
- Whether payments or payment eligibility decisions are made outside of the agency, for example, by the state or local government, or a regional federal office;
- Recent major changes in program funding, authorities, practices, or procedures;
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; and
- Significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the GAO audit report findings, or other relevant management findings that might hinder accurate payment certification.

In FY 2019, we performed risk assessments on 67 programs. Five programs performed quantitative risk assessments, and 62 programs performed qualitative risk assessments. Of the 67 programs, three programs were newly identified as susceptible to significant improper payments—AOTC, ACTC, and net Premium Tax Credits (PTC). Programs identified as susceptible have one year to: (1) perform statistical sampling to determine an improper payment rate, and (2) develop and submit a corrective action plan to OMB for reducing the improper payment rate below the statutory threshold. The risk assessments conducted in FY 2019 for AOTC and ACTC indicated that they are susceptible to significant improper payments and, therefore, we are reporting improper payment estimates for these RTCs in this year's AFR, although we are not required to do so until FY 2020. While the quantitative risk assessment results for net PTC indicate that it is susceptible to significant improper payments, we are not reporting an estimate this year as further analysis of the related data is needed.

Therefore, we will continue to collect NRP data, as well as to develop an effective methodology to calculate and report an estimated error rate for net PTC.

A risk assessment was not required to be conducted for the EITC program, since it has been deemed by OMB as a high priority program. Similar to programs identified as susceptible to significant improper payments, as a high priority program, EITC is required to perform a statistical sample to determine and report an improper payment rate and develop and submit a corrective action plan to OMB.

Sampling and Estimation

Beginning with TY 2006, the IRS NRP has been conducting annual studies of individual income tax reporting compliance (hereafter referred to as the "NRP study"). The IRS uses the examination (audit) data from the NRP study to fulfill improper payment reporting requirements. OMB defines a statistically valid sample as one that is based on unbiased randomized sampling and produces valid point estimates and confidence intervals around those estimates. Statistically valid and rigorous estimates possess a 95 percent confidence interval with a margin of error of plus or minus three percentage points. Due to the approximately three years it takes to complete those audits, FY 2019 is the first year in which the TY 2015 NRP data is available for analysis and improper payment estimation. As such, the improper payment estimates reported this year include NRP examination results from TY 2015 returns. The sample design and examination of most of the NRP returns for TY 2015 occurred prior to the determination that the AOTC and ACTC were susceptible to significant improper payments. Therefore, the TY 2015 NRP sample was not explicitly designed to meet the OMB requirements for a statistically valid and rigorous estimate. However, the NRP reporting compliance studies of Form 1040 tax returns are capable of providing statistically valid FY 2019 estimates of improper payments for the AOTC and statistically valid and rigorous FY 2019 estimates of improper payments for the EITC and ACTC.

Consistent with prior estimates of EITC improper payments, the refundable portion of the AOTC and ACTC improper payment estimates are based on overclaims of the refundable credit plus underpayments. Overclaims are defined as the difference between the amount claimed and allowed per IRS math error processing and the amount that the examiner determined should have been claimed.[4] An underpayment is defined as the amount disallowed in processing (and not subsequently allowed prior to the examination) that should have been allowed based on an examination of the taxpayer's books and records. The improper payment rate is calculated as follows:

$$\textit{Improper Payment Rate} = \frac{\textit{Sum of Amount of Overclaims and Absolute Value of Underpayments} \;\; \textit{minus} \;\; \textit{Amount of Revenue Protected through Pre-Refund Audits}}{\textit{Amount of the Refundable Credit Claimed on all Returns}}$$

Overclaims are different from overpayments in that overclaims are based on the full amount of the RTC, including amounts used to offset reported tax liability, while overpayments are based on just the outlay portion (i.e., the amount of the refundable credit paid to the taxpayers as a refund). Therefore, the estimated amount of improper payments is larger than it would be had the estimate been based on just the outlay portion of the refundable credit.

[4] The overclaims of taxpayers who do not show for the audit or respond to the audit notice are assumed to have the same rate of non-compliance as taxpayers with similar characteristics (e.g., income and filing status) who did participate in the audit.

In accordance with improper payment reporting requirements, we update the improper payment estimates annually. The calculation of the total amount of each refundable tax credit starts with the baseline outlays reported in the FY 2020 federal budget for the corresponding refundable tax credit and then adds in imputed tax expenditures that reflect the portion of the refundable tax credit that offsets tax liability. The baseline outlays plus imputed tax expenditures are then adjusted to reflect the total amount of refundable tax credit claimed. The RTC improper payment amounts are then calculated by multiplying the improper payment rate estimated from the most recent tax year for NRP data by the estimated total amount of refundable tax credit claimed.

PAYMENT REPORTING

Improper Payment Estimate

IPIA, as amended, requires agencies each year to identify programs and activities vulnerable to significant improper payments, to annually estimate the overpayments or underpayments exposure, and to report on steps taken to reduce such payments. The total estimated FY 2019 RTC claims, improper payment rates, and estimated amounts of improper payments are provided in the Improper Payment Reduction Outlook table below. Similar to FY 2018, the improper payment amount includes the overclaims that were paid and later recovered through the IRS post-refund enforcement activities.

IMPROPER PAYMENT REDUCTION OUTLOOK ($ IN MILLIONS)

Program	FY 2019 Outlays [1]	FY 2019 Proper Payment Amount	FY 2019 Proper Payment Rate	FY 2019 Improper Payment Amount [2] [3]	FY 2019 Improper Payment Rate [4]	FY 2019 Overpayments	FY 2019 Underpayments	FY 2020 Estimated Improper Payment Rate [5]
EITC	$68,688.85	$51,337.24	74.74%	$17,351.61	25.26%	$17,351.61	[6]	25.26%
AOTC	$7,880.47	$5,828.54	73.96%	$2,051.93	26.04%	$2,051.93	[6]	26.04%
ACTC	$47,664.01	$40,440.52	84.84%	$7,223.49	15.16%	$7,223.49	[6]	15.16%
Total	**$124,233.33**	**$97,606.30**		**$26,627.03**		**$26,627.03**	[6]	

[1] FY 2019 Outlays: Consistent with prior improper payment estimates, this table reports estimated claims instead of outlays. FY 2019 estimated totals are based on outlays reported in the FY 2020 President's Budget plus imputed tax expenditures adjusted to reflect claims.

[2] FY 2019 Improper Payment Amount: The estimated amount of net improper payments equals the estimated improper payment rate multiplied by the estimated claims.

[3] The total FY 2019 Improper Payment Amounts reported were made directly by the government.

[4] FY 2019 Improper Payment Rate: The FY 2019 estimated improper payment rate was estimated using a statistically valid random sample of TY 2015 individual income tax returns that claimed the EITC, AOTC, or ACTC. Like the FY 2018 improper payment rate estimates, the FY 2019 estimated improper payment estimate does not subtract projected recovered improper payments prior to calculating the rate.

[5] The FY 2020 Estimated Improper Payment Rate is the same as the FY 2019 Improper Payment Rate. The unique nature of tax administration means that traditional target-setting as a means of approaching reductions in RTC improper payments will be ineffective. The RTC statute is such that IRS has limited authority to make changes to the claims during return processing. More so, most of the eligibility and credit determination requirements depends on factors that are not fundamentally known by the IRS at the time of filing. The IRS relies heavily on taxpayer-provided information without verifiability by third-party sources. The complexity of the law contributes to confusion around eligibility requirements and is one of the major contributing factors of improper payments. Error prevention and recoveries are achieved through time-consuming and resource-intensive examinations and other compliance activities. The IRS does not have the resources to audit every return claiming RTCs, and the adjustments able to be attained through this process are small relative to the amount of improper payments estimated for the RTCs. Without legislative change to greatly improve effective tools to administer these credits, the improper payment rate will not drastically change.

[6] Fewer than three returns were identified in the sample with underpayments. To avoid disclosing taxpayer information, the underpayment amount is reported with the overpayment amount.

While these programs identified as susceptible to significant improper payments are generally required to report reduction targets, setting improper payment reduction targets for RTCs does not create meaningful goals for the IRS. This is due to the complexity of the tax law related to the RTCs and the lack of independent and verifiable data regarding RTC eligibility.

Improper Payment Classification

Improper payments can result in a monetary loss to the government. A monetary loss occurs when a payment should not have been paid and can be recovered. Monetary loss is categorized into two sub-categories, monetary loss within the agency's control (e.g., an overpayment due to agency error in program processing or billing), or monetary loss outside the agency's control (e.g., an overpayment due to statutory requirements to pay by a certain date or within a certain timeframe). However, improper payments do not always result in a monetary loss to the government. For example, underpayments and payments with insufficient documentation are considered improper payments but may not cause an actual monetary loss to the government (referred to in the table below as non-monetary losses).

Consequently, RTC overclaims are not the result of internal control weaknesses that we can remediate internally but are, in fact, the result of factors beyond our control. Even if we could obtain legislative changes and invest in additional resources and verification solutions that would ultimately reduce overclaims and error rates, the benefits derived would be marginal relative to the cost of doing so.

The following table identifies the estimated monetary loss to the government (within and outside of Treasury's control). Non-monetary loss is not included in the table because we do not have any non-monetary losses associated with the RTC overclaims.

IMPROPER PAYMENT CLASSIFICATION ($ IN MILLIONS)

	Actual Monetary Loss Identified in Sample [1]		Estimated Monetary Loss		
Program	Within Agency Control	Outside of Agency Control	Within Agency Control	Outside of Agency Control	Estimated % of Monetary Loss
EITC	-	$1.51	-	$17,351.61	100%
AOTC	-	$0.15	-	$2,051.93	100%
ACTC	-	$0.31	-	$7,223.49	100%
Total	**-**	**$1.97**	**-**	**$26,627.03**	**-**

[1] The actual monetary loss to the government identified in the sample is from a statistically valid random sample of TY 2015 individual income tax returns that claimed the EITC, AOTC, and ACTC. Those returns were selected as part of the TY 2015 IRS NRP Study and underwent a tax audit to ascertain the accuracy of the return, including any refundable credit claims. The amount reported here reflects the unweighted results of the audits that had closed at the time of the development of the improper payments estimate. The weighted results from the TY 2015 study were used to estimate the FY 2019 improper payment rate, after adjusting weights to exclude taxpayers who did not show up for audits or respond to audit notices.

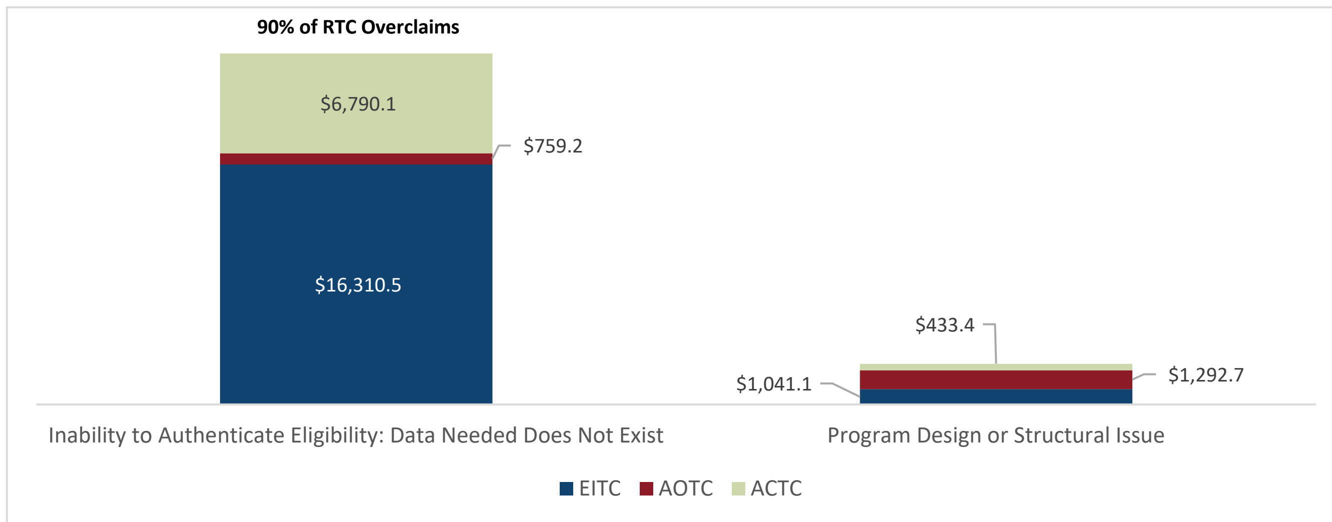
Improper Payment Root Cause(s)

Agencies are required to categorize improper payments using one or more of the following root causes: program design or structural issue, inability to authenticate eligibility, failure to verify, administrative or process errors, medical necessity, insufficient documentation to determine, and other. The inability to authenticate eligibility root cause is divided into two sub-categories: (1) inability to access data, and (2) data needed does not exist. Based on these root cause categories, the IRS identified the two primary root causes for EITC, AOTC, and ACTC overclaims as: (1) inability to authenticate eligibility – data needed does not exist, and (2) program design or structural issues.

For both the EITC and ACTC, qualifying child errors account for the highest dollar amount of overclaims. Income misreporting, specifically self-employment income misreporting, accounts for the second highest amount of overclaim dollars, with filing status errors being the third largest contributor to overclaims. For AOTC, errors associated with reporting of qualifying tuition and expenses or credit eligibility account for the largest share of overclaims.

The chart below illustrates the distribution of RTC improper payments by root causes.

IMPROPER OVERPAYMENT ROOT CAUSE CATEGORY ($ IN MILLIONS)



Inability to Authenticate Eligibility: Data Needed Does Not Exist

Nearly $23.9 billion, or 90 percent, of all RTC overclaims resulted from the inability to authenticate eligibility because the data needed does not exist. This root cause includes errors associated with the inability to authenticate qualifying child eligibility requirements due to relationship and residency requirements and the exceptions to the age requirement (full-time student and disability). Inability to authenticate eligibility is the primary root cause for both EITC and ACTC overclaims and is the secondary root cause for AOTC overclaims. This root cause includes errors that the IRS can only uncover through the audit process since no data exists to support automated compliance checks. For the AOTC, most of the errors in this category are related to eligibility criteria that are not reported on a Form 1098-T, *Tuition Statement*. Authentication is difficult because the IRS relies primarily on the self-claimed information from taxpayers and there is a lack of internal and external databases available with information that would help the IRS make a determination of eligibility.

Another major cause of error in this category is taxpayer income misreporting related to self-employment income, where the income is not reported to the IRS by a third party. This category of errors also includes filing status errors, when married couples incorrectly file as single or head of household, and data on marital status and living arrangements are not available. Finally, this category includes a small amount of error related to rules for all taxpayers claiming these refundable credits related to valid SSNs, residency of non-citizens, and when the taxpayer qualifies as a qualifying child of another taxpayer, none of which can be authenticated by the IRS at the time of filing.

Improper payments reported under this root cause category are essentially beyond Treasury's control. Although we have proposed several legislative changes, without the availability of a third-party database to authenticate eligibility, or additional time and resources for the IRS to address any issues identified during audit, the IRS is unable to reduce the overclaims reported in this root cause category.

Program Design or Structural Issues

Nearly $2.8 billion, or 10 percent, of all RTC overclaims result from program design limitations. Errors caused by program design occur when information needed to confirm payment accuracy is not available at the time the return is processed. These errors relate to certain income misreporting, tiebreaker errors, and joint return errors of qualifying children. Although Form W-2 payer information is now available to the IRS sooner due to integrity provisions of the Protecting Americans from Tax Hikes (PATH) Act, payer information does not exist in all cases and may not be available to the IRS until after the filing season. Thus, the IRS is unable to match fully wages and other income sources against the return at the time of filing.

A very small portion of errors are attributable to tiebreaker errors, where more than one taxpayer claims the same qualifying child. The IRS processes returns as they are filed and is unaware that two returns will claim the same qualifying child at the time the first return is filed, or who is actually qualified in a tiebreaker situation. In addition, situations where a qualifying child files a joint return also make up a small portion of this category. A child cannot be a qualifying child if he or she files a joint return for a reason other than claiming a refund. Since returns are filed at various times, the IRS cannot identify these situations until both returns have been filed.

Program design and structural issues are the primary root cause for refundable AOTC overclaims, and the secondary root cause for EITC and ACTC overclaims. For AOTC, the main error types are claims that do not have an associated Form 1098-T reported to the IRS and misreporting of qualified education expenses. Although educational institutions send Form 1098-T to the IRS, this data is either not available to confirm eligibility during return processing or the data may be inconsistent with what the taxpayer reports. Furthermore, the IRS lacks the statutory authority to disallow AOTC claims that are missing Form 1098-T. Other program design errors include taxpayers that claim students for more than the four-year statutory limit. For such instances, the IRS does not have congressional authority to disallow the claim.

Corrective Actions

The IRS's strategy with respect to overclaims is to intervene early to ensure compliance with the law. In FY 2019, the IRS addressed overclaims through its compliance programs, as well as through expansive outreach and education efforts to taxpayers and preparers. The table below illustrates the corrective actions implemented by the IRS to address the root causes identified for the EITC overclaims. Since the refundable portion of the AOTC and ACTC were identified for the first time this year as being susceptible to significant improper payments, corrective actions have not been developed or implemented for these two refundable credit programs.

EITC CORRECTIVE ACTION CATEGORIES

Improper Payment Root Causes	Examination Closures	Math Error Notices	Document Matching	Amended Returns	Two and 10 Year Bans	Identify Theft and Fraud	Criminal Investigations	Soft Notices	Return Preparer Initiatives	Outreach and Education	Software Developer Working Group
Inability to Authenticate Eligibility: Data Needed Does Not Exist	X	X		X	X	X	X	X	X	X	X
Program Design or Structural Issue	X		X	X	X	X	X	X	X	X	

The IRS's EITC enforcement programs protected over $2.4 billion in FY 2019. The revenue includes EITC and other credits and taxes recovered or prevented from being paid in error in FY 2019, on returns filed in calendar year 2019 or earlier years. The chart below shows that the IRS conducted 256,768 audits related to the EITC, issued 138,500 math error notices, and performed 316,602 document-matching reviews.

COMPLIANCE ACTIVITIES

	FY14	FY15	FY16	FY17	FY18 [1]	FY19 [2]	FY20 [3]	FY14-FY20 Total
Audit Closures	435,638	445,594	380,260	326,503	330,127	256,768	267,700	2,442,590
Math Error Notices	194,127	166,611	159,906	160,227	144,211	138,500	135,730	1,099,312
Document Matching	1,053,304	1,710,904	852,733	666,334	457,308	316,602	317,000	5,374,185
Amended Returns [4]	17,723	24,282	9,895	10,296	8,446	6,376	6,000	83,018

[1] Restated actual.

[2] Preliminary data.

[3] Estimate based on FY 2019 preliminary data and preliminary FY 2020 plans.

[4] Amended Returns are a subset of Audit Closures.

These compliance activities have a significant effect, protecting $2.4 billion of revenue in FY 2019. Treasury projects that continued enforcement efforts will protect a total of nearly $22.7 billion in revenue from FY 2014 through FY 2020, as shown below.

PROTECTED REVENUE FROM COMPLIANCE ACTIVITIES ($ IN MILLIONS)

	FY14	FY15	FY16	FY17	FY18 [1]	FY19 [2]	FY20 [3]	FY14-FY20 Total
Audit Closures	$1,751.32	$1,991.06	$1,826.30	$1,545.39	$1,508.43	$1,123.52	$1,359.45	$11,105.47
Math Error Notices	243.34	226.82	237.24	250.76	228.05	219.02	214.64	1,619.87
Document Matching	1,385.06	2,313.96	1,570.54	1,248.26	1,136.20	1,049.32	1,050.00	9,753.34
Amended Returns [4]	52.42	76.63	34.56	33.38	26.58	21.24	21.00	265.81
Total	**$3,432.14**	**$4,608.47**	**$3,668.64**	**$3,077.79**	**$2,899.26**	**$2,413.10**	**$2,645.09**	**$22,744.49**

[1] Restated actual.

[2] Preliminary data.

[3] Estimate based on FY 2019 preliminary data and preliminary FY 2020 plans.

[4] Amended Returns are a subset of Audit Closures.

In addition to the compliance activities described above, the following efforts also contributed to the IRS's strategy of identifying and reducing RTC overclaims in FY 2019:

- **Base Enforcement Efforts:** Delivered key compliance activities including 256,768 audits, 316,602 misreported income cases, and an estimated 138,500 math error adjustments, protecting revenue of over $2.4 billion.
- **Two and 10-Year Bans:** Imposed 1,770 two-year bans and 152 10-year bans for cases where the IRS determined during an EITC audit that the taxpayer intentionally disregarded the rules and regulations or committed fraud.
- **Identity Theft and Fraud:** Detected and stopped over 322,548 fraudulent EITC returns through our fraud detection filters from being processed, preventing over $1.6 billion in erroneous refunds.
- **Criminal Investigations:** Continued to stop fraudulent EITC refund claims through our Criminal Investigation (CI) division indictments. CI issued 106 new EITC Questionable Refund Program scheme indictments and secured 118 convictions. CI also issued 95 new EITC Return Preparer indictments and secured 99 convictions.

- **Soft Notices:** Sent 67,259 letters to alert taxpayers that a qualifying child for the EITC claimed on their returns had also been claimed by another person.
- **Return Preparer Initiatives:** As a part of the FY 2019 Refundable Credits Return Preparer Strategy, the IRS completed activities associated with a suite of progressive preparer treatments, addressing 23,780 preparers selected through our risk-based scoring model, before and during the filing season. Approximately 22,400 were EITC preparers.
    - The IRS closed 729 pre-filing season Due Diligence Visits (DDVs) with a penalty rate of 93 percent and over $30 million in proposed penalties. Criminal Investigation and revenue agents completed 95 educational Knock-and-Talk Visits. The IRS also mailed 17,596 educational notices before the FY 2019 filing season.
    - The IRS closed 225 correspondence DDVs with a penalty rate of 96 percent and nearly $10 million in proposed penalties. The IRS also mailed 12,363 educational notices and successfully made 1,314 of 2,428 calls attempted to preparers during the 2019 filing season.
    - The analysis of the FY 2019 Refundable Credits Return Preparer Strategy revealed that, in addition to the penalties proposed above, the preparer treatments protected approximately $347 million ($256 million in EITC, $76 million in CTC, and $15 million in AOTC).
- **Return Preparer Penalties:** The IRS sent 802 warning letters and 14,926 electronic alerts to warn preparers who did not attach Form 8867, Paid Preparer's Due Diligence Checklist, to TY 2018 taxpayer returns. The IRS subsequently proposed over $5.7 million in penalties to 263 EITC, AOTC, and ACTC return preparers for failure to exercise due diligence by attaching the form, as authorized by IRC Section 6695(g) and Treasury Regulation Section 1.6695–2.
- **Return Preparer Outreach and Education:** Focused outreach and education efforts on EITC return preparers to educate them on EITC and due diligence requirements. Nearly 12,640 preparers received a certificate of completion for the English and Spanish interactive EITC Due Diligence Training module. Additionally, over 8,700 preparers attended the "*Learn the Facts about IRS Due Diligence Contacts"* and *"One Year Later – Tax Cuts and Jobs Act Due Diligence Update"* seminars at the 2019 Nationwide Tax Forums.
- **Servicewide EITC Strategy:** Continued activities to evaluate potential new solutions identified to address overclaims.
- **Key Performance Indicator Scorecard Survey:** The IRS continued to report EITC base enforcement efforts (i.e., audits, misreported income cases, and math error adjustments) as well as other compliance and outreach activities that help address overclaims.
- **Software Developer Working Group:** Continued our partnership with members of key tax software associations to reduce EITC errors and assist preparers in meeting their EITC due diligence requirements.
- **PATH Act Integrity Provisions:** The IRS continued applying tools provided by the PATH Act to EITC returns as follows:
    - Held taxpayers' refunds until February 15 of the filing year on returns claiming EITC and/or ACTC as directed in Section 201(b), using the time to identify fraudulent returns.
    - Rejected amended and late filed original returns filed by taxpayers retroactively claiming EITC for any prior year in which he/she did not have a valid social security number as directed in Section 204.
- **Legislative Proposals:** The FY 2020 budget request included the following legislative proposals that may improve compliance and reduce erroneous payments:
    - Provide greater flexibility to address correctable errors to help the IRS deny certain erroneous EITC claims before refunds are paid.
    - Increase oversight of paid tax return preparers to help promote high quality services and improve voluntary compliance.

- **Refundable Credit Summit:** The IRS hosted a third summit that was attended by over fifty refundable credit stakeholders, including tax industry professionals, representatives of federal agencies, consumer advocates, and representatives from non-government organizations. The objective was to share progress on recently implemented legislative provisions, to provide information on both current program activities and plans for the 2020 filing season, and to solicit input on ways to increase participation, improve administration and reduce overclaims with respect to refundable credits.
- **Enterprise Research:** Assessed the results of the FY 2019 enterprise research strategy and developed the FY 2020 strategy in partnership with internal organizations to better focus compliance and outreach activities using research data.

BARRIERS

A number of factors continue to serve as barriers to reducing RTC improper payments. These include:

- **Complexity and lack of data to verify statutory eligibility requirements**: Only taxpayers know whether or not they meet the eligibility requirements for the RTCs claimed, and a third-party database is not available to independently validate the data submitted on returns. The only tool available to the IRS to verify eligibility is an audit of the tax return after filing. The IRS currently performs such audits, with EITC claimants audited at twice the national average for individual taxpayers. However, due to resource constraints, only a small number of returns can be audited each year.
- **Lack of correctable error authority:** The IRS has limited ability to make automatic changes to a return (which would require congressional authorization) and must rely on lengthy deficiency procedures.
- **High turnover of eligible taxpayers**: The IRS estimates that approximately one-third of the EITC applicants change each year. This changing population of taxpayers who claim the EITC increases the difficulty of improving EITC compliance and creates challenges to the IRS's education, outreach, and enforcement efforts.
- **Unscrupulous and/or incompetent return preparers**: Unregulated tax return preparers contribute to RTC non-compliance, fraud, and improper payments. The IRS, in coordination with the Treasury, proposed legislation to provide the IRS and Treasury with the authority to regulate all paid return preparers. In the interim, to remediate this barrier, the IRS will continue its voluntary training and certificate of completion program for unenrolled return preparers, as well as provide tools to help taxpayers locate qualified preparers.
- **Fraud**: Fraudulent tax returns and identity theft continue to be a major barrier to reducing RTC overclaims. To mitigate fraudulent RTC claims, the IRS uses the Electronic Fraud Detection System to identify schemes and suspicious patterns. Tax returns identified as questionable are then routed to the IRS employees for review before refunds are issued.

None of these factors, on their own, can be considered the primary driver of program error. However, these barriers severely impede the IRS's dual mission of issuing refunds to those who are entitled, while ensuring refunds are paid only to those who truly qualify for the RTCs. Additionally, statutory requirements further constrain the IRS's ability to ensure that RTC claims are valid before they are processed and paid.

Since RTCs are administered through the IRC, they are claimed by taxpayers during the filing and processing of their tax returns. The IRS is required by statute to pay interest on refunded amounts if those refunds are not issued within 45-days of the return filing deadline. This interest period was unaffected by the PATH Act provision that required the IRS to hold EITC refunds until February 15 of the filing season.

In FY 2017, the changes enacted under the PATH Act to accelerate the filing of wage and non-employee compensation information allowed the IRS to use the data to address refund fraud and improper payments. However, delays and

extensions granted for filing the forms limits the IRS's ability to use the information at the time of filing or within a reasonable period thereafter in which a taxpayer would expect their refund. The IRS continues to face challenges when attempting to validate the RTC claims of filers with non-wage income that may not have a third-party reporting requirement. The requirements, expectations, and data accessibility relative to the timely payment of refunds constrain the IRS's ability to conduct up-front verification of claims. These conditions distinguish RTCs and their administration through the tax system from the extensive validity checks conducted by agencies administering other federal programs that typically establish eligibility prior to the issuance of payments or benefits.

ACCOUNTABILITY

The Secretary has delegated responsibility for addressing improper payments to the Assistant Secretary for Management (ASM). Improper payments fall under the Department's management and internal control program. A major component of the internal control program is risk assessments, which are an extension of each Treasury component's annual improper payment elimination and recovery review process, as required under OMB Circular A-123, Appendix C. Under Treasury Directive 40-04, *Treasury Internal Control Program*, executives and managers are required to take all necessary steps to create an environment within their respective organizations or programs to ensure operational efficiency and adherence to all applicable statutory and regulatory standards related to internal controls. Managerial responsibility and accountability in all internal control areas are visible and well documented with our oversight mechanisms, such as the Treasury Chief Financial Officer (CFO) Council and the Management Controls Executive Steering Committee. We have identified executives who are responsible and accountable for reducing the level of RTC overclaims, while other senior and mid-level officials have responsibility for monitoring progress in this area as bureau and program internal control officers.

AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

Overall, we have the internal controls, human capital, and information systems and other infrastructure needed to manage our improper payments. As noted previously, RTC overclaims are not due to internal control issues, rather overclaims are due to factors beyond our control under current law and existing authority.

RECAPTURE OF IMPROPER PAYMENTS REPORTING

In accordance with IPERA and OMB Circular A-123, Appendix C, we perform and report annually on our payment recapture program. IPERA, as amended, expanded the payment types to be reviewed beyond contracts to include grants, benefits, loans, and miscellaneous payments.

Our annual risk assessment process includes a review of pre-payment controls that minimize the likelihood and occurrence of improper payments. We require each Treasury component to conduct post-award audits and report on payment recapture activities, improper payments made, and recoveries achieved. Our components perform their payment recapture audit and identify candidates for payment recapture action in accordance with the Treasury-wide guidance.

We consider pre- and post-reviews to identify improper payments to be a sound management practice that should be included among basic payment controls. All of our components have a process in place to identify improper payments during pre- and post-reviews. When applicable, our components may use the results of the Treasury Inspectors General and GAO reviews to help identify payment anomalies and target areas for improvement. However, we apply extensive payment controls at the time each payment is processed to minimize recapture activity. The table below illustrates the results from our payment recapture audit process.

The improper payments identified through the payment recapture audit are recouped either by payment off-set (i.e., the outstanding improper payment amount is offset by a future payment) or by establishing an accounts receivable. When an accounts receivable is established for the improper payment, the accounts receivable is carried forward until payment is received or a decision is made to write-off the outstanding receivable.

RECAPTURED OVERPAYMENTS WITH AND WITHOUT RECAPTURE AUDIT PROGRAMS ($ IN MILLIONS)

Program	Total Improper Payment Amount Identified for Recapture	Total Amount Recovered via Payment Recapture [1]	% Recovered via Payment Recapture	Total Amount Identified via Outside Source [2]	Total Amount Recovered via Outside Source [2]	% Recovered via Outside Source	Amount Determined to be not Collectable [3]	% Determined to not be Collectable
CDFI	0.0091	0.0091	100%	-	-	-	-	-
DO	0.1239	0.0702	57%	0.0008	0.0001	16%	0.0237	19%
FinCEN	0.0032	0.0037	115%	-	-	-	0.0003	8%
Mint	0.0818	0.0646	79%	0.0229	0.0001	1%	0.0093	11%
ODCP	2.4762	1.5159	61%	-	-	-	0.2688	11%
OFS	0.1006	0.0952	95%	-	-	-	0.0054	5%
OIG	0.0161	0.0085	52%	-	-	-	0.0071	44%
SIGTARP	0.0040	0.0043	107%	0.0000	0.0000	100%	-	-
TIGTA	0.0111	0.0047	43%	0.0018	0.0018	99%	0.0050	45%
TTB	0.0198	0.0194	98%	0.0034	0.0034	100%	0.0003	2%
Total	**$2.8458**	**$1.7956**	**63%**	**$0.0289**	**$0.0054**	**19%**	**$0.3199**	**11%**

[1] Cumulative total of FY 2019 amount and prior year amount.

[2] All improper payments identified were self-reported by the payee.

[3] Of the total Amount Determined to be not Collectable, approximately $0.3 million is from payments made in FY 2019 (or approximately 11 percent of total improper payments made in FY 2019).

Of our components reporting an Amount Determined to be not Collectable in the table above, we determined all of the write-off amounts to be immaterial, with the exception of the Office of D.C. Pensions (ODCP). ODCP's amount determined not to be collectable is based on individual debt cases that were deemed uncollectable after thorough reviews resulted in the determination to cease active collective actions.

In FY 2019, we determined that conducting a Payment Recapture Audit on the following ten low risk components was not cost-effective:

- Bureau of Engraving and Printing (BEP) Program;
- Departmental Franchise Fund (DFF) Programs;
- Fiscal Service Administration (FSA) Programs;
- Fiscal Service Debt (FSD) Programs;
- Funds Management Branch (FSM) Programs;
- Fiscal Service Umbrella (FSU) Programs;
- IRS's Administrative Fund Programs;
- Office of International Assistance (OAS) Programs;

- Office of the Comptroller of the Currency (OCC); and
- Treasury Executive Office for Asset Forfeiture / Treasury Forfeiture Fund (TEOAF/TFF).

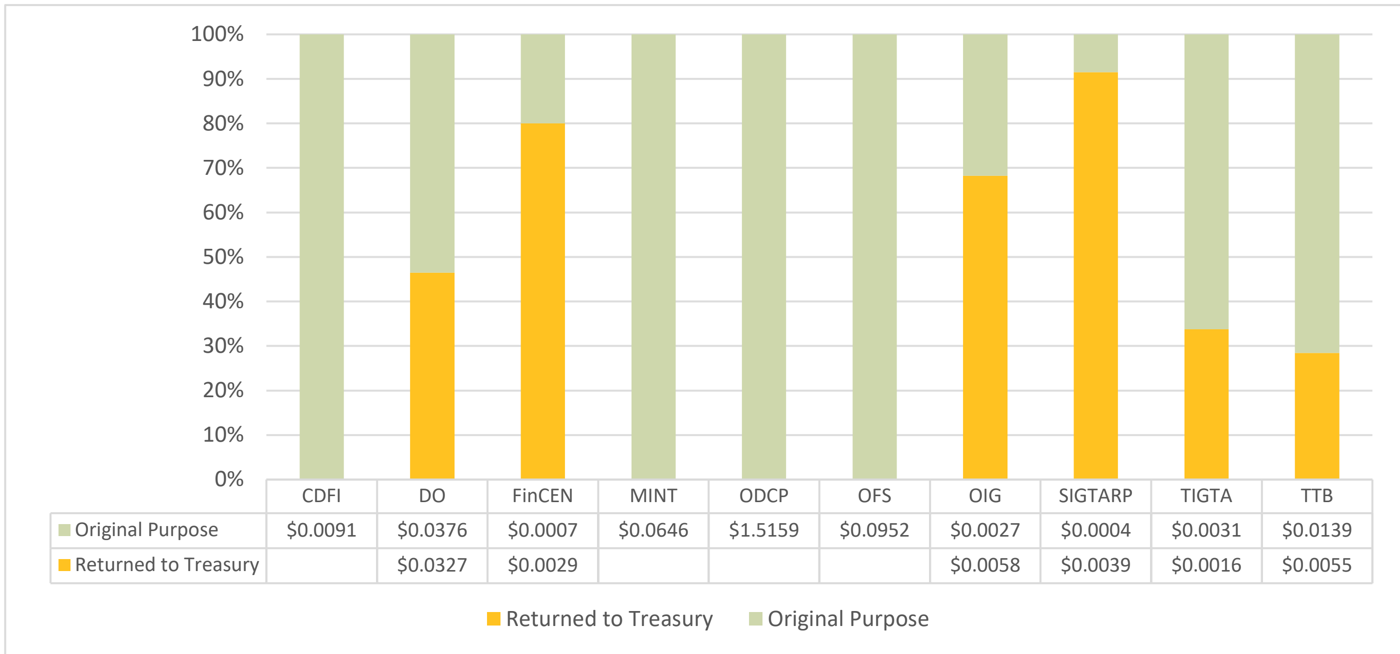
The justification that performing a payment recapture audit would not be cost-effective consists of the following reasons:

- The BEP program is a low risk level program, with little to no improper payments identified in the past five years.
- The DFF programs reflect a low level of risk for all payment type categories assessed.
- The Fiscal Service's FSA, FSD, FSM, and FSU programs continued to reflect a low level of risk in nearly every group and payment type assessed, with no audit findings and material weaknesses identified.
- The IRS's Administrative Fund Programs are low risk level programs, with no GAO or TIGTA identified deficiencies and no prior payment recapture audit identified improper payments.
- The Treasury International Programs disburse non-federal payments to the Multilateral Development Banks. Payments are made via payment vouchers on a letter of credit administered by the Federal Reserve Bank of New York, or direct cash payments through the Secure Payment System. The International Programs also disburse federal payments for Debt Restructuring via Intra-Governmental Payment and Collection or Standard Form 1081. Internal reviews are performed before all payments are issued.
- The OCC programs continue to reflect a low level of risk for each payment type assessed, with no deficiencies identified.
- The TEOAF/TFF program is a low risk level program, with no identified prior improper payment issues. In addition, program payments are made to state and local law enforcement agencies, reducing the risk of improper payments.

Based on the above justifications, payment recapture audits for these programs were not performed. We sent notifications for the new program justifications to OMB and the Treasury OIG in October 2019.

Through the payment recapture audit, we recaptured approximately $1.8 million, of which approximately $1.7 million was used for original purposes, and the remaining $0.1 million was returned to Treasury as miscellaneous receipts. The following table represents the disposition of the recaptured improper payments by our components:

DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDIT PROGRAMS ($ IN MILLIONS)



	CDFI	DO	FinCEN	MINT	ODCP	OFS	OIG	SIGTARP	TIGTA	TTB
Original Purpose	$0.0091	$0.0376	$0.0007	$0.0646	$1.5159	$0.0952	$0.0027	$0.0004	$0.0031	$0.0139
Returned to Treasury		$0.0327	$0.0029				$0.0058	$0.0039	$0.0016	$0.0055

As of September 30, 2019, there were approximately $1.4 million identified improper overpayments outstanding, with approximately $0.8 million identified in FY 2019 and $0.6 million identified in prior fiscal years. The table below shows the aging of the improper overpayments outstanding.

AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDITS ($ IN MILLIONS)

		0 to 6 months		6 months to 1 year		Over 1 year	
Program or Activity	Total Amount Outstanding	Amount Outstanding	Percent Outstanding	Amount Outstanding	Percent Outstanding	Amount Outstanding	Percent Outstanding
CDFI	-	-	-	-	-	-	-
DO	$0.0822	$0.0314	2%	$0.0004	0%	$0.0504	4%
FinCEN	-	-	-	-	-	-	-
MINT	$0.0496	$0.0103	1%	$0.0002	0%	$0.0391	3%
ODCP	$1.2241	$0.7362	54%	$0.0258	2%	$0.4621	34%
OFS	-	-	-	-	-	-	-
OIG	$0.0005	$0.0005	-	-	-	-	-
SIGTARP	$0.0006	-	-	-	-	$0.0006	0%
TIGTA	$0.0015	$0.0015	0%	-	-	-	-
TTB	$0.0008	$0.0001	0%	$0.0007	0%	-	-
Total	**$1.3593**	**$0.7800**	**57%**	**$0.0271**	**2%**	**$0.5522**	**41%**

Agency Improvement of Payment Accuracy with the Do Not Pay (DNP) Initiative

The IPERIA requires pre-payment and pre-award reviews to determine program or award eligibility and to prevent improper payments before the release of any federal funds. This review must include the relevant databases as prescribed by IPERIA, including:

- The death records maintained by the Commissioner of the Social Security Administration (SSA);
- GSA System for Award Management Exclusion Records;
- Treasury's Offset Program Debt Check Database;
- The Department of Housing and Urban Development's Credit Alert System or Credit Alert Interactive Voice Response System;
- The Department of Health and Human Services Office of the Inspector General's List of Excluded Individuals/Entities; and
- Prisoner data maintained in the Prisoner Update Processing System by SSA.

In November 2017, OMB designated the following six additional databases for inclusion under the DNP Initiative:

- Treasury's Office of Foreign Asset Control's Specially Designated National List;
- Data from the GSA System for Award Management sensitive financial data from entity registration records (including those records formerly in the legacy Excluded Parties List System);
- The IRS's Automatic Revocation of Exemption List;
- The IRS's Exempt Organization Select Check;
- The IRS's e-Postcard database; and
- The commercial database American InfoSource Deceased Data.

All of our components have incorporated pre-payment and pre-award reviews, as mandated by IPERIA, through established internal control processes and procedures that require reviews against the databases consolidated within the DNP Business Center (hereafter referred to as "DNP"), or through their own established databases. In FY 2019, none of the Treasury components reported significant reductions in improper payments attributable to the DNP Initiative. Treasury components continue to utilize the DNP portal to review vendor files prior to disbursement to prevent any improper payments.

SECTION F: FRAUD REDUCTION REPORT

BACKGROUND

The *Fraud Reduction and Data Analytics Act* (FRDAA) of 2015, mandates agencies to take steps to improve financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for identifying, preventing, and responding to fraud, including those arising from improper payments. Each agency is required to report its progress in implementing: (1) the financial and administrative controls; (2) the fraud risk principle in the GAO Standards for Internal Control in the Federal Government (Green Book); and (3) management of fraud risk in accordance with OMB Circular A-123.

In response to FRDAA, GAO issued the *Framework for Managing Fraud Risks in Federal Programs* in July 2015, based on leading practices for mitigating fraud risks and enhancing program integrity. The objective of fraud risk management is to proactively facilitate a program's mission by continuously and strategically mitigating the likelihood and impact of fraud. Whether an act is in fact fraud is a determination made through the judicial or other adjudicative system, and is beyond management's professional responsibility for assessing risk.[1]

FRAUD RISK MANAGEMENT

All of our components have a shared responsibility in preventing, detecting, and responding to potential fraud, including improper payments. Our components have ownership and responsibility for managing fraud risk. The Office of Risk Management is responsible for providing expertise and guiding principles to assist our components in the management of fraud risk. The Office of the Deputy Chief Financial Officer, establishes Treasury-wide guidance designed to ensure that financial, programmatic, and administrative internal controls provide an appropriate level of assurance towards operational and fiscal effectiveness and efficiency. The Office of the Procurement Executive (OPE) is responsible for establishing Treasury-wide policies and procedures for the use of the purchase card in program management and oversight. The OIG Office of Investigation (OI) is responsible for receiving and assessing complaints, and investigating potential fraud cases.

First Line of Defense

Our components are the first line of defense to prevent, detect, and respond to potential fraud. They are the risk owners for their programs, and have responsibility for mitigating fraud risk and enhancing program integrity, by designing and implementing processes and controls that effectively prevent and detect potential fraud, both internal and external to Treasury. Components must establish policies, procedures, techniques, and mechanisms to comply with risk management, and internal control requirements to manage and respond to fraud risk. Employees who encounter incidents of fraud, waste and abuse have a responsibility to report the incidents to their respective OIGs.

Mechanism used by individual components to manage fraud risk include:

- Many components ensure key duties and responsibilities are effectively segregated among different people to reduce the risk of error, waste, or fraud, and systems have controls to limit access and ensure no one individual can control all aspects of a transaction.

[1] GAO-14-704, *Standards for Internal Control in the Federal Government*.

The Bureau of the Fiscal Service (Fiscal Service) hired a senior fraud program manager to lead an enterprise fraud risk management program (EFRMP). The program manager developed the EFRMP framework with mission, vision, goals, and objectives and launched the program in June 2019 after gaining endorsement from the Fiscal Service executive leadership. The program manager is currently in the process of implementing identified priority tasks including conducting fraud risk assessments, determining bureau's fraud risk profile and maturity levels. EFRMP also holds quarterly Enterprise Fraud Forums across the bureau to discuss prevention, detection, and response strategies for fraud activities and events. The Forum meetings bring together representatives from all business areas that manage fraud, including the senior leadership and Security Program Office. The Security Program Office manages centralized fraud as part of its role in countering fraud, waste, and abuse for the Fiscal Service. The Fiscal Service also evaluates fraud risk through an "assessable unit risk assessment"[1] coordinated by the Internal Control Branch, consistent with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Controls, and the Improper Payments Elimination and Recovery Improvement Act (IPERIA). Results from the assessable unit risk assessment will be factored into the enterprise fraud risk analysis. The Office of Enterprise Risk Management will work with the Enterprise Fraud Risk Management Program (EFRMP) to incorporate any material fraud risks the EFRMP identifies into the Bureau's enterprise risk profile

- The IRS has implemented programs to reduce issuance of fraudulent refunds and to review fraud trends and patterns to inform fraud prevention techniques as well as using predictive and forensic analytics to detect and prevent fraudulent activity.
- The IRS conducted an enterprise-wide fraud risk assessment and developed the IRS's first Fraud Risk Profile leveraging best practices contained in the GAO Fraud Risk Framework and the Treasury Anti-Fraud Playbook.
- Components provide in-depth training and monthly audits of all purchase and travel card transactions.

While the Treasury DNP focuses on identifying, preventing and detecting improper payments, many of the tools and data analytics implemented through DNP can also serve as a first line of defense against potential fraud (or as a supplement to other component-specific detection activities). The DNP's primary methodology for detecting improper payments (some of which could be due to fraud) is matching payment data to eligibility data. For example, Treasury disbursed payments are automatically matched to death data. If DNP's tools detect a payment to a deceased individual, DNP can help agencies stop future payments or quickly move to reclaim payments. Data matching is used both in the DNP's online portal as well as in its analytics reports, and the data matching can be performed at different phases of the payment life cycle. For instance, DNP can continuously monitor a list of payees against lists of vendors excluded from working with the federal government so that an agency can take appropriate steps if a contractor has been debarred. In FY 2019, no Treasury program disbursements were identified as improper as a result of the DNP data matching.

The DNP analytics team also conducts payment integrity checks for customer agencies to detect anomalies through its Agency Insight Reports, which are an analysis of an agency's Treasury-disbursed Payment Automation Manager data. The results of the analysis are provided to the agency for review. The agency must then make a determination regarding whether the high risk payments or trends identified by DNP correspond to actual improper payments. The agency is also responsible for following up on any payments or trends that they believe are due to potential fraud.

Internal Controls

Through our OMB Circular A-123 internal control assessments, controls are monitored and evaluated to provide assurances that our components are effectively preventing, detecting, and responding to potential fraud. Our Treasury Implementation Guide for OMB Circular A-123, Appendix A incorporates GAO's Green Book Principle 8, Assess Fraud Risk. Each year components evaluate their adherence to this principle during their assessments of internal control. For FY 2019, all components reported that they are in compliance with Principle 8.

All of our components are required to integrate the GAO definitions for fraud, and consider risks for fraudulent financial reporting, misappropriation of assets, and corruption during their risk assessment process. Additionally, leading practices for mitigating fraud risk are required to be incorporated into our component's internal control system design to prevent, detect, and respond to fraud.

OPE developed Treasury's Charge Card Management Plan for Government-wide Commercial Purchase Cards to incorporate management controls in accordance with OMB Appendix B, *Improving the Management of Government Charge Card Programs*. The purchase card program includes a variety of risk management controls designed to meet program objectives including the reduction of fraud, waste, and abuse.

We also assess fraud risk during our improper payment reporting and recovery activities as part of Appendix C to OMB Circular A-123, *Requirements for Effective Estimation and Remediation of Improper Payment*. Through our improper payment reporting efforts, our components identify the programs deemed most susceptible to improper payments, based on total program disbursements and inherent risks to the integrity of the program. Additional assessments are performed on those susceptible programs to identify improper payments and determine potential fraud cases.

Additional information on Payment Integrity can be found in Part 3, Section E, of this report.

Enterprise Risk Management

Fraud risk is addressed in the course of the Office of Risk Management's (ORM's) general risk advisory work. Our leadership team has the opportunity to discuss potential fraud and other types of risks during regular meetings led by the Chief Risk Officer or Deputy Chief Risk Officer. The ORM conducts regular Enterprise Risk Management Council meetings with the bureau-level risk management contacts to discuss various risk topics, including fraud risk. Fraud risk is considered when our components develop and update their annual risk profiles, or top risk lists, to share with the ORM.

Investigations

Complaints come to the OIG's OI from Treasury components, the public, and other government agencies by telephone, facsimile, U.S. mail, electronic mail, online complaint forms, referrals from other law enforcement agencies, and referrals from prosecutorial offices (U.S. Attorney's Offices and District or State Attorney's Offices). The following factors are used to determine if a complaint is investigated:

- The impact on Treasury's programs and operations;
- Alleged participation in the fraud, waste, or abuse by Treasury employees or contract employees;
- Financial loss to Treasury or the government; and
- Criminal allegations or activity that would be accepted for prosecution by the U.S. Attorney's Offices or State Attorney's Offices.
    - OI will investigate if there is a loss to Treasury that is prosecutable by subjects that are not employees of Treasury.
    - OI will also investigate all criminal activity alleged against Treasury employees, particularly senior Treasury employees.

SECTION G: CIVIL MONETARY PENALTIES INFLATION ADJUSTMENT

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015* (2015 Act) amended the *Federal Civil Penalties Inflation Adjustment Act of 1990* (Inflation Adjustment Act), to improve the effectiveness of civil monetary penalties (CMPs) and to maintain their deterrent effect. The 2015 Act requires agencies to annually adjustment the level of civil monetary penalties for inflation and report annually in AFRs. The 2015 Act requires that agencies make annual inflation adjustments based on annual OMB guidance and publish the latest penalty levels in the Federal Register no later than January 15 each year. The Inflation Adjustment Act and the 2015 Act exclude penalties under the IRC and the *Tariff Act of 1930*. The table below depicts the covered CMPs that are under our purview.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) [1]	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
50 USC App. 16(b)(1) Trading with the Enemy Act, Section 16(b)	Sanctions violation	1917	2019	$89,170	DO (OFAC)	84 Federal Register 27714 (June 14, 2019) https://www.govinfo.gov/content/pkg/FR-2019-06-14/pdf/2019-12475.pdf
50 USC 1705 International Emergency Economic Powers Act, Section 206	Sanctions violation	1977	2019	The greater of $302,584 or twice the value of the underlying transaction	DO (OFAC)	Same as above
18 USC 2339B(b) Antiterrorism and Effective Death Penalty Act of 1996	Sanctions violation	1996	2019	The greater of $79,874 or twice the amount of which a financial institution was required to retain possession or control	DO (OFAC)	Same as above
21 USC 1906(b) Foreign Narcotics Kingpin Designation Act, Section 807	Sanctions violation	1999	2019	$1,503,470	DO (OFAC)	Same as above
19 USC 3901-3913 Clean Diamond Trade Act	Sanctions violation	2003	2019	$13,669	DO (OFAC)	Same as above
15 USC 6701 note Terrorism Risk Insurance Act, as amended	Civil Penalty	2002	2019	$1,394,837	DO (Federal Insurance Office)	84 Federal Register 15955 (April 17, 2019) https://www.govinfo.gov/content/pkg/FR-2019-04-17/pdf/2019-07664.pdf
12 USC 1829b(j) Bank Secrecy Act, as amended	Recordkeeping Violations for Funds Transfers	1988	2019	$21,039	FinCEN	84 Federal Register 54495 (October 10, 2019) https://www.govinfo.gov/content/pkg/FR-

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) (1)	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
						2019-10-10/pdf/2019-22094.pdf
12 USC 1955 Bank Secrecy Act, as amended	Willful/Grossly Negligent Recordkeeping Violations	1988	2019	$21,039	FinCEN	Same as above
31 USC 5318(k)(3)(C) Bank Secrecy Act, as amended	Failure to Terminate Correspondent Relationship with Foreign Bank	2001	2019	$14,231	FinCEN	Same as above
31 USC 5321(a)(1) Bank Secrecy Act, as amended	General Civil Penalty Provision for Willful Violations of Bank Secrecy Act Requirements	1986	2019	$57,317 to $229,269	FinCEN	Same as above
31 USC 5321(a)(5)(B)(i) Bank Secrecy Act, as amended	Foreign Financial Agency Transaction - Non-Willful Violation of Transaction	2004	2019	$13,247	FinCEN	Same as above
31 USC 5321(a)(5)(C) Bank Secrecy Act, as amended	Foreign Financial Agency Transaction - Willful Violation of Transaction	2004	2019	$132,469	FinCEN	Same as above
31 USC 5321(a)(6)(A) Bank Secrecy Act, as amended	Negligent Violation by Financial Institution or Non-Financial Trade or Business	1986	2019	$1,146	FinCEN	Same as above
31 USC 5321(a)(6)(B) Bank Secrecy Act, as amended	Pattern of Negligent Activity by Financial Institution or Non-Financial Trade or Business	1992	2019	$89,170	FinCEN	Same as above
31 USC 5321(a)(7) Bank Secrecy Act, as amended	Violation of Certain Due Diligence Requirements, Prohibition on Correspondent Accounts for Shell Banks, and Special Measures	2001	2019	$1,423,088	FinCEN	Same as above
31 USC 5330(e) Bank Secrecy Act, as amended	Civil Penalty for Failure to Register as Money Transmitting Business	1994	2019	$8,457	FinCEN	Same as above
12 USC 93(b) Section 5239(b) of the Revised Statutes	Tier 1 Violation of Various Provisions of the National Bank Act	1978	2019	$10,067	OCC	83 Federal Register 66599 (December 27, 2018) https://www.govinfo.gov/content/pkg/FR-2018-12-27/pdf/2018-27784.pdf
12 USC 93(b) Section 5239(b) of the Revised Statutes	Tier 2 Violation of Various Provisions of the National Bank Act	1978	2019	$50,334	OCC	Same as above
12 USC 93(b) Section 5239(b) of the Revised Statutes	Tier 3 Violation of Various Provisions of the National Bank Act	1978	2019	$2,013,399	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 1 Violation of Reporting Requirements	1869(2)	2019	$4,027	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) (1)	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
12 USC 164 Section 5213 of the Revised Statutes	Tier 2 Violation of Reporting Requirements	1869(2)	2019	$40,269	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 3 Violation of Reporting Requirements	1869(2)	2019	$2,013,399	OCC	Same as above
12 USC 481 Section 5240 of the Revised Statutes	Refusal of Affiliate to Cooperate in Examination (National Banks)	1864(2)	2019	$10,067	OCC	Same as above
12 USC 504 Section 29 of the Revised Statutes	Tier 1 Violation of Various Provisions of the Federal Reserve Act	1978	2019	$10,067	OCC	Same as above
12 USC 504 Section 29 of the Revised Statutes	Tier 2 Violation of Various Provisions of the Federal Reserve Act	1978	2019	$50,334	OCC	Same as above
12 USC 504 Section 29 of the Revised Statutes	Tier 3 Violation of Various Provisions of the Federal Reserve Act	1978	2019	$2,013,399	OCC	Same as above
12 USC 1817(j)(16) Section 7(j)(16) of the Federal Deposit Insurance Act	Tier 1 Violation of Change in Bank Control Act	1978	2019	$10,067	OCC	Same as above
12 USC 1817(j)(16) Section 7(j)(16) of the Federal Deposit Insurance Act	Tier 2 Violation of Change in Bank Control Act	1978	2019	$50,334	OCC	Same as above
12 USC 1817(j)(16) Section 7(j)(16) of the Federal Deposit Insurance Act	Tier 3 Violation of Change in Bank Control Act	1978	2019	$2,013,399	OCC	Same as above
12 USC 1818(i)(2) Section 8(i)(2) of the Federal Deposit Insurance Act	Tier 1 Violation of Law, Unsafe or Unsound Practice, or Breach of Fiduciary Duty	1978	2019	$10,067	OCC	Same as above
12 USC 1818(i)(2) Section 8(i)(2) of the Federal Deposit Insurance Act	Tier 2 Violation of Law, Unsafe or Unsound Practice, or Breach of Fiduciary Duty	1978	2019	$50,334	OCC	Same as above
12 USC 1818(i)(2) Section 8(i)(2) of the Federal Deposit Insurance Act	Tier 3 Violation of Law, Unsafe or Unsound Practice, or Breach of Fiduciary Duty	1978	2019	$2,013,399	OCC	Same as above
12 USC 1820(k)(6)(A)(ii) Section 10(k)(6)(A)(ii) of the Federal Deposit Insurance Act	Violation of Post-Employment Restrictions	2004	2019	$331,174	OCC	Same as above
12 USC 1832(c) Section 2 of Public Law 93-100	Violation of Withdrawals by Negotiable or Transferable Instrument for Transfers to Third Parties (National Banks)	1973	2019	$2,924	OCC	Same as above
12 USC 1832(c) Section 2 of Public Law 93-100	Violation of Withdrawals by Negotiable or Transferable Instrument for Transfers to Third Parties (Federal Savings Associations)	1973	2019	$2,658	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) [(1)]	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
12 USC 1884 Section 5 of the Bank Protection Act of 1968	Violation of the Bank Protection Act	1968	2019	$292	OCC	Same as above
12 USC 1972(2)(F) Section 106(b)(2)(F) of the Bank Holding Company Act Amendments of 1970	Tier 1 Violation of Anti-Tying Provisions Regarding Correspondent Accounts, Unsafe or Unsound Practices, or Breach of Fiduciary Duty	1978	2019	$10,067	OCC	Same as above
12 USC 1972(2)(F) Section 106(b)(2)(F) of the Bank Holding Company Act Amendments of 1970	Tier 2 Violation of Anti-Tying Provisions Regarding Correspondent Accounts, Unsafe or Unsound Practices, or Breach of Fiduciary Duty	1978	2019	$50,334	OCC	Same as above
12 USC 1972(2)(F) Section 106(b)(2)(F) of the Bank Holding Company Act Amendments of 1970	Tier 3 Violation of Anti-Tying Provisions Regarding Correspondent Accounts, Unsafe or Unsound Practices, or Breach of Fiduciary Duty	1978	2019	$2,013,399	OCC	Same as above
12 USC 3110(a) Section 16(a) of the International Banking Act of 1978	Violation of Various Provisions of the International Banking Act (Federal Branches and Agencies)	1991	2019	$46,013	OCC	Same as above
12 USC 3110(c) Section 16(c) of the International Banking Act of 1978	Tier 1 Violation of Reporting Requirements of the International Banking Act (Federal Branches and Agencies)	1991	2019	$3,682	OCC	Same as above
12 USC 3110(c) Section 16(c) of the International Banking Act of 1978	Tier 2 Violation of Reporting Requirements of the International Banking Act (Federal Branches and Agencies)	1991	2019	$36,809	OCC	Same as above
12 USC 3110(c) Section 16(c) of the International Banking Act of 1978	Tier 3 Violation of Reporting Requirements of the International Banking Act (Federal Branches and Agencies)	1991	2019	$1,840,491	OCC	Same as above
12 USC 3909(d)(1) Section 910(d)(1) of the International Lending Supervision Act of 1983	Violation of International Lending Supervision Act	1983	2019	$2,505	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 1 (natural person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2019	$9,472	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) [(1)]	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 1 (other person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2019	$94,713	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 2 (natural person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2019	$94,713	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 2 (other person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2019	$473,566	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 3 (natural person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2019	$189,427	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 3 (other person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2019	$947,130	OCC	Same as above
15 USC 1639e(k) Section 129E(k) of the Truth in Lending Act	First Violation - Violation of Appraisal Independence Requirements	2010	2019	$11,563	OCC	Same as above
15 USC 1639e(k) Section 129E(k) of the Truth in Lending Act	Subsequent Violations - Violation of Appraisal Independence Requirements	2010	2019	$23,125	OCC	Same as above
42 USC 4012a(f)(5) Section 102(f)(5) of the Flood Disaster Protection Act of 1973	Flood Insurance	1994	2019	$2,187	OCC	Same as above
12 USC 1464(v) Section 5(v) of the Home Owners' Loan Act	Tier 1 Reports of Condition - Savings Associations	1989	2019	$4,027	OCC	Same as above
12 USC 1464(v) Section 5(v) of the Home Owners' Loan Act	Tier 2 Reports of Condition - Savings Associations	1989	2019	$40,269	OCC	Same as above
12 USC 1464(v) Section 5(v) of the Home Owners' Loan Act	Tier 3 Reports of Condition - Savings Associations	1989	2019	$2,013,399	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) (1)	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
12 USC 1467(d) Section 9(d) of the Home Owners' Loan Act	Refusal of Affiliate to Cooperate in Examination	1989	2019	$10,067	OCC	Same as above
12 USC 1467a(r) Section 10(r) of the Home Owners' Loan Act	Tier 1 Late/Inaccurate Reports (Savings and Loans)	1989	2019	$4,027	OCC	Same as above
12 USC 1467a(r) Section 10(r) of the Home Owners' Loan Act	Tier 2 Late/Inaccurate Reports (Savings and Loans)	1989	2019	$40,269	OCC	Same as above
12 USC 1467a(r) Section 10(r) of the Home Owners' Loan Act	Tier 3 Late/Inaccurate Reports (Savings and Loans)	1989	2019	$2,013,399	OCC	Same as above
27 USC 218 Federal Alcohol Administration Act, as amended; Section 207 of the Alcohol Beverage Labeling Act of 1988, P.L. 100-690	Violation	1988	2019	$21,039	TTB	84 Federal Register 14614 (April 11, 2019) https://www.govinfo.gov/content/pkg/FR-2019-04-11/pdf/2019-07220.pdf
31 USC 333 Prohibition of Misuse of Department of the Treasury Names, Symbols, etc.	Misuse of Treasury name or symbol	1994	2019	$7,975	Department Wide	84 Federal Register 15955 (April 17, 2019) https://www.govinfo.gov/content/pkg/FR-2019-04-17/pdf/2019-07664.pdf
31 USC 333 Prohibition of Misuse of Department of the Treasury Names, Symbols, etc.	Misuse of Treasury name or symbol in broadcast or telecast	1994	2019	$39,873	Department Wide	Same as above
31 USC 3729 False Claims Act	False Claims Act	1986	2018(3)	$11,181 to $22,363 plus 3 times the amount of damages which the Government sustains because of the act	Department Wide	Department of Justice (DOJ) issued regulations at Federal Register 83 (January 29, 2018) 3944 – 3947
31 USC 3802 Program Fraud Civil Remedies Act	Program Fraud Civil Remedies Act	1986	2018(3)	Up to $11,181 for each claim plus 2 times the amount of the claim	Department Wide	DOJ issued regulations at Federal Register 83 (January 29, 2018) 3944 - 3947

(1) *Current penalty level amounts represent the maximum penalty amounts.*

(2) *For purposes of calculating the appropriate inflation factor, OMB's guidance issued February 24, 2016 uses the calendar year 1914 CMP Catch-Up Adjustment Multiplier for all penalties enacted prior to 1914.*

(3) *Department of Justice has not published regulation for 2019 inflation adjustment to this CMP.*

Appendix: Glossary of Acronyms

Abbreviation	Description
2015 Act	Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015
ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AGI	Adjusted Gross Income
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AOTC	American Opportunity Tax Credit
APG	Agency Priority Goal
APR	Annual Performance Report
ARC	Administrative Resource Center
ARRA	American Recovery and Reinvestment Tax Act of 2009
ASM	Assistant Secretary for Management
BEP	Bureau of Engraving and Printing
BSA	Bank Secrecy Act
CDFI	Community Development Financial Institutions
CFIUS	Committee on Foreign Investment in the United States
CFO	Chief Financial Officer
CI	Criminal Investigation
Civil Service Fund	Civil Service Retirement and Disability Trust Fund
CLM	Collaborative Lifecycle Management
CMP	Civil Monetary Penalties
CPI	Consumer Price Index
CRO	Chief Risk Officer
CSRS	Civil Service Retirement System
CTC	Child Tax Credit
D.C.	District of Columbia
D.C. Federal Pension Fund	D.C. Teachers', Police Officers', and Firefighters' Federal Pension Fund
DAIMS	DATA Act Information Model Schema
DATA Act	Digital Accountability and Transparency Act
DDV	Due Diligence Visits
DFF	Departmental Franchise Fund
DHS	Department of Homeland Security
DNP	Do Not Pay
DO	Departmental Offices
DOJ	Department of Justice
DOL	Department of Labor
EFRMP	Enterprise Fraud Risk Management Program
EIN	Employer Identification Number
EITC	Earned Income Tax Credit
ERM	Enterprise Risk Management
ESA	Exchange Stabilization Agreement

Abbreviation	Description
ESF	Exchange Stabilization Fund
Fannie Mae	Federal National Mortgage Association
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FATF	Financial Action Task Force
FCDA	Foreign Currency Denominated Assets
FCRA	Federal Credit Reform Act
FDC	Funds from Dedicated Collections
FECA	Federal Employees' Compensation Act
FEGLI	Federal Employees Group Life Insurance
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees' Retirement System
FEVS	Federal Employee Viewpoint Survey
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act of 1996
FHFA	Federal Housing Finance Agency
FICA	Federal Insurance Contributions Act
FinCEN	Financial Crimes Enforcement Network
FIRE	Filing Information Returns Electronically
FIRRMA	Foreign Investment Risk Review Modernization Act
Fiscal Service	Bureau of the Fiscal Service
FISMA	Federal Information Security Management Act
FITARA	Federal Information Technology Acquisition Reform Act
FMFIA	Federal Managers' Financial Integrity Act
FOMC	Federal Open Market Committee
FR	Financial Report of the U.S. Government
FR System	Federal Reserve System
FRB	Federal Reserve Bank
FRBNY	Federal Reserve Bank of New York
FRDAA	Fraud Reduction and Data Analytics Act of 2015
Freddie Mac	Federal Home Loan Mortgage Corporation
FRN	Floating Rate Note
FSA	Fiscal Service Administration
FSD	Fiscal Service Debt
FSM	Funds Management Branch
FSSCC	Financial Services Sector Coordinating Council
FSU	Fiscal Service Umbrella
FTO	Fine Troy Ounce
FY	Fiscal Year
G Fund	Government Securities Investment Fund
G-7	Group of Seven
G-20	Group of 20

Abbreviation	Description
GAAP	Generally Accepted Accounting Principles
GAB	General Arrangements to Borrow
GAO	U.S. Government Accountability Office
General Fund	General Fund of the U.S. Government
GDP	Gross Domestic Product
GPRA	Government Performance and Results Act of 1993
GSA	General Services Administration
GSE	Government Sponsored Enterprise
HERA	Housing and Economic Recovery Act
HFA	Housing Finance Agency
HHS	Department of Health and Human Services
HVA	High Value Assets
IAP	International Assistance Programs
IMF	International Monetary Fund
Inflation Adjustment Act	Federal Civil Penalties Inflation Adjustment Act of 1990
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Act Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ISIS	Islamic State of Iraq and Syria
IT	Information Technology
JCPOA	Joint Comprehensive Plan of Action
Judicial Retirement Fund	District of Columbia Judicial Retirement and Survivors' Annuity Fund
MADR	Market Adjusted Discount Rate
MDB	Multilateral Development Bank
NAB	New Arrangements to Borrow
NAFA	North American Framework Agreement
NFTL	Notice of Federal Tax Lien
NIBP	New Issue Bond Program
NIST	National Institute of Standards and Technology
NRP	National Research Program
OAS	International Assistance Programs
OCC	Office of the Comptroller of the Currency
ODCP	Office of D.C. Pensions
OFAC	Office of Foreign Assets Control
OFR	Office of Financial Research
OFS	Office of Financial Stability
OI	Office of Investigation
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPE	Office of the Procurement Executive

Abbreviation	Description
OPEB	Other Post-Employment Benefits
OPM	Office of Personnel Management
OPM Funds	Civil Service Fund and Postal Benefits Fund
ORB	Other Retirement Benefits
ORM	Office of Risk Management
OTA	Office of Technical Assistance
OTC	Over-the-Counter
P.L.	Public Law
PATH Act	Protecting Americans from Tax Hikes Act
PCA	Private Collection Agencies
PDC	Private Debt Collection
PICoE	Payment Integrity Center of Excellence
PIO	Performance Improvement Officer
Postal Benefits Fund	Postal Service Retiree Health Benefits Fund
PP&E	Property, Plant, and Equipment
PTC	Premium Tax Credit
PTIN	Preparer Tax Identification Number
QSMO	Quality Service Management Organization
RPA	Robotic Process Automation
RTC	Resolution Trust Corporation
SAM	Software Asset Management
SAR	Security Architecture Review
SBLF	Small Business Lending Fund
SBR	Statement of Budgetary Resources
SDR	Special Drawing Rights
Secretary	Secretary of the Treasury
SFFAS	Statement of Federal Financial Accounting Standards
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SLGS	State and Local Government Series
SOAR	Strategic Objective Annual Review
SOMA	System Open Market Account
SPSPA	Senior Preferred Stock Purchase Agreements
SSA	Social Security Administration
SSN	Social Security Number
TARP	Troubled Asset Relief Program
TBM	Technology Business Management
TCJA	Tax Cuts and Jobs Act
TEIS	Treasury Enterprise Infrastructure Solutions
TEOAF	Treasury Executive Office of Asset Forfeiture
TFF	Treasury Forfeiture Fund
TFI	Terrorism and Financial Intelligence
TFS	TIER Financial Statements

Abbreviation	Description
TGA	Treasury General Account
TIER	Treasury Information Executive Repository
TIGTA	Treasury Inspector General for Tax Administration
TIPS	Treasury Inflation-Protected Securities
TRIP	Terrorism Risk Insurance Program
TSP	Thrift Savings Plan
TTB	Alcohol and Tobacco Tax and Trade Bureau
TY	Tax Year
U.S.	United States
U.S. Mint	United States Mint
USA Patriot Act	United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001
USC	United States Code
USPS	United States Postal Service

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